DETERMINANTS OF CLIENTS' EXIT FROM MICROFINANCE ORGANIZATIONS IN KENYA: A SURVEY OF KENYA WOMEN FINANCE TRUST IN NAKURU COUNTY

BY

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D53/NKU/PT/21751/10

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Determinants of clients' exit

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DECLARATION

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This Research Project is my original work and has not been presented for a degree in any other University or any other award.

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DEDICATION

I dedicate this study to my beloved mother Sororo
The business school has been a long and challenging journey. There are several people who have made this journey amazingly rich and rewarding experience. I would like to acknowledge and thank them here. First my sincere gratitude goes to my uncle John Abduba for bringing me up and support that eventually made it possible for me to pursue this study. Second I sincerely thank my wife Maryam Bonaya and children (Guyo and Hussein) for the love and support that they have given to me especially during the critical periods of this process.

I sincerely thank my supervisor Dr. Jagongo A.O. for tirelessly guiding me during the study and reading through my work. May the almighty God reward him for the effort put in. Last but not least are my colleagues at work for their moral and financial support, especially Helen Kola who cleaned and typed this document, without them this research would not have reached this point.
Client exit is an important issue that microfinance industry faces. It affects the sustainability and outreach of the microfinance institution and puts in question the ability of microfinance to effectively reach and serve the poor. The aim of this research was to examine the reasons behind client exit from Micro Finance Institutions. While much attention has been paid to loan default or delay in payment, there has been little coverage on the issue of client drop out. The study objectives were to; determine whether terms and conditions of the loan contract lead to group client exit from microfinance, evaluate the influence of group dynamics on client exit from microfinance, to establish if staff influence client exit and finally evaluate how external competition contribute to client exit from microfinance institution. Target population was 7954 clients drawn from 9 districts in Nakuru County. Multi stage sampling technique was used on which 10% of the nine Districts was selected, from which 10% of the clients were further selected using simple random sampling. Same size therefore was 168 clients from Nakuru District. Structured questionnaires were used to collect primary data. Analysis was done using frequency counts, percentages, Spearman's rho, and Pearson Correlation analysis. The study found out that among the terms of loan, there was a stronger relationship between clients exit and their opinion on the interest rates charged, followed by the speed of processing loans. Lack of members commitment to the groups and group activities led members to exit from the groups and ultimately exit from the KWFT. There was also a positive relationship between staff practices and clients exit. Most of the respondents felt that the organization did not monitor their client’s loan utilization of their clients despite the critical role it plays especially in the micro and small scale business enterprises at startup. Other than internal factors specific to the institution, external factors also play a role in influencing clients exit from microfinance institutions. Competition highly affects the performance of any organization because it makes client leave the organization. The study concludes that client exit remains to be a key issue among Micro finance institutions. Dissatisfaction with product and its properties plays a key role in enhancing clients exit. It is therefore important to enhance interaction with clients, soften the terms of payments and also monitor and respond to competition as a way to contain clients. The competition within the financial sector played only marginal role in causing client exit. The study therefore recommends that, loans are paid out on due time and also mobilization of clients’ savings is vital for the operation and clients sustainance of the microfinance institutions. KWFT should pay more attention to client’s credit record and give bigger loans or loans with smaller collateral to clients who proved to be trustworthy borrowers. The findings of the study were limited to the area of study and thus there is need for another study on the impact of group on loan repayment period in microfinance institutions.
