CLIENT EXIT BEHAVIOR IN MICROFINANCE:

A CASE STUDY OF BHAKTAPUR

BY

Sweechna Pokhrel

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RECOMMENDATION

CERTIFICATION

DECLARATION OF AUTHENTICITY

I, Sweechna Pokhrel, declare that this GRP is my original work and that it has been fully and expressly acknowledged wherever adopted from other sources. I also understand that if at any time I am found to have materially misrepresented any material submitted to SOMTU, I will be fully responsible for my entire work. I certify that this work has not been submitted or presented elsewhere.

Signature: ____________________________

Name: Sweechna Pokhrel

Date: August 2022

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ABBREVIATIONS

BFIs	Bank and Financial Institutions
BTR	Borrower Turnover Rate
MFIs	Microfinance Institutions
NULBBSL	Nirdhan Uthan Laghubitta Bitiya Sanstha Limited
SACCOS	Savings and Credit Cooperative Organizations
SCC	Savings Credit Union
SPSS	Statistical Package for Social Sciences
VB	Village Banking Model

EXECUTIVE SUMMARY

Client retention and loyalty are inevitable factors in the progress of microfinance institutions, since customer exit might increase both operational and managerial expenses, and new customers demand extra monitoring and inspection. New customers tend to take out smaller loans, resulting in lower profits. This problem is increased due to the competition among the MFIs, which reduce the pool of potential customers, make it more difficult to attract new customers, and increase the value and importance of customer retention.

The study's major goal is to investigate the impact of variables such as loan conditions, group dynamics, organizational services, and competition on client exit from microfinance institutions. For the study, the descriptive and explanatory research design is used and the client who has already left the microfinance institution from Bhaktapur is targeted as population.

The study collected primary data by distributing the questionnaires to the client that has already left the MFIs. The loan officers were also interviewed for more information on client exit. A purposive sampling technique with some sort of randomness was used to collect the sample of 249 respondents. The respondents who have already left the microfinance were interviewed and assisted to fill the questionnaires. SPSS tool was used to process the information. This tool was used to describe the data, and connection between the variables was also measured.

The findings revealed that three variables namely terms and conditions of loan, group dynamics and competition have a positive and significant relationship with the client exit. Whereas organizational services do not seem to influence the members to leave the institution. Since, the clients were mostly satisfied with the services and the factors that the study covered did not influenced them to leave the microfinance. In addition, the clients who are involved in other microfinance also did not find any differences in the service between them.

Therefore, microfinance organizations and policymakers need to build programs to address the financial need of the poor people. For this, the credit conditions must be created in such a manner that they match to the particular demands of the customer and are optimally tailored to the borrowers (more individual loans, higher loan ceilings, flexible repayment procedures, installment collection options) to the borrowers.

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Microfinance is a financial aid intended to those who are financially underprivileged and are unable to access banks or other formal financial institutions because they do not have the appropriate funds, collateral, or income (Karki, Dhungana, and Budhathoki, 2021). Microfinance organizations provide low-income persons with an unsecured loan that they can use to fund a range of self-employment endeavors with the intention of fostering financial inclusion.

Poor people are often denied basic needs. However, the biggest drawback is the lack of financial independence. Poor people are deprived of the facility of getting loans, as they do not possess any collateral to stake for the loan amount. As a result, such individuals are prohibited from getting the benefits of the financial sector. Against this background, the microfinance sector has emerged as one of the solutions to poverty alleviation (Banerjee and Jackson, 2016).

Microfinance systems aim to alleviate poverty and provide social protection to vulnerable individuals and groups. Traditional banking systems could not support microfinance systems. Its business model is based on traditional lending methods, which is an inadequate premise for microfinance borrowers. According to The World Bank report (2022), 56% women are working in Nepal. The majority of working-age women work in the unorganized sector, which has terrible employment environments and salaries. Therefore, women's empowerment aspect of Nepal's microfinance is of great importance.

Because of successful microfinance loan applications, currently employed women are supported in small businesses and unemployed women are eligible for employment. These economically disadvantaged women can have more control over their financial resources if provided with financial services. Microfinance institutions offer a wide range of payment services, including money transfers, insurance, remittances, deposits, and loans for small entrepreneurs. The poor make up the majority of the total population in any country and access to financial services can help them accumulate wealth and reduce their vulnerability to external economic shocks. Poor people usually raise the money they need through expensive, informal loans and receive savings services through rotating savings clubs, but these methods are fraught with risk and fraud.

Customer retention and customer loyalty are inevitable factors in the progress of microfinance institutions, as customer exit can lead to inefficiencies in the management and monitoring systems of microfinance institutions (Mamun, 2018). Borrower attrition is a major problem in microfinance because their grievances tarnish the image of institutions and discourage others from entering microfinance institutions. Dropout clients tend to provide the most honest feedback on leaving the institution as they have quit the relationship and are no longer influenced by the microfinance institution. According to Simanowitz (2000), dropout information helps the MFIs to retain their clients by satisfying their expectations and is a crucial source of data for project improvements. One of the most difficult tasks facing microfinance institutions is obtaining reliable information on customer attrition. Customers often do not openly state the reasons for the company's failures. Many microfinance institutions have lost customers due to management problems. Clients leave because of problems in management, execution of policies, organizational service, quality of products and services offered (Pearlman, 2014) .Clients may also leave microfinance institutions due to fraudulent transactions by financial institution staff. Microfinance institutions are at risk from defaulting borrowers. Natural disasters such as floods and earthquakes increase the risk for financial institutions as agricultural borrowers become unable to repay. Some customers switch to other microfinance institutions mainly because they want to benefit from other financial institutions' innovative products (Lensik et al., 2018).

In context of Nepal, Sharma (2010) found that the majority of industries (47%) experienced dropout rates of 10-20% and 37.5% reported dropout rates of less than 10%. This means that the MFI service may not exactly meet the customer's needs. Small loans, customer graduation, customer replacement income, migration, husbands leaving home, no time for a weekly meeting, strict MFI disciplinary procedures, and customer duplication were some factors that caused the client to leave the organization.

The interview with the loan officers of different microfinance institutions also placed the light on different reasons why the customer or the members of the institutions are leaving. Most of the common factors included migration of the members to different places, foreign employment, and family or husband pressure to leave the institution, customer or group graduation, no income to pay for the loan, and mushrooming of microfinance institutions and so on. Thus, this study has further tried to find out the reasons of why clients leave microfinance institutions.

1.2 Statement of the Problem

People who lack capital are unable to invest in productive activities, run established firms, or even survive in society, severely limiting their opportunities to escape poverty. On the other hand, microfinance institutions have greatly contributed to improving people's living standards by increasing their income-generating activities through loans.

The success story of microfinance programs can be found in numerous studies. Many practitioners feel that the programs of microfinance can improve the lives of low-income families (Lensik et al., 2018). These studies show that microfinance clients experienced positive impacts on several levels. At the firm level, they contribute to capital accumulation and job creation (Swain et al., 2008). Finally, at the community level by hiring new workers in poorer groups.

Despite these benefits, some people choose to leave microfinance institutions. Customer churn is a serious problem in the microfinance industry. However, even with the rapid growth of clients, the microfinance institutions paid only little attention to them because they did not jeopardize their financial sustainability goals. Customer churn became a particularly pressing issue when customer churn rates began to stabilize or increase, while the number of new clients began to decrease. Customer exit increases both operational and managerial expenses because new customers demand extra monitoring and inspection (Karim and Osada, 2007). New customers also tend to take out smaller loans, resulting in lower profits. Competition among the MFIs further adds to this problem. Intense competition not only makes it more difficult to attract new customers but there is risk of losing the old customers as well. However, it also helps the organizations in realizing the worth of their customers and its importance on retaining them (Epstein and Yuthas, 2013).

Given the costs of churn, the impact on sustainability and reach, and the benefits of long-term banking relationships, churn analysis is beneficial for both microfinance institutions and clients. A thorough investigation of the reasons for customer dropouts can help identify strengths and weaknesses in the microfinance institution's policies and strategies, as well as deficiencies in the products and services offered, to better serve customer needs. In addition, suggest potential improvements to meet the client’s requirements and thus increase their satisfaction and retention.

On this regard, much literature can be found on client exit from microfinance industry. Rahman, Rahman, and Jalil (2014) found that subscription withdrawal, loan size conflict, higher loan interest, small income in savings, death of husband or family members,

religious practice, and disrespectful behavior shown by officers while collecting the installments are factors causing client exit from institutions. In contrast, Mamun (2018) discovered that client reluctance in taking out another loan is the most common reason for dropout. In addition, no requirement for additional credit, rigid installment size with frequent repayment intervals, short repayment intervals, no additional time limit beyond the confined time for payment, higher lending rate, good financial health, low income from savings, and no acceptance for delayed payments are some of the other major causes that influence the customers to leave the microfinance institutions.

Several works of literature on poverty alleviation (Sharma, 2003), economic impact of microfinance (Adhikari and Shrestha, 2013; Paudel, 2013) on women empowerment (Lamichane, 2020) can be found in context of Nepal's microfinance sector. However, very few studies on client exit in microfinance sectors have been conducted like that of Sharma (2010) and study conducted by the microfinance institution itself like Nirdhan Uthan Laghubitta Sanstha limited.

Hence, this study focuses on client exit behavior of micro-credit borrowers in developing countries such as Nepal, as it has an impact on the microfinance institution's viability, and accessibility, and it puts into a doubt on microfinance's competence to successfully connect with the needy people to serve them. It also attempts to evaluate the reasons or determinants of client exit from microfinance using both primary and secondary data.

Therefore, for the analysis of the factors that would affect clients' exit following research questions are sought.

i. Do loan terms and conditions cause clients to leave the MFIs?
ii. How does group dynamics affect the client exit behavior in microfinance?
iii. Is there an impact of organizational services on the client exit behavior of MFIs?
iv. Does competition among the MFIs contribute to client exit?

1.3 Objectives

The aim of this study is to explore client exit behavior of microfinance institutions. However, it does have the following precise goals:

i. To examine the degree to which the loan conditions influence client exit behavior in microfinance institutions.
ii. To analyze the effect of group dynamics on client exit behavior.
iii. To determine the impact of organizational services on client leave behavior.
iv. To measure the effect of external influences like competition on client exit.

1.4 Significance of the Study

This research has looked into the variables that give rise to customer exit in MFIs in Bhaktapur district of Nepal. Though there are many researches undertaken on customer dropout from MFIs, they have only covered a small portion of the total study. The microfinance institutions like Nirdhan Uthan Laghubitta also have stated reasons on client exit on their impact assessment report, but are those data reliable. This poses a question on the reliability of data here. As the organization may have shown biasness in writing the results. The studies of Sharma (2010), and Mamun (2018) analyzed the data using the descriptive statistics like mean only through which we cannot infer what reasons have mainly caused the client exit from the microfinance institutions. Therefore, this study has tried to fill the gap by unveiling the reasons that forces the customers in Bhaktapur to leave the MFIs. For this important analytical tool like SPSS is used in finding the correlation between the variables.

Microfinance program was created to provide benefits and a medium to the poor through whom they can overcome their financial obligations and improve their financial health. The access to credit provides them with the opportunities to generate income or get some trainings and skills for self-employment. Thus, this platform can be used by the people to generate some wealth and get rid of their poverty. The mainstream financial institutions were unwilling to provide credit to the poor due to insufficient security, high processing costs, and low profitability. Therefore, MFIs were established to correct this "market failure" by providing credit to the "unbankable" poor. The establishment of MFIs also lies in the fact that it could directly provide funds to the poor without the involvement of the state. Thus, removing corruption and ineffectiveness from the way. Since, the importance of MFIs in the economic development is undeniable, the elements that creates disturbance in the functionality of MFIs should be identified and strategies should be made to remove them.

The identification of the factors that leads to client exit is helpful for the MFIs. After knowing these variables the policymakers can incorporate them in designing their products and services to meet the expectations of the customers. This can eventually satisfy the clients and discourage them to leave the MFIs. Furthermore, the findings of the study would help the private and governmental sectors to develop regulations that support the growth of MFIS and it can also be used by scholars to carry further research on this area by incorporating other variables that affect the client exit from an institution.

1.5 Research Hypotheses

Terms and conditions of the loan

The primary cause of client turnover is the way that firms address their customers. The firms generally address them from a product-centric perspective instead of a market-centric perspective (Wright, 1997). In particular, the customers leave the institutions due to badly designed loan conditions, improperly constructed saving schemes, and similar products that are offered by different institution.

According to Musona and Coetzee (2001), the payback plan of the loan was too rigid and it failed to address the realities of microbusinesses. In the same vein, Hulme et al. (1999) found that a long duration of waiting for a loan to be disbursed pulls clients out of MFls most of the time. This means that the additional time taken to disburse a loan forces more customers out of the MFIs.

H1: The terms and conditions of the loan have significant effect on client exit behavior in microfinance.

Influence of Group dynamics in client exit.

Group lending is an important aspect of microfinance institutions where women having similar financial needs form a group together. The basis for group lending is group solidarity, or joint obligation, where each member promises to repay the group debt in full should any member fail to do so.

Dynamics within the group and management concerns at the microfinance institution were noted as potential causes of client churn in the case of joint liability contracts Karim et al. (1999). The members of a group may vote to terminate any member due to a disagreement or fraud; members may also decide to leave the group if they are required to testify for credits that are large and have a significant risk of default (Pagura, 2003).

H2: There is a significant impact of group dynamics on client exit behavior.

Organizational service influence on client exit

Customer or employee dropout, according to a study by Weight (1997) and Simanowitz (1999), indicates ineffectiveness of the controlling and monitoring system. Customers and staff members may leave the institution as a result of its contradictory policies.

The most frequent causes of dropouts, according to Pagura (2004) and Lehner (2009), are crisis-related factors. For instance, a lot of clients in Bangladesh and Africa move around in pursuit of new markets or better living conditions, which leads to dropouts. Other researchhave only mentioned the workplace and the address without demonstrating a

meaningful correlation between those factors and the reasons for leaving (Musona and Coetzee, 2001).

