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Unfinished Business: the Need for More Effective Microfinance Exit Monitoring

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CONTENTS

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Introduction

It is generally accepted that client exit from microfinance organisations (MFOs) is an inevitability, particularly for relatively poor users, who tend to lack insurance against crises and shocks. This paper argues that MFOs should take the opportunity to learn from customers who are leaving in addition to those who remain, in the interests of improving services and satisfying customers. This has become increasingly important, given the current high level of competition among MFOS.[2]

The paper considers the issue of client exit monitoring and analysis, suggesting that the issue of exit monitoring for MFOs remains "unfinished business" on two counts. First, it argues that high exit rates adversely affect both commercial and social goals of MFOs, and that greater investment in exit monitoring is justified as a means to assess client response to services. Second, it exposes the weakness of current exit monitoring practices and offers practical steps for improving the rigour and effectiveness of such practices. In particular it argues for the use of more consistent and sensitive definitions and measurements of client exit. Lastly, it sets out specific recommendations for MFOs and the microfinance industry more generally.

The research for the paper was conducted in the context of an action research project called *Imp-Act*, sponsored by the *Ford Foundation* and involving a network of more than thirty microfinance organisations in Eastern Europe, Asia, Africa and Latin America. In addition, the paper draws on case-study material from exit studies of village banking organisations in Malawi and Zambia. The aim of *Imp-Act* is to improve the impact of microfinance on poverty through the development and promotion of appropriate, credible and timely impact assessment.

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[2] For more discussion see, for example, Woller (2002), Simanowitz (2000) and Copestake (2000).

2. Defining terms and measures

This section highlights the importance of defining exit rates consistently and accurately in order to gain a clear and informative picture of client exit patterns. It is useful to start by considering precisely what the term *exit rate* (E) means. The most common-sense definition is *exit rate* as the percentage of a specified population of service users in period T who stop using the service during period T+1.[3] Its opposite, the *retention rate* (R), can be defined as the percentage of users of a particular service in period T who continue to use it in time T+1. The discussion below shows the limitations of such definitions in gaining a truly representative view of client exits.

First, exit and retention rates vary according to the **time interval** adopted for their measurement. For example, consider the case of a village bank that provides loans on a routine 16-week cycle.[4] In this case, it seems obvious to define the exit rate as the proportion of borrowers in one cycle not taking a loan in the next cycle. However, in reality these cycles are more flexible, because the struggle to repay one external loan to the village bank often delays receipt of the next loan.[5] It follows that it is better, where possible, to measure exit rates over a standard period, such as a year, or to at least specify the time interval to which a particular statistic refers. The task of basing exit rates on a fixed time interval is further complicated by the possibility that some users may have only temporarily withdrawn from the loan service, with the intention of returning at a later time. For example, take the simple case of a new village bank with 25 members who complete three full cycles in their first year. If ten members take a 'loan holiday' during the second cycle and five different members in the third cycle, exit rates are as follows: first-second cycle, 15/25=40%; second-third cycle, 5/15=33.3%; first-third cycle, 5/25=20%. However, if all these members signed up for a fourth loan by the end of the calendar year, the annual exit rate would be zero.[6]

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[3] This definition corresponds to the fourth formula reviewed by Rosenberg (2000,26) which can be written more clearly as $E = (AC_{end} - NC)/(AC_{begin})$, where AC_{end} is the number of active users at time T, NC is new users and AC_{begin} is the number of active users at time T+1.

[4] Village banking organisations are a sub-group of MFOs. They operate through semi-autonomous groups that have their own bank account and receive a single loan for which they are collectively liable, rather than acting solely as a conduit for individual loans from the sponsoring organisation to its members. There are primary groups in urban as well as rural areas. They are referred to as self-help groups, trust banks and communal banks, as well as village banks. Hatch and Hatch (1989) provide a fuller description of the village bank model as developed by FINCA. Woller (2000) provides a statistical review of the financial performance of village banking organisations compared to other types of MFO, and Painter (1999) provides an unusual example of an attempt to systematically compare exit across a sample of seven different village banking organisations. Retention rates (defined as the proportion of first-cycle borrowers still active into a third year of operation) ranged from 23 to 83%

[5] Indeed, there may be a direct trade-off between loan cycle intervals and exit rates. This is because delay may permit late repayment by village bank members. Other members might otherwise have been forced to cover these debts, and hence may be even more inclined to expel those in arrears.