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<tr>
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<th>Description</th>
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<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
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<tr>
<td>CBO</td>
<td>Community based organization</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>KREP</td>
<td>Kenya Rural Enterprise program</td>
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<td>KUSCCO</td>
<td>Kenya Union of Saving and Credit Cooperatives</td>
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<td>KWFT</td>
<td>Kenya Women Finance Trust</td>
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<td>MDG</td>
<td>Millennium Development Goals</td>
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<td>MFI</td>
<td>Microfinance institutions</td>
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<td>MFO</td>
<td>Microfinance Organizations</td>
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<td>MSE</td>
<td>Micro and Small Enterprise</td>
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<td>NCCK</td>
<td>National council of churches of Kenya</td>
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<td>NGO</td>
<td>Nongovernmental organization</td>
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<td>Term</td>
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<td><strong>Adverse push</strong></td>
<td>These are as a result of organization design and policy failures.</td>
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<td><strong>Factor</strong></td>
<td>This refers to the borrower – lender relationship of a group lending program</td>
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<tr>
<td><strong>Bank</strong></td>
<td>Clients that have exited are defined as those whom have left the MFO, i.e. the borrowing relationship has been stopped.</td>
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<td><strong>relationship</strong></td>
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<td><strong>Client’s exit</strong></td>
<td>These are clients who have left the MFI voluntarily or otherwise</td>
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<td><strong>Drop outs</strong></td>
<td>These are factors related to business failure, fire, theft, death or illness</td>
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<td><strong>Idiosyncratic</strong></td>
<td>These are potential dropouts who are waiting for their voluntary savings</td>
</tr>
<tr>
<td><strong>Shocks</strong></td>
<td>This is made up of specialized organizations that provide financial services to low-income households and in some poor communities in developing countries.</td>
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<tr>
<td><strong>Inactive</strong></td>
<td>This refers to clients moving out to another MFI as result of competition as they seek other better services and products or as client mature</td>
</tr>
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<td><strong>Industry</strong></td>
<td>Is an organization that provides microfinance services. MFI’s range from small non-profit organizations to large commercial banks</td>
</tr>
<tr>
<td><strong>Market driven</strong></td>
<td>They are generally poor and low-income people that do not have access to other formal financial institutions. Microfinance clients are often self-employed, household-based entrepreneurs.</td>
</tr>
<tr>
<td><strong>Pull factor</strong></td>
<td>It is a general term to describe financial services to low-income individual or to those who do not have access to typical banking services. It is also the idea that low-income individual are capable of lifting themselves out of poverty if given access to financial services</td>
</tr>
<tr>
<td><strong>Microfinance</strong></td>
<td>This refers to clients who come from subsequent loan from the MFO</td>
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<tr>
<td><strong>Institutions</strong></td>
<td>These are factors as result of severe weather, economic recession or civil unrest.</td>
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<td><strong>Clients</strong></td>
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<td><strong>Microfinance</strong></td>
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<td><strong>Repeat</strong></td>
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<td><strong>borrowing</strong></td>
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<td><strong>Systematic</strong></td>
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<td><strong>shocks</strong></td>
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CHAPTER ONE

