

Research Brief On
**“The Causes Of The High Rate Of Drop-Out Amongst
Micro-Finance Borrowers”**

Prepared by
Civil Society Human And Institutional Development Programme (CHIP)

For
Pakistan Financial Services Sector Reform Programme (PFSSRP)

Under
Contract Number PAK/AIDCO/2002/0382/06

December, 2005



(PROJECT FUNDED BY EUROPEAN UNION)

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1. Background

Civil Society Human and Institutional Development Programme (CHIP) was commissioned by Pakistan Financial Services Sector Reform Programme (PFSSRP) to undertake a Research Study on the causes of the high rate of dropout amongst micro-finance borrowers in selected areas of Pakistan. The purpose of the study was to find out the causes of a high dropout rate amongst micro finance borrowers of these MFI / NGO Programmes, relate and classify them into factors within and outside the said MFI / NGO programmes and to prepare a report that (a) critically analyses the findings, (b) prioritises the causes for high dropout rates, (c) recommends remedial measures and (d) proposes innovative lending products.

2. Significance of a High Drop Out Rate

A high dropout rate is a cause of concern to MF programmes, as recruitment of new clients requires additional costs and efforts. At the same time, dropouts obligate MFIs to expand their lending base by reaching new clients – in itself a healthy attribute for such programmes. Quite frequently, in a market where the demand for micro credit products is well in excess of their supply, MFIs face little or no problems in recruiting new clients. This in turn contributes to an organisation's lack of attention to increase in dropout rate.

3. Basis of Selection of MFIs for the Study

The MFIs / NGOs chosen for the study represent diversity amongst MFIs/ NGOs in terms of geographical location, lending base, lending focus and size.

4. Research Methodology

Basic research methodology used for the study involved:

- a. Collection of secondary data and already available research reports from within and outside Pakistan.
- b. Primary Research involving structured and semi structured interviews, focused group discussions and completion of questionnaires. A total of 379 persons were interviewed and/or questionnaires completed. This included 251 dropout borrowers, 92 existing borrowers and 36 MFI officials.
- c. Analysis, feedback and validation of data.
- d. Preparation of the report.

5. Definition of Drop Out Rate

For the purpose of this research, dropout was defined as those micro finance borrowers who do not borrow again, at least for a year. The categories of dropouts are:

- Voluntary Including Graduates
- Involuntary or Rejects

6. Computing the Drop Out Rate

For computing the rate of dropout, various formula were considered and after careful evaluation, it was decided to use the Schreiner Formula that states that

Dropout Rate (DOR)	= 1 - RR
Retention Rate (RR)	= $AC_{end} / (AC_{begin} + NC)$
ACend	= Number of active clients at the end of a year.
ACbegin	= Number of active clients at the beginning of a year.
NC	= Number of new clients entering during the year

Based on Schriener's Formula, we found that annualized dropout rates (over a time period of a year and more) ranged from 26.5% to 32% between the MFIs / NGOs subject to this research. While it will not be fair to directly compare these rates with the experience elsewhere due to differences in parameters used for computation, it is worth noting that rates disclosed by this study are fairly close to the average dropout rate of 28% experienced by MFI/NGOs in Asia and well below the average global dropout rate of 48%.

7. Findings

This section presents the main findings regarding the causes of borrower dropout at the MFIs / NGOs subject to this study in terms of causes internal to and causes external to the control of MFIs / NGOs.

