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Factors Prompting Clients' Dropout in Microfinance Institutions: A Case of Small Enterprise Development Agency and Presidential Trust Fund in Morogoro Municipality, Tanzania

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Abstract

This paper compares factors prompting clients' dropout from Small Enterprise Development Agency (SEDA) and Presidential Trust Fund (PTF) using a qualitative approach. Both qualitative and quantitative data were collected using a semi-structured interview, supplemented by documentary reviews. A total of 136 respondents were selected using stratified purposeful sampling procedure. Data were analysed descriptively and were presented in tables and %ages. The Lee's push and pull theory and the five-step analysis procedure developed by Powell and Brenner (2003) guided data analysis in this study. The study found that 35 and 38 factors that have prompted clients' dropout from SEDA located in urban and PTF located in rural areas respectively, with implication that, there are more factors responsible for clients drop outs in rural areas as compared to town. Thus it is relatively difficult for MFI to facilitate achievement of MDG one in rural areas as compared to urban areas. The paper argues that, appropriate loan package must be developed to suit economic activities in rural areas, as well as systematically follow up to the clients, so as to ensure good performance and hence retain them as clients.

Key words: Microfinance institutions, poverty, drop out

1.0 Introduction

Microfinance institutions are credited worldwide for their contribution in reducing poverty and in facilitating achievement of Millennium Development Goal (MDG) one, which is "halving the number of poor by 2015" (UN, 2005). This objective may not be achieved by Tanzania due to higher clients' dropout rate among MFIs, ranging from 25 to 51% (Mutesasira *et al.*, 1999: 1; Wright *et al.*, 1998: ii; Musona and Coetzee, 2001: 1; Maximambali, Lwoga and Rutherford, 1999: 1). This study therefore, aims to compare factors prompting clients' dropout at SEDA and PTF in Morogoro Municipality in Tanzania. Understanding these factors may enable SEDA, PTF and policy makers to take measures that can reduce clients' dropout so that the said MFIs can achieve their financial and social objectives of reducing poverty.

2.0 Study Methodology

This study used a qualitative approach, which aims to understand phenomena from the perspectives of individuals (Hoepf, 1997: 49; Clark, 2004: 2). Hence, the dropout factors were drawn from clients who know the reasons for their dropout. This is based on the idea that it is the actors, in this case the clients who know better about factors prompting their dropout from MFIs (Kuzilwa and Kiria, 2004: 90).

The sample had a total of 136 respondents, in which 68 came from each MFI. The sample was selected using the stratified purposeful sampling procedure, which is useful in selecting various subgroups of interest in the population (Ryan and Monica, 2004: 33)

Data were collected using a semi-structured interview, which was supplemented by document analysis. To calculate the dropout rate from SEDA, a formula according to Pagura (2003: 16) was used as shown below:-

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

Where: DR = Dropout rate

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

NC = the number of new clients entering during the period

AC *end* = the number of active clients at the end of the period

3.0 Empirical Findings

3.1 Drop out rate

To establish the dropout rates, the formula shown above was employed. It was discovered that drop out rate for three consecutive years i.e., 2004, 2005 and 2006, from the case of SEDA was found to be 26%, 12% and 52% respectively, while for the case of PTF was found to be 14%, 11% and 16% respectively. It can be noted that in 2006 dropout rates for both MFIs was the highest. This was partly contributed by the outbreak of cholera in Morogoro town in 2006. This made the Municipality to ban most foodstuff businesses. Majority of owners of these businesses who were women who form most groups at SEDA and PTF were greatly affected. This forced most of them to drop out due to repayment difficulties.

3.2 Factors Responsible for Clients Drop Outs from SEDA

It was observed that, factors prompting clients' dropout at SEDA and PTF can be grouped into six categories, namely; organizational, business, personal, family, group and competitive factors. For the case of SEDA and PTF these factors are 35 and 38 respectively as shown in Tables 1 to 2.

