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Factor Analysis of Drop out Clients in Microfinance Institutions (MFIs) in Satkhira District in Bangladesh

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Abstract

The main objective of the study is to identify the reasons why clients are dissatisfied and thinking to switch to other MFI or to leave the MFI. A total of 129 valid cases were collected through a random sampling method by means of questionnaires and in-depth interviews, and questions were put to the respondents to measure the levels of satisfaction and dissatisfaction over the MFIs' performance. The data was collected from a regional manager, a branch manager, credit officers and borrowers who were involved in BRAC organization at Satkhira district in Bangladesh, between November 2013 and January 2014. The results revealed that membership cancellation, conflict between medium and small size loan, high interest rate on loan but low on savings, societal facts (e.g. widow, death, unsuitable social role), religion and rude behavior from officers (who collect weekly installments) are substantially very strong which followed by lack of industrial regulatory policy, MFIs considered membership cancellation decision, natural disaster, mistrust and lack of co-operation. The result also found the existence of numerous shortcomings on managerial policy, implementation, infrastructure, organization, system, diplomatic policy, quality service and product facilities the sum total of which cause clients' decision to opt out of the MFIs. The main aspect of the study is that, the results of this study can contribute to improve the management of the business organizations to improvise an effective client-friendly plan in developing microfinance institutions in Bangladesh. The findings of this research may also contribute to the improvement of business organization, especially, the microfinance institutions so that they can satisfactorily serve their clients with the proper facilities, managerial strategy and prudent organizational plan.

Keywords: Microfinance Institutions (MFI), dropout client, factors, satkhira district, Bangladesh

1. Introduction

In the world of today, the middle and lower level income groups of people cannot gain access to formal banking services, since poor customers who can only use the conventional banking techniques are deemed too risky and too costly as clients in return on investment module (Khandker, 2005). But in the past two decades around the world, it is found that mostly the least developing countries have seen the development of new microfinance technologies (Islam, 2011; Berhane & Gardebroek, 2011) that have successfully lowered the risk and the cost of lending to poor entrepreneurs and households. Microcredit obviously reduces the financial vulnerability among the poor by building assets, giving proper education, providing emergency assistance during natural disasters, generating income and contributing to female empowerment (Khandker, 2005; Shahriar, 2012). The impact of small but critical financial aid from microfinance and microcredit on poverty alleviation has drastically gained a prominent positive effect and prominent recognition among the least developing countries (LDC) (Khavul, 2010; Brau & Woller, 2004). Among the economically active poor of the developing world, there is a strong demand for a small scale commercial financial service for both credit and savings (Brau & Woller, 2004). Where available, these and other financial services help the low income group of people to improve their household daily maintenance and enterprise management, increase productivity, create smooth income flows and lower consumption cost, enlarge and diversify their micro-business and increase their incomes the sum total of which is an all-round benefit for all concerned (Robinson,2001; Berhane & Gardebroek, 2011).

In the study of economics, we learned about money, and now as head of a bank we lend money. The success of our venture lies in how much crumpled bank notes our once starving members now have at their disposal. The microcredit movement (Silva, 2012) is built for and with money, but ironically at its heart, and at its deepest root, it is not entirely about money in its totality itself but it is the insignificant sum of money prudently used that can effectively alleviate the needy mass of the poor and raise their dignity to enable them to contribute to the society even if it is on a small scale for a start (Garmaise & Natividad, 2010). As a matter of fact, the microcredit movement is actually about helping each person to exploit his or her viable potential in one way or another. It is not so much about cash capital, but it is more than what can be envisaged about human capital. Money is merely a tool that unlocks human dreams and helps even the poorest and most unfortunate people on this planet to achieve dignity, respect, and meaning in their lives if given the opportunity "Nobel Peace Prize Laureate Muhammad Yunus reflecting on the 1997 Microcredit Summit in Banker to the Poor" (Public Affairs, 1999; Panda, 2009). The MFI is considered as a central source of credit for the poor without down payment in many countries in the world. The repayment schedule offered by the MFI consists of a weekly repayment starting one or two weeks after the loan disbursement. The weekly repayment amount is usually calculated as the principal and interest due divided by the number of weeks until the end of the term. The weekly collection of repayment installments by bank personnel is one of the key features of microfinance strategic operational symbiotic prorams (Hermes, Lensink, & Meesters, 2011) that considerably helps to reduce default risks. Frequent repayment of installment is very effective for clients or end-users (Nawaz, 2010), because they do not feel so burdened by the loan as its installment amount is very small size. The microcredit small size loan is playing a pivotal role (Maira & Martib, 2009) in the national economy of any country, like, Bangladesh that contributes around 3 percent of the GDP in 2011 (MRA-MIS Database, 2011) for purposes of effectively generating productive self-employment and income, helping the poor people who live below the poverty level so that they can move out of the vicious cycle of poverty social syndrome (Nawaz, 2010). However, despite achieving its objectives and sustainable growth, the microfinance has been facing a number of challenges and difficulties, such as, customer defection and customer disillusionment of the microfinance institute's role. This phenomenon is reflected by the fact that customer retention and customer satisfaction have become a major challenge for microfinance institutions all over the world. Experts in the field estimated that less than one percent of all MFOs have achieved financial sustainability and only five percent are predicted to survive into the bleak future (Morduch, 1999).