Figure 1: Main Causes of Borrower Dropout

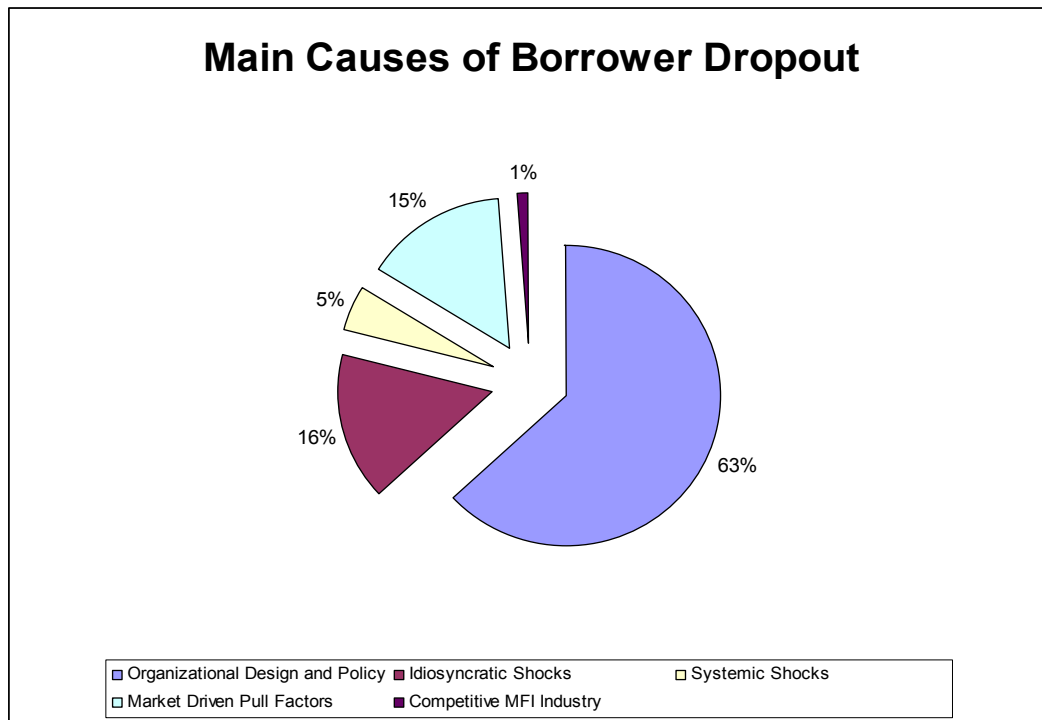


Figure 1 above and Table 1 below give an over-all / non organizational specific ranking of the factors and causes of borrower dropout of MFI / NGO borrower in Pakistan according to this research. The “overall” figures are averages derived from the percentage of respondents giving a specific response for each MFI / NGO. It must be understood that “overall” figures do not represent % of total respondents. This is because the average of percentages of the respective MFIs / NGOs reflects the average weight each cause / factor holds for an MFI / NGO on average, regardless of its size.

It is relevant to state that it is more meaningful to look at causes for individual MFIs / NGOs and avoid the tendency to generalize. For example, In Table 1 below, the weak communication strategy as a cause of borrower dropout scores in the overall figures. However, this cause surfaced only in case of NGO B. Again, “Group Related” causes for borrower dropout were cited by 31% of the respondents at NGO A, but by none at NGO B and NGO C.

Table 1: Overall Causes of Client Dropout (%)

#	Causes of Client Dropout	NGO A	NGO B	NGO C	Overall
A.	Organizational Design and Policy	56	83	51	63
A.1	Loan Processing	1	8	10	6
A.1.1	Application Procedure and Formalities	1	5	5	4
A.1.2	Selection Criteria	0	3	5	2
A.2	Communication Strategy	0	24	0	7
A.2.1	Communication Gap regarding cost structure	0	17	0	5
A.2.2	Information dissemination about loan availability	0	7	0	2
A.3	Loan Product Design	18	51	36	35
A.3.1	Small Loan Size	4	0	13	6
A.3.2	Short Loan Length	4	0	5	3
A.3.3	Repayment schedule	8	12	4	8
A.3.4	Loan too Expensive		23	14	13
A.3.5	Interest Rate is Un-Islamic	0	16	0	5
A.4	Staff Related Causes	6	0	5	4
A.4.1	Inadequate attention to borrowers due to lack of Competence, Workload, remuneration basis, etc.	6	0	5	4
A.5	Group Related Causes	31	0	0	11
A.5.1	Pushed out by Group due to Repayment Problems	2	0	0	1
A.5.2	Conflicts within the Group	6	0	0	2
A.5.3	Group became inactive	23	0	0	8
B	Idiosyncratic Shocks	15	2	30	16
B.1	Inability to Repay due to weak business / other reasons	9	2	12	8
B.2	Closed the business to do something else	0	0	2	1
B.3	Spent the money on crisis or celebration	2	0	10	4
B.4	Lack of ability / time to continue business	2	0	0	1
B.5	Emigration	2	0	1	1
B.6	Stopped by Family member	0	0	3	1
C	Systemic Shocks	10	0	6	5
C.1	Poor economic condition of the target customer	2	0	2	1
C.2	Business is seasonal	8	0	4	4
D	Market Driven Pull Factors	17	15	13	15
D.1	Have Enough Working Capital for Business / Have liquidity	17	15	13	15
E	Competitive MFI Industry	2	0	0	1
E.1	Found a better source of borrowing	2	0	0	1
Total		100	100	100	100