H3: There is a significant effect of Organizational services on client exit behavior.

Influence of competition on client exit

With the influx of formal financial institutions entering the market, the level of competition and its implications for borrower turnover are becoming more complicated. The fierce competition in the market causes a change in lending operations that can effect on the availability of microloans and the number of clients of microfinance institutions. (Hossain et al., 2020). As a result, market competition regularly affects the clients, causing them to switch from one microfinance to another.

Dropouts are common, according to Wright (2001) and Pagura (2004), since people are dissatisfied with the services provided by a MFI, they assume that other microfinance institutions or lending institutions provides quality services.

H4: Competition has a significant effect on client exit behavior.

1.6 Limitation of the study

- This research is dependent on the primary data sources regarding dependent and independent variables. Therefore, accuracy of the information provided by the respondents is necessary for the study's conclusions to be reliable
- Total number of sample of observations of primary data is only 249. Less sample size might lead to the less significant result as expected.
- A Purposive sampling technique is used to collect the data. This sampling can occasionally be subject to selection bias and inaccuracy due to a lack of random sampling.
- Only four variables (terms and conditions of loans, group dynamics, competition and organizational services) are used in the study. The items of the variables do not sufficiently cover the reasons for client exit.

1.7 Outline/Structure of Study

The present study comprises three main sections with five chapters.

a. Preliminary section
b. Body of the report
    - Introduction
    - Related Literature and Theoretical Framework
    - Research Design and Methodology

- Analysis and Result
- Discussion, Conclusion and Implications

c. Supplementary section

- References and Appendix

The preliminary section consists of a title page, certification, and declaration of authenticity, acknowledgments, table of contents, tables, figures, abbreviations, and summary. Similarly, the main part of the report consists of another five sections: introduction, literature review, and conceptual framework, research methodology, data analysis and results, and discussion, conclusions, and implications. The last section of the report contains references, and appendix.

The first chapter includes the introduction to the study, which explains the theoretical background on client exit behavior. It also contains the statements on research problems, purpose of the study, research goals, limitations, and the structure of this GRP.

Similarly, the second chapter includes a literature review and a conceptual framework. A conceptual framework is used to identify the dependent and independent variables based on previous literature. The literature review consists of reviewing empirical studies, research articles, and theses or dissertations and presents the studies of researchers on why client exit from the microfinance. This chapter present an overall scenario of the study related to the objective of the study.

Likewise, chapter three consists of methodology used. This chapter deals with research approach, research strategy, research design as well as population and sample. This chapter also describes the data collection method, measurement and questionnaire design, data processing and analysis, and ethical considerations of the study.

Chapter 4 describes the analysis and result part of the study. It represents analysis of quantitative data using statistical tools that define the various tables and figures intended to answer the objectives and research questions of the research.

Finally, the last chapter deals with the discussion on the findings, conclusion and implications of the study. Some recommendations are also made to the scholars and policymakers at the end of this chapter.

CHAPTER II
RELATED LITERATURE AND THEORETICAL FRAMEWORK

The most critical and crucial aspect of every study is the literature review. It is understood that one must have sound theoretical understanding in order to substantiate the conclusions of any study. Thus, this chapter aims at studying the factors that cause client turnover in the organization. Here articles were reviewed to identify the variables that can influence the client to leave the organization and to infer which variables have more effect on the client exit behavior in microfinance.

2.1 Review of the Literature

A literature review is an examination of academic works (including books, journal articles, and theses) that are pertinent to a given subject or research question. It is an academic part of the work that contextualizes, and demonstrates knowledge of literature on a certain subject. It is referred to as a review of the literature rather than a literature report since it includes a thorough evaluation of the materials (The University of Edinburgh, 2022). This study "Client Exit Behavior in Microfinance: A Case Study of Bhaktapur" has generated a substantial volume of literature for the researcher to review. In order to determine the reasons that drive borrower turnover, both theoretical aspects, as well as findings from prior studies, have been integrated.

2.1.1 Conceptual Review

Concept of Microfinance

Microfinance is viewed as a practical means of offering a range of financial services to the underprivileged and excluded (Nepal Rastra Bank, 2011). Microfinance's main characteristics are lending without collateral, straightforward procedures requiring less documentation, replacement of formal loans, flexible payback, and emergency financial support for group members. It also targets underprivileged people and encourages group interaction (Momba, 2013).

Microfinance institutions offer a variety of financial services like small loans, savings, insurance, and remittances to low-income households and needy people to solve their financial needs and earn a better livelihood. However, globally, the sector has been dominated by microcredit services, small loans to the poor, with or with collateral. According to Schreiner (2001), microfinance can be defined as a bank’s small effort to help poor households to get more access to small loans and savings facilities. Therefore, microfinance provides facilities like deposits, credit, and micro insurance to the people

which they don't get from the formal financial and banking sectors. Before poor people were marginalized by the formal banking and financial system and lacked useful credit services. Microfinance has evolved from this very concept and has given poor households a hope to get out of poverty since the late 1970s. This led to people like Dr. Mohammad Yunus, a pioneer in the microfinance movement to demand credit facility as a human right. According to Dr. Muhammad Yunus, founder of Grameen Bank, "Microfinance is used to unveil the potential of poor entrepreneurs and help them cross the poverty line."

The term microfinance was not discovered in Nepal until the late 1990s. Rural lending in Nepal began in 1956 when a credit union was formed in the Chitawan Valley to provide credit to resettlements from all over the country. Nepal has almost 40 years of microfinance experience. There are various poverty alleviation programs in Nepal, but only microfinance programs are considered to be effective for poverty alleviation in rural areas. During this period, a number of microfinance development programs were implemented, including unfavorable sector lending programs and other donor-backed microfinance programs. Microfinance is considered to be a successful medium of economic development intervention for the following reasons:

- The microfinance institution targets their facilities to the impoverished people residing in remote areas where the banks cannot reach them.
- These services can contribute significantly to uplifting the living standards of poor people both socially and economically.

Microfinance institutions try to reach every nook and corner of the country to help needy people with possible financial services. However, they are unable to do so due to the geographical location of Nepal. People also have different languages and cultures which makes it more difficult for microfinance institutions to reach them.

Microfinance institutions are a special type of institution that pursues income-generating activities to promote the interests of the poor through the provision of banks and financial services, thereby helping them improve their economic and social standards. According to certain microfinance surveys, remote Terai, hilly and mountainous poor and rural households are still unaffected by microfinance activities. Microfinance activities in hills and mountains have proven to be costly. Due to this phenomenon, Nepal has developed or replicated its own sustainable microfinance model to improve the socio-economic status of poor households and provide more employment opportunities through participation in SMEs, resulting in more employment opportunities.

Due to this phenomenon, Nepal will improve the socio-economic status of poor households, provide more employment opportunities through participation in small and medium-sized enterprises, and make a meaningful outreach in the mentioned areas.

Modalities of Microfinance in Nepal

A variety of models can be found in microfinance institutions in Nepal. These models have their own features and importance for uplifting the financial aspect of the poor people. The models are:

Small Farmers Cooperative Model

This model was previously known as Small Farmer Development Project and was operating under ADBL. Now it works under the local community under the Cooperative Act 1991 A.D. It is a cooperative model that provides financial and non-financial services to the people or its members residing in rural areas mostly. Apart from loans it also provides training on how to utilize the loans on running their operations or enterprises. The small Farmers cooperative model also provides loan in wholesale and is managed by the members themselves. These institutions target their services to small farmers especially within a single VDC. It serves around 500 household by catering the needs of 200-700 members within a community.

Cooperative Model

The cooperative scheme is primarily implemented by the Savings Credit Union (SCC) and offers its members a wide range of savings and credit products. SCC is intended for people in a particular location, irrespective of their social level and financial abilities. Under Co-operative Act of 1992, a group of 25 municipalities can establish a co-operative and accept deposits from them. Participants of this cooperative may also get credit for specialized reasons including farming, homes, microbusinesses, or even for urgent purposes (NIBL ACE CAPITAL, 2022).

Grameen banking model

The Grameen bank model is the foundation of Microfinance models. And this model was originated by Professor Mohammad Yunus in the 1970s in Bangladesh. This concept is established to offer credit to the lowest of the poor without any collateral on their doorsteps. This model is focused on women increasing their living standards as well as empowering women.

The Grameen Bank model in Nepal was founded in 1992. As of mid-March 2022, there are 66 microfinance institutions. To increase incomes and create employment opportunities for disadvantaged people in rural areas, the NRA proposed compulsory credit in the

agriculture, cottage industry, and services sectors, introduced in early 1974. There are two types of financing in the loan model program for the preferred and disadvantaged sectors: direct and indirect. Commercial banks lend directly to beneficiaries as retail loans in the direct case, while in indirect cases the commercial banks act as wholesale microfinance, and the loan funds are sent through MFI (NIBL ACE CAPITAL, 2022).

Self-Help Groups/ Community Organizations model

Self-help groups consist of members who come together to help each other and solve their financial problems. They are small groups usually consisting of 10 to 20 members, who collect their savings and fund those savings as a loan to the needy group member. Commonly the women residing in the same region or classes come together to form these groups. The members pool their financial resources and offer the needy member a small interest-bearing loan. Loan terms and conditions are determined by specific members of the group. The "Dukuti" system, which has been in Nepal for 4 decades, is an illustration of a self-help group.

Like other MFIs, community organizations mobilize mandatory as well as other deposits. The programs of CO typically offer consumers credit with annual interest rates ranging from 10-12%. Members apply for credit and collect payments during CO's regular meetings. CO sets borrowing costs as well as other lending criteria when it lends money from its savings.

Village Bank (VB) model

The Village Bank is a credit savings and loan association managed and operated by members of the community. Founded by NGOs, VB's mission is to offer people with access to finance, to form community action groups, and to assist members in increasing their deposits. A VB model comprises 25-50 members with poor economic backgrounds who want to do something on their own to improve their living standards. VB aims to increase women's participation primarily with the aim of improving women's social status and domestic bargaining power. VB grants a loan to a member from the loan capital granted by the supporting MFI. In addition, all the members of the bank have to sign the agreement. This ensures the moral security of the loan granted. Depending on the size of funds accessible at the bank, members normally receive up to ten thousand rupees at one time (NIBL ACE CAPITAL). To release new credits, you must end the credit cycle and pay off all credits by the end of the 16th week. No deposits receives interest, but the members receives a portion of the profit at the end of each credit cycle from the loan from

the village bank in proportion to the number of years of savings and the interest is pre-charged.

The products and services offered by microfinance institutions, their marketing and distribution arrangements, and their resources and capabilities to meet target markets and customer demand are all part of operational goals and plans formulated and implemented by the institution (Sharma, 2010).

Client preference is of great importance for achieving MFIs goals. MFI client preferences and choices in Nepal are mostly directed towards poor people from the countryside. The metropolitan enterprises do not hold as much importance in comparison. This demonstrates that microfinance institutions are very much enlightened of the principles on which microfinance is established. However, according to Amin et al. (2003), MFI facilities have not yet reached the poorest people. Nepal's MFI cannot help the poorest because it cannot effectively identify the poor, lacks commitment, and has a clear vision of action (Asian Development Bank, 2003). Despite the government's financial sector liberalization policy aimed at encouraging financial institutions to participate in poverty eradication, the results were unsatisfactory due to the various problems facing MFI across the country. It displays the gap between theory and practice (Sharma, 2010).

There is various microcredit products, among them there are two types of microcredits that are widely accepted around the world. There are personal loans and peer loans (Harper, 2003; cited in Sharma, 2010). Most MFIs use the peer-lending Grameen model, except in a few situations. The basic characteristics of peer lending are that the loan is mutually guaranteed with other borrowers, that prospects are being scrutinized by peers, that transactions are analyzed with little or no transaction, and the size of the loan. Moreover, strictly follow a gradual growth curve with a set period (Grameen Trust, 2002).

Microfinance institutions in order to increase their outreach must be sustainable. Sustainability means achieving current and future (Schreiner, 2001). To ensure long-term feasibility, MFI should pay attention to the dropout rate from the program. A high dropout rate indicates dissatisfaction with the program or degree (Yunus, 2003). If not under control, the viability and long-term viability of the program are at risk.

Sharma (2010) found that the majority of industries (47%) experienced dropout rates of 10-20% and 37.5% reported dropout rates of less than 10%. This means that the MFI service may not exactly meet the customer's needs. Small loans, customer graduation, customer replacement income, migration, husbands leaving home, no time for a weekly

meeting, strict MFI disciplinary procedures, and customer duplication were some factors that caused the client to leave the organization.

2.1.2 Theoretical review

Many theories can be related to the client dropout incidents from microfinance. Some theories relevant to this study are:

Firm theory (Technology adoption)

The technology adoption aspect of the firm theory is helpful in depicting the attrition decisions (Reinganum, 1983; cited in Pagura, 2003). In these cases, a representative firm chooses whether to adopt a technology based on the technology's net maximum benefits or, alternatively, the technology's minimal adoption costs. This theory emphasizes the tradeoff between the technology adaptation and its impact on the profit. For this, it uses the net present value method to examine the benefits and costs incurred.

When considering whether to stay or depart from the microfinance institutions, the client weighs the present benefits against the expected future rewards of leaving. The member terminates the borrowing agreement whenever it is no more beneficial to remain in the MFI, or when value of leaving outweighs the value of remaining. Variables like group dynamics, competition, organizational services, and loan terms and conditions have all been taken into account in this study. Therefore, whenever she is unhappy with any of these factors, a member has the option to leave the institution.

Pecking order theory

According to the principle of pecking orders, companies must first raise funds from retained earnings. If it is not able to do so, the company needs to borrow the funds or increase its debt amount. Finally, as a last resort, companies need to raise funds by issuing new shares (Tarver, 2021).