Table 1: Organizational Factors Prompting Clients' Dropout from SEDA

Factors	Respondents	Percent (%)
Delay in loan disbursement	37	54
Lack of clients care	31	46
Higher interest rate	24	35
Inaccessible savings	21	31
Short repayment period.	19	28
Loan insurance do not help clients	15	22
Delay in savings disbursement	15	22
Savings do not get interest	12	18
Dislike of group loans	12	18
Deducting clients loans	11	16
Group size	9	13
Reasons related to credit officers	6	9
Dislike of repayment pressures	6	9
Small starting loan	6	9
Lack of flexibility in loan repayment	2	3
Lack of training to new replacement client	2	3

Table 2: Business factors prompting clients' dropout from SEDA

Factors	Respondents	Percent (%)
Cholera outbreak	21	31
Seasonality factor	12	18
Relocation of people from Saba Saba market	9	13
Power rationing	6	9
Selling on credit	3	4
Fire	1	2
Theft	1	2

Table 3: Personal factors prompting clients' dropout from SEDA

Factors	Respondents	Percent (%)
Multiple loans	11	16
Misallocation of loan fund	8	12
Resting	8	12
Transfer	5	7
Sickness	4	6
Giving birth	4	6
Found job	1	2

Table 4: Family factors prompting clients' dropout from SEDA

Factors	Respondents	Percent (%)
Sickness	4	6
Death	2	3
Husbands stopped their wives	2	3

Table 5: Competitive factors prompting clients' dropout from SEDA

Factors	Respondents	Percent (%)
Better terms and services in other MFIs	4	6

NB: In Tables 2 to Table 5 %ages were obtained by dividing the number of respondents who stated each factor by the total, i.e., 68. Also the sum of percentages is less than 100 because some respondents did not mention factors under these categories.

Table 6: Summary of Table 1 to 5, which combines factors
** Total number of factors from all five categories = 35*

Categories	Factors in each category	Percent (%)
Organizational factors	16	45.7
Personal factors	7	20.0
Business factors	7	20.0
Family factors	3	8.6
Competitive factors	2	5.7
Total	35	100

NB: In Table 6 above percentages were obtained by dividing the number of factors in each subcategory by the total factors in all five categories above.

3.3 Factors Prompting clients' dropout from PTF

For the case of PTF, factors prompting clients' dropout were presented in descending order in Tables 7 to 12. Table 13 summaries Tables 8 to 12.

Table 7: Organizational factors prompting clients' dropout from PTF

Factors	Respondents	Percent (%)
Inaccessible savings	33	49
Weekly repayment	21	31
Higher interest rate	21	31
Delay in savings disbursement	14	21
Small bonus	13	19
Dislike of group loans	12	18
Deducting clients loans	12	18
Small starting loans	10	15
Lack of insurance services	4	6
Dislike of repayment pressures	4	6
Short repayment period	4	6
Lack of training to new replacement clients	3	4
Reasons related to credit officers	3	4
Lack of safe place for repayment	3	4
Lack of flexibility in loan repayment	3	4
Wastage of time in repayment meetings	2	3

NB. In Table 7 above the sum of percentages is more than 100 because some respondents stated more than one factor in this category.

Table 8: Business factors prompting clients' dropout from PTF

Factors	Respondents	Percent (%)
Cholera outbreak	11	16
Rift Valley Fever	8	12
Relocation of people from Saba Saba market	6	9
Flood	6	9
Seasonality	4	6

Table 9: Personal factors prompting clients' dropout from PTF

Factors	Respondents	Percent (%)
Resting	12	18
Misallocation of loan fund	11	16
Multiple loans	8	12
Giving birth	7	10
Sickness	6	9
Transfer	4	6
Default	3	4
Found Job	2	3
Journey	2	3
Death	1	2

Table 10: Family factors prompting clients' dropout from PTF

Factors	Respondents	Percent (%)
Sickness	6	9
Giving money to family members	4	6
Husbands stopped their wives	2	3
Marriage failure	1	2
Husband retrenched	1	2

Table 11: Competitive factors prompting clients' dropout at PTF

Factors	Respondents	Percent (%)
Better terms and services in other MFIs	7	10

NB: In Table 8 to 11 the sums of percentages are less than 100 because some respondents did not mention factors under these subcategories.

Table 12: Summary of Table 7 to 11, which combines factors
**Total number of factors from all five categories = 38*

Subcategories	Factors in each category	Percent (%)
Organizational factors	16	42.0
Personal factors	10	26.3
Business factors	5	13.2
Family factors	5	13.2
Competitive factors	2	5.3
Total	38	100

NB: In this Table 12 the sum of percentages adds to 100 because the number of factors in each category brings the total of 38 factors.