[6] This suggests that shorter time periods yield better information. However, collecting information too close to the start of the financial contract will produce a seemingly high retention rate, as most clients do not tend to leave during the early stages if the period for data collection is too short relative to the length of particular financial contract then most users are retained automatically and a seemingly high retention rate can be misleading. For this reason there is a case for defining retention rates as the number of *new* contracts issued in a period as a percentage of the number of contracts terminated in the same period, even though this opens up the possibility that the rate

Second, it is necessary to specify precisely the **nature of the *financial service.*** In the above case, for example, it may be that while several members took a loan holiday they continued to make savings into the village bank, attend meetings and participate in internal loan activities. If so, then it could also be argued that cycle to cycle membership exit rates were zero between each cycle as well as over the whole period. The implication is that any exit rate statistic should not only specify the interval but also the particular service to which it refers.[7]

A third issue concerns the level of **aggregation**. Exit rates may be high at the group level, but reflect high rates of switching from one group to another. Indeed this may actively be encouraged as part of the process by which members seek to associate with others who have a similar risk profile.[8] For example, strains may appear in a village bank that is trying to accommodate richer or more dynamic members with rapidly growing debt capacity alongside those who cannot afford the risk of taking on larger loans themselves, not to mention the risk of guaranteeing the even larger loans of others.

Fourth, where possible it is useful to clarify whether client exits reflect **negative or positive/neutral experiences** of loan services. Clients may leave because they have graduated to a different service or are resting between loan cycles. Conversely they may be leaving because they find the services unsatisfactory or are unable to repay their loans (see table 1 for a summary of these categories) The exit rate is both objectively measurable, and neutral with respect to why users leave and for how long. In contrast, both future intentions (to rejoin or not) and past experience (good or bad) can only be assessed subjectively whether by leavers themselves or by remaining users or staff. But where possible, routine classification of exit into these four categories makes it much more useful to monitor exit rates over time or compare them between user categories, groups, branches, affiliates or different MFOs.

Table 1. Exit rate terminology

	Relatively permanent	Relatively temporary
Positive/neutral experience	*Graduation*	*Resting*
Negative experience	*Desertion*	*Drop-out*

It is clear from this discussion that the task of routinely producing comparable exit rates is far from trivial. How much time and effort it is worth investing to produce more detailed data depends on its usefulness, to which we now turn.

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may then exceed 100 percent. This is the Waterfield/CGAP formula preferred by Rosenberg (2000,25). Its disadvantages are that it is intuitively less clear (eg. the rate may exceed 100 percent) and the source data is less likely to be routinely recorded.
[7] In the case of savings and deposit services, measurement is further complicated by the problem of dormant accounts, which hold only small sums and from which no deposits or withdrawals are made for long periods. Yet the very existence of savings may be important as a form of security, as is the option to take up credit even if it is not used.
[8] For a comprehensive review of the relevant theoretical literature on this, see the volume edited by Bardhan (1999), particularly the paper Conlin.

2. Why find out more?

2.1 Commercial implications of a rising exit rate

A rising exit rate may indicate major problems for an MFO and even threaten its survival. Users may be unhappy with terms and conditions, or may have poor relations with staff. They may be switching to competitors, or overall demand may be falling due to a change in the economic climate. On the other hand, high and rising exit rates may be offset by rapid growth in the number of new and returning users.

The short-run financial cost of losing a client is equal to the resulting loss of future revenue minus marginal cost savings. Since these figures vary widely, MFOs need to develop a typology of types of user and then (a) monitor exit rates from each, and (b) estimate the net revenue loss per user for each.[9]

Such calculations also influence estimates of total net revenue from different types of user, and so has implications for marketing and user selection policy. There are usually fixed costs associated with recruiting and inducting a new user. So if exit rates for different types of user increase then the case for incurring these costs needs to be reviewed.

In the longer-term, changes in exit rates also affect reputation and goodwill. Leavers may spread stories that deter others. High exit rates associated with adverse welfare effects on users may also scare away potential investors (from the private sector as well as donors) who are jealous of their reputations. This may raise the cost of capital and possibly also costs of compliance with regulation. An increase in exit rates may also be a lead indicator of a more widespread loss of goodwill among users, which may subsequently lead to contract enforcement problems or even political hostility.[10]

It is worth illustrating some of these points numerically. For simplicity, consider again the case of a village banking organisation.[11] A key determinant of commercial viability is staff productivity, and high exit rates are likely to reduce this because of fixed costs associated with induction and screening of new members. To put the same point another way, high exit rates increase the effort required to achieve organisational level economies of scale by increasing the total portfolio. Table 2 shows the implications of different cycle-cycle loan exit rates for a VBO that recruits 100 new members per cycle, assuming no rejoining. With a 30% cycle-cycle exit rate then the total active membership grows to 472 in 15 cycles, whereas with a 10% exit rate growth is to 794. At the 30% exit rate the portfolio stabilises with just over half the membership at any time having completed three cycles or more, whereas with the ratio at a 10% exit rate the ratio exceeds two thirds.

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[9] See Copestake (2001) for further discussion of the idea of user typologies.
[10] For a case study of the negative political repercussions of high exit rates see Rhyne (2001). Note also Hirschman's (1970) celebrated observation that if the most articulate users are also the first to exit then this weakens internal "voice" and hence reduces incentive to improve service quality.
[11] This is particularly apposite given that there has been some debate about their long-term financial self-sustainability compared MFOs that concentrate on providing services direct to individuals or smaller *solidarity* groups. See Holt (, 1994) and Woller (2000).