The company should directly raise funds from its retained earnings as stated by the pecking order theory. The internal financing of the organization can be considered the best source of financing than borrowing funds or issuing equity since the company can save fees on interest expenses and dividend expenses. According to Rahman, Rahman & Jalil, 2014, most clients leaves the institutions due to the heavy interest rate charged by them. As a result, microfinance organizations can be largely self-sufficient by procuring equity through the public market. This reduces debt issuance and other costs and allows customers to offer loans at reasonable interest rates, which reduces their bottom line.

The theory of pecking order is relevant to this study in the sense that if microfinance institutions become self-sufficient through IPOs, they will have an advantage over their competitors. This can be achieved by lowering the interest rate levied on the loan and giving more interest to the savings deposit. By doing this the institutions can have enough money to cover their costs, helping them to serve their customers more, giving them a competitive edge, and reducing their sales.

Social exchange theory

The goal of social exchange theory is to get involved in the exchange process to maximize profits while reducing costs. According to this hypothesis, people consider the potential rewards and dangers of social connections. When the risk outweighs the benefit, people either end the relationship or leave (Kendra, 2022). As per the social exchange theory, your willingness to prolong your social connection is influenced by how you value the rewards and costs of each encounter with the people.

The foundation of social exchange theory is based on some important assumptions about the dynamics of human nature and relationships. According to the first premise, people want rewards and avoid punishment. Another principle is for people to trade with the goal of maximizing profits at the lowest possible cost - the people are motivated by "what is included for me". The third assumption is that people calculate the benefits and costs of an action before conducting any type of action. Finally, the theory presupposes that people are aware that "returns" change from person to person and over time (Tulane University, 2018).

Microfinance organizations offer loans to their customers, which is also a reasonable amount. Strict product features, especially loan repayment procedures, are linked with high dropout rates from microfinance institutions. These factors include unwillingness for additional loans, rigid installment sizes, shorter payback periods, a confined time limit, rising interest rates, good financial health of the borrower, lower deposit incomes, as well as a harsh regulation on late payments (Mamun, 2018). Clients facing the need to take a loan have to make additional efforts to pay more interest on the principal, which they do not want to do and hence quit the institution or end their relationship with it.

The social exchange theory is relevant to this study because customers appear to compare the terms of the loan with the efforts; they have made to obtain the loan. This may also be related to employee-customer relationships within microfinance. If staff are not cooperative, and or if they show inappropriate behavior during loan sanction or collection, the client feels they are not benefiting from the relationship or the relationship with the

institution is not sufficiently worthy enough. This study attempted to analyze the relationship between microfinance employees and customers and gives you a general idea of whether the clients are satisfied with the staff of the institutions. The study also emphasizes customer relationships within the group.

Therefore, social exchange theory may be related to factors such as the influence of group dynamics and the relationship with colleagues (organizational services) that this study sought to explore.

Customer switching theory

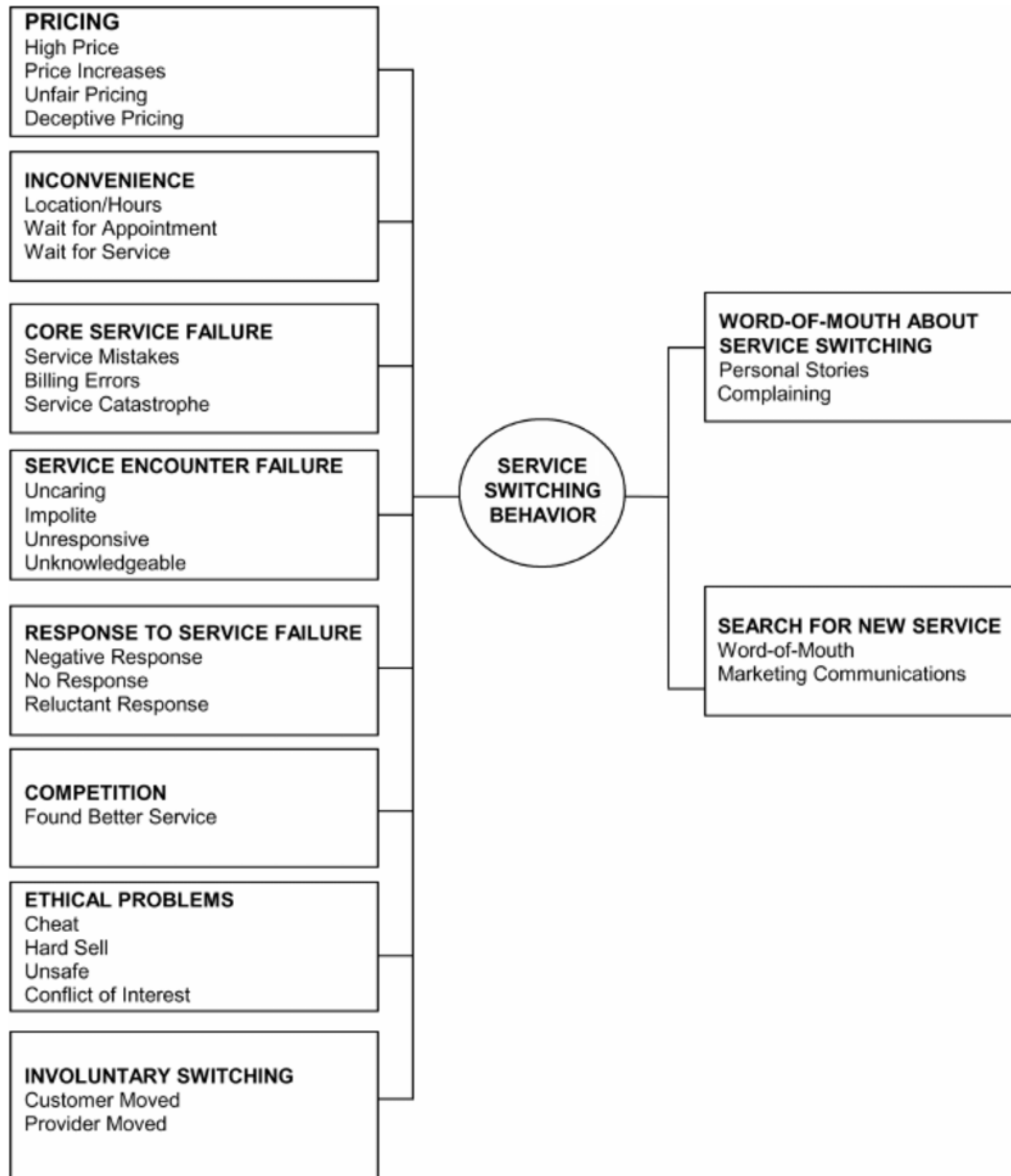
Customer switching happens when a customer switches from one service provider to another, costing the first supplier future income and the expense of obtaining new clients (Keaveney, 1995). As a result, businesses always seek for consumer loyalty, which is especially true for service-related industries. Due to the fact that these businesses primarily rely on client subscriptions and economies of scale, the fixed costs must be shared by a sizable number of customers (Keaveney & Parthasarathy, 2001). Recurring clients can bring about a variety of advantages, including relatively high profit margins, minimal selling costs, and good word of mouth, according to (Keaveney & Parthasarathy, 2001).

The same things can be related to microfinance sector as well. Older members tend to borrow more, thus the institution can charge higher interest rates. The institution must now charge interest on small amounts, which lowers the profit margin since customer switching increases and new clients only receive smaller loans. Due to the increased monitoring and screening needed for new clients, high customer turnover raises operational and administrative costs (Karim 2005; Karim and Osada, 2007). Additionally, new clients frequently take out lesser loans, which lower profitability. Additionally, sustaining an excessive number of small debtors costs the organizations money.

Pricing concerns, discomfort, non-fulfillment of the main service, collapse of the customer service experience, failure in getting service reaction, morality of the institution, competitiveness among the institutions, and unintentional movement of the customer or the service provider the eight variables identified by Keaveney (1995) as contributing to service switching. The consumers' decision to quit the microfinance institution may also be influenced by some of the reasons identified by Keaveney (1995). such as high interest rate pricing, microfinance site or group meeting location, service encounter failure such as staff and loan officer behavior, core service failure such as limited loan categories, competition among the microfinance, and forced switching.

Figure 2.1

Factors contributing to Customer Switching



Source: Keaveney (1995)

Trends of dropout in Microfinance Institutions

The global microfinance industry, valued at the US $ 156.7 billion in 2020, is projected to grow to the US $ 34.3 billion by 2026 with compound growth rate of 11.9% annually over the entire assessment period (Businesswire, 2022). The Asia Pacific region is the world's largest geographic market for MFIs, with an estimated 42.5 percent of total global microfinance.

Global microfinance industry is dominated by South Asia. South Asia has the highest number of borrowers (85.6 million in 2018) and is growing faster than any other region (+ 13.8 percent between 2017 and 2018). India, Bangladesh, and Vietnam are the top three borrowers in the country. Almost all borrowers are women, which is unique in the region (89% in 2018). South Asia accounts for almost two-thirds of the world's debtors, while South Asia ranks second in its lending portfolio with $ 36.8 billion in outstanding debt in 2018 (Businesswire, 2022).

The global spread of microcredit once said to be a big profit, now seems to be a big responsibility. According to a 2019 Microfinance Barometer survey, the sector has grown from a humble beginning as a charitable movement over 30 years ago to a global company serving 140 million borrowers, 80% of which are woman with a debt of $ 124 billion.

Covid-19 has destroyed borrowers around the world, but probably nowhere else except in India, a world-leading microfinance institution. Personally, these debts might not be as substantial as the average of $487, but even according to the standards of the world's second-largest country, the number of people accepting them is massive. According to the Microfinance Institutions Network (MFIN), the number of micro borrowers has almost doubled to 58 million in the last five years. About one in 20 Indians thanks to Micro lender. They owe a total of $ 31.6 billion (Bloomberg, 2021)

The virus is destroying dozens of MFI business models as money runs out, as default rates for almost unsecured loans are skyrocketing across India. Unlike traditional banks, these companies have no way in to public funds and must float on market credit. In the early days of the pandemic, banks restricted lending to MFI because micro lenders suffered from borrower defaults. As the economy resumed, consumer demand increased and the poor were able to make more money. Nevertheless, the recovery rate in November dropped from about 98% before the pandemic to 85-90%. Given the very thin margins of the industry, such recovery levels are unsustainable in the end.

Covid helped the borrower because he could not find a way to pay the loan. The majority of borrowers (small traders, street vendors, day laborers) come from middle- to low-income families, so they have no source of income other than jobs or small businesses that have stopped for Covid. In addition to the fact that many other people have been forced to leave the facility because they couldn't repay their loans, dropout rates are already rising.

Despite the devastating effects of Covid-19 in Nepal, MFI has shown resilience with the help of deregulation from the Nepal Rastra Bank (NRB). However, it seems that serious problems are imminent due to the increase in default consumers and the number of loans (Shrestha, 2020).

Between 1996 and 2010, Bangladesh's microfinance institutions grew steadily. However, since 2008, the number of members has begun to decline, albeit slowly. The number of MFI members exceeded 8 million in 1996 and is currently about 34 million. MFI membership increased by more than 10% until 2008 when it began to decline due to a decline in non-Gramin MFI membership (Khandker & Samad, 2014).

In Zambia, there is little research on the issue of dropouts. One of my recent research projects is impact measurement, including the dropout part. CETZAM conducted a college dropout survey in Copperbelt Province and found a dropout rate of 32% (Masumbu, 2000). According to these two studies, Zambia has a high dropout rate.

Customer dropout rates in East Africa range from 25% to 60% each year. Obviously, this is a major obstacle to self-sufficiency. If a company loses more than a quarter of its customers annually, it's "difficult to stop." “Customer attrition is a big challenge for MFI,” says Hulme et al. (1999). It raises their prices, keeps potential customers away, and reduces their chances of long-term success ".

Therefore, Covid-19 further boosted customer attrition in microfinance. There were both voluntary and involuntary defaults because the customer was unable to pay the loan due to a halt in the source of income.

2.2 Review of Empirical Studies

The main goal of microfinance was to help underprivileged people escape or alleviate poverty. MFIs involved impoverished people at individual, household, and corporate levels to assist them in obtaining living standards as well as respect in society (Woller & Parsons, 2002). Poor people can use credit to facilitate consumption, start or expand production activities, accumulate capital and wealth, and help escape poverty. Micro finance institutions also paid attention, particularly to the promotion of small and medium-sized enterprises in the shadow economy, which is viewed as a requirement for the economic progress of a nation. Investment in the informal sector was expected to lead to increased employment, which in turn led to increased income and consumption (Luracelli & Fumagalli, 2012)

Microfinance was developed to help the poor with an entrepreneurial spirit. Nevertheless, many microfinance initiatives are specifically targeted at women. This tendency can be due to several causes. First, because women were the poorest members of society in many developing countries, they were perfect candidates for the microfinance goal of serving "the poorest of the poor" (Diop et al., 2007 cited in Javid and Abrar (2014)). Second, many microfinance companies target women, believing that they have few credit opportunities. Third, improving women's opportunities is seen as contributing to improved living standards for the entire family. Finally, microfinance was expected to help women build independence and self-confidence and increase bargaining power at home (Garikipati, 2008).

Microfinance has also demonstrated its ability to have a broader social impact through the labor market. For example, if a customer rented for a business and hired additional workers from the poor (Mosley & Rock, 2004), increasing income improved the local economy (Khandker, 2005).

When assessing the impact of microfinance on customers of varying wealth, it is important to note that wealthy consumers will benefit from microfinance more than poor customers will. According to the report, poor consumers mainly make a living and borrow to avoid tactics that increase vulnerability (Lucarelli,2005; Mosley, 2004).