4.0 Analysis and Discussion

The 35 and 38 factors, which have prompted clients' dropout from SEDA and PTF respectively as shown in Tables 1 and 12, are discussed below:

4.1 Organizational Factors at SEDA and PTF

Delay in loan disbursement: this is the first factor prompting clients' dropout from SEDA as stated by 54% of its respondents as shown in Table 1. At SEDA, disbursement of loans gets delayed between 2 to 7 weeks, which is seen as a serious problem. Miss Juliana, SEDA's client noted that, "a loan is her salary as the salary is to the employee, so its delay can affect not only her business plans but also the well-being of her family".

At SEDA the delay occurs due to bureaucratic procedures of processing loans, in which loan application forms pass from Morogoro field office to Dodoma branch office and finally to Arusha head office for approval. This is because the field office in Morogoro has not attained the status of a branch and so does not have the authority to process loan applications. To compete effectively in the lending market, SEDA needs to improve the speed of disbursing loans to satisfy the needs of clients. As argued Hall (2006: 7) argues, "speed of disbursement is extremely important for borrowers" This is particularly useful in this era of globalisation in which competition for clients is increasing day after day (Schreiner, 2004: 2). This may be addressed by elevating its Morogoro field office to a branch office, so that loans application forms can go straight to the head office for approval. As a short term solution, it is important to inform clients who re-apply loans to start loan applications earlier before the last repayment date, so that when they complete repayment they also get their next loans without waiting too long.

At PTF the delay in loan disbursement has been controlled and now clients can get their loans within one week. The delay has been reduced because PTF is a branch office and so a greater part of loan processing takes place in Morogoro. Likewise, its head office is in Dar es Salaam, which is nearer compared to SEDA's head office in Arusha.

Lack of clients care: About 46% of respondents complained that the new management at SEDA is strict in following regulations without considering clients' problems. Clients stated that the new management gives them double penalties which seem to be unfair, i.e., a fine for delaying loan repayment and being forced to accept a smaller loan given in the previous loan cycle and not the amount a client had requested in the loan cycle he/she had reached. At PTF there was no complains on treatment of the clients as indicated in Table 7. Since the survival of MFIs depends on clients, SEDA needs to improve clients care by providing training on customer care to her employees.

High interest rate: As shown in Table 1 and 7, about 35% and 31% of respondents from SEDA and PTF respectively raised the concern of high interest. Both SEDA and PTF charge an interest rate of 3% per month, which is equivalent to 36% per annum. These interest rates seem to be high because most MFI's clients are poor and own small businesses that do not make enough profit to meet their repayment obligations.

Charging of higher interest may help SEDA and PTF meet their operational costs and maximise their profits. However, there is a need for SEDA and PTF to examine the impact of reducing interest rates to their institutions. If a small reduction in interest rate can attract and retain many clients, it would be desirable to reduce interest rate so as to retain more clients, than to have few clients who are complaining about higher interest rates, which indicates that they may also choose to quit.

Inaccessible savings: About 31% and 49% of respondents from SEDA and PTF respectively dropped out due to inaccessible savings. This is the first factor prompting clients' dropout at PTF as shown in Table 7. Most clients face repayment difficulties on the last months of their repayments mainly because money invested has not made profit, and so the interest charged above the loan becomes difficult to repay. Due to this, clients use their savings in SEDA and PTF to clear their outstanding loans, by deducting from their savings the amount they require and return what is left to them. However, SEDA and PTF do not allow savings to be accessed before

the group completes repayments. As noted, savings seem to be used as a security for the loans taken by the group.

To assist clients having repayment difficulties, SEDA and PTF may introduce a second account where clients can make voluntary deposits to enable them access those savings to settle their outstanding loans as argued by Hall (2006: 8) that, "some MFIs allow clients to use their savings at the end of term to pay off their loan balances" Giving clients access to their savings is in accordance with the best practices in MFIs, which stipulates that, "savings should be voluntary and accessible" (Hall, 2006: 6). Therefore, SEDA and PTF need to abide by the above best practices guiding performance of MFIs to reduce negative impacts on their institutions.