Table 2. Simulated effect of exit rates on user growth and composition.

		Total number of VB members			Recipients of three or more loans (%)		
		10% exit	20% exit	30% exit	10% exit	20% exit	30% exit
No. of cycles	3	273	244	234	0	0	0
	6	469	369	359	42	34	35
	9	613	433	423	56	44	45
	15	794	482	472	66	49	50

A further factor is the tendency for more established users to graduate to larger loans, resulting in faster portfolio growth and reduced unit costs. Table 3 continues with the same hypothetical example but makes the additional assumption that starting loans are $100 and are increased for repeat borrowers by a standard cycle-cycle loan *increment rate* of 20%. With a 30% exit rate, the average loan size rises to $138 after six cycles, but then drops to $126 after 15 cycles. At an exit rate of 10%, in contrast, average loan sizes rise to $157 after six cycles, and continue rising to $233 after 15 cycles.

Table 3. Simulated effect of exit rates on average loan size

		10% exit	20% exit	30% exit
No. of cycles	3	120	118	116
	6	157	147	138
	9	185	160	138
	12	209	161	132
	15	233	159	126

These simulations need to be interpreted with care because in practice exit rates and loan increment rates are not independent of each other. Rather, high exit rates may reflect a process of actively excluding those members with least capacity to absorb larger loans. Thus a more realistic characterisation of policy choice is to compare average loan sizes for a strategy of: "growth through fast loan increment rates with high exit rates" with "growth through low increment rates with low exit rates." In other words, high exit rates may be in the financial interest of the MFO to the extent that they reflect successful screening out (in the presence of information asymmetries) of those members with less debt capacity who are likely to be less profitable.[12]

This discussion raises questions about the scope for different providers to position themselves within a dynamic market. Where competition is limited then screening out poorer and less profitable members may be financially advantageous. But when competition becomes more acute it may become an unaffordable luxury. The challenge is then to differentiate products and services

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[12] Painter (1999) confirms the existence of alternative growth paths by failing to find a clear correlation across seven village banking organisations between exit rates and growth of average loan size. An example of high exit rates being associated with loan screening is provided by Copestake, Bhalotra, & Johnson (2001).

to reflect the requirements of diverse types of user.[13] More generally, it is clear that such strategic positioning needs to be informed by reliable information on who leaves and why.

2.2 Exit rates and the wellbeing of users

Mention has already been made of the commercial risks of being associated with users who leave because they are made to suffer. Of course for MFOs the wellbeing of their users is also a goal in itself - often the prime goal. High or rising exit rates should then be a cause for additional concern, because they are likely to indicate that users are dissatisfied with the quality of the services they are receiving. However, caution is again needed in interpreting data. Exit rates may also reflect a high rate of graduation - if some users' situation improves enough for them to be able to reduce debts, precautionary savings and insurance cover then so much the better. Flexible services that allow resting (loan holidays, for example) are also generally to be welcomed.

A hard-headed liberal position is that if an MFO is itself financially self-sustainable then it is also likely to be welfare improving, regardless of turnover of its users. Hence there is no need to worry about exit on welfare grounds at all. The argument relies heavily on the principle (of *caveat emptor* or "buyer beware") that users should be responsible for the consequences of their own actions: benefits outweigh costs if their judgement is good, and if it is bad then they must learn the hard way. Few would dispute that individuals should have the freedom to join new initiatives, such as a local village bank if they so desire. If joining turns out to have been a foolish act of bravado, or if they joined with inadequate understanding of the risks, then they should generally also bear some responsibility for the consequences of their decision. And as the provision of microfinance services becomes more competitive, so rising exit rates may reflect a welcome widening of consumer choice.

One of the attractions of this argument is that it greatly simplifies the task of evaluating whether investment in expanding the scale of such services is successful or not. So long as users are free to leave, so the argument goes, then the long-term commercial performance of the MFO itself is sufficient evidence of whether investing in it yielded wider net social benefits or not. Thus it is not necessary for public accountability purposes to engage in the tricky and expensive task of researching impact in other ways.

However, this minimalist point of view may be challenged on various grounds. Markets for financial services are rarely perfectly competitive. Providers are particularly likely to enjoy some monopoly power in slums and remote areas - indeed it may be a necessary inducement for them to work there. Users may also have little prior information and experience of the details and long-term

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[13] Products are required both to retain the more dynamic members who might otherwise graduate to microfinance organisations that offer individual loans, and to enhance users' debt capacity. For example, Painter (1999, 113) concluded that the following changes were most likely to reduce exit rates: better orientation and follow-up, reduced frequency of meetings and repayment instalments, more tolerance of irregular borrowing and improved access to savings. Natilson (2000) of *Pro Mujer* in Bolivia provides another example. She concluded that exit rates could be reduced the following: increasing the efficiency of group meetings, raising the maximum loan size, and revising the savings requirements.

implications of the contracts they enter into, and they may do so in desperation. They may then not be in a position to enforce MFOs to comply with terms of their contracts; a particularly important consideration when it is the user who makes initial payments. In sum, there are good grounds for believing that in rapidly changing markets many vulnerable users are likely to assume debts that ultimately do them more harm than good. And while they may be free in theory to leave, the financial and social costs of doing so may be high.