As a result, microcredit only brings a small increase in revenue to very poor customers. In addition, the customers of the MFIs are pressured to liquidate their property in the event of difficulties like being unable to pay for their debts (Mosley et al., 2004). Wealthy customers are considered less risky, so they hire a workforce and "provide better returns than consumer or working capital purchases that are unequipped or backed by primitive equipment (Mosley, 2009). We have also found that clients remaining in the microfinance program, rich or poor, improve their lives better than clients leaving the program do.

The number of people who drop out of microfinance programs has a significant impact on the profitability of financial institutions and speaks a lot about the quality of financial services they provide to their clients. Organizations pay a high price for high dropout rates. Members who drop out of the group destabilize the group, force them to hire new (inexperienced) members who are eligible for small loans, and reduce the institution's overall interest income. However, the members who are in the institution for a long period of time are considered reliable for a large amount of loan for which microfinance also could generate a bigger interest amount. Proxy members can only receive a small loan.

Nevertheless, new members need to emphasize the principles of group guarantees, take disproportionate risks and guarantee large amounts of money obtained from their group mates. In addition, each dropout represents a client on which the MFI has done an extensive and costly grooming ("social preparation"). The new clients will need to take this training individually or join the system without the initial training that many MFIs consider very important.

The first approach, ad hoc training, is very inefficient, while the second approach can destabilize the system if "social preparation" is really important. In addition, some groups can collapse completely with frequent or multiple dropouts. Finally, dropouts often end because they cannot (or don't want) to repay the loan. These dropouts no longer attend regular group meetings and may leave unpaid loans without the incentive for group guarantees and lose access to the loans or deposit accounts of the MFIs; they seem to be more inclined to drop an unpaid loan (Wright, 1997).
The soaring turnover of clients suggests dissatisfied customers from the services of microfinance institutions. Members who choose to leave a financial services organization generally do not provide sufficient services to justify the costs involved (social and financial) and/or better alternatives.

According to Mustafa (1996), there are various reasons for dropping out of school, "appearing to be multimodal." In fact, research on this topic agrees that there are many reasons to drop out of college. Have compiled a list of 16 reasons for dropping out. Four reasons were associated with societal constraints includes reasons like influence of the group on debt repayments, rejection by the family members, etc. The additional four reasons were associated with budget limitations, including reasons such as inability to fund the debt repayment, urgent deposit requirements, non-repayment of group funds, and no availability of funds for withdrawal. The next four factors were related to the microfinance institutions itself (client exclusion, low-interest rates on savings, inability to count and sign member names, unpaid loans resulting in cancellation of absent membership Payment in installments). The remaining four factors were relocation, death of the family member, involvement in another institution, and a lack of access to disadvantaged group development certificates (as expected).

Given the magnitude of the leave, for instance the client exit rate of Grameen Bank is 15 percent each year, which means 300,000 members per year, 181,700 members in 1992 and 1993. Its well below the credit crisis reports in most studies of funding the poor, concludes

Hulme and Mosley (1997). Dissatisfied with the services offered and the expectation that other MFIs will provide quality services (importantly, the interaction of the staffs with the customers) also play a prominent role in influencing the clients leave the organizations. Many of the clients leaving microfinance voluntarily are dissatisfied with the services and goods provided by the institutions.

The decreasing number of clients is causing serious anxiety among MFI managers, particularly those working in older and more recognized institutions (MFIs) that have ceased development for a time being. That does not mean that young microfinance companies have no problem with customer attrition. The impact of this phenomenon on young microfinance companies is only overshadowed by rapid customer growth, with the addition of new customers over current customers. Moreover, as the growth declines the effect of customer exit on profitability and financial sustainability is much more pronounced.

Client turnover is usually portrayed by MFO practitioners as a negative phenomenon that threatens the financial stability of an organization. Microfinance organizations lose good customers. H. People who pay on time, get more attention and need less surveillance are accurate explanations. Client turnover, on the other hand, are good when a microfinance organization fires a bad client. For example, late installment, poor cash flow, needing a lot of monitoring, and little interest income. Until recently, MFO practitioners knew who would leave the organization. Now microfinance institutions have started to look after the client turnover in a closer manner.

Borrower or customer exits can be divided into two categories: forced exits by MFI (involuntary) and voluntary exits by customers. Loans, loan types, savings opportunities, non-financial items, post-service monitoring, personal problems, and poverty alleviation are all variables that lead borrowers to deliberately leave the MFI (Banna et al., 2021).

The Service quality, exponential market competition, institutional reputation, comparable borrowing costs, and other factors also influence the voluntary withdrawal of members from MFI (Rahman, Rahman, and Jalil, 2014).

Clients also avoid borrowing from MFI, as systemic and peculiar shocks reduce their financial capacity and thus their likelihood of being a remaining member of MFI. However, on the other hand, borrower sales are determined by the institution's entire operational and financial success, as well as the quality of management.

The MFI has been accused of dumping a defaulting borrower to protect its financial position from damages caused by poor credit quality. In addition, various studies have identified organizational failures, unique and/or systematic shocks, customer maturity, and market competition as reasons for customers to leave MFI (Hulme et al., 1999).

MFI is experiencing more and more competition as new entrants and the microfinance business grow. Cumming et al. (2017) states that the microfinance business has changed in a dramatic manner. The industry is more sectorally diversified, has more diverse customers, and is more demanding in terms of the attractiveness of institutional arrangements. Since 2000, competition has intensified with the entry of commercial banks into the microfinance market. Despite the fact that competition is seen by classical economics as a stimulus for product market development, innovation, and efficiency. According to Hossain, et al. (2020), competition among the MFIs can adversely affect MFI's position as the organization established with a purpose. If the microfinance institutions start competing on profit grounds then they can lose their service quality. This will limit the institutions in promoting product quality; will worsen their customer relationships, and there will be degradation in management efficiency (Khavul, 2010).

MFI's profit incentives have led to an increase in the number of microfinance institutions. New players in the market increased competition in MFI sector. It also deviated the microfinance institutions from its principle on which it was established. The intensified competition forced the MFIs to emphasize on economic viability rather than their outreach goals. However, there exist some microfinance institutions around the globe that still prioritize the satisfaction of their clients over the goal of earning more profits (Churchill, 2000; Islam, 2011). MFI profitability is primarily determined by customer satisfaction and loyalty (Shahriar, 2012). The satisfied customer are more loyal to the organization, they stay longer. Moreover, the old customer has access to bigger size of loan, which generates more interest to the organization (Peterson and Rajan, 1995).

Existing customers who are happy with the MFI treatment are more likely to act as their ambassadors. They unknowingly encouraged MFI in conversations with others, resulting in increased customer numbers and revenue (Shahriar, 2012). However, to remain competitive, MFI usually employs an aggressive operational approach to create new accounts for the organization (Morduch, 1999), in less focus on the goodwill of the existing client and indirectly creating more client turnover from the institution.

Since microfinance is a very important element of a country's economy, its success or failure is determined by a variety of external factors, including macroeconomic and institutional considerations (Tanin, et al., 2019). For example, studies show that macroeconomic factors influence MFI's growth (Schulte and Winkler, 2019) social reach (Awaworyi and Churchill, 2019) and innovation (Mustafa et al., 2018). Therefore, without considering the macroeconomic situation, the valuation of the borrower's exit will be incomplete.

Given the microfinance lending mechanism and the discussion above, the factors that influence borrower sales can be divided into four categories: individual, organization, market level, and macroeconomics.

All players in the microfinance business are concerned that members will voluntarily retire. The voluntary retirement definitely harms the MFI but to some extent, it also affects the economic growth of a nation. This analysis concentrates on investigating the reasons of consensual customer evictions rather than MFI evictions or involuntary evictions due to loan repayment and/or, fraud, and / or other problematic factors.

Few studies have been conducted on the factors that influence a borrower's sales, especially from an institutional and macroeconomic point of view. Clients leave MFI for a variety of reasons according to (Rahman, Rahman, & Jalil, 2014)'s study in Bangladesh. Small and medium-sized lending conflicts, membership revocations, sudden customer deaths, religious concerns, inappropriate conduct by lenders, catastrophes like floods and earthquakes, a dearth of industry regulations, equipment, and cooperation.

In Zimbabwe, Pearlman (2014) discovered that customers are increasingly leaving MFI. It is important to note that not all customers default loans as income, wealth, and shock events drive them out of MFI. Customer loyalty is substantially higher in distant places, and customer attrition from MFI has a negative impact on financial profitability (Epstein & Yuthas, 2013). South African customers leave MFI for a variety of reasons, including family deaths and illnesses, family disputes, disasters, company collapses, and biweekly payment plans (Simanowitz, 2000).

In Nepal, the majority of branches (47%) faced a 10-20% outage. This was followed by 37.5%, with dropouts less than 10%. Members dropped out in focus group discussions because of small loans, client closures, client alternative income, migration, absence of

husband, no weekly meeting time, strict MFI disciplinary rules, client duplication of the members.

In addition, microfinance growth has slowed significantly in recent years and continues to negatively affect most of the population. The dropout between MFI members is an important cause of this slowdown in growth. According to Pearlman (2014), the drop out trend has an impact not just on MFI profitability and long-term viability, but also on depleted borrowers that might have gained from ongoing MFI engagement.

The competition or prospective competition with conventional banking sectors induces MFIs to serve the disadvantaged consumers. Banking sector are often engaged in servicing the wealthy customers, whereas MFIs only serves low income people. Despite the fact that MFI serves poor households, a significant proportion of "nonprofits" are making a profit, even though the profit margin is minimal says Morduch (2009). However, most organizations that serve disadvantaged clientele do not make enough money to raise capital with simple business motives. As a result, the financial self-sufficiency of the MFIs is not mutually exclusive with the services provided to disadvantaged people. Therefore, it is very harsh for the MFIs to conduct their business, as they need to provide services to the poor and survive on their little income.

Determinants of Client Exit

Among the variables that cause the client turnover in an organization the study has focused on the following variables responsible for client exit in the organization.

Influence of Group Dynamics and Client Exit

Microfinance institutions in Nepal, such as Nirdhan Uthan Laghubitta Bitiya Sanstha (NULBSL), Swabalamban Laghubitta Bitiya Sanstha Limited and Mero Microfinance Limited, primarily serve women's clients, providing both group and individual loans. Its general rules are that an organization must have at least five members in a group in order to be financed. The group members conduct their financial operations, such as repayments, withdrawals, and deposits, in a center that serves as a gathering area for the members. The clients pay the installment in center meeting; the interest rate is 15.5% on a declining basis, which is almost the same in these institutions at present. A woman must complete the mandatory group training (minimum 7 days) and pass the group recognition test before becoming a member of NULBSL, Swabalamban and Mero Microfinance and therefore eligible for loans.

The customer needs to join the MFIs as the member of the group then only they will be able to get the individual loans after certain period of time. Most of the customers prefer individual loans for variety of reasons such as getting loan without the involvement of the group members or their guarantee. In addition, loan amount is limited in a group whereas through individual borrowing one can get a bigger amount. Despite the popularity of individual loans, group loans continue to be appealing to consumers who believe they will be able to satisfy the rigorous payback requirements (Mutesasira, et al., 1999). The members of the group can apply for different loan sizes. NULBSL has two different group loan programs available. Small loans starting at Rs. 100,000 and large loans starting at Rs. 500,000 are the two types of loans available. The length and repayment schedules are determined by the loan product. Small loans should be paid within a year whereas large loans have a payment facility of 4 years.

Group financing in microfinance institutions is based on team cohesion. That means all the members are held accountable for paying the loan if any member fails in repaying the loan. Furthermore, the MFIs only approve of those members, who are honest and have integrity, have the capacity to repay the debt, and can abide by the regulations of the group. As a result, the existence of a group largely depends on the context within which the group form. There should also exist interdependence between the members and the financing MFIs. Therefore, the mechanism of group financing present a great challenge for the MFIs. In addition, the group members also need to be ready for any uncertain situation that rises due to involvement in the group and for other conditions that are unfamiliar to them like loan conditions and procedures.

Majority of the customers left the MFIs due to the increased price of the goods due to which they could not afford paying for both the weekly installments and the needed goods. Moreover, some of them preferred to repay their debts in monthly installments instead Rahman, Rahman, and Jalil (2014).

Terms and conditions and Client exit

According to D'Espallier et al. (2011), MFls still struggled to adjust their offer to the diverse needs of their clientele. Hulme and Mosley (1999), who urged MFls to diversify their product offerings and segment their clientele in order to better, serve them, made similar insights. In a similar vein, Wright (1999) claims that MFIs might benefit from standardizing some of the services. The microfinance institutions in order to standardize their products simply imitate them from other societies without any research on whether

those imitated products can be implemented in their society or whether they match the conditions of the people living there says Wright (1999) as well as Hulme et al (1999). As a result, there is a high dropout rate when MFI products and services do not match clients' needs. The characteristics most frequently stated as proof of this in adaptation include loan size, loan disbursement delays, payback schedule, loan fees, loan eligibility rules, and group lending issue.

Many clients deliberately resigned from MFIs due to loan amounts, according to Hulme et al. (1999). The MFIs have shown that when debt amounts are smaller client attrition happens more among the wealthier borrowers. However, when the opposite happens; when the size of the credit increases the poor customers tend to leave the institutions.

Group borrowing issues included group dynamics issues such as collective lending, members' accountability to pay for default, and no commitment of the members (Wilson, 2001; Wright, 1999).

Organizational service and Client exit

In a study conducted in South Africa, it was discovered that negligence in knowledge exchange between employees and customers about the services offered by the MFIs leads to client attrition (Stark and Nyirumuringa, 2002). Urquizo (2006), on the other hand, offers a distinct perspective on service quality. He claims that the attitude of the employees is rarely to blame for a client's abandonment because the clients have fewer expectations of the service.

Clients quitting MFI programs are a persistent concern for many MFIs around the world. Many practitioners claim that microfinance enables disadvantaged individuals to grow their income and assets while reducing their vulnerability through improving household health (Morduch, 2007). Because of this, Microfinance has helped in the economic growth of the people. Not only this, microfinance also has given empowerment to the women both in societal and political areas.