Short repayment period: at SEDA the repayment period is six months for both small and big loans. This system is better for clients borrowing smaller loans but unsuitable for those borrowing bigger loans as stated by 28% of respondents. Because, as loan increases from one loan cycle to the next, the payment amount also increases, because, the repayment period is fixed. As such, the older clients borrowing bigger loans bear heavier burden of huge payment each month. This contributes to dropout because "dropout tends to rise during the later loan cycles primarily from clients facing problems with higher repayments as loan size increases without a corresponding extension of the loan repayment term" (CGAP, 2000: 3). The impact of this is that there are very few groups at SEDA with bigger loans, because of fear of repayment difficulties.

At PTF about 6% of the respondents also complained about short repayment period. Most of these clients were those in the 6^{th} to12^{th} loan cycles with bigger loans ranging from Tsh.1,000,000/= to 4,000,000/=. These clients need the repayment period be extended to 12 months to make their monthly installments smaller. Therefore, SEDA and PTF need to heed to their clients' needs to reduce their complaints that may lead to dropout.

Loan insurance not helpful to clients: About 22% of SEDA's respondents dropped out due to dissatisfaction with loan insurance fund that does no solve their problems. They gave an example of good insurance services at PRIDE in which if a client dies his/her family is paid Tsh. 600,000/=. Although loan insurance fund secure SEDA's loans, most clients seem not satisfied with it. On the other hand, PTF does not have insurance service and 6% of its clients also raised this concern. Since clients from both institutions need insurance services beneficial to them, SEDA and PTF need to introduce insurance services so as to reduce the number of their clients joining strong competitors like PRIDE which provides those services.

Delay in savings disbursement: This affects mostly those who are dropping out or resting as stated by 22% and 21% of respondents from SEDA and PTF respectively. These findings imply that, the problem bears more or less the same weight in both institutions. SEDA and PTF therefore, need to address this delay to avoid offending dropouts and resters who may send negative information to other members in their areas which may discourage prospective clients from joining their services.

Savings do not get interest: About 18% of SEDA's respondents dropped out complaining that their savings neither get interest nor bonus. They suspect that SEDA is making some profit using their savings. Hence, SEDA needs to plan how to motivate their clients to avoid losing them to other MFIs, which offer bonuses to their clients. At PTF clients also complained about lack of interest in their savings. Unlike SEDA, PTF offers bonuses instead of interest to motivate its clients. However, those who complained stated that the bonus of 1% per annum offered by PTF is too small compared to the benefit it enjoys from their savings. This shows the need for PTF to be aware of rates of bonus offered by its competitors to remain competitive in the lending market.

Dislike of group loans: About 18% of both SEDA's and PTF's clients do not like group loans because of problems associated with group loans. These

includes; paying debts of group members, stopping them from borrowing next loans earlier than other group members and freezing their savings until the whole group completes repayments. Another demerit is that group loans encourage non-repayment because unfaithful clients know that if they do not repay, others would repay for them, and an MFI may not care for their non-repayment because, it would still get back its money from other group members (Gine and Karlan, 2006: 3). On the other hand, group loans are preferred by MFIs because of lower transaction costs because "by grouping people and then disbursing and recovering loans in groups, the costs of MFIs are lower than if they disbursed to individuals" (Hall, 2006: 8). However, group loans discourage faithful clients who are forced to repay for defaulters.

Due to this problem, most MFIs are introducing individual loans to avoid penalizing faithful clients (Hall, 2006). Hence, SEDA and PTF need to introduce individual loans needed by their older clients to satisfy their demands. For the new clients in the lower loan cycles, SEDA and PTF may continue using group liability system because they do not have full information about them that makes them risky compared to their older clients.

Deducting clients' loans: About 16% and 18% of respondents dropped out at SEDA and PTF respectively because credit officers deducted their loans without their consents. They claimed that deducting loans affected their businesses, as their planned capitals were reduced. This problem therefore, needs to be addressed to reduce negative impacts on clients businesses that may lead to more dropouts.