For these reasons most practitioners do accept the need to monitor "outreach" of MFOs over time as well as their financial performance. But what is meant by outreach and how does it relate to exit rates? Navajas et al. (2000) distinguish between *breadth, scope, worth to users, cost to users, depth* and *length.* Breadth refers to the number of people with access to financial services at any moment in time and is relatively unproblematic. Scope, worth and cost together determine the *quality* of the services in terms of the change they have on users' wellbeing during any period. Depth takes into account the tendency for policy makers to give higher social value to such changes if they affect poorer people.[14] That leaves *length* of outreach, which sounds like the aspect most relevant to our concern with exit rates. Navajas et al. (2000, 336) explain its significance in the following way:

"Length of outreach is the time frame in which a microfinance organisation produces loans. Length matters since society cares about the welfare of the poor both now and in the future. Without length of outreach, a microfinance organisation may improve social welfare in the short-term but wreck its ability to do so in the long-term…more length requires more profit in the short-term. This means higher prices, more costs to users, and less net gain per user… The debate over the social value of sustainability hinges on the effect of length."

A problem with this definition of length of outreach is that it is defined solely from the point of view of the provider of services. In so doing the authors implicitly assume that exit rates are irrelevant so long as net access is growing over time. This hides a strong value judgement about the relative worth of those who enjoy sustained access compared to those who "enjoy" temporary access and exit for negative reasons. Consider the numerical example presented in the last section. After 15 cycles with a cycle-cycle exit rate of 20% then 482 active members will remain of the 1,500 joiners, only half of whom will have taken more than three loans. Assuming a loan increment rate of 20% then the average loan size will have more than doubled to $233; but at what price to all those exiting?

To sum up, an understanding of how many users leave and why is essential to any balanced judgement about the overall welfare impact of microfinance services. In other words, exit data is potentially useful not only for the purposes of market research but also to informing public policy on the trade-offs such programmes entail. But it is perhaps possible to go further. If policy makers have an understanding of (a) cost of provision, (b) breadth of outreach, (c) depth of outreach and (d) why people exit, then perhaps the need for

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[14] It is not clear how indirect impacts on non-users, including other household members should be taken into account. Presumably this is subsumed under quality. See the Imp-Act website for more discussion of such "wider impacts".

information on (e) quality of outreach, is greatly reduced. Studies to assess impact or quality of outreach are extremely difficult to do reliably and cost-effectively. So the question arises, to what extent does exit monitoring offer a more reliable and cost-effective alternative?

3. How to find out more?

A regular flow of explanations for changes in exit rates inevitably filters through any MFO informally. But such feedback is subject to bias on two counts. First, it will be unclear how representative different explanations are of the overall picture unless the process of internal listening is unusually systematic. Second, staff may themselves be a factor in explaining why users are leaving, and their explanations will carry their own strategic bias (see below). Hence more systematic data collection and analysis will usually be justified.

Making good the deficit of information about who leaves and why, presents MFOs with a series of interrelated methodological issues. This section highlights the following issues in turn: how to build exit monitoring into management information systems; choosing between different methods for collecting supplementary data; framing questions so as to facilitate data analysis and interpretation.

3.1 Building exit monitoring into management information systems.

The first question to consider is how far exit monitoring can usefully be integrated into the system for monitoring overall relations between users and the MFO. The best option will obviously vary between MFOs, not least according to their varying commitments to computerisation and to devolving both information and decision making power. More centralised organisations (FINCA, for example) keep computerised records of savings, loans and other services being used by individuals from which exit rates can be generated. This information may also be supplemented with information from exit forms that leavers are required to answer before having savings returned to them. By combining such information with data collected when users first joined it may be possible to analyse statistically the characteristics of those who leave in the same way as organisations analyse defaulters for, say, credit rating purposes.[15]

More modestly, it is useful for village banking organisations to monitor how exit rates vary according to both the age cohort of village banks, and of individual users. Many MFOs cannot yet produce the "joined up" necessary to produce such information quickly, cheaply and routinely. Meanwhile estimates of exit rates have to be based on sample data extracted often painstakingly from paper records. Table 4 illustrates. It summarises information on exits between the current and last loan cycles from twenty village banks in Zambia: five selected randomly from all village banks currently in their 2nd, 3rd, 4th and 5th loan cycles. Last-current cycle exit rates are first calculated for each village bank age cohort and show a declining trend with age from 36% after the first cycle to 20% after the fourth. The second panel of data reveals that these statistics hide the fact that most exits are accounted for by those who had only completed one or two cycles – even in older village banks. Thus one recommendation of this particular study was that more attention needed to be paid to the induction of new members into old banks.