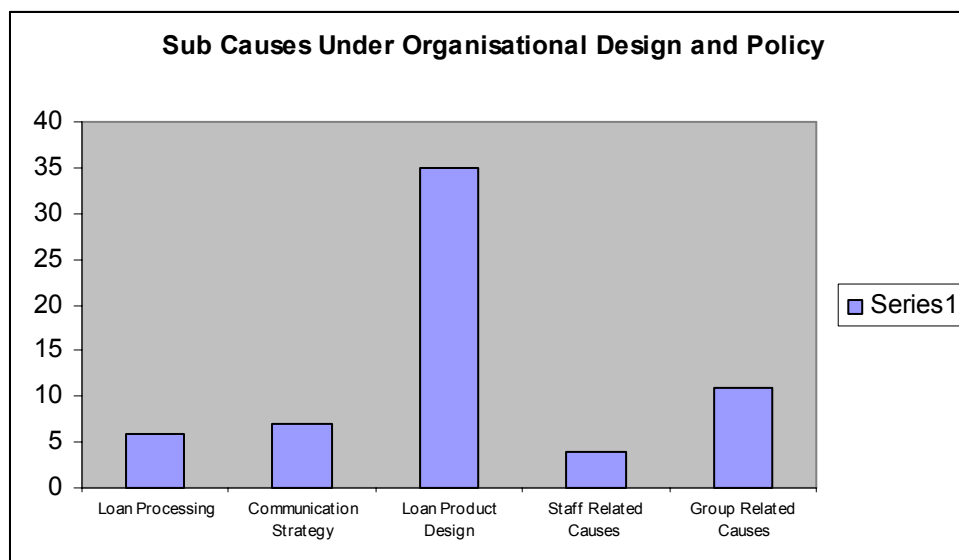
7.1 Comment on the Findings

Figure 1 shows that the main factors (for all individual MFIs / NGOs) for borrower dropout were internal to the organization and related to the organizational design and policy. Idiosyncratic shocks reflecting the vulnerability to shocks of the poor clients were the second main set of causes. A significant share of factors (about 15% in terms of equalized frequency¹) to borrower dropout was the lack of need to borrow again.

¹ For the overall analysis of the causes of dropouts, overall weight to each cause is given by first equalizing factors as sample size and unique factors related to each MFI / NGO. This is done for each cause by taking total of frequency number for all

This section is a commentary on the findings regarding causes of borrower dropout in this survey.

A. Organizational Design and Policy



A 1 Loan Processing

Loan processing formalities like presenting an Identity card or filling the forms and signing the stamp-papers were not cited as a cause of dropping-out very frequently. For example, for MFIs / NGOs operating in regions where women to men literacy ratio is only 0.34, five percent (5 %) women borrowers (dropouts) cited paperwork as one of the reason of dropping out, and this was in cases where men members refused to help the respondent to fill in the form due to their disapproval of the respondent taking credit. In one region, about 5% of women borrowers found presenting their Identity card as a barrier to borrowing. On an overall basis, 4% of the respondents cited loan procedure and formalities as a cause of dropout.

Another aspect of loan processing is selection criteria used by MFI lenders that may debar a micro finance borrower from applying for a fresh loan. For example, a person may generally not get a loan if he / she is more than 65 years of age, or if he or she has not been able to make timely repayments of the past loan. If a borrower fails to meet these conditions after completing one or more cycles of borrowing, he/she is refused a fresh loan.

In case of one NGO, 5% of the drop out respondents attributed their failure to borrow again to this factor. This factor is, however, somewhat mitigated by an attempt by lending officers to encourage over-aged applicants to apply for a fresh loan in the name of a younger family member. In this case, the lending volume of the MFI remains unaffected while technically a dropout is added to the statistics. On an overall basis, only 2% of the respondents were barred from borrowing again due to selection criteria.

Though loan processing formalities and selection criteria have not surfaced as a major factor of dropping out, these formalities do constitute a factor of competitive disadvantage against local money lenders who can provide instant access to loan without much regard for age of the borrower.