Group size: About 13% of SEDA's clients dropped out against due to problem of group size. This often happens when a group has 6 clients and one takes the decision to drop out without informing group members earlier so that they can find replacement. In such a situation if replacement is not found, then the remaining 5 clients are forced to drop out because, SEDA's regulation does not allow 5 clients in a group. Hence, SEDA has to revisit its system of 10 to 25 people for a starting group to make it easier for new entrants to form groups as done at PTF in which, it is relatively easier to form a group because their requirement is five clients in a group.

Reasons related to credit officers: Credit officers also contribute to dropout as stated by 9% and 4% of respondents from SEDA and PTF respectively. Some respondents dropped out because of expulsion and poor relation with credit officers. This needs to be addressed by SEDA and PTF to train their credit officers on customer care.

Dislike of repayment pressures: About 9% of SEDA's respondents dropped out due to dislike of repayment pressures, which is associated with harassments and bad language. Although pressuring clients at times may help in recovering outstanding loans, but some clients are disappointed. Therefore, SEDA and PTF may communicate with the local authority's staff who have guaranteed those clients to discuss how loans can be recovered with minimum pressure to avoid embarrassing them.

At PTF, those who dropped out due to this problem are 6%. This proportion is smaller compared to that of SEDA because of strict system of follow up of delayed loans at SEDA before the end of each month to ensure that delays do not cross the following month for better reporting purposes. In the case of PTF, this strictness is relatively low, probably because, as a government MFI, their staff tend to avoid harassing clients in recovering loans following the government order that employees should not harass citizens.

Small starting loan: About 9% and 15% of SEDA's and PTF's clients raised the concern of a small starting loan of Tsh. 50,000/= offered by these institutions. This follows the impact of 2006/2007 budget in which the government increased the salaries of civil servants by 50% (Ghasia, 2006: 36) and increase in oil prices in 2007/08 which brought the increase in prices. Hence, SEDA and PTF need to raise their starting loans to enable their clients access enough capital for their businesses.

Lack of flexibility in loan repayment: This contributed to dropout of 3% and 4% of SEDA's and PTF's clients respectively. Most clients prefer to complete repayments earlier by doubling so that they can borrow next loans without waiting for other group members. However, SEDA's and PTF's regulations do not allow this. Since most ambitious clients find this system to be restrictive, SEDA and PTF need to introduce flexibility in loan repayment procedures to reduce clients' dropout resulting from this problem.

Lack of training to new replacement clients: this was cited as a cause of dropout by 3% and 4% of respondents at SEDA and PTF respectively. Both SEDA and PTF do not have a system of training new clients joining groups to replace those who have dropped out or rested. These clients often get inadequate information about MFI's conditions from their group members. This has made some clients to drop out because of using loans in non-productive activities such as paying school fees. Since, dropout is not good for the MFIs, SEDA and PTF need to train their new replacement clients to reduce their dropout.

Lack of safe place for repayment: This contributes to dropout as stated by 4% of PTF's respondents. According to them this problem affects repayment of clients during rainy seasons. However, this was not mentioned as a problem by SEDA clients because they make repayments in the bank and in rare cases at the SEDA's office. Therefore, PTF needs to address this problem to reduce clients' complaints, which may lead to more dropouts.

Wastage of time in repayment meetings: This also contributes to dropout as stated by 3% of PTF's respondents. They stated that they waste about 3 to 4 hours in repayment meetings excluding the time they spent to walk to and from the meetings. This affects their business as almost a whole day is spent in meetings. Similar to the above problem, this problem was not identified by SEDA clients because SEDA does not have repayment meetings.

Weekly repayment: About 31% of PTF's respondents dropped out because of tiresome weekly repayments. Due to this, some clients drop out to rest and return later and others drop out completely. According to the respondents, the period of one week is too short to enable them collect adequate repayments. This makes them end up paying fines for delays, because, PTF does not accept late and incomplete repayments. This problem can be addressed by introducing longer repayment periods such as fortnightly or monthly to enable clients get adequate time to do business and to collect repayments. This problem has not appeared at SEDA because its repayment is monthly which seems okay.

4.2 Business Factors at SEDA and PTF

Cholera outbreak: Morogoro municipality was hit by cholera outbreak in 2006. This made the municipal authority to ban foodstuff and fruits businesses established in unauthorized areas. As a result, the affected owners of those businesses including 31% and 16% of SEDA's and PTF's clients' respectively dropped out. Those affected at SEDA are many because, majority of its groups are located in the centre of the town which was severely hit by cholera.