Table 4. Variation in exit rates by loan cycle.[16]

Current cycle	2nd	3rd	4th	5th	Total
Number of Village banks	5	5	5	5	20
Total current cycle membership	66	104	136	131	437
Last-to-current cycle exits	23	40	40	28	131
New intake in current cycle	25	13	37	21	96
Last cycle membership	64	131	139	138	472
Last-to-current cycle exit rate	35.9%	30.5%	28.8%	20.3%	27.8%
Members exiting after 1 loan	23	14	20	13	53.4%
Members exiting after 2 loans	0	26	14	6	35.1%
Members exiting after 3 loans	0	0	6	5	8.4%
Members exiting after 4 loans	0	0	0	4	3.1%

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[15] For example, there is already abundance evidence to suggest that households dependent upon a single earner find it more difficult to cope with personal or business shocks and hence are more prone to getting into arrears and ultimately being forced to exit. See, for example Copestake et.al (2001b). Pioneering work on "exit rating" as well as credit rating, using large databases from Bolivian MFOs has been carried out by Mark Schreiner, Director of Research for the Center of Social Development at Ohio State University.

[16] For further discussion of this particular case study see Copestake et.al (2002).

3.2 Methods of primary data collection.

Where exit forms containing questions about why users decide to leave are not filed routinely then the only alternative is to collect such data on a sample basis. This section explores three methods for doing so: structured individual interviews using a predetermined questionnaire; focus group discussions and use of participatory techniques; in-depth case study interviews with individuals based on "long" or semi-structured questionnaires.[17]

Choosing an appropriate combination of the three depends upon the balance between costs and usefulness, with the latter depending in turn on relevance, reliability and timeliness. The issue of reliability can in turn be broken into two problems: (a) how to avoid sampling bias, or reflect the diversity of leavers' experiences; (b) how to do justice to the multiple causes behind each leavers' experience and avoid biased responses. Reducing these problems can be expensive, and since money is always limited a judgement is needed about what constitutes an optimal level of ignorance. Cost considerations dictate that attention is paid to ensuring that data is as directly useful as possible, and that the method can be replicated easily over time. Two important issues here are: (c) whether the process of data collection is itself useful for those involved or purely extractive; (d) how effectively the data can be combined with information from other sources. Table 5 provides a tentative ranking of the three methods in relation to these four issues, which are then discussed in turn.

Table 5. Ranking of data collection methods relative to key issues.[18]

Methods Issues	Structured individual interviews	Focus group discussions	In-depth case studies
a. To reflect diversity of experience among leavers	1	2	3
b. To reflect depth and complexity of experiences among leavers	3	2	1
c. To facilitate staff learning and be of direct operational use	3	1	3
d. To facilitate analysis and complement data from other sources	1	2	3

Diversity
Formally, the issue of diversity is concerned with sampling bias, and can be dealt with by selecting at random a sufficiently large sample of individual leavers or groups for interview. In practice, it is less important that the sample is statistically representative than that it adequately covers the main types of

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[17] There is of course a vast general literature about all of these methods. For a general survey of their use in microfinance impact assessment see Simanowitz [, 2001 #733]. A protocol for an exit survey is the second of the SEEP/AIMS tools (USAID, 2000). On the use of focus group and participatory methods see www.MicroSave-Africa.com. On the in-depth case study see Copestake et.al (2002)

[18] For more details of this study see Copestake et.al (2001a)

users, and quota sampling will often suffice.[19] Minimum sample sizes can most cheaply be obtained through structured individual interviews. Sample bias will nevertheless be present, because of non-response among particular types of leaver, and this is why routine collection of data as part of the exit process (as discussed in the previous section) is more reliable.[20]

The non-response problem can in part be addressed by relying on information from staff or other group members, rather than leavers themselves. But this raises additional problems. These are illustrated by Table 6, which is based on the sample described in Table 4, but reveals the prime explanation for exit based on post-interview sorting of unprompted responses. In order to explore potential problems of bias the question was repeated for different groups of respondents. The first column of data shows the explanations for exit provided jointly by village bank members at one of their routine meetings. This refers to all 131 members who exited between the previous two cycles. The second column displays the results for the 58 leavers whom the researcher also succeeded in interviewing personally. A reasonable *ex ante* assumption would be that it would be harder to interview those that the group claimed to eject for defaulting, but this was not the case. Neither do explanations for exit offered by village bank members and their loan officer differ much - except that the former appeared more confident in identifying members they thought likely to be resting.

In contrast, the last column indicates that the exiting members themselves often differed from remaining users in their explanation for leaving. First, more cited personal, household or business difficulties as the main reason for exit – reasons often hidden from the loan officer and even other members. Second, they identified disagreements over management of the village bank or with the loan officer as the prime reason for exiting.