The symbiotic relationship is valuable to both the MFOs and the clients and it is essentially prudent to examine the factors that may diminish its quality and/or shorten its sustainable period. Competition among increasing numbers of MFIs has been diffused extensively in product development, service offered, customer relationship and management efficiency (Khavul, 2010). The level of proficiency in managing the microfinance institutions can be gauged by the fact that while most MFIs recognize the importance of client retention, however only a few have designed business strategies to maximize customer loyalty (Churchill, 2000; Islam, 2011). Retaining clients is very important for the MFI's very survival because it not only can reduce the MF's administrative costs, but it can also lower default risks and increase the average loan balance as well as the institutional financial productivity (Pagura et al., 2001; Mustafa, 1996). Microfinance profitability totally relies on retaining the clients' loyalty and clients' satisfaction (Nawaz, 2010; Shahriar, 2012). Satisfied clients attract new clients by word-of-mouth communication which has a very high inducement factor to maximize membership participation into the microfinance organizations (Kotir & Obeng-Odoom, 2009; Shahriar, 2012). Microfinance practitioners have realized the importance of customer satisfaction and retention and they have even come to the conclusion that it costs them more to acquire new customers than to satisfy and retain the existing customers (Westover, 2008; Islam, 2011). The inherent factors on rejection by customers to microfinance institutions have been identified by previous studies on a wide range of reasons most of which are mainly due to the organizational failures, idiosyncratic shocks and/or systemic shocks, client maturity and institutional market competition (Pagura et al., 2001; Wright & Al, 2001; Hulme et al., 1999; Stark & Nyirumuringa, 2002; Musona & Coetzee, 2001).

On the whole, previous studies have emphasized on the clients' participative rejection which is considered as a loss of the powerful asset of MFIs but this fact is ignominiously ignored by the microfinance institutions which also suffer from their staff's disillusionment over the institution's immature style of management (Rahman, 2013). Staff resignation is also a loss to the organization as certain amount of costs has been expended on the training of staff (Islam, 2011). This malevolent endogenous factor affects the MFI's operational efficiency and stunts its growth, decreases efficacy, increases costs and also damages its image (Silva, 2012) as well as delaying its sustainability thus contributing to the overall lowering of morale within the organization itself. Not only does the operation of the MFI suffer from the effect of customer rejection and staff resignation (Islam, 2011), but its progress is also unnecessarily stunted and its long-term plans immitigably disrupted (Shahriar, 2012). This Hybrid Organization

(HO) primarily pursues a social mission mixed with commercial activities and heavily relies on commercial revenues to sustain operations and market competitiveness and in order to comfortably survive; it must strike a balance between the social responsibility and the economic logic of self-survival (Garmaise & Natividad, 2010). A hybrid organization is one characterized by fluidity, not rigid policy structures or linear operational processes (Hulme et al., 2010). Hybrid organizations can exist on either side of the for-profit/nonprofit divide; blurring this boundary by adopting social and environmental missions like nonprofits (Khavul, 2010; Silva, 2012), but generating income to accomplish their mission like for-profits (Haigh & Hoffman, 2012; Nawaz, 2010). Hybrid establishments can effectively create close relationships with the needy communities by employing local people, involving them in decision-making, training them in specific sustainable viable techniques (such as low impact agriculture and reforestation), and paying above-market wages that enable a better quality of life for those concerned (Haigh & Hoffman, 2012).