Seasonality: at SEDA, 18% of clients operating seasonal businesses such as fruit selling dropped out at the end of the fruit season due to lack of fruits. Those affected at PTF are 6%. The impact of dropout is higher among SEDA's clients because the majority of its clients doing fruits businesses are concentrated in the centre of the municipality where population is higher.

Relocation of people from Saba Saba market: In implementing its cleaning campaign, the municipality shifted business people from Saba Saba market to Mawenzi, Mazimbu and Nane Nane areas. This exercise affected many people including 13% and 9% of SEDA's and PTF's clients respectively. The impact of dropout is higher at SEDA, because SEDA has many clients at Saba Saba market compared to PTF.

Power rationing: a reduction in water level at Mtera dam which is the source of hydroelectric power in Tanzania, forced the Tanzania Electric Supply Company to introduce power rationing. Majority of SEDA's clients operating businesses that depend of power such as saloons and juicy businesses were greatly affected. This forced some of them to drop out as stated by 9% of its respondents. This factor has not appeared at PTF probably because its clients run businesses that do not use electricity.

Theft: about 2% of SEDA's respondents dropped out because their business assets were stolen. At PTF, no dropout due to theft was reported by its respondents.

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

Selling on credit: at SEDA, 4% of respondents dropped out because they sold their business products (clothes) on credit. This affects clients because customers often do not pay on agreed dates. This delay affects clients' repayments leading to dropout. At PTF no client has been reported to have dropped out due to selling on credit.

Flood: this has also prompted the dropout of 9% of PTF's respondents conducting fishing business at Mindu dam in the municipality. The flood washed away their fishing nets leading to dropout of some clients. At SEDA no client has dropped due to the impact of flood because there were no clients doing fishing business among its respondents.

Rift Valley Fever: this forced the dropout of 12% of PTF's clients conducting meat businesses. This fever which attacks cattle, entered in Tanzania through Kenya in February 2007. Many people were shocked when they heard that the disease had reached Morogoro region through Kilosa district and was responsible for the death of several cows and people who ate the affected cow's meat. Majority of PTF's clients conducting meat businesses were greatly affected, because people stopped eating cow's meat.

4.3 Personal Factors at SEDA and PTF

Multiple loans: about 16% and 12% of SEDA's and PTF's respondents respectively dropped out due to repayment difficulties caused by borrowing from several MFIs. The percent of dropout at SEDA is higher probably because the majority of its clients reside in the centre of the municipality where financial institutions are located. This enables them to easily access loans from different MFIs as they are closer to them compared to the majority of PTF's clients residing in the outskirts of the municipality.

Misallocation of loan fund: about 12% and 16% of SEDA's and PTF's respondents respectively dropped out because they used loans for other pressing needs such as paying schools fees and medical charges. The impact of dropout is higher at PTF because of fewer opportunities of making money in the outskirt of the municipality where the majority of its clients reside. In the case of SEDA's clients who mainly reside in the centre of the municipality may easily find money for replacement if they misallocate their loans because the centre of the municipality has more business opportunities compared to the outskirt of the municipality. Hence, SEDA and PTF need to train their clients on how loans can be productively spent to reduce the number of clients who misallocate loans.

Resting: about 12% and 18% of SEDA's and PTF's clients respectively dropped out because they were tired of repayments. They stipulated that they want to rest. As indicated in Table 3.9 the percent of resters is higher at PTF because of its tiresome weekly repayments compared to monthly repayment at SEDA.

Transfer: about 7% and 6% of respondent at SEDA and PTF respectively dropped out to join their spouses who got transfer to other places. These percentages are almost the same indicating that this problem has the same weight in both MFIs.

Sickness: about 6% and 9% of respondents at SEDA and PTF respectively dropped out due to themselves being sick which made them fail to

conduct their businesses successfully. The percent of dropout is lower at SEDA mostly because its clients are located in the centre of the municipal where health services are nearer compared to the majority of their counterparts at PTF who resides in the outskirt of the municipality.