INTRODUCTION

1.1 Background to the study
Over the last two decades, microfinance has captured the attention of donors and policy makers for its ability to provide credit to the poor who have no access to commercial banks. The purpose is that with the additional income and determination, poor people can set up income generating activities in order to reduce their vulnerability and combat poverty. The successes of microcredit programs have been well documented in numerous studies. Many practitioners have a strong belief that microfinance can contribute positively in the lives of low-income households (Armendáriz and Morduch, 2007). These studies have shown that clients of microfinance institutions witnessed a positive impact at different levels: at a household level, by increasing their income and their consumption (Khander, 2005; Swain et al, 2008; Mosley, 2009); at an enterprise level, by contributing to capital accumulation and creation of employment opportunities (Hiatt et al, 2006; Mosley, 2009) and last but not least, at the community level, by employing new workers within poor groups (Mosley, 2009).

Despite all this international consecration, there are still dropouts from MFI. The East African MFIs case illustrates the high rate of dropouts (25%-60%, Uganda-Kenya-Tanzania MFI) some MFI can face and that could undermine the success of the programs. Although clients dropout over-time, even from the most successful organizations, in microfinance sector, dropout is portrayed as a negative phenomenon by many practitioners, because both MFI and clients have much to gain from a long-term banking relationship. Customer loyalties reinforce interactions between clients and MFI, it mitigates the two mains problems of credit market: moral hazard and adverse selection and also increases the availability of credit (Duflo, 2010). Meyer and Al (2001) said that retaining clients is very important for MFIs because it reduces MFIs administrative costs, lowers default risks and increases the average loan balance as well as the institutions productivity. This is confirmed by Schreiner (2004), according to whom, the cost of acquiring new clients is higher than keeping old ones, and he have focused more on the client benefit, he believed that, by staying with the MFI, clients income increases because they have an ongoing access to financial
services which helps to boost their confidence. Moreover, the customer loyalty contributes to lower interest rate (Uzzi 1999) and can also be a competitive advantage value (Wright and Al, 1999). Few studies have, however, been carried out on the dropout issue, not because it is unimportant, but because it is difficult and expensive to locate clients once they leave an MFI. The factors for dropping out identified by previous studies are many and illustrate a wide range of reasons. In overall, the majority of studies found that most clients exit due to organizational failures, idiosyncratic shocks and/or systematic shocks, client maturity and competition (Meyer et al, 2001; Wright and Al, 2001).

In this research the exit client is defined as client who does not take new loan from the microfinance institution and who has no outstanding loan thus default clients would not be regarded as exit clients. The exit clients would be considered exit clients even if he/she still keeps savings with the microfinance institution and considers the possibility to rejoin the microfinance institution in the future. The client exit would refer to termination of the lending relationship initiated either by the client or by the financial intermediary.

Repeat borrowing is critical for the long-term viability of microfinance institutions which provide invaluable financial services to low-income households in Kenya. Repeat borrowers reduce MFI administrative costs, lower risks, and increase organizational productivity. In practice, however, several MFIs are experiencing high borrower exit, i.e. termination of the lender-client relationship which hamper organizational and financial sustainability. There could be various reasons to account for inability of microfinance institutions to achieve financial self-sufficiency. The interest rate set below costs recovery levels, high delinquency rates, poor management and inefficient allocation of resources are the few causes often cited as being responsible for the unsatisfactory financial performance. Client exit – a phenomenon when client withdraws from the banking relationship – could further extend the list. All of the mentioned reasons are important in explaining the failure of microfinance institutions to attain the goal of financial sustainability.

From client perspective desertion is also a costly incident. It increases the transaction costs especially if client decides to switch from one lending institution to another. In
this case the client has to recommend himself/herself again as a trustworthy borrower, which requires time particularly if there is no information sharing among the lending institutions. When clients are bound by joint liability contracts and exit occurs the group has to look for another member(s), which costs time and efforts and could augment client desertion even more (Hulme et al., 1999). As opposed to exit costs, nurturing long term banking relationship offers its benefits, it secures access to financial resources when clients need it and when other sources of borrowing are not available or are inappropriate for their needs and capacities. Also, it lowers the costs and increases the availability of credit and could grant upgrade of the contract in the future, if the clients maintain good repayment record (Ongena et al, 2001).

Keeping in mind the costliness of client exit, its impact on the sustainability and outreach as well as the benefits of long-term banking relationship, an analysis of the client exit would be of value to the microfinance institution and the client. A thorough look at the reasons behind client exit could help to indicate the strengths and weaknesses of policies and strategies of the microfinance institution, point to the flaws in the products and services it provides and suggest possible improvements to better meet the clients’ needs thus increasing their satisfaction and retention. A strategy that responds to the clients’ requirements and situation would not only assist microfinance institution in achieving its goals of sustainability and outreach, but would also enhance the possibilities of the poor clients to participate in the microfinance programs thereby facilitating their efforts to escape or alleviate poverty.

The Kenya microfinance industry is one of the oldest in Africa having started way back in 1972, when an ILO report firmly identified the sector for development purposes. In the 1970’s, the main institutions providing credit to the informal sector were church based like the National Council of Churches of Kenya (NCCK) and other smaller church based non-governmental organizations. These programs were heavily subsidized and were adhoc additions to other social outreach programs offered to the poor and outreach was thus very limited.