A 2. Communication Strategy

Weak communication strategy of MFIs / NGOs as a factor for dropping out was not commonly cited during this research. This factor was cited in case of only one MFI / NGO where it accounted for 24%

three MFIs / NGOs and dividing it by three. Hence, equalized frequencies are not frequencies with respect to total number of responses in this survey.

of respondents. However, it reflects the significance of proper communication between the organization and its clients and how communication deficit / weak customer mobilization can negatively affect a micro finance programme.

The communication gaps cited by respondents (in case of one MFI / NGO) were in terms of the failure of the MFI / NGO to communicate the cost structure of the loan. Many borrowers were not even fully aware of the terms and conditions of their loans. They expressed their lack of information on the deductions, extra installments and even the interest components of their loans. This type of communication gap was proving to be quite detrimental as it created an impression of unfairness amongst the borrowers who decided not to borrow again from the MFI / NGO. In a rural market where communities are tight knit and word of mouth is a potent source of information dissemination, the exact damage to the MFI / NGO in terms of first time borrowers forgone due to a negative reputation can not be determined.

The second type of information gap was that some borrowers were not aware that they had the option to borrow again from the MFI / NGO.

Both the above factors highly correlate to lack of staff training and staff work-load that will be discussed separately later in this section.

A 3. Loan Product Design

Factors related to loan product design, at 35% of the total, were the most commonly cited cause for drop out. Loan product design refers to:

- Loan size
- Loan Length
- Repayment Schedule
- Cost of Loan
- Loan Design Compatibility with local culture / religious taboos.

Loan Size: Where loan size was a major factor for borrower dropout, the loan amounts were considered inadequate to completely finance an income generating activity. Thus the loan was either used for non-productive purpose or the borrower had to find other source of fund to augment the loan for business / income generating purpose or when a business was being supported by inadequate capital injection, its probability of failure was increased / or income generated was sufficient only to repay the loan. 6% of respondents cited small loan size as reason for dropping out.

Repayment Pattern and Duration: Loan length and loan repayment schedule, along with the cost of loan, affect the burden of repayment. Problems associated with repayment pattern and loan duration were the most commonly cited reason for the dropout. Dropout borrowers found the frequency of installments too high, the loan period too short and penalties too high. In many cases, amounts borrowed were used for a purpose did not start paying back immediately whereas the loan repayment commenced immediately after loan disbursement. This often made the borrower borrow from elsewhere to meet the repayment obligation. This is indicative of how little research is done by MFIs to tailor micro credit products according to the need of the borrowers. Frequency of repayment schedule was cited as a cause by 12% to 4% of respondents. Overall, these two factors accounted for 11% (short duration 3%, inconvenient repayment pattern 8%) of the dropout cases.

Cost of the Loan: The components of the cost of loan are interest rate, initial fees, forced contribution to savings and penalties. Where for one MFI/NGO, the frequency of cost of loan being cited as a cause for borrower dropout was 23%, for another it was as low as 2%. On an overall basis, this factor accounted for 13% of drop outs.

The finding in our survey regarding the cost of loan was that in cases where loan was used for non-productive purpose or in an activity that failed to generate sufficient income, the cost of loan was a contentious issue for borrowers.

However, in cases where the income generating activity took off because of the loan, thereby increasing the ability of the borrowers to repay comfortably, the borrowers did not mind the financial cost of the loan. In such cases, some responses regarding satisfaction / dissatisfaction with cost of loan / interest are quoted in the Voice Box 1 below.

Voice Box 1: Satisfaction with the Cost of Loan

“ ... after all it (the MFI) has to earn as well..”

“ If we are earning more because of their loan, it's only fair that we pay the interest they charge...”

“.... If they don't charge us interest they won't be able to lend us the money...”

Source: Individual interviews of dropout borrowers – MFI C – September 2005

This shows that as long as the consumer is attaining a net gain in terms of income out of the loan, interest charge and cost of loan do not affect his / her decision until the point where the cost is so high that the borrower prefers to switch to other sources of finance including self-financing by foregoing other expenditure.

This identifies a need for MFIs to determine, within the economic profile of the target market, the thresholds of interest rate beyond which a certain target group will choose not to borrow.