2. Financial Renaissance of Microfinance

The microfinance revolution is based on a new paradigm (Robinson 2001; Khavul, 2010)). Bangladesh is the 'Motherland of microcredit' called the 'University of Microcredit'. Microfinance has rapidly expanded from the relatively narrow field of microcredit to the more comprehensive concept of microfinance to face the unpredicted obstacles of inclusive financial systems (Maira & Martib, 2009). Although the history of microfinance is very old, the revolutionary progress was initiated in 1976 by Professor Dr. Muhammad Yunus and his successful founder of the Grameen Bank of Bangladesh which started out by loaning $27 each as a working capital to a group of women in the Jobra village close to Chittagong University (Grameen Bank, 2013). 1980s represented a turning point in the history of microfinance in that MFIs, such as, the Grameen Bank and BRI (Bank Raykat Indonesia), began to show that they could provide small loans and savings services profitably on a large scale. They received no continuous subsidies, were commercially funded and fully sustainable, and could attain a wider outreach to clients (Robinson, 2001; Chua, Mosley, Wright, & Zaman, 2000). It was also at this time that the term "microcredit" came into prominence in developmental entities (MIX, 2005). With a simple system of small and frequent payments and minimal paperwork, the women paid back their loans in full and on time (Maira & Martib, 2009; Shahriar, 2012). In addition, the microcredit program has found that women are more likely to repay their loans and in general and are more reliable borrowers (Panda, 2009). A recent World Bank study shows that wage levels are higher in the villages served by Grameen and that the health, education and self-esteem of its borrowers and their families are significantly improved (Vukson, 2003; Khavul, 2010).

3. Methodology

3.1 Data Collection

Questionnaires and interview methods were used to collect the data which was adjusted to the interviewee's intrinsic socioeconomic background. The questions were presented to one regional manager, three Branch Managers, 16 Credit Officers in BRAC and 119 borrowers who were involved in BRAC and other similar institutions and data on the disillusioned clients over a year and the answers had been accordingly collected and analyzed from the BRAC at Satkhira Sadar, Kalaroa and Shymnagor Branches in Satkhira district in Bangladesh.

3.2 Respondent Demographic Characteristics

The respondents of this study were rural women borrowers, loan Officers and Manager of one leading organizations in Microfinance sector in Bangladesh named BRAC. The total number of women borrowers interviewed was 119 of which 82 were from BRAC, 23 from Grameen Bank, 9 from ASA, 3 from SUS and 2 from Islami Bank. About 59% of BRAC's borrowers were between the age of 20 and 30 years followed by 28 % consisting of 30 to 40 years of age and 7% consisting of 40 to 50 years of age. About 52% of Grameen Bank borrowers were between 20 and 30 years, 4% between 15 and 20 years, 38% between 30 and 40 years and 6% from 40 years old and above. On the contrary, among the 9 respondents from ASA, 5 were between 20 and 30 years, 3 were between 30 and 40 years and 1 was 43 years old. About 94% of the borrowers were married. The difference between the educational qualification of the borrowers of BRAC, ASA, Grameen, SUS and Islami Bank had been specifically observed. About 33% of the ASA's borrowers were self-literate. They become literate after joining the microcredit program to manage financial matters. About 29% of them were primary educated followed by illiterate (22.40%) and secondary educated (16.30%). About 36% of the borrowers from BRDB were secondary educated. The illiterates of this group were also similar (36.40%) like ASA. The self-literate borrowers in BRDB were 15.20% and primary educated borrowers were 12.10%. This educational status of the women borrowers indicates that the borrowers became self-literate after their involvement with the microcredit program.

4. Results

The microfinance clients may leave for positive reasons; for example, they might have outgrown the size of the loans that the MFI can offer and begin to graduate to the formal financial sector. They may also leave for negative reasons, such as business failure or a bad experience with the MFI. Furthermore, some clients who leave may decide to return at some stage in the future. The central premise of this new approach holds that the impact assessment is implemented "to improve impact, not to prove impact" (Simanowitz, 1999), and "to develop methodologies to be used by development finance institutions themselves as a management tool to allow them to receive feedback from their clients in order to improve their services and product mix" (Copestake et al, 1998). Resigning members disclose that the MFI's failures negatively impact the institution's sustainability as well as credibility over the business competition.

Table 1 presents the ratability analysis of the study, whereas the mean, standard deviation indicates a higher ratability of the factors. However, Cronbach's Alpha is commonly used to test the reliability for a set of items. In this study, the Cronbach's Alpha is 0.885 that indicates a good reliability of the factors. Cronbach's alpha should be equal to or greater than 0.70 (Hair et al., 1992; Rahman et al., 2010. Hair et al. (1992); Rahman et al. (2010); Haque et al. (2012); Jalil et al. (2013), Rahman and Jalil (2014) stated that Cronbach's alpha is a commonly used method where alpha coefficient values range between o and 1 with higher values indicating higher reliability among the variables.