The truth of MFIs, on the other hand seems far more complex. According to Meyer et al. (1999), many clients are over-indebted, that loans are reallocated, that clients are delinquent, and that schooling levels are declining. The disadvantaged people are continually unveiled to some unforeseen circumstances. The circumstances can be sicknesses, the loss of a family member, people losing their employment, expenses in educating their child and marrying them off (Rutherford, 1999).

Client maturity refers to the fact that clients would take out larger loans to expand or sustain their business's operating capital like purchasing some assets (Simanowitz, 2000). When the customers seem to have collected sufficient capital and they do not want to stay in the MFI for another loan that can be taken as a sign of a mature customer. As a result, this phenomenon may result in a client's departure. Socioeconomic features and crisis reasons also have a significant part in the reasons for client dropouts (Wright et al., 19999).

According to Wright (1999), there have been two schools of thought on graduation: First, the customers do not need further loans when they are provided with a specific number or amount of loans at a subsidized rate. However, this was absolute naiveté on Wright's part, because almost every business in the world uses overdraft facilities. A more rational school of thought was that poor clients may "graduate" with plenty of capital as well as faith for becoming the customers of banking institutions.

Client service is rarely a motivation for leaving, according to Urquizo (2006), because clients have fewer expectations for it. Clients may depart, however, if they are defrauded by personnel or are unable to obtain loans because the microfinance company has cash flow issues that cause loan delivery to be delayed (Hulme et al., 1999).

Competition and Client exit

In terms of the competitive climate, several experts have noted that the microfinance business has been subjected to intense competition in recent years. This is due to the large number of institutions that have been established in recent years and are competing in the same market. Dropouts are common, according to Wright (2001) and Pagura (2004), since people who are dissatisfied from the services of MFIs believes that other may provide them with quality services. As a result, people move from one financial institution to the next.

According to (Rahman, Rahman, and Jalil, 2014), people leave MFIs because they are unsatisfied with the services provided by them and switch to those institutions who offer them with good services. Now, the MFIs are not only facing the problems from borrower switching only, they are also losing their staffs on which they have made investments for their training. Therefore, switching behavior of both the employees as well as the staffs has affected the MFIs profit margin, as it increases the overall operational cost.

Microfinance practitioners have consistently identified adaptive products and competition as factors that contribute to a high dropout rate. Others, on the other hand, have differing viewpoints on the relationship between employee attitude and client satisfaction. As a

result, we can develop our first set of hypotheses: This category is more closely linked to the causes of the crisis, socioeconomic features, and the maturity of the client.

Environmental factors are linked to the national economy's decline and severe weather conditions. Clients who are often served by MFls have fewer assets and less diversified income. As a result, the poor are more vulnerable to financial troubles caused by downturns in the economy as well as the catastrophes like floods and earthquakes. Wright et al. (1999) in their study have found that MFIs in Africa have faced client attrition due to severe economic times, and catastrophes like droughts, and landslides. The people there do not have enough resources to cope with the situations and do not receive much support which causes more borrower attrition

Irregular microfinance participation or complete disengagement from microfinance diminishes a client's prospects of escaping poverty. Long-term participation benefits both the consumer and the microfinance institution, according to studies. According to Khandker & Samad (2013), clients that join for a long time (about 20 years) are more likely to have a higher living level. This is because the members can accumulate more capital if they stay for a longer period of time with the MFIs. More capital leads to more business opportunities, which ultimately leads to overall wellbeing of the members, as stated by Baru and Sulaiman (2007). Majumder (2009), states that borrower loyalty is very much important from the viewpoint of MFIs as well, because it helps them to be efficient and assures their stability. However, members are departing MFIs at an alarming rate, despite the benefits of using microcredit services.

There are other variables or factors that causes borrower turnover in an organization.
Some of the variables are:

Efficiency wage (EW)

Efficiency wage is one of the many features that can create client turnover in an organization. The term efficiency wage means wages above the market average. Low wages reduce the proportion of highly skilled workers who are willing to work, and high wages help workers do their best (Solow, 1979). According to EW's theory, wages are not totally controlled by market power. If appropriate compensation is provided to the workers, it can boost their prosperity and efficiency, persuading staff to work more and efficiently in achieving organizational and individual goals. In addition, competitive wage rates reduce employee turnover while improving employee quality and productivity through incentives (Cheng and Xu, 2004). Therefore, higher-market compensation is

expected to encourage employees to morale and do their best to retain existing customers. As a result, above-average compensation is projected to boost employee morale and encourage them to do their utmost to maintain their existing customer base.

Borrower-loan officer relationship

The borrower receives microfinance financial services from a loan officer who acts as an intermediary between the financial institution and the borrower. Loan officers typically play a key role in ensuring that the two goals of microfinance are achieved: the institutional feasibility of financial services and the social outreach. In addition, the cause of a borrower's turnover depends largely on the quality of service and the relationship between the borrower and the lender.

In this regard, MFI is more aggressive in hiring female lenders, as the majority of its customers are women. Female loan officers are considered better at handling and monitoring female consumers than male police officers, and because they are close to women, they prevent them from leaving (Ghosh and Guha, 2019). In the context of microfinance, gender similarity theory better explains this phenomenon (Mia, 2020a). In addition, the loan policies also play a vital role in strengthening the borrower-loan officer relationship. The frequent installment payments cause the officers and borrowers to meet on a regular basis and this increase the customer loyalty as well (Godfroid, 2019). Clients (e.g., females) are less likely to depart the MFI if such a relationship has been created between them and the loan officers.

Financial sustainability

Microfinance institutions need to have financial sustainability to reduce their dependence on external sources of funding. However, when financial sustainability deteriorates, the quality of service deteriorates and the relationship between MFI and borrowers also deteriorates (Hossain et al., 2020). In addition, a financially stable MFI can invest in product development, employee benefits, training, and other related programs, making the company more competitive.

Cost of loan interest rates

In addition, one of the main criteria affecting a borrower's switch from one MFI to another is the cost of lending rates (which is a substitute for portfolio yield PY). The people who borrow form the MFIs lay primarily at the end of the socio-economic ladder. Most of them will not have an employment have low-paying jobs that meet few basic needs. Economically excluded people prefer to borrow from less demanding MFI by anticipating their financial needs to improve their social status, but responsible borrowers are always

based on the costs and benefits of borrowing (Banna et al., 2021). Comparing costs and benefits makes it unreasonable to accept a large loan (in terms of interest charged). Therefore, if MFI imposes a relatively high-interest rate on its loan, the borrower will discourage from borrowing from MFI.

Status improvement

Borrowers are desperate to upgrade their status and want more loans (increased loans). This usually leads to a transition from an existing MFI to a new MFI, based on Maslow's hierarchy of desires. The hierarchy need of Maslow has been utilized to demonstrate borrowers' societal and economic requirements, as well as gaps in poverty alleviation, empowerment, and financing Hadi et al. (2015). The customers of MFIs generally feel taking large loans always increases their productivity. MFI, on the other hand, hesitates to pay more loans if the borrower does not meet certain institutional conditions. Therefore, if MFI's credit supply falls below demand, borrowers may seek more loans from other financial institutions. As a result, the borrower's perception of the size of the loan influences their decision to move from one institution to another because the loan is undersized or relatively large.

Firm size

Diversification of the products, persistent demand for money and grants, and international organizations' support for financially including the people have all contributed to the rapid growth of various MFIs around the world, particularly after 2005 (Cull & Morduch, 2017). Increasing the size of MFI can lead to economies of scale and improved performance, resulting in lower churn rates for borrowers. For example, a large MFI can retain its clients by leveraging its vast facilities, extensive workforce, diverse products, and extensive network. The study of Dean et al. (1998) also states that large corporations can bargain more effectively and can handle their suppliers and customers in a better way. On the contrary, large scale MFIs has trouble coordinating multiple departments and thus places less emphasis on customer well-being. Therefore, it's possible that there is strong association between borrower disengagement and company's size.

Macroeconomic factors

According to Ahlin et al. (2011), MFIs performance depends on country-specific circumstances and the analysis of MFI borrower sales is incomplete without managing macroeconomic factors. The economic indicators that are used frequently by the economist such as growth of Gross Domestic Product, inflation, unemployment,

investment from abroad, and real interest rates are used as control variables to see it these variables causes customers turnover from the organization.

The growth in the economic sector of a country also encourages participatory financial practices and expands access to finance for the entire population. Inflation and rising real interest rates reduce credit demand as borrowing increases (Nguyen et al., 2018), borrowers terminate MFI, and overall churn rates increase. On the other hand, rising unemployment encourages people to start new businesses, leading to increased credit demand and lower sales.

Changing Line of Business

After receiving the loan, some customers shift their business. This is usually motivated by the expectation of greater profitability in new ventures. However, due to lack of experience in new businesses, such transactions often fail, resulting in customer failures and defaults.

Table 2.1

Summary of Literature Review

Study	Methodology	Findings
Mamun, 2018	The study surveyed 30 dropout clients using a non-probabilistic convenience sampling method and analyzed the results using the t-test.	The most common reason for microfinance abandonment was that the customer was reluctant to take another loan. Strict product features, loan repayment procedures, non-negotiable installment rates, short repayment intervals, finite payment terms, high interest rates, personal solvency, high savings rates, and strict delinquency policies are all the main causes of defaults.
Banna et al., 2021	The study used traditional panel regression techniques to analyze the determinants affecting MFIs' borrower turnover rates (BTR).	The data show that MFI efficiency wages and financial self-sufficiency lower BTR, whereas staff turnover, write-off ratios, and average loan size raise BTR.
Chhubaka et al., 2022	Data were collected from 324 customers in six microfinance institutions (MFIs)	The findings indicate that pricing fairness has a considerable impact on confidence and satisfaction of the customers. Moreover, these factors influence the borrowers to switch the organization.

Study	Methodology	Findings
Ibok and Udoot, 2012	The data from 90 respondents who used 13 licensed micro finance banks in the state was analyzed using a regression model.	Service tangibles, communication, customer knowledge, credibility/reliability, and security all have a favorable correlation with customer retention rates. On the other hand, waiting times and transaction bureaucracy had a negative relationship with the independent variable.
Pagura, 2003	With 260 respondents as a sample, a duration model is utilized to determine the factors that influence borrowing relationships.	The loan conditions (loan amount, interest rate, processing fees, and loan procedures) negatively correlate with client exit.
Pearlman, 2014	Data from the panel was used to conduct the poll. A total of 343 borrowers were sampled, of who 95 dropped out, 137 were defaulters, and 111 were repeat customers.	Negative shocks are a significant predictor of customer exit, and group connection significantly correlate with prompt payback, according to the research. According to the findings, unanticipated events rather than known financial needs are more significant in explaining dropout, and inability to pay is not the primary cause of default.
Rahman et al., 2014	An independent t-test was used to analyze the data after a random sample technique was used to gather a total of 129 valid cases utilizing questionnaires and in-depth interviews.	The results showed a number of shortcomings in managerial strategy, execution, infrastructure, organization, system, diplomatic strategy, quality service, and product facilities, all of which had a role in clients' decisions to stop doing business with MFIs.
Mindila et al., 2013	For the study, 300 non-exit customers and exit clients were selected using proportionate random sample for non-exit customers and snowball sampling for exit clients.	Low loan amounts, high loan processing fees, high interest rates, and loan approval procedures were all found to significantly affect lending conditions, which were proven to have a negative association with client exit.

Simanowitz, 2000	The survey was conducted using both a qualitative and quantitative technique.	Clients left for a variety of reasons, including as personal ones, company failures, challenges inside groups or centers, and problems with SEF producers.
Sunday et al., 2019	Data from primary and secondary sources were combined with a descriptive and analytical case study methodology using structured questionnaires.	Dropouts affect profitability since they lower the amount of interest that can be earned on loans. Additionally, they cause operational costs to increase, which affects profitability and capital growth because interest earned on loans is lost.

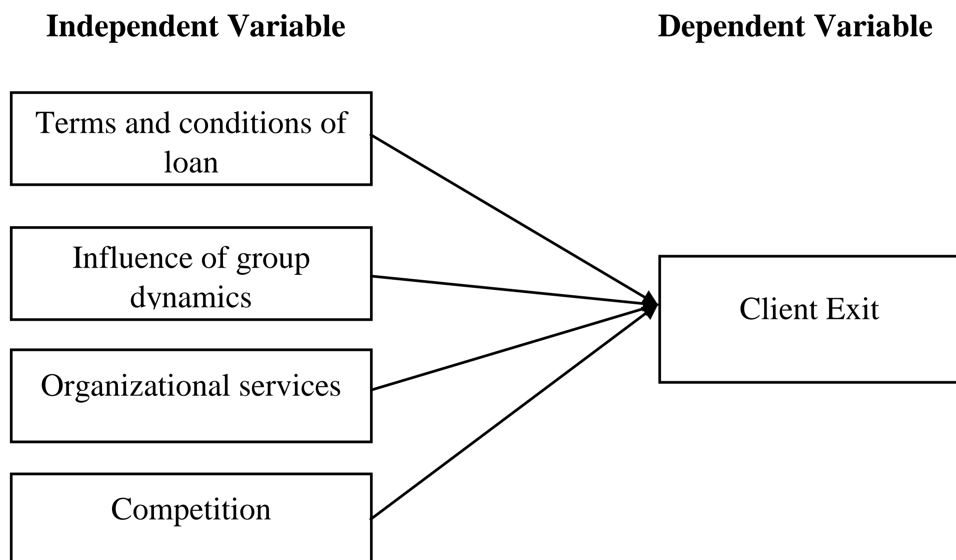
2.3 Theoretical Framework

In this study, client exit refers to the discontinuation of a credit agreement between the borrower and the lending institution (MFIs). This discontinuation is triggered by either the customer or the lending institution. Here, the dependent variables are the client exit and independent variables are terms and conditions of the loan, group dynamics, organizational services, and competition.