In the 1980s other specialized organizations began operating in the informal sector. Among the organizations were Kenya Rural Enterprise Program (KREP) and Kenya
Women Finance Trust (KWFT). These organizations started off as heavily subsidized entities and incurred very high costs in their operations to a point where it was no longer acceptable to the donors. By the late 1990s, interest and knowledge in microfinance had grown substantially and focus shifted to sustainability as donor grants dwindled leading to a minimalist approach as the costs for outreach became more expensive. Despite these limitations and setbacks, the microfinance industry in Kenya still commands a huge market share as an alternative source of funding for sustainable livelihoods especially in the microenterprises. There is still a huge demand for microfinance as revealed by a micro and small scale baseline survey of 1999 where of 2.4 million enterprises in the country, only 90% untapped. Although this untapped market and the coverage has dwindled and expanded respectively over the years with the entrance of new MFO players, clients continue to leave the MFO in large numbers which has prompted the MFO players to respond to this issue in different ways (Micro banking Bulletin 2000).

KWFT enjoys a unique status in financial services as the only financial institution to focus solely on women clients. It has created a portfolio of products and services focused on meeting the needs of women entrepreneurs. KWFT’S success is based on the recognition that women are a key niche market that has significantly lower levels of access to financial services than the rest of the general population. Kenya Women Finance Trust has grown from small beginnings in 1981 into an Institution with 400,000 members from Kenya’s eight provinces. KWFT Staff has also grown with the Programme and the Institution from 6 in 1992 to 1600 staff in 2011 (KWFT - DTM 2011).

KWFT provide different Business Loan Products to its members as follows;

**Biashara Loan** is to support women with small and medium scaled businesses to access affordable financial services. It aids in creation of employment and reduction of rural – urban migration with the following Features and requirements; Flexible security requirement, Monthly meetings and loan repayments, Flexible loan amounts, Business skills training, Low processing fee, Low monthly savings, Loan from ksh 10,000 and Insurance cover at a low premium. Members must have a Group of 15-30 members and be in a business (KWFT 2011).
**Mwangaza loans** is to enable medium and big scaled business women to access affordable financial services with the following features and requirements: Flexible security requirement, Access to business skills training, Flexible loan amounts, Fast processing of loans, loan repayments and Loan from ksh 50,000. Members must have **Group of 7 – 10 members (mini group) and be in a business (KWFT 2011).**

**Mwamba loans** are a loan to individual entrepreneurs with large scaled businesses to access affordable financial services. This loan can be advanced to our customers to facilitate the acquisition of assets like vehicles and machinery with the following Features and requirements; Access loan as an individual, No group guarantee, Flexible loan amounts, Flexible monthly loan repayments, Flexible security requirements and Fast loan processing; Members must have their own a business, Bank statement for the last six months and 2 guarantors (KWFT 2011).

Most of the MFO were structured to target specific market segments such as KWFT which is the only woman centered, women only organization in Kenya. Among the industry players who are competitors include Faulu Kenya, K-Rep and some who have since transformed into formal banking such as Family Finance Bank, Cooperative Bank, Equity Bank and Sacco’s. Stiff competition aside, it is the client drop out which poses the greatest challenge to attempts by the remaining true microfinance entities such as KWFT to stay afloat and remain relevant in Kenya.

1.2 **Statement of the Problem**

From the forgoing background literature (Meyer et al, 2001; Wright and Al, 2001), client exit is an important emerging issue in the Microfinance industry world over Kenya in particular, especially because MF is experiencing an exponential growth. These studies portend that high client exit rate (averaging 30-40%) increases the operational and administrative costs, as new clients require more monitoring and screening. It has also been noted that clients tend to take smaller loans thus resulting in lower returns. (Hulme et. al., 1999) argues that when clients are bound by joint contracts and exit occurs, the group has to look for other members, which is time consuming, costly and could augment client desertion even more. Pagura (2004) in his study of the analysis of factors leading to clients dropout suggested that further study needs to be done on; the determination of the profile of ex-group clients and the identification of the reason leading to dropout.
According to Githimu et al (2006), KWFT is the only MFO in the country with women only as its target market that most of the women clients choose to join KWFT over other MFOs because of its flexibility in repayment schedules and the group factors which allow members to socialize and share ideas. However, the same study found out that there is a high positive correlation between repayment and client drop out, yet the reasons for these exits remain unexplained in a systematic manner. A strategy that responds to the client’s requirements and situations would only assist microfinance in achieving its goal of sustainability and outreach but would also enhance the possibilities of the poor clients to participate in the microfinance program thereby facilitating their efforts to escape or alleviate poverty. The study therefore investigated the factors that determined client exit from MFI generally and from KWFT in particular.