Loan Design Compatibility with Local Culture / Religious Taboos: This refers to religious taboo in Islam against usury that is generally associated with interest charging. In our survey, we discovered this taboo having regional significance. The taboo is most effective in the case of one MFI/NGO, where 16% of the respondents said they will not borrow again because interest is un-Islamic and giving interest is a sin. On an overall basis, this factor accounted for 5% of dropouts.

The survey showed that MFIs in whose target operational zone the religious taboo against interest is effective, must evolve new lending products compatible with the religious beliefs.

A 4. Staff Related Causes

Dropout due to the attitude of / conflict with the staff is cited with an overall frequency of 4%. The conflicts with staff usually arose due to borrower delinquency. In cases where staff misbehavior was cited, the borrower was determined not to re-join the programme. Staff related factors of borrower dropout can be related to following according to this survey:

Staff Competency: Causes related to the competence and/or adequacy of the MFI / NGO's staff. MFIs are not generally known to have the finest quality staff. Their poor pay structure and difficult working conditions often force them to have less than desired level staff. This translates into a number of administrative problems which, in turn, have an impact on, inter alia, dropout rates. Staff incompetence or inadequacy (in terms of both quality and numbers) leads to lack of follow up meetings with borrowers, absence of rapport building with potential dropout candidates, lapses in credit appraisals etc. However, this is an area where dropout borrowers generally refrain from commenting on. Our study team felt that causes relating to staff incompetence and inadequacy had a big impact on dropout rates.

Staff Workload: All the MFIs / NGOs participating in this research are integrated social development organizations where micro credit is only one of the many other programmes of the organization. Furthermore, there was no evidence in the field of a dichotomy within the field staff in terms of social organizers / field officers for micro credit programme and other social development programmes. The same field workers were responsible for meeting targets not only for micro finance programme but also for educational, health and other programmes. The work over-load and pressure to meet

targets appeared to be compromising the quality of not only the micro credit programmes but also the other programmes of these MFIs / NGOs. Client follow-up and client appraisal are poor, loopholes around the criteria for loan approval are being shown to potential borrowers by loan officers to meet the latter's targets.

System of Rewards and Penalties: System of rewards and penalties for the social organizers / credit officers revolve around portfolio target and recoveries. The loan officers get penalized financially in case of loan default. Thus, in the absence of any guidelines set by the MFIs / NGOs on how to treat borrower/clients, staff tends to use threats and rudeness to get payments out from the borrower and by doing so alienates the latter for ever.

A 5. Group Related Causes

Lending technique adopted by all the MFIs / NGOs surveyed in this research was group lending. However, the degree and spirit in which group lending methodology was being adopted tended to vary across the MFIs / NGOs. The degree of implementation of group lending methodology ranged from scenario where group lending system was being implemented in its spirit to the greatest degree to that where groups existed but rarely met, the main purpose of the group was for loan disbursement and repayment by the borrowers. In some MFIs / NGOs, group formation was very sporadic. In many cases, groups existed only on paper and the borrowers themselves did not know that they belonged to a group.

The research found that in latter two cases where the basis of groups were only loan disbursement and repayment, the borrowers in rural areas tended to be indifferent to group lending methodology while borrowers in urban areas preferred lending on individual basis. However, in either of these cases no respondent cited group related causes e.g. disbandment of the group or conflicts within the group as a cause for dropping out.

In the case where group lending methodology was being implemented to the greatest degree, the major cause of dropping out in terms of frequency (31%) was related to group lending methodology.

Following are some of the findings regarding the effectiveness of group methodology and latter in relation to client satisfaction:

- ⇒ A prerequisite to implement the group lending in its spirit is investment by the MFI in terms of staff and time for group formation and group training methodology. An overburdened staff under pressure to meet its targets can effectively turn group methodology into individual lending methodology;
- ⇒ Effective group lending requires that the groups be based on self-help agenda rather than for the sole purpose of accessing loan. In an MFI / NGO where group lending was being implemented in its spirit, the cohesion of groups was based on their saving and internal lending programme. In another MFI / NGO, the findings were that borrowers who took advantage of trainings from being part of the group tended to have greater client loyalty than those who did not or than those who did not even know that on paper at least they belonged to a group. In the case of the former, the group members even continued to participate in group based trainings despite "Resting" in terms of rejoining the micro finance programme. In case of an MFI / NGO where the groups were solely for the purpose of loan disbursement and payment of the installments, the borrowers in rural areas were indifferent to the groups; they hardly ever had group meetings. The benefits accrued were mainly in terms of facilitating each other in giving each other company while going to the bank to deposit the installment;
- ⇒ Borrowers who preferred to be lent on individual basis were:
 - Those who lived in urban areas;
 - Whose groups tended to meet frequently;
 - Who had trouble in repayments and thus were talked down by the MFI / NGO staff in front of the group members.