Hence, the framework for the undergoing research has been constructed identifying the gap from the literature of the different research made in the context of various countries. From the support of above literature, the researcher is able to develop the model that terms and conditions of the loan, group dynamics, organizational services and competition plays vital role in the client turnover of the microfinance organization.

Figure 2.3

Conceptual Framework of the Study



2.3 Description of variables

The operational definitions of the variables used are described in this section.

2.3.1 Independent variable

These are variables over which the researcher has control and which influence the change of other variables. This "control" could entail modifying existing variables, such as the loan conditions, group dynamics, organizational services, and competitions, as shown in the diagram above. The researcher anticipates that the independent variable(s) will influence (or be related to) the dependent variables in some way.

Terms and Conditions of the Loan

The credit terms refer to the conditions that apply when borrowing. This may include the repayment period of the loan, the interest rate and fees associated with the loan, penalties that borrowers may be charged, and other special terms that may apply. Loan conditions are considered as one of the important aspect to observe when taking about the client dropout from an organization. Even the study of Rahman, Rahman and Jalil (2014) show that small loan amounts, high loan interest rates, and low savings interest rates are to blame for client withdrawal.

Influence of Group Dynamics

Microfinance organizations with group lending programs offer small credits to groups of women who lack tangible assets as security. Small organizations or cooperatives are given loans, and peer pressure is employed to ensure payback (Schurmann and Johnston, 2009). The MFIs considers women as more sensitive to group pressure which makes them more reliable as borrowers. Today, many women do not wish to remain in a group. And it's starting to drive some of the members away from the organization. Similar explanations for customer attrition were given in the MicroSave study by Maximambali, Lwoga, and Rutherford (1999), including group friction, having to make payments for defaulters, and a lack of cohesiveness.

Organizational Services

To satisfy clients and keep them around for a long time, organizational services are crucial. Customers are prone to leaving an establishment as soon as they discover other offering superior services. Stark and Nyirumuringa (2002), discovered in a study that an absence of communication among the employees and customers product regarding the products offered by the institution influences customers to leave the institutions.

Competition

Competition in the microfinance industry promotes innovation, raises service standards, and decreases interest rates (Wondirad, 2020). One may argue that competition in the microfinance industry affects MFIs' social and financial performance in both favorable and unfavorable ways. Because of this, customers may find better services elsewhere and are therefore more likely to leave a financial institution where there is competition.

2.3.2 Dependent variable

The independent variables always affect the outcomes of the dependent variables. They alter in response to the independent variable's influence. The dependent variable of this study is client exit. When a lending arrangement is ended, it is referred to as a "client exit," and it can be done by either the client or the financial intermediary (Pagura, 2003). Client leave is another term for a customer who has already left the microloan institution, has no outstanding loans, and does not apply for another loan there. In the study, loan terms, group dynamics, organizational services, and competition were all treated as independent variables, while the client's exit was treated as a dependent variable.

CHAPTER III

RESEARCH DESIGN AND METHODOLOGY

This chapter describes methodologies used in this research to meet the objectives of study. It shows the overall research design in details that has been adopted by the researcher to determine the relationship between the variables and client exit. This chapter is broken down into the following sections: research design, population and sample, data sources and methodologies, instrumentation, data reliability, and data processing.

3.1 Research Design

Based on the objective to explore influence of loan terms, group dynamics, organizational services, and competition on client exit behavior of the microfinance institution, the researcher has carried out both descriptive and explanatory research design.

The most common research design is descriptive because it allows for the thorough application of a variety of research techniques to the investigation of the research variables at hand. It also helps the researcher to accomplish the objectives of finding relationship among variables of interest and factors determining the exit behavior of clients in MFIs.

In addition, for a subject that hasn't been properly researched, using an explanatory research approach results in operational definitions and a better-researched model. Additionally, it raises issues without offering a conclusive answer. We won't come to a decision, but we might identify some affecting aspects. These research methodologies are the most appropriate for identifying the coincidental association between the variables and client exit because the topic is not widely explored in Nepal.

3.2 Population and Sample

The population for this study comprises all the members of the Bhaktapur district who have left microfinance institutions. However, the data was collected from 249 respondents only. To justify the sample size, we can consider a sample to variable ratio recommended by Hair et al. (2018). Hair et al. (2018) proposed a minimum observation to the variable ratio of 5:1, but strongly recommended variable ratios of 15:1 or 20:1. This means we can take a minimum of 20 responses for each independent variable in the model. The study has four independent variables, which makes the minimum sample size to be 80. Therefore, we can consider the sample size of 249 to be adequate. The study of Rahman and Rahman, (2014) conducted a similar reseach taking a sample of 129 respondents only. Where he had taken the responses from 119 borrowers and 10 staff involved in MFIs, and customers who had left the institutions for over a year.

3.3 Sampling technique

The purposive sampling method was administered to fulfill the purpose of the study. Purposive sampling is a procedure in which the researcher chooses persons from the population as per their judgments to participate in the study (Bloor & Wood, 2006). Purposive sample is gathered in accordance with the requirements of the research. Additionally, the researcher is able to collect qualitative data using this sample technique, which produces more insightful findings. The results are pertinent to the research environment because the researcher gathers data from the people who fit the research question the best.

3.4 Sources and methods of data collection

The study accumulated primary data by distributing questionnaire to 249 clients of microfinance institutions who have already left the institution. The research also used secondary method to collect information from the institution on why the customer tends to leave the microfinance institution. For this, the loan officers were interviewed. According to the loan officers, client mostly leave the organization due to migration, no source of income to pay for the loan, husband pressure, foreign employment, and unwillingness to stay in the group. Currently, 80 clients on average leave the microfinance institution.

3.5 Instrumentation

The data were collected using a questionnaire survey. In addition, the survey was broken down into six components. The first segment collected demographic information from respondents using a nominal and ordinal scale. The other five sections consisted Likert scale questions. The second section terms and conditions of the loan consisted of 6 items, the third section of Likert scale of group dynamics consisted 5 items, the fourth section of organizational services consisted of 6 item, the Likert scale of competition consisted of 6 items and the last section of client exit consisted of 5 items. These instruments were taken from the study of Mamun, (2018) and Rahman, Rahman and Jalil, (2014). The instrumentation of Mamun (2018) consists of variables such as Organizational (Product features) Causes of Dropout, Clientele (Peer) Causes of Dropout, and Environmental (Personal/Family) Causes of Drop-out. All these constructs are further categorized into 3 sub construct. The organizational causes consist of loan procedure, rigid installment and savings related issues. Clientele consist of group based lending, group cohesiveness, and MFI service to groups. And the environmental causes consists of personal solvency, personal loan related issues and miscellaneous reasons. Whereas the study of Rahman,

Rahman and Jalil (2014) consists of 10 reasons summarizing loan conditions, group dynamics, effect natural disaster and societal causes well.

3.6 Data analysis

First, the collected data has been coded through MS-Excel and later analyzed through IBM SPSS. Researchers frequently utilize this software, which is also freely accessible in professional settings. The study used IBM SPSS to perform descriptive analysis and correlational analysis to describe the nature and characteristics of the data collected. And also, to analyze the influence or impact of the independent variables on the dependent variables. Similarly, the normality of data has been analyzed through Shapiro-Wilk and Kolmogorov-Smirnov test using IBM SPSS.

3.7 Reliability and validity

To test the reliability of the likert scale a reliability test was conducted through SPSS. Cronbach's alpha was measured as it is mostly used to estimate the internal consistency of the scale (Chetty & Datt, 2015).

Table 3.1

Cronbach's Alpha

Construct	Number of Items	Cronbach's Alpha
Terms and conditions of loan	6	0.795
Group influence	5	0.756
Organizational Services	6	0.705
Competition	6	0.790
Client Exit	5	0.713

Table 3.1 indicates that all the variables of scale have the Cronbach's alpha has a value greater than 0.7. The scale's acceptable dependability value is 0.6 (Chetty & Datt, 2015). Since, all the variables have value greater than 0.7, the scale is considered reliable.

3.8 Model specification

Based on the study's purpose and the research conducted by Rahman, Rahman, and Jalil (2014), the following linear regression model is considered.

$$CE = \beta 0 + \beta 1\ TL + \beta 2\ GD + \beta 3\ OS + \beta 4 EC + \varepsilon$$

Source: Rahman, Rahman, & Jalil (2014)

Where:

CE = Client exit from the institution

$\beta 1$ TL = Terms and conditions of the loan

$\beta 2$ GD = Group dynamics

$\beta 3$ O = Organizational services

$\beta 4$EC = External competition

$\beta 0$ = The intercept (constant term)

$\beta 1$, $\beta 2$, $\beta 3$, $\beta 4$ = Regression coefficient for respective variables

ε = Error terms

CHAPTER IV
ANALYSIS AND RESULT

This chapter includes the analysis of the data collected through the survey. The results are derived with statistical tools and techniques and are interpreted as well. At first, the data are described using descriptive statistics. Age, education, marital status, amount of loan borrowed from the existing organization, and stay duration with the organization are presented in the table. These statistics provide the demographic description of the study. The chapter also includes the correlational study result. The correlation describes the nature and association between the variables of the study. It also makes a further path for the explanatory analysis. The last section of the chapter includes discussion of the findings with the results of hypothesis testing.

4.1 Demographic profile of the respondent

Table 4.1

Demographic Profile of the Respondent

		Frequency	Percentage
Age	Less than 30	33	13.3
	30-40	76	30.5
	41-50	103	41.4
	51 and above	37	14.9
Marital Status	Married	222	89.2
	Unmarried	11	4.4
	Widow	16	6.4
Education	Below SLC	143	57.4
	SLC	70	28.1
	Intermediate	24	9.6
	Under Graduate	9	3.6
	Graduate	3	1.2
The maximum amount of loan borrowed	Below 100,000	61	24.5
	100,000-300,000	174	69.9
	300,001-500,000	14	5.6
Years of stay in the institution	Below 3 years	55	22
	3-6 years	102	40.7
	7-9 years	44	17.7
	10 years and above	47	18.9
Loan borrowed (in times)	Below 3 times	191	76.7
	3-5 times	58	23.3
Loan borrowed (number of institutions)	1	134	54.3
	2	82	33.2
	3	31	11.7

Table 4.1 displays the demographic profile of the respondents that have already left the institution. The respondents have been grouped under many categories namely age, marital status, education, years of involvement with the microfinance institution, loan borrowed amount, times of loan borrowed, and a number of institutions from where the loan has been borrowed. The study constituted of 249 female respondents.

Although the literacy rate of women involved in microfinance institutions is considered low. However, the study highlights that many of the respondents are qualified. It may be due to the settlement in the city area. Majority of the women that left microfinance belongs to the age group of 41-50 (41.4%), followed by 30-40 (30.5%). Nevertheless, the presence of women of age under 30 (13.3%) and 51 and above (14.9%) cannot be neglected as well.

Regarding the stay in microfinance, most of the clients have exited after 3-6 years of involvement, followed by clients leaving within 3 years of involvement with the institution. The clients seem to have enrolled in microfinance just to borrow money and as their motive is fulfilled, they tend to leave the institution after paying the loan. The groups in microfinance also often dissolve voluntarily when the duration for which the group was formed completes. 47 members are from the group where the group was dissolved after 10 years.

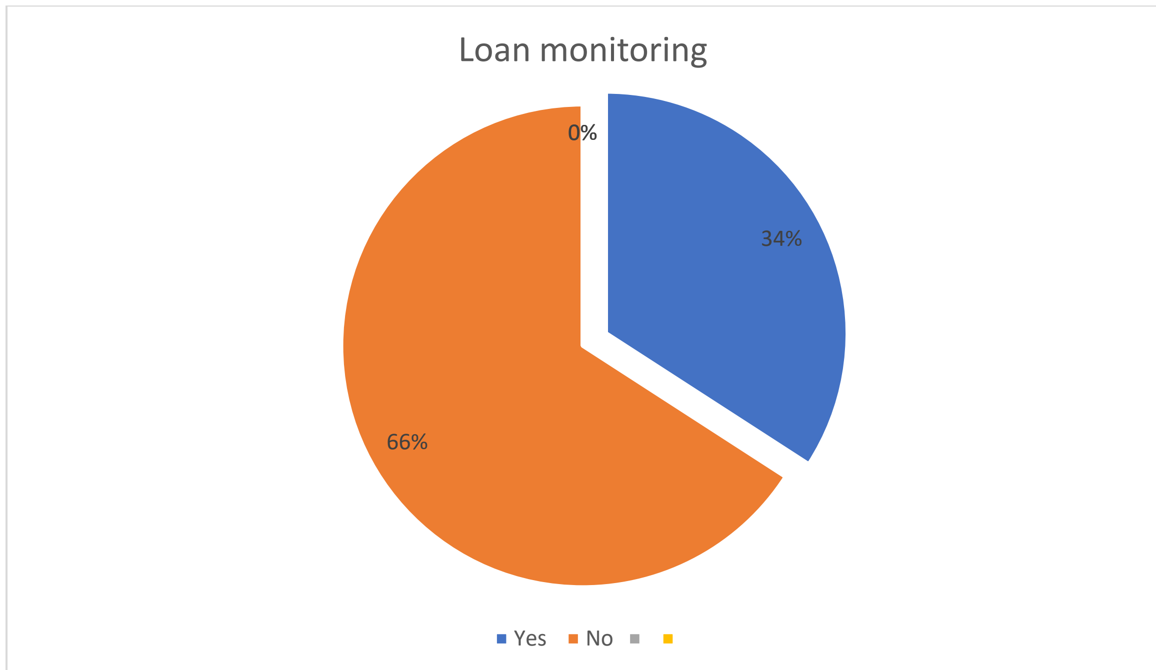
The findings shows that 82 members are involved in 2 institutions and 31 have taken loans from 3 institutions. This emphasizes that the client tends to be involved in more than one institution for borrowing the loan. In addition, 134 members have taken loans from only one institution. Similarly, about 70% of the respondents have borrowed loans between 100,000 – 300,0000. Only 5.6% of the members have borrowed amounts between 300,001 – 500,000, mostly for business purposes. And about 25% have borrowed below 100,000 and have exited from the organization.