Table 1. Reliability analysis

Description	Mean	SD
Membership cancellation occurred due to the manager causing inactive loan sanction.	3.33	0.796
Clients' need medium size of loan but MFIs/NGOs give small size of loan with weekly installment even though clients demand is monthly repayment.	3.46	0.805
MFIs considered dropout decision when clients (Women) get married, migrate or forced by the husband not to be involved in MFIs and NGO.	3.48	0.829
Lack of Institutional regulatory policy, such as, legal infrastructure, delay of loan disbursement, and high deduction from loan lead to the clients' resignation.	3.49	0.860
High interest rate on loan but low on saving is one of the major facts that influence the clients to resign from membership.	3.57	0.885
Natural disaster causes the clients to resign because crops are damaged and they cannot afford to pay back loan.	3.60	0.821
Societal facts lead to clients' resignation, such as, unsupported widow, death, unsuitable social role and misfit status.	3.62	0.902
Mistrust and lack of co-operation between group members forced to attend meeting regularly resulting in resignation.	3.71	0.746
Religion is now one major cause for the client to resign.	3.75	0.811
Client's complaint on the rude behavior from officers who collect weekly installments as the important reason for resignation.	3.93	0.805
Cronbach's Alpha= 0.885, Number of Items=10.		

Table 2, 3 and Figure 1 illustrate the number of Dropout borrowers in three metropolitan places, whereas the dropout rate of 6.75% was high in 2011 at Shymnagor Thana in Satkhira District. On the other hand, the overall Dropout rate was low in Kalaroa Thana as compared to Satkhira Sadar and Shymnagor Thana; this is because of the good managerial policy and implementation.

Table 2. Numbers of dropout borrowers (2009-2010)

Branch	2009			2010		
	Total members	Dropout members	Dropout rate%	Total members	Dropout members	Dropout rate%
Satkhira Sadar	8590	291	3.39	8389	237	2.83
Kalaroa	6265	121	1.93	6340	146	2.30
Shymnagor	5538	287	5.18	5231	313	5.98

Table 3. Numbers of dropout borrowers (2011-2012)

Branch	2011			2012		
	Total members	Dropout members	Dropout rate%	Total members	Dropout members	Dropout rate%
Satkhira Sadar	8321	276	3.32	8367	283	3.38
Kalaroa	6286	178	2.83	6155	172	2.79
Shymnagor	5142	347	6.75	5198	298	5.73

Table 4 presents the frequency of the factors, in which most of the factors agree and strongly agree by the respondents. Table 5 shows the linear regression analysis regarding Dropout, whereas most of the factors were coefficients of high significance and strength of association from substantial to very strong.

Table 4. Frequency distribution

Factors	Characteristics	SD	D	N	A	SA
1	Membership cancellation occurred due to the manager's role on inactive loan sanction.	1	4	12	84	38
2	Clients need medium size loan but MFIs/NGOs give small size loan with weekly installment even though clients demand monthly repayment.	2	8	34	51	44
3	MFIs considered membership cancellation decision when clients (Women) get married, migrate or forced by the husband not to be involved in MFIs and NGO.	9	29	6	71	24
4	Lack of Institutional regulatory policy, such as, legal infrastructure, delay on loan disbursement and high deduction from loan leading to the clients' resignation.	8	14	0	38	79
5	High interest rate on loan but low on saving is one of the major factors that influence the clients to leave.	6	11	27	63	32
6	Natural disaster causes the clients to resign because damaged crops and they cannot afford to service their loan.	17	36	10	47	29
7	Societal facts lead to clients to resign, such as, unsupported widow, death, unsuitable social role and misfit status.	6	21	0	67	45
8	Mistrust and lack of co-operation between group members forced to attend the meeting regularly resulting in resignation.	5	37	8	49	40
9	Religion is now one major cause for client's resignation.	0	0	15	33	91
10	Client's complaints on the rude behavior from officers who collect weekly installments as the important reason for resignation.	0	5	0	98	36

SD=Strongly Disagree, D= Disagree, N=Neutral, A=Agree, SA=Strongly Agree

4.1 Model Development and Result

A linear regression formula $Y = A + BX$, where X is the explanatory variable and Y is the dependent variable. The slope of the line is B, and A is the intercept (the value of Y when $X = 0$)