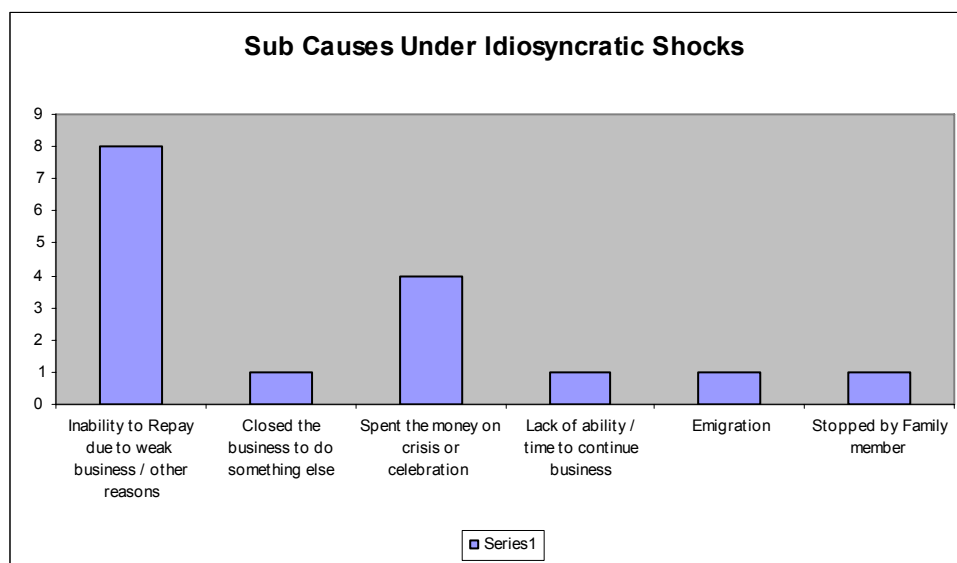
- ⇒ In cases where the group meetings did occur, some women in all MFIs / NGOs valued group lending as it provided a socializing platform and tended to strengthen social networks.
- ⇒ In cases where group meetings were not held regularly or not at all, no respondent cited group related factors as direct cause of borrower dropout. In case of the MFI / NGO where groups were effective and operational, intra-group conflicts and group collectively deciding not to borrow from the MFI /NGO (due to general inability to make timely repayments and due to alternative sources of credit) were a major reason for borrower dropout.

B Idiosyncratic Shocks

After organizational design and policy, idiosyncratic shocks score the highest in terms of factors of borrower dropout. Idiosyncratic shocks identified in this survey were:

- B 1. Inability to repay due to weak business / or other reasons;
- B 2. Closed the business to do something else;
- B 3. Spent the money on crisis (illness, death) or celebration (marriage);
- B 4. Emigration;
- B 5. Stopped by family member

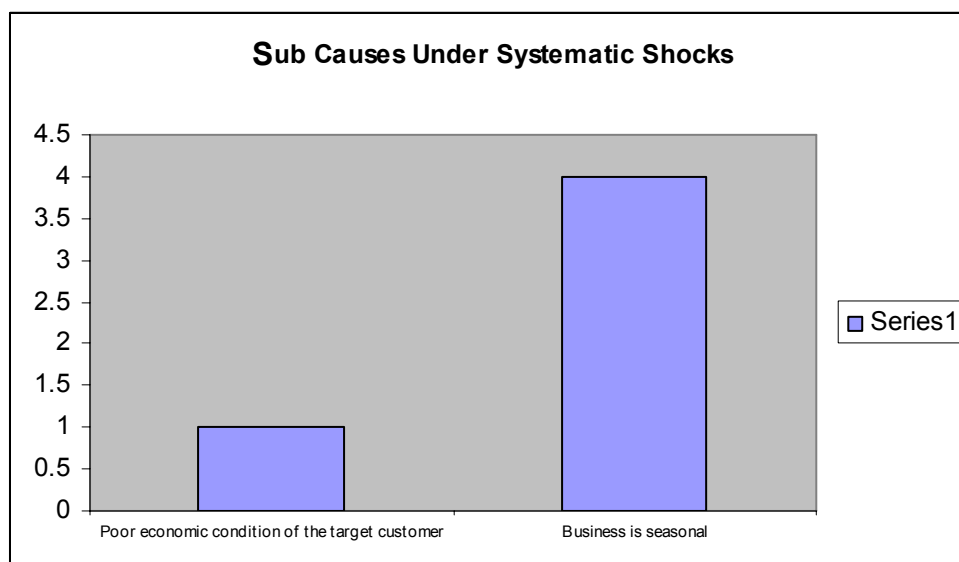
Idiosyncratic Shocks as a cause category (in terms of frequency of response) ranged from 30% for one MFI / NGO to just 2% for another MFI / NGO. On an overall basis they account for 16% of dropouts.