Loan Monitoring

The majority of the respondents, almost double (66%) have mentioned that the loan officers do not inspect where the loan amount is being utilized and about 34% gave a positive reply on loan monitoring cases. The respondents also felt that the inspection increased during covid as many of the loan default cases as many clients were unable to pay their loan installment.

Figure 4.1

Loan Monitoring



4.2 Descriptive Statistics of the variable

This section of the study deals with the descriptive analysis of the data that were acquired through the questionnaires. Tools such as mean and median were used to compute the data. These tools help to quantify and describe the characteristics of the collected data.

4.2.1 Descriptive Analysis of terms and conditions of loan.

Table 4.2.1

Descriptive analysis of terms and conditions of the loan

Code	Item	Mean	Std. Deviation
L1	Loan approval procedures are complex in the MFI	2.73	1.026
L2	Loan size is too small for my requirement	2.96	.956
L3	The MFI charges higher interest rates	3.87	.960
L4	Loan processing fees are higher at the institution	3.56	.883
L5	Short repayment time/ not negotiable installment size	2.89	.976
L6	The loan processing time of the MFI is too slow	2.45	.902

Table 4.2.1 highlights the respondent's level of agreement regarding the various items of the loan terms and conditions. The construct consists of six items to depict whether these

items have caused the respondent to leave the microfinance institution. Among the six items, only two items have a mean greater than 3, (L3 = 3.87 and L4 = 3.56) so, it is likely that higher rate charged by MFIs and their loan processing fees causes the members to leave the organization. If we see at the value of standard deviation, L1 has the highest standard deviation of 1.026 which indicates that the responses of L1 have highest deviation.

4.2.2 Descriptive Analysis of Group dynamics

Table 4.2.2

Descriptive analysis of Group dynamics

Code	Item	Mean	Std. Deviation
G1	There is lack of commitment in members of the group	3.00	1.076
G2	The contribution of default members is a real burden	3.27	1.072
G3	There is high conflict among the group members	2.71	.948
G4	I do not like the peer guarantee system	3.93	.956
G5	The members of my group are not friendly	3.10	.957

Table 42.2 shows that all items except L3 have a mean score of more than 3 indicating to the argument that group dynamics can influence the members to leave the microfinance institution. The construct consisted of 5 items where the non-preference of the members of the group to remain in the group had the highest scoring of 3.93. This emphasizes that the members do not prefer to stay in the group for a longer period of time as they do not have time to go to the group meetings frequently to pay the installment or to save some money. It was also found that there was a frequent absence in the group meetings, and the members also do like the system of paying on behalf of the default members. The highest deviation of responses can be observed in item 1 with 1.076 closely followed by items 2 with 1.072.

4.2.3 Descriptive statistics of Organizational services influence on client exit

Table 4.2.3

Descriptive analysis of Organizational services

Code	Item	Mean	Std. Deviation
O1	The MFI do not provide entrepreneurial training	2.94	1.192
O2	The MFI do not provide skill development training	3.05	1.173
O3	Need to travel very far for the group meetings	2.47	1.066
O5	The MFI have very few loan categories	3.32	.984
O6	The staff of the institution are not friendly	2.71	.893
	The loan officer did not behave professionally	1.77	.793

Table 4.3.3 illustrates the descriptive statistics of the items of organizational services that influenced client exit from microfinance. Among 6 items, only two items show have higher mean score. Item O2 states that most of the respondents were not aware of skill development training provided by the institution. In addition, there were very few categories for taking the loan. Item 6 have the lowest score of 1.77 indicating the professionalism of the loan officer towards the borrowers and the staff also seems to be friendly in dealing with the members. Although O2 has one of the highest scores, it also has 2nd highest deviation of 1.173 in responses.

4.2.4 Descriptive statistics of external competition toward client exit

Table 4.2.4

Descriptive analysis of external competition

Code	Item	Mean	Std. Deviation
C1	My MFI charged a higher interest rate in comparison to other financial institution	3.11	1.176
C2	My MFI did not provide business support	3.25	1.083
C3	My MFI offered lower interest on savings	2.91	.920
C4	My MFI offers a small loan size in comparison to other institutions	3.24	1.089
C5	The Saving requirement of my MFI was high in comparison to other	2.94	.946
C6	The loan recovery mechanisms of my MFI were not liberal in comparison to others.	3.10	1.135

Table 4.2.4 depicts the descriptive statistics of the items for external competition that influence client exit from the organization. As it can be observed that, the four items of the construct (C1, C2, C4, and C6) are inclined toward an agreement and it states the fact, that competition among the MFIs pushes the customer to switch the institutions. MFIs also face competition from cooperatives as well in attracting clients through its services. In addition, highest deviation of 1.156 can be observed in item C1.

4.2.5 Descriptive statistics of Client exit behavior

Table 4.2.5

Descriptive analysis of Client exit

Code	Items	Mean	Std. Deviation
E1	The products of the institutions were not in line with my future	3.00	.969
E2	I left the institutions as I did not wish to take another loan	3.47	1.202
E3	I left the institution after paying my current loan	3.21	1.121
E4	I was looking for other MFIs offering better products	3.58	1.098
E5	I had to migrate to another location so, I have to leave the MFI	2.97	1.229

Table 4.2.5 constitutes the items of the construct client exit. The result shows that majority of the respondents did not wish to take the burden of another loan so they left the organization. Moreover, this is depicted by item E2 with a score of 3.47. Similarly, the clients also left the institution in search of MFIs with better products. And migration to another place also was one of the major causes for the client to leave the institution.

4.4 KMO'S and Bartlett test

The sample quality and validity, as well as the correlations between the variables, were evaluated using the Kaiser-Mayer-Olkin-Bartlett sphericity test. We can eliminate the variables to address multicollinearity issues through the use of KMO. Its values range from 0 to 1, with values larger than 0.60 signifying the relevance of the data and the likelihood of factor analysis. The item should be eliminated together with certain other values whose values depend on redundant variables and whose values depend on anti-image values if its value is less than 0.60. (Lubem and Dewua, 2020). The main component analysis was reasonable and the variable was highly significant, per the findings of the KMO and Bartlett tests.

Table 4.4

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.736
Bartlett's Test of Sphericity	Approx. Chi-Square	304.796
	df	15
	Sig.	.000

Table 4.4 shows the KMOS value is 0.736 which indicates that sample data are sufficient to show the relationship between the variables. In addition, data are suitable for applying the factor analysis or not and explains which should be dropped to overcome the multi-collinearity problem.

4.5 Multicollinearity

Extremely strong cross-correlation between independent variables is a need for multicollinearity. Therefore, there is a good chance that a data disruption will render statistical inferences about the data inaccurate. Variance Inflation Factor (VIF) detects multicollinearity. VIFs must have values of 10 or above. In other words, it shouldn't go over 10.

Table 4.5

VIF

Model	VIF
Terms and Conditions of the loans	1.252
Organizational Services	1.192
Group dynamics	1.208
External Competition	1.235

Table 4.5 shows that the VIF of all variables is less than 3, and the problem of multicollinearity doesn't exist between the variables.

4.6 Correlation analysis

Correlation is a technique for determining the connection that exists between two variables. It helps to assess the nature and magnitude of connection between the variables using bivariate analysis. The coefficient of correlation is measured in the range of -1 r +1. The study also used a significance threshold of 0.01, if the P-value falls below or

is equivalent to 0.01 then the correlation coefficient is significant, otherwise, the correlation coefficient is not significant.

Table 4.6.1

Correlation Matrix

		Loan	Services	Group	Competition	Exit
Loan	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	249				
Services	Pearson Correlation	.319**	1			
	Sig. (2-tailed)	.000				
	N	249	249			
Group	Pearson Correlation	.318**	.278**	1		
	Sig. (2-tailed)	.000	.000			
	N	249	249	249		
Competition	Pearson Correlation	.343**	.293**	.319**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	249	249	249	249	
Exit	Pearson Correlation	.436**	.341**	.664**	.435**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	249	249	249	249	249

4.6.1 Relationship between terms and condition of the loan and client exit

The finding of 0.3 to 0.7 indicates a somewhat positive connection (Ratner, 2009). The study reveals that the correlation between loan terms and client exit is r=0.436, with a

significant value of 0.00 less than the significance threshold of 0.05, providing strong evidence that these two variables are linearly associated and have a positive association. Thus, as the terms and conditions of the loan become more rigid more client will leave the organization.

4.6.2 Relationship between organizational services and client exit

The findings between 0.1 and 0.3 suggest a mild positive (negative) linear connection (Ratner, 2009). Since, the correlation result between the organizational services and client exit is 0.341, we can consider that the variables are not strongly correlated and come to a conclusion that organizational services do not influence the client to leave the microfinance institutions.

This result can be further analyzed based on the findings of Keaveney (1995). Keaveney (1995) identified eight reasons, including pricing concerns, inconvenience, failure of the core service, and failure of the service encounter, response to service failure, ethics, competition, and involuntary switching.

The organizational services variable of the research includes 6 items. Among which the items like need to travel very far for the group meetings (inconvenience), unfriendly staff and unprofessional loan officers (service encounter failure), lack of skill development training (core service failure) have mean less than 3 which means clients disagree with these reasons for leaving the organizations or switching the organization. Thus, we can further conclude that organizational services do not have any relation to client attrition rate.

4.6.3 Relationship between group dynamics and client exit

The correlation value (r=0.664) between group dynamics and client exit is much greater than other variables and indicates a moderate positive relationship between the variables. Therefore, the stress between the groups increases, the client attrition increases as well.

4.6.4 Relationship between external competition and client exit

The result states that the correlation between external competition and client exit is 0.435 which is greater than 0.03, indicating a moderate positive relationship between the variables. Thus, as the level of competition increases among the microfinance, the client churn rate also increases.

4.7 Normality test

Under the normalcy test, it is assumed that the underlying residuals are regularly distributed, or nearly so. To verify whether sample data were drawn from a population

with a regular distribution, a normality test is used (within some tolerance). A normally distributed sample population is required for many statistical tests, including the one-way and two-way ANOVA, the t-test, and many more

Table 4.7

Shapiro Wilk Test

	Shapiro-Wilk		
	Statistic	df	Sig.
Loan	970	249	.000
Services	.966	249	.000
Group	.962	249	.000
Competition	.957	249	.000
Exit	.948	249	.000

Table 4.7 demonstrates the result of the Shapiro Wilk Test conducted to check the normality of the data. The analysis's findings indicate that the significance levels are less than 0.05, yet the residuals are normally distributed since the histogram takes the shape of a bell.

4.8 Regression Analysis

The linear regression aids in determining the connection between the variables. In particular, between dependent and independent variables. Even while the correlation coefficient shows a substantial association between two variables, it is impossible to pinpoint the details of that relationship. In this situation, regression analysis provides information on the strength of the correlation. It is employed to forecast results, describe the nature of relationships, and ascertain how one variable influences another.

To determine the link between the client exit behavior and independent factors such as loan terms, group behavior, organizational services and competition, a linear regression analysis was done. Linear regression is more appropriate due to its simplicity, interpretability, scientific acceptability, and wide availability.

Table 4.8

Model summary of regression analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.732[a]	.535	.528	.57145

a. Predictors: (Constant), Competition, Services, Group, Loan

b. Dependent Variable: Exit

Table 4.8 shows the summary result of the regression analysis between the dependent variable client exit and independent variables loan terms and conditions, group dynamics, organizational services, and competition and also the coefficient of determination (R Square). The correlation coefficient is 0.732 which means there exist a positive connection between the variables.

The coefficient of determination is another name for R2. It serves as a criterion for assessing how statistically the data match the regression line. The amount of the response variable's variance that the linear regression model can explain is how it is defined. The bigger the number, the better the model fits the data; R-value squared runs from 0% to 100%. The R-squared value of the study is 0.535. According to this, 53.5% of variance is explained by the independent variables.

Table 4.8

ANOVA Table of Dependent and Independent variable

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	91.760	4	22.940	70.249	.000[b]
	Residual	79.679	244	.327		
	Total	171.439	248			

Table 4.8 explains the significance of the model at F=70.249 and p=0.000, which is smaller than the significance level of 0.05. A high value of F means that the regression equation does a good job of capturing most of the variation in the dependent variable and the model is useful, and vice versa. The ANOVA table shows that the 0.000 significance level is less than the 0.05 significance level, so there is sufficient evidence to conclude that the model is accurate and therefore significant at F=70.249, p=0.000 . Therefore, there is a significant linear connection between the dependent and independent variables.

Table 4.9

Coefficient Table of Dependent and Independent Variable

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.257	.230		-1.118	.265
Terms and condition of Loan	.224	.061	.180	3.692	.000
Organizational Services	.107	.061	.084	1.760	.080
Group Dynamics	.612	.056	.526	10.966	.000
Competition	.202	.054	.181	3.725	.000

Table 4.9 shows the values of significance and coefficient value as well. The p-value is lower than the level of significance of 0.05 for all independent variables except Organizational services which have a p-value of 0.08. This means there is a significant effect of terms and conditions of the loan, group dynamics and competition on client exit. Whereas, the organizational services do not have any significance over client exit.

Furthermore, group dynamics is the most dominant factor followed by Competition, terms and conditions of the loan, and organizational services.

4.10 Hypothesis testing summary

Table 4.10

Hypothesis testing summary

Hypothesis	P-value	Result
Terms and conditions of the loan	0.000	Supported
Group Dynamics	0.000	Supported
Organizational Services	0.080	Not Supported
Competition	0.000	Supported

The table 4.9 displays the hypothesis testing result summary. All the hypotheses are accepted except the second hypothesis (H3). The first hypothesis (H1) has been accepted which indicates that the terms and conditions of the loan have a significant impact on the client's exit. H2 and H4 are also accepted showing a positive relationship with the dependent variable client exit. Therefore, we can conclude that loan terms, group influence, and competition among the microfinance institution influence the client to leave the institution.