Table 6. Main reasons for exit according to different sources (%)

Sample	Full	Those personally interviewed	
Source of information	Open meeting of village bank	Loan officer	Leaver
Resting, temporary or possible rejoiner	18	19	12	10
Ejected by group for defaulting	49	52	55	14
Problems with VB or loan officer	0	0	0	28
Personal problems (eg. illness, death)	3	3	3	14
Death of Member	3	0	0	0
Household problems	10	7	3	19
Business problems (eg. low profit)	4	2	2	10
Positive reasons (don't need more loans)	2	3	0	0
Ran away with VB money	3	2	0	0

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[19] By quota sampling, I mean interviewing a minimum number of people belonging to each category of user. For more discussion see Copestake (2001)

[20] Even exit surveys will tend to miss those who leave without claiming residual savings or do not have any because they have defaulted, though the frequency of this category of leavers can still be monitored. Where surveys are based on follow-up meetings then data is likely to be biased against those who for whatever reason (probably negative) disassociate themselves most completely from the MFO.

No reason or not known	9	12	24	5
Total (percent)	100	100	100	100
Total (number of observations)	131	58	58	58

Depth
Where resources are scarce, the need to ensure depth, detail and quality of responses from leavers may compete with the need to ensure adequate breadth raises competing pressures. With a fixed budget, diversity points towards ensuring a larger sample size by using a shorter questionnaire with less experienced interviewers. But the information thereby obtained about each respondent will be much more limited. An in-depth case study should provide a fuller account of the sequence of events that caused someone to leave, but fewer can be completed. One option is to combine a large survey using a very short questionnaire survey of staff and group members, with in depth case studies of a small sub-sample. Another is to select a quota sample for each predetermined user type, and then carry out a small number of short case-study interviews using a semi-structured questionnaire. This approach is discussed further in Copestake et al. (2002).

It is also challenging to obtain both diverse and detailed views through focus groups. Trust is needed among participants if they are to be open and honest about their differing experiences in each other's presence. Yet village banks are often riven with internal conflict that even highly skilled facilitators will struggle to reveal and manage (Marr, 2002). Where this is the case then members need to be broken into self-selecting sub-groups, but this adds to the time required. If such problems are ignored then focus group discussions and associated participatory exercises may generates information that is either sanitised or reflects the view of a dominant minority.

Inclusive learning
A potential strength of the focus group approach is that it can foster more inclusive learning among both participating users and staff. A rise in exit rates may indeed be a symptom of internal conflict, and some of it may be unavoidable, but in may also be partially generated by lack of communication and dialogue, or by a break down in relations with staff. Copestake (2002a), for example, suggests that village banks may undergo a transition crisis after three or four loan cycles, which may be exacerbated by rapid staff turnover and increased repayment problems as loan sizes increase. However, maximising the potential for group discussion to contribute to improved mutual understanding and conflict resolution is not easy, and requires skilled and often expensive facilitation.

Individual interviews may also be a useful learning experience for users, though they obviously also make demands on their time. The case for using staff as interviewers is more problematic. In-depth case study interviews require probing and recording skills as well as a degree of detachment which junior staff are unlikely to have. They can be more easily trained to carry out pre-structured interviews, and possible bias reduced by using staff from one area to interview in another. ODEF, for example, has found this an effective mechanism for staff learning and cross-fertilisation of ideas; so much so that they have encouraged other MFOs in Honduras to do the same (Copestake, 2002b).

Additionality
A final issue bearing on choice of method is the extent to which information can be effectively combined and jointly analysed with data from other sources. There are several distinct aspects to this. First, there is the question (already discussed in the last section) of the extent to which data can be merged to create a single larger database. By merging exit and entry data for the same sample of users, for example, it is possible to analyse the question of who leaves in more depth. Second, to the extent that the same method is repeated and/or replicated in several areas then there is more scope for comparative analysis. For example, in the Honduran case cited above the involvement of an umbrella organisation made it possible to produce confidential data about exit rates for each participating MFO, and also aggregate findings for the whole sector. Third, use of more than one method can be complementary. For example, the sample survey may provide breadth and an indication of the relative importance of different reasons for exit, while in-depth interviews clarify lines of causation. Finally, overlapping findings based on differences permit cross checks for consistency and avenues for further investigation. For example, independent rankings of reasons for exit by staff and user groups may highlight important differences in their points of view (see below).[21]

3.4 Framing and analysis of questions.

Even when interviewed by themselves, users may be reticent about giving the full story of why they left for many reasons. They may feel bad about admitting that their business has failed, or that they experienced problems as a direct result of breaking an MFO's policies with respect to loan utilisation, for example. Asking the direct question "why did you leave the programme" rarely results in accurate information, nor not exposes the underlying reasons for exit, particularly if the questioner is a member of staff. Simanowitz (personal communication) reports that when SEF in South Africa started exit surveys the standard responses were usually that leavers were "resting" or had "family problems" or "got a job". In many cases, these reasons were symptomatic of deeper problems, linked to the way programme participation changed power relations within the family, or to financial difficulties (and associated shame) arising form business failure. Only with patience and growing trust (borne in part of a clear understanding of how information will and will not be used) can these problems be overcome. Extensive piloting of questions is essential, as is careful training of interviewers. And particular care is needed when questions have to be translated, and when there significant socio-cultural differences between interviewers and respondents (Wright, 2002).