Table 5. Significant independent paired t-test

Factor	Coefficient	Std. Deviation	Std. Error	t-value	Sig.(2-tailed)	Strength of Association
1	0.9051	0.8366759	0.1834886	4.9327	0.000000000	Substantial to very strong
2	0.7768	0.8018972	0.0985747	7.8803	0.000000000	Substantial to very strong
3	0.7084	0.7107442	0.1723363	4.1105	0.014037612	Moderate
4	0.9629	1.0034180	0.1932185	3.5860	0.030045810	Moderate
5	0.8320	0.8065453	0.1711357	4.8616	0.000000000	Substantial to very strong
6	0.5462	0.8097612	0.1667816	3.2749	0.040349830	Moderate
7	0.8148	0.7253101	0.1600234	5.0917	0.000000000	Substantial to very strong
8	0.3309	0.8192116	0.1943182	1.7028	0.052261848	Low to moderate
9	0.9759	0.8002917	0.1776501	5.4933	0.000000000	Substantial to very strong
10	0.9325	0.7950134	0.1802449	5.1735	0.000000000	Substantial to very strong

Dropout or resignation from membership is a major problem, particularly, when clients are complaining on the MFIs' services that do not meet their needs because these tarnish the image of the institution that lead to clients not willing to access its services, whilst at the same time, induce other potential clients not to join. Disenchanted clients' influence can induce other microfinance members to leave the institution, by:

1) institutional factors;

2) social and cultural factors;

3) economic and environmental factors and

4) group factors.

Among those factors there are many issues. In an institution, there are two types of clients, namely,

i) the active clients are those who take loan and deposit regularly. It means active members maintain all transactions with the institution continually, and,

ii) the inactive clients are those who do not carry out any transaction at least six months with the institution. Every month the institutions perform cancellation of inactive members because they do not execute continuous beneficial transactions which are called involuntary or unwilling members who deserve membership rejection through the institutional autonomic power.

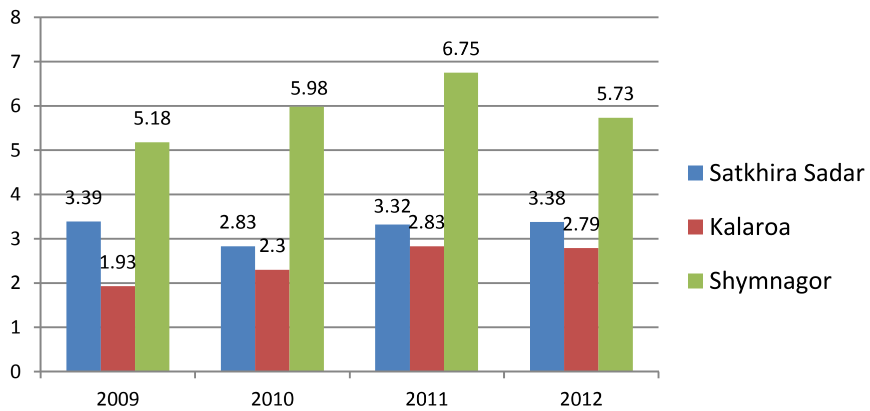

Figure 1. Dropout borrowers (2009-2012)

5. Discussion

Microfinance organizations handle their potential risks in many ways. The risks in the microfinance institutions are mainly associated with small size loans, clients' dropouts, clients' deaths, financial regression, switching of members, members engaged in multiple institutions, unemployment and natural disasters, like, flood, cyclone and earthquake, There are also bad risks with regards to repayment problems and the size of loans being too small for a bank to handle profitably and the biggest problems are to rescue some people out of poverty (Susan, 2005). Client switching are mainly caused by the unsatisfactory services and new more favorable products being offered by other institutions which are now the most important problem because not only the clients but also the staff switching can seriously impact on the profitability factor of the company that increases the operational costs as a whole. Thus, maintaining client retention and creating client loyalty are mutually important for both the firm and the clients. Besides, there are a few clients who do voluntary resignation because they have attained economic improvement. Microcredit programs have shown that the moderately poor are capable of helping themselves out of poverty given the infusion of small amounts of capital (Meade, 2001). MFIs' client switching can severely impact on the profitability, performance and sustainability of the microfinance establishment. In 2009, BRAC dropout member was 5,445 (BRAC, 2010). Experts in the field of microfinance are becoming increasingly concerned with the low retention rates of clients in the micro financial institutions in general (Maria, 2004; Pagunaet al., 2001; Islam, 2011).