4.10 Major Findings

The study has following major findings:

- Out of total respondents, 41.4 % of women who left the microfinance institution belong to the age group 40-50.
- The literacy rate of women involved in microfinance institutions is increasing as more than 40% have completed SLC
- Around more than 45% of women are involved in more than 2 microfinance institutions to borrow loans.
- 69.9% of women have borrowed loans between 100,000-300,000 and 5.6 % of women have borrowed loans between 300,001-500,0000.
- Majority of the respondents, 40.7 % of them have stayed in the institution for a time period of 3-6 years.
- Women also tend to remain in the institution over a long period of time to address their financial needs. 17.7% of women have remained in the institution for 7-9 years and 18.9% have remained in the institution for a decade and more.
- 23.3% of the respondents have borrowed loans more than 3 times and 76.7% of them have borrowed loans below 3 times. This shows that the microfinance institution is playing an important role in helping women in stabilizing their financial health.
- 66% of the respondents stated that the loan officers do not monitor or inspect on the utilization of the loan. But after covid the monitoring has increased, it may be due to the loan default rate faced by the institutions.
- The mean value of terms and conditions of the loan contract is 3.076 which reveal that women leave microfinance institutions as they are dissatisfied with the terms of the loan.
- In addition, the mean value of 3.20 of group dynamics indicates the unwillingness of the women to remain in the group (mean value=3.93). Women do not have time for group meetings (mean value=3) and relationships among the group members are also not harmonious (mean value=3.1) as most of them do not know each other completely.
- The mean value of organizational services is 2.71 which indicate that the members are satisfied with the organizational services.
- The increasing competition among the microfinance institutions as well as other financial sectors like cooperatives and self-help groups are also the reasons for the

members to leave the institutions. Members leaving the institution in search of institutions with better products have a mean value of 3.58.

- There is a significant and positive relationship of the variable terms and conditions of the loan, group dynamics and competition with client exit.
- However, organizational services do not have any influence on the members leaving the institutions as the respondents feel that every microfinance institutions provide more or less the same services.
- Group dynamics (b=.526) had the strongest impact on client exit followed by Competition (b=0.181), terms and conditions of the loan (0.180), and organizational services (b=0.084).
- The model's predictive capability (R Square) is 0.535.

CHAPTER V

DISCUSSION, CONCLUSION AND IMPLICATIONS

This chapter compares the study's findings with those of other researchers, as noted in the existing literature. This is followed by a discussion based on the study objectives, followed by the results and implications.

5.1 Discussion

The primary goal of this study was to explore the client exit behavior of Microfinance institutions. Various scholars have enumerated reasons on why client leave the institutions that are common to this study as well. However, there are conflicting results found in the study as well.

The findings of the study showed that group dynamics have highest correlation (r=0.664) with client exit. Group dynamics consisted of five items, among which lack of commitment in group members, contribution of default members, unfriendly members and unwillingness to remain in the group are the major reasons that has contributed to client exit from the microfinance. The study of MicroSave, conducted by Maximbali, Lwoga, and Rutherford (1999) also stated similar reasons for client attrition including conflict within a group, need to pay on behalf of defaulters and lack of group cohesion.

The variable terms and conditions of loan contract also have a significant and positive relationship with client leave Some of the variables affecting client churn are increased interest rates offered by the institution, greater loan processing costs, and small loan amounts. However, it also emphasized the consequences of loan application processes and short repayment schedules, which goes against the study's conclusions. The study by (Mamun, 2018) also identified higher interest rates as one of the primary drivers of client churn. The majority of the clients the study team dealt with reportedly claimed that the interest rate was overly expensive, especially when combined with other costs like withdrawal fees, registration fees, etc., according to Maximbali, Lwoga, and Rutherford (1999). The study by Sharma (2010), which discovered that factors like small loans, customer graduation, customer replacement income, migration, husbands leaving the home, lack of time for meetings, and strict MFI disciplinary procedures were some that caused the client to leave the organization, lends additional support to these conclusions. In contrast to the findings of the study, Mindila, Gongera, and Shiundu (2013) discovered that smaller credit, larger amount of processing fees, higher cost of debts and procedures involved to obtaining a loan are all adversely associated with borrower leave from MFIs.

Group lending is an important aspect of microfinance institution. The group is formed with women having similar needs. Like many other studies, this study also found a significant and positive relationship of women dynamics with client exit. Maximambali, Lwoga, and Rutherford's (1999) study found that MFIs don't have set rest periods. MFI products frequently require members to participate actively, and the frequent, strict repayment schedules, necessary meetings, and other requirements make it difficult for clients to participate in other activities, which lead them to leave the institution. The poll also indicated that respondents who had private jobs, family duties, or were expected to run their enterprises found it difficult to attend meetings. Dropouts from the group who don't want to participate in regular meetings and detest the guarantee structure (Graham and Wright, 1997). This study showed that group dynamics including a lack of commitment, a member's default contribution, interpersonal conflict, and a member's desire to remain in the group have a greater effect on customer departure than other variables. On the other side, group cohesion which includes the numbers and duration of group sessions, bonding between the members, and group assurance has a minor impact on client dropout. The respondents were not dissatisfied with the organizational services as the meeting place was not very far and they also had an as easy access to the MFIs services as stated by Mamun (2018). Likewise, competition among the microfinance institutions or from other financial institutions such as cooperatives and self-help group also helped in diversifying the members of the microfinance. The respondents believed that their institutions used to charge higher interest rate than other did, and they offered small size loan. This also played a vital role in causing dissatisfaction among the members.

The dependent variable of the study Client exit consisted of five items, among which unwilling ness of the customers to take further loan, looking for other institutions that offer better products and migrating to different location were the major reasons for the client to leave the microfinance. Moreover, these findings were supported by the study Mamun (2018), where client disinterest to take another loan was one of the major reason causing client dropouts. In addition, some clients had to drop out without paying the loan as well.

Therefore, the findings showed that three variables, terms and conditions of loan, group dynamics and competition have a moderate and positive relationship with client exit. Meaning these variables influence the client to leave the microfinance. However, one of the independent variable; organizational services had insignificant relationship with client exit suggesting no influence of the variable for increasing the client attrition in the

organization. The organizational reasons of dropout are mainly concerned with how the organization delivers their product. This broadly includes skill development training, location of the group meetings, loan categories, and the behavior of the staffs.

Most of the respondents had common view on the characteristics of loan; they did not felt it as an important reason to leave the institution. However, there were some respondents who had opposite opinion about the same. Mamun, (2018) also had similar inferences. This study also showed most customers to be satisfied with the services with some exception cases. This result can be further analyzed based on the findings of Keaveney (1995). Among the 6 items of organizational service, need to travel very far for the group meetings (inconvenience), unfriendly staff and unprofessional loan officers (service encounter failure), lack of skill development training (core service failure) have mean less than 3 which means clients disagree with these reasons for leaving the organizations or switching the organization. Thus, we can further conclude that organizational services are not related to client attrition rate.

Discussions with loan officers at microfinance institutions showed that women in particular are forced to be absent or take breaks due to family commitments. Common reasons for women leaving are pressure from husbands to leave the company, women migrating for foreign employment, or joining husbands who have been transferred to a new job. Group graduation, no income to pay for the loan and competition from other financial institutions is also factors responsible for client dropouts.

On average, about 80 members leave the institution yearly as reported by the loan officers of Swabalamban Laghubitta of Thimi and Mero Fiance of Sallaghari, Bhaktapur. This result only encompasses a single branch. Therefore, we can only imagine the number of client that the institution loose on yearly basis. This high dropout rate indicates the dissatisfaction of the customers with the services offered by the MFIs and the weakness of the MFIs in retaining their customers.

Thus, client attrition is becoming a challenge for microfinance sector. Because client attrition not only affects the customers, but it also hampers the reputation of the MFIs in the market. There is also a risk in attracting new customers as the people may be influenced by their friends and family about the services offered by the MFIs and may not be willing to join the same MFI.

5.2 Conclusion

Attrition of customers is a major issue in the microfinance industry. Because it must discover, assess, and train new clients, it incurs costs and lessens the possibility that the microfinance business can become successful and achieve a greater outreach. Exits reduce the benefits that continued participation in microfinance programs could offer and increase transaction expenses from the perspective of the client. High exit rates also make it challenging for microfinance to meet the needs and wishes of the poor, which undermines the effectiveness of the sector as a means of eradicating poverty.

The study also discovered that customers were more likely to leave because of group conflict, loan terms, loan size, high interest rates, and a lack of desire to remain in the group, while customers who were financially secure left the MFIs, as they did not felt the need for extra funds (Mutesasira, et al. 1999; Graham and Wright, 1997).

The staffs were found friendly, but with some instances of clash between the members and the staff of the organization. The loan officers were very professional according to the respondents and would pay fines for late arrival in the meeting places. A study by Banna, Noman, Alam, and Rana (2021) also discovered that clients are less likely to leave an MFI if they have a good relationship with the loan officers and the MFIs' services were generally of high quality. The research also concluded that although many reasons influence the borrowers to leave the MFIs but these reasons does not hold the same weightage. The competition among the MFIs persuaded the customers to withdraw and switch to other as they felt other MFIs offer quality services with better features.

In addition, many clients were actively involved in two or more than two organization to add extra fund to their portfolio and to meet their household and business needs. This study revealed that customers are skeptical of some aspects of service, which leads to their discontent. If the MFIs further neglect this issue then it could become a ground for withdrawal of the borrowers.

5.3Implication

The findings of this study have various implications for microfinance institutions as well as other financial institutions facing client exit. Researchers can also use it as a basis to conduct a similar study. The implications are divided into two parts: Practical implications and Implications for further research.

5.3.1 Practical implication

The findings of this study can be helpful for the microfinance organizations and policy makers to build programs to address the problems of client exit.

The findings of the study highlight the major factors (group dynamics, terms and conditions of loan and competition) that are responsible for client leaving the institution. Therefore, the microfinance institutions can use this research to formulate necessary policies to reduce the client attrition rate by reducing the dissatisfaction caused by these variables under study.

5.3.2 Theoretical Implications

It is important to conduct further research to confirm the results of this research by covering a large sample size and variety of respondents. Similarly, further studies can be conducted in remote areas and make comparative analysis on which factors influence the members more.

As the study has focused only on four variables that cause client to leave MFIs, more studies can be conducted incorporating other factors such as personal loan related issues (whether the clients had any benefits from the institutions). On the other hand, a single variable can also be used to conduct a more deep research. Further, research can also be conducted on what variables decreases the client exit rate or the types of clients (good clients that pays on time or bad client having poor cash flows, require monitoring and generate little interest) that leave the organization.

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APPENDIX

Dear Respondent,

This research entitled **"**Client Exit from Microfinance organization: A Case Study of Bhaktapur' is a Graduate Research Project as a partial fulfillment of the requirement for the Masters in Business Administration (MBA) at School of Management, Tribhuvan University.

The main goal of this research is to explore the client exit from Microfinance Institution.

Your response will affect the study. Therefore, the researcher would like to make a humble request to spare few minutes of your valuable time to read the given questions carefully and fill the questionnaire survey. The provided information will be kept anonymously and will be used strictly for the stated purpose only.

Have a good time and in case of any queries or feedback please feel free to contact on the given address.

Sincerely,

Sweechna Pokhrel
Sweechna@gmail.com
9840111142
School of Management, Tribhuvan University

A: General Information

1. Name: ______________________________________
2. Age:
   Below 30 [ ] 30-40 [ ]
   40 – 50 [ ] Above 50 [ ]
3. Marital Status:
   Single [ ] Married [ ]
   Divorced [ ] Widow [ ]
4. Name of the MFI that you were involved with:
   ____
5. Educational Level: _____________________________________
6. How long have you been a member in this MFI? ___________ (in years)
7. Loan amount borrowed _________________________________
8. How many times have you borrowed the loan? ___________
9. From how many institutions have you taken loan? ___________

Part B: Likert Scale Questions

Show your agreement on the following questions? Please tick (✓) any one of the appropriate numbers in each row.

1 = Strongly Disagree

2 = Disagree

3 = Neutral

4 = Agree

5 = Strongly Agree

Terms and conditions of the loan contract led to client exit.

Items	**1**	**2**	**3**	**4**	**5**
Loan approval procedures are complex in the MFI.					
Loan size is too small for my requirement.					
The MFI charges higher interest rates.					
Loan processing fees are high at the Institution					
The loan repayment terms are not favorable (short repayment time/ not negotiable installment size)					
The loans processing time of the MFI is too slow.					

Does the institution monitor the loan?

Yes [ ] No [ ] Don't know [ ]

The influence of group dynamics on clients' exit from microfinance.

Items	**1**	**2**	**3**	**4**	**5**
There is lack of commitment in members of the group					
The contribution of default members is a real burden.					
There is high conflict among the member of my group.					
I do not like the peer guarantee system					
The members of my group are not friendly					

Organizational services influence client exit from the microfinance.

Items	1	2	3	4	5
The MFI do not provide entrepreneurial training.					
The MFI do not provide skill development training.			+		
Need to travel very far for the group meetings					
The MFI have very few categories of loan.					
The staff of the institution are not friendly.					
The loan officer did not behave professionally					

External competition contributes to client exit

Items	1	2	3	4	5
My MFI charge higher interest rate in comparison to other MFIs					
My MFI do not provide business support					
My MFI offers lower interest on savings					
My MFI offers small loan size in comparison to other MFIs					
The Saving requirement of my MFI is high in comparison to others.					
The loan recovery mechanism of my MFI is not liberal in comparison to other MFIs.					

Client exit

Items	1	2	3	4	5
The products of the institution were not in line with my future goals.					
I left the institution as I did not wish to take another loan					
I left the institution after paying my current loan.					
I was looking for other MFIs offering better products.					
I had to migrate to another location so, I have to leave the MFI					