The discussion in the previous section highlights that the way questions are framed is important for another reason. The more questions are fixed in advance then the greater the danger of failing to pick up unexpected facts, but the easier and quicker is subsequent analysis (Moris & Copestake, 1993). One compromise is to allow respondents to offer their own reasons for leaving, but then classify them into broad predetermined categories. Table 7 illustrates with data from

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[21] For example, SEF in South Africa combine group interviews with up to six follow-up individual interviews. The initial meeting requires 60-90 minutes, and follow-up interviews 30-60 minutes each. Assistant zone managers (and sometimes branch managers) were responsible for the work. Although time-consuming, it fitted in well with their responsibility for monitoring performance and increased their general understanding of programme impact.

FINCA Malawi based on standard exit forms filled in by loan officers prior to authorising the release of savings belonging to members wishing to leave. The form was designed to identify the extent to which exit could be attributed primarily to factors within or beyond the control of the organisation itself. It reveals that exit in rural areas arose more for exogenous reasons whereas exit in urban areas could be attributed more to factors internal to the service itself.[22]

Table 7. Reasons for exit from rural and urban areas of Malawi.[23]

	Rural Branch		Urban Branch	
	No.	Percent	No.	Percent
Exogenous factors				
Business performing poorly	129	32.1	12	2.3
Transferred to another area	60	14.9	69	13.0
Pressure from spouse	34	8.5	60	11.3
Would like to take a break for a cycle	27	6.7	62	11.7
Illness (self or family member)	24	6.0	50	9.4
Obtained formal employment	15	3.7	10	1.9
Needs access to savings	0	0.0	8	1.5
Death	1	0.2	6	1.1
Sub-total	*290*	*72.1*	*277*	*52.1*
Factors potentially within bank control				
Not guaranteed by others	21	5.2	67	12.6
Loan default	32	8.0	75	14.1
Missed loan repayment	1	0.2	38	7.1
Misuse of VB funds	0	0.0	6	1.1
Poor attendance or late for meetings	11	2.7	6	1.1
Savings below the required amount	4	1.0	4	0.8
Obtained loan from other agency	4	1.0	29	5.5
Needs a bigger loan	11	2.7	8	1.5
Dissatisfied with methodology	25	6.2	19	3.6
VB meetings are inconvenient	3	0.7	3	0.6
Sub-total	*112*	*27.9*	*255*	*47.9*
TOTAL	402	100	532	100

An obvious weakness of this data, as well as that produced in Table 6, is that exit of each individual is attributed solely to a single prime cause which is always a simplification (Hulme, 1999),(Sebstad, Neill, Barnes, & Chen, 1995). Table 8 suggests an alternative framework for classifying reasons for exit that would permit more sensitive analysis without being overly complicated. Interviewers could ask respondents to list the problems they faced, then write them on small cards and discuss with them where each should be placed in the matrix.

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[22] Painter (1999,112) reports that discussion groups within their selected sample of seven village banking organisations produced a list of seven main reasons for default. These were: expulsion by others due to delinquency or default (especially during the first three cycles when exit rates were highest), seasonality, migration, poor market conditions, dissatisfaction with weekly repayments and meetings, inability to access savings without exiting and illness.
[23] For more details of this study see Copestake et.al (2002).

Table 8. Suggested framework for classification of reasons for exit.

Enter one or two comments for each row. No need to fill in all boxes	Personal or family	Business or Livelihood	Group or staff conflicts	Nature of the product or service
Underlying problem(s)				
Contributory factor(s)				
"Last straw" or trigger(s)				

The same issue of how to classify data arises from focus group discussions. Exercises such as ranking of reasons for exit yield a great deal of information which may be of immediate use for participants, but which is not easily summarised or compared with similar data collected from other groups. To overcome this problem some method of scoring is needed, ideally a method that is itself agreed by concerned stakeholders.

Table 9 illustrates the point by presenting summary data obtained from ranking unprompted explanations for exit collected from 16 focus group discussions covering staff and users of three MFOs in Zambia. The original data was hard to analyse in its crude form, since each group ranked a different set and number of explanations. Having pooled the data, the simplest approach is to count the frequency with which each was cited, regardless of the ranking. A second approach takes rankings into account by giving each a standard score (11 for top rank, 10 for 2nd and so on) which can then be add together for each group. The last panel shows the percentage distribution of these counts and scores falling under each of four generic categories. This then provides a format through which data from exit surveys from different sources can easily be compared.