Within the factor of idiosyncratic shocks, the main reason for borrower dropout was the inability to pay due to business failure or general economic condition of the borrower (ranging from 12% to 2% from organization to organization). The latter fact reflects the inherent inability of the borrower to repay due to poverty and insufficient income generation. This factor relates to the loan product design matching the needs and profile of these borrowers, borrower appraisal before approving the loan and the impact of the loan on the borrower. The vulnerability of the borrowers to negative shocks like crisis / illness / death and overriding consumption need as social events was the second main type of idiosyncratic shocks and related to ineffective utilization of loan (10% in case of one MFI /NGO). An overall score of 16 % idiosyncratic shocks as factor behind borrower dropout reflects on the borrower selection and loan approval criteria as well as the impact of the micro credit programme.

C. Systemic Shocks

Systematic shocks includes **poor economic condition of the borrower and or in case where borrower has seasonal business**. Systemic shocks, though not within control of MFIs / NGOs, put greater urgency on the MFIs / NGOs to re-evaluate and innovate on their services and products. On an overall basis, 5% of dropouts cited these shocks as reason for not borrowing again. The degree to which an MFI / NGO needs to bring innovation and fine tune its services depends on the length of the impact of the systemic shock.



In our survey, the main systemic reason for borrower dropout is the seasonality of the income generating activity. This factor was found to be significant for MFIs / NGOs operating in areas that experience periodic draughts. For example, for one MFI / NGO, draught was an underlying reason in many cases and this factor was explicitly referred to 10% of the times by the respondents. MFIs / NGOs operating in areas where systemic shocks are periodic and acute must fine tune their credit design to counter the seasonality effect. MFIs / NGOs operating in areas where seasonality of income generating activities contributes to a smaller degree (4% in case of one MFI / NGO) must decide to fill the gap for the borrowers (who dropout due to seasonal systemic shocks) based on cost and benefit assessment.

D. Market Driven Pull Factors

Market driven pull factors includes that **borrowers have enough working capital for business and or have liquidity**. Absence of need to borrow as a cause expressed by the respondents was the most frequently cited reason for dropping out (15% of total reasons cited). The respondents said that they either did not need to borrow again or that they have enough liquidity being generated through their income that they choose to self-finance their needs.

The following three general scenarios were observed in terms of absence of borrowing need cited as factor of borrower dropout were:

- The first / previous loan was utilized for income generating activity and the purpose of the loan was served; or
- The previous borrowing was for immediate non-productive purpose and was availed by borrower who could afford to repay the loan without additional increase in income;

- The previous loan had helped to create a base for income generating activity that allowed the borrower the option to finance his / her needs through bank borrowing or through retained earnings.

In this survey, the former two scenarios were most common. For borrowers who perceived the cost of the loan as too high tended to prefer using their additional income generated through previous loans to finance further needs in terms of working capital. In many cases, the loan was utilized for non-productive purpose as buying sewing machines for the dowry of the daughter or payment of educational fee. The main reason for borrowing was to bridge the cash-flow gap for imminent needs. As the imminence of the need had passed and the need was non-repetitive, the need for borrowing was no more.

E. Competitive Micro Finance Industry

Competitive micro finance industry includes that borrowers **have found a better source of borrowing**. There has been little evidence of borrowers of MFIs / NGOs dropping out due to competitive forces within the MF industry. In case of one MFI / NGO where respondents referred (to the greatest degree compared to dropout borrowers from other MFIs / NGOs) to their knowledge of, to their access to and their preference for alternative sources of credit as a cause of dropping-out, dropping out in favour of alternative credit suppliers (formal / informal) was cited only 1% of the times. None of the respondents in majority of MFIs / NGOs surveyed cited competitive sources of credit as a reason for dropping out. This reflects the nascent stage of MF industry and thus the lack of competition / or the lack of information available to borrowers about competing MFIs / NGOs / other sources of credit.