Giving birth: this also prompted the dropout of 6% and 10% of SEDA's and PTF's clients respectively. The percent of dropout is higher at PTF because of its tiresome weekly repayments, which make it difficult for female clients who had just given birth to attend weekly repayments, compared monthly repayment at SEDA, which seems better. At SEDA clients are also allowed to give their money to the selected group member to make repayment on behalf of others in the bank. This reduces dropout because there is no necessity for all group members to travel for repayment purposes.

Found job: about 2% and 3% of respondents at SEDA and PTF respectively dropped out because they got formal employment. Since the percentages of dropout due to employment are approximately the same, it indicates the same impact for both MFIs.

Default: about 5% of respondents at PTF defaulted due to personal problems that made them fail to repay. At SEDA no client has defaulted among its respondents reflecting that its monthly repayment system gives clients enough time to do businesses compared to weekly payment system at PTF that seems too short for clients to get adequate payment.

Journey: about 3% of respondents at PTF dropped out because they travelled to solve their personal problems. At SEDA no dropout due to journey was reported. This implies that SEDA's monthly system is long enough to enable clients to travel to distant places and be able to meet repayment deadlines compared to weekly system at PTF.

Death: at PTF death contributed 2% among its dropouts. No dropout due to death was reported at SEDA. As PTF is located to outskirts of Morogoro, this could be attributed by poor medical services in those areas.

4.4 Family Factors at SEDA and PTF

Sickness: according to Table 3,4 and 10; 6%, 6% and 9% of clients at SEDA and PTF respectively dropped out due to sickness in their families. In PTF this problem is serious as compared to SEDA, this can be attributed to either poor health service at PTFs market or weekly payment system of PTF that clients can not afford, especially when they have sick people to attend.

Husbands stopped their wives: about 3% of SEDA's female respondents were stopped from borrowing at SEDA because they spent loans on non-productive activities. At PTF husbands also stopped the same percent of their wives from borrowing, to avoid future liabilities in case of repayment difficulties from their wives. This follows the obligation imposed by SEDA and PTF on first guarantors of their clients.

Death: at SEDA 3% of respondents dropped out due to death in their family members. No respondent has dropped out at PTF due to this factor. However, this does not mean that families of PTF's respondents do not die but it may mean that death in the respondent's families did not affect repayments.

Giving money to family members: about 6% of respondents at PTF dropped out because they gave part of their loans to their family members for business purposes. At SEDA no respondent has dropped out due to this factor. This does not mean that no SEDA's respondent has given money to his/her family members, but it may imply that money given has not affected respondent's repayments.

Marriage failure: one female respondent at PTF dropped out because her marriage failed. This made her face repayment difficulties due to lack of support from her husband. At SEDA no respondent has dropped out due to this factor. This may mean that marriage failure has not affected respondents' repayments.

Husband retrenched: one female respondent at PTF dropped out because her husband was retrenched. This affected respondent's repayments, which later forced her to drop out due to lack of financial, support from her husband. At SEDA no client has dropped out due to this factor. This may mean that spouse retrenchment has not affected respondent's repayments.

4.6 Competitive Factors at SEDA and PTF

Better terms and services in other MFI's: about 6% of SEDA's respondents joined MOREFU and PRIDE due to better terms and services. At PTF 10% of respondents also shifted to other MFIs with better repayment systems e.g. monthly to avoid weekly system at PTF, which seems tiresome. Therefore, SEDA and PTF need to improve their lending terms and services to retain their clients who tend to join other MFIs with better terms and service. Terms and service improvement is useful to avoid being out-competed in the lending market as argued that, ''MFIs that fail to make transition from being product driven to being market driven will be driven out of business by competitors leading to eventual failure'' (Stølen, 2003: 8).

5.0 Conclusion and Recommendations

This paper has identified 35 and 38 factors responsible for clients drop out at SEDA and PTF respectively. It has been established that there are more factors responsible for client drop out at PTF which is located in rural areas as compared to SEDA which is in town. This implies that, it is difficult to achieve the MDG one in rural areas as compared to towns. These factors need to be addressed to reduce clients' dropout so that both MFIs may continue to benefit from their clients as well as facilitate MDG one. To address the problem of clients' dropout, SEDA and PTF may introduce policies that can direct their credit officers to periodically collect and analyse information from the current clients and those who have dropped out. In rural areas specific loan package must be introduced so as to fit economic activities taking place in those areas.

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