Table 9: Reasons for exit advanced at focus group discussions in Zambia.[24]

	User groups (11)		Staff groups (5)		Overall (16)	
	Count	Score	Count	Score	Count	Score
Business related issues						
Loan use reallocation (misuse)	6	33	3	25	9	58
Business failure	4	33	2	15	6	48
Poor economic environment	2	18	3	25	5	43
Changing line of business	3	15	0	0	3	15
Competition from other MFOs	1	4	2	10	3	14
Using loan to start business	2	11	0	0	2	11
Poor business	1	10	0	0	1	10
Lack of market	1	8	0	0	1	8
Cross border businesses	1	7	0	0	1	7
Multiple borrowing	1	5	0	0	1	5
Sinking working capital in assets	1	4	0	0	1	4
Change of location	0	0	1	3	1	3
Financial needs are met	0	0	1	2	1	2
Totals	23	148	12	80	35	228

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[24] "Count" indicates the number of groups citing a particular explanation. "Score" indicates the above according to the way each group ranked the explanation: 11 for most important, down to 1 for the 11th most important. For the source data see Musona and Coetzee (2001).

Table 9 continued	User groups (11)		Staff groups (5)		Overall (16)	
	Count	Score	Count	Score	Count	Score
Individual/family issues						
Lack of understanding	2	18	0	0	2	18
Death in the family	1	4	3	12	4	16
Poor attitude	0	0	1	11	1	11
Illness and death in the family	1	4	1	5	2	9
Discouragement from husband	1	6	0	0	1	6
Illness (relative)	0	0	1	5	1	5
School fees	1	5	0	0	1	5
Totals	*6*	*37*	*6*	*33*	*12*	*70*
Staff/group issues						
Group size	4	31	1	8	5	39
Defaulters	2	17	0	0	2	17
Staff inexperience	0	0	1	10	1	10
Group misunderstanding	1	3	1	6	2	9
Recruiting unknown partners	1	9	0	0	1	9
Lapse in implementation	0	0	1	9	1	9
Dishonesty of staff	1	3	0	0	1	3
Poor supervision by credit officer	1	3	0	0	1	3
Family members in same group	0	0	1	1	1	1
Totals	*10*	*66*	*5*	*34*	*15*	*100*
Product design issues						
Weekly repayment too rigid	7	77	3	20	10	97
Loan insurance fund	10	62	3	7	13	69
Group liability	5	43	2	10	7	53
Loan disbursement (delays)	8	53	2	0	10	53
Loan amount	4	28	2	12	6	40
High interest rate	3	27	2	8	5	35
Requirement to work in groups	2	15	1	11	3	26
Lock-in system (lack of respect)	3	20	0	0	3	20
Grace period lacking	2	19	1	0	3	19
Group repayment	2	16	0	0	2	16
Weekly meetings	1	5	2	10	3	15
Repayment period	1	10	1	4	2	14
Savings precondition	1	11	0	0	1	11
Changes of loan conditions	1	9	0	0	1	9
Refusal to accept prepayment	1	7	0	0	1	7
Fear of loss of collateral	0	0	1	5	1	5
Loan disbursement fees	1	5	0	0	1	5
Late fees	1	4	0	0	1	4
Share contribution	1	2	0	0	1	2
Bonus	1	1	0	0	1	1
Meetings take to long	0	0	1	0	1	0
Totals	*55*	*414*	*21*	*87*	*76*	*501*
Summary of focus group explanations for exit.[25]						
Business context	24	22	27	34	25	25
Individual/family	6	6	14	14	9	8
Staff/group relations	11	10	11	15	11	11
Product design/terms	59	62	48	37	55	56

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[25] "Count" is the percentage share of the total number of explanations advanced by all groups. "Score" is the percentage share of total explanations weighted according to how they were ranked, as shown in Table 9.

4. Conclusions

This paper has first that exit monitoring is an important task for all MFOs seeking to improve the quality of the services that they provide, in pursuit of both commercial and social goals. Exit rates have the advantage that they can be unambiguously defined, and effective monitoring of reasons for exit may help an MFO to identify and address otherwise commercially damaging problems. It also reduces the public policy argument for investing in other forms of impact assessment. The paper has also argued that there is scope for improving the quality of exit monitoring.

First, more work is required than often assumed to ensure that published exit rates are strictly comparable. More specifically, an exit rate should specify the interval or time period, the service being declined and the population frame covered. Ideally, some effort should be made to distinguish between temporary and permanent exit, as well as exit that reflects bad experiences and middling-to-good.

Second, there is scope for collecting and monitoring more exit information routinely, particularly where simple questions can be asked of all or most leavers and analysed in conjunction with other data stored within the MFO's management information system. This in turn permits the MFO to monitor how exit rates vary for different types of user, and how they change as users, their businesses, user groups, branches and the organisation itself changes over time.

Third, a mixture of sample surveys, focus group discussions and in-depth case studies can be used to collect more detailed information about why different types of user leave. Choice of methods depends on many factors, including the need to ensure both breadth and depth of understanding, the scope for building exit studies into staff and group development, and the possible benefits of analysing the data in combination with data from other sources.

Finally, it has been argued that data can be collected using questions that produce more realistic answers yet are still being amenable to relatively straightforward statistical analysis. More systematic presentation of statistics can help senior staff to compare performance between types of users, branches, and staff within a single organisation. It would also permit franchising and umbrella organisations to aggregate statistics, and even compare performance between members.

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