Dropout of clients or staff indicates the lack of efficiency in the controlling and monitoring system. Even the institution's contradictory policy may lead to resignation of clients and staff. Many MFIs worldwide suffer these chronic problems with clients leaving their programs (Weight, 1997; Simanowitz, 1999). By providing material capital to the poor, their sense of dignity is strengthened and this can help to empower them to participate in the economic and social interactions (Copestake et al., 1998; Otero, 1999). Most of the clients mentioned during the interview that commodity day by day price hiking was a significant reason to resign from being a member because they needed to pay for their daily essential goods at high prices, hence, they could not afford to pay for the weekly installment, thus, some clients wanted to pay the monthly installment as a result. Some institutes are concerned on the customer satisfaction and retention and they have to pay attention to understand their customers' preferences to survive in a competitive market. MFIs on a specific time take the skimming strategy which normally occurs during the first eight weeks of saving and during this period some member dropouts can be found either because they are unwilling to continue or because they are unable to save regularly.

A number of MFIs have experienced increased dropout rates because of management problems. This occurred when the field staff was involved in fraudulent transaction and also when MFIs had cash flow problems and could not disburse approved loans to clients on time. All demographic groups have dropouts as well as the socio-economic categories of clients. Neither gender nor age is associated with the increasing dropout rates. Commonly, poor people are screened out through group selection processes while some are scared off by savings and loan repayment requirements or even drop out during the initial training period. The degree to which poor clients encounter problems with compulsory savings and repayments varies with the nature of the product and the behavior of group members and credit officers.

6. Conclusion, Limitation and Future Research

Information gap among members with institutional activities indicates the lack of effectiveness because most of the borrowers are of lower or primary level education. MFIs need to monitor dropouts more systematically and move away from the rigid, credit-driven, group based products that dominate their services. They have incorporated dropout rate monitoring into their management information system (MIS) on analyzing the trends and conducting market research with the present and the former clients in order to enable them to modify policies and upgrade their products. Only one agency, however, has gone so far as to consider changing its organizational culture, i.e., to focus on serving the clients rather than taking disciplinary action against them. Development of products that attract and retain a broader range of clients by meeting the clients' needs more effectively is a more attractive step that can reinforce the company's market competitiveness.

Microcredit has become a new anti-poverty phenomenon in current decades, through which the Micro Finance Institutions (MFIs) are striving to wipe out poverty in underdeveloped countries. Small size microcredit loan is a tool for the lower and middle level populations who are living under poverty and deprived of getting the daily basic needs, such as, food, shelter, welfare, security health and education. Because of the presence of strong competitions and other influencing factors, the MFI's dropout clients or clients switching rate are increasing drastically all over the country, thus, creating an unnecessary hindrance for the growth of the MFI establishment.

The microfinance industry remains as a strange and archaic enigma. It is probably the only remaining industry in the world that is typically product- rather than market-driven (Wright). Members choosing to leave a microfinance institution generally do so either because the institution is not providing better enough services and/or because they have identified a better alternative or they may have outgrown the loan size. This high dropout rate indicates the presence of some form of dissatisfaction with the financial services being offered, even if the microfinance is a system to provide the security and accessibility necessary to save for the poor needy. As a social cohesive tool, microfinance injected into a community development program can intrinsically diffuse a drastic change in creating social harmony. Dropping-out is not just bad for the clients and the individual MFIs; it is also bad for the entire microfinance industry. There are now more MFI dropouts in East Africa than there are active MFI clients! This can lead to a growing cohort of people who discourage friends and relatives from joining the MFIs.

However, there are still ample rooms for improvement in the MFI industry, such as,

i) by giving a special soft affordable scheme on a selective case by case situational circumstances of the member.

ii) by gaining an indepth knowledge of the member's pecuniary problem in order to offer a different but suitably created scheme

iii) by participative transaction on the member's behalf for a certain period of time.

These are only a few of the possibilities that can be presently envisaged but if one cares to explore further into the realm of beneficial possibilities, there can be more than one can handle to adopt and adapt to suit the situation and the variable circumstances. The findings of this research may also contribute to the improvement of business organization, especially, the microfinance institutions so that they can satisfactorily serve their clients with the proper facilities, managerial strategy and prudent organizational plan.

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