However, there was some evidence of informal lending sources as family, friends and moneylenders being approached by borrowers for imminent needs.

8. Significance of Findings

The micro finance sector in Pakistan has just moved out of the stage of nascence on to the market development stage and is currently experiencing a significant escalation in the growth rate in terms of outreach. This growth is largely donor pushed. However, there is little diversity in micro finance products being offered across the sector and MFIs / NGOs as yet do not face any real competition from each other. The sector's lifecycle can help MFIs / NGOs envision how the dropout rate for the MFIs / NGOs may vary with different stages of development of the micro finance sector in Pakistan. Given that the micro finance sector in Pakistan has just started to grow, unless checked, the dropout rates for MFIs / NGOs are likely to be on the rise in the face of greater competition from greater number of MFIs / NGOs / MFBs in the formal sector.

The dropout rates experienced by the MFIs / NGOs covered by this research study are near or above the average dropout rate experienced by MFIs / NGOs in Asia. And this is despite the fact that in Pakistan the competition between MFIs is rather low while the rest of the countries in Asia like India, Sri Lanka and Bangladesh have much greater competition between the operating MFIs. The gravity of this observation is enhanced by the fact that the micro finance sector in Pakistan is relatively younger and should by the norms of this sector, not show a high dropout rate at this stage of its development.

9. Lack of Concern Among MFIs

While we felt that this factor should have been of great concern to the practitioners in the micro finance sector in Pakistan generally and the management and staff of the MFIs / NGOs specifically, our study found a general lack of concern amongst the MFIs / NGOs for client retention. This lack of concern was evident by the fact that:

- The middle management and the field staff were not aware of the importance of retaining clients / dropout rates;

- Though the field staff was aware of the main causes of borrower dropout in their respective MFIs / NGO and identified these causes to be related to organizational policies and product design, the middle management was of the view that dropout rate was not a serious enough issue to merit any special attention from the organization. The senior managers were content in their theory that the main cause of borrower dropout was refusal of the organization to give a repeat loan due to bad repayment history or age limit policies.
- None of the MFIs / NGOs covered by this report (and others with whom the study team had an interaction) had any formal reporting of borrowers dropout rate. Not surprisingly, therefore, none had any formal record of reasons for borrowers' dropout anywhere on the client exit forms.

10. Current Situation

The recently experienced growth in terms of outreach of micro finance has been largely donor pushed. The current organizational systems and human resource capacity within the micro finance sector to absorb continuous supply-pushed growth is being stretched beyond its limits. The donor policies do not reflect, as yet, a concern for client retention (so that the availability of micro finance can have its optimal impact on improving socio-economic condition of the borrowers). One proxy of this lack of concern is that MFIs / NGOs benefiting from donor funds are not required to report their respective client retention rates for the organization as a whole and for different loan cycles as part of the set of the performance indicators required of the MFIs / NGOs by the donors. However, the donor agencies have realized the need for institutional and organizational strengthening to support the pressure for growth of the sector. Thus while the donor paradigm is pushing for commercialization and self-sustainability of the MFIs / NGOs, it is also supporting the development of their Human Resource, MIS., etc and supporting research that can help the micro finance sector be more responsive to the needs of the market.

11. Some Recommendations

The drop out rate situation demands introduction of innovative micro credit products. The following guidelines are provided:

- a. Suitability of the terms and conditions of the micro finance product against the use to which the product will be put by the borrower;
- b. Conformity with the real need and repayment ability of the borrower;
- c. Security (in the form of guarantees or other means)
- d. Up to date and comprehensive accounting systems are needed to ensure timely notice of lapses, thereby making follow up and remedial action possible.
- e. MFIs to be sustainable organizations have to make decisions on sound economic basis.
- f. Arrive at suitable drop out estimation method and include it as part of performance indicator;
- g. Business responsive products;
- h. Build client loyalty through range of services;
- i. Appropriate staff incentives and training;
- j. Developing and running a customized Management Information System to develop borrower based data base.