1.3 Research Objectives

1.3.1 General Objective
The overall objective of this study was determinants of clients’ exit from microfinance institutions in Kenya, a survey of KWFT in Nakuru County.

1.3.2 Specific Objectives
1. To determine effects of terms and conditions of the loans on group client’s exit.
2. To establish the influence of group dynamics on client exit.
3. To establish influence of organizational services on client exit.
4. To determine contribution of external factors to client exit.

1.4 Research Questions
In determining the client exit patterns from KWFT microfinance in Nakuru County, the following were the main research questions;
1. Do terms and conditions of the loans lead to group client exit?
2. Does group dynamics influence client exit from microfinance?
3. Does organizational services influence client exit from microfinance?
4. Do external factors contribute to client exit?

1.5 Significance of the Study
This study determined and analyzed the factors that influence borrower/client exit in Nakuru County served by the KWFT. Although studies have been conducted on
client dropout in the country, they were limited to the lower and North Rift regions; no study has been conducted on the client exit patterns in Nakuru County. This is even more relevant as the disruptions that may have been caused by events surrounding the 2007 general elections. Hence this study seeks to fill this knowledge gap by providing useful current-state insights into the factors that influence client exit in Micro Finance Organizations performance in the district.

Microfinance was intended to create incentives and means for the poor people to become active agents in improving their well-being by providing access to credit and thus enabling them to take up self-employment and income-generating activities which would consequently increase the income of the poor and thereby would help to escape or alleviate poverty. As formal lending institutions were not willing to give loans to the poor because of lack of collateral, high transaction costs and low profits, the role of microfinance was to fix this “market failure” by supplying credit to the “unbankable” poor. Another advantage of microfinance was that it channeled funds directly to the poor circumventing the state whose inefficiency and corruption was partly to blame for the failure of the large-scale development programs. Owing to the rapid growth in the MFI sector, and its role in alleviating poverty, it is important to identify factors that could lead to their failure and prescribe mitigating measures.

In identifying factors influencing repeat borrowing performance in KWFT MFO, the study findings would assist policy makers at KWFT to design products and services that are appropriate to the clients as well as come up with proposals on reducing client exit. In addition, the results would assist private and public sector to develop policies which support the development of Microfinance Organizations and would be useful to scholars who will use the results of the study to further research on Micro Finance Organizations.

1.6 Scope of the Study
The research findings were limited to the determinants of client exit in microfinance organization in Kenya, a survey of Kenya Women Trust (KWFT) with 115 groups with 3,500 members (2000 current and 1500 dropouts) mainly from Nakuru County. However, generalization of findings can be done on microfinance institutions in the
country with caution. The study was conducted in the months of January, February, and March 2012.

1.7 Limitation of the Study
The study was limited to degree of disclosure of data and cooperation from KWFT management officials, staff and the clients. Some clients were not willing to give the required information. It was therefore important to assure respondents of anonymity and confidentiality on information they gave.

Secondly, during the selection process, the staff members might omit the client with whom they had conflict to avoid negative feedback. Also the budgetary and time constraints might make it difficult to reach rural clients who lived scattered in the large area and away from the main routes of the public transportations; therefore the clients were selected predominantly from urban areas and the findings of the research represent both the situations and views of the urban dwellers and of the rural inhabitants.

Finally the study was limited to potential and exiting clients accessing and beneficiaries of group products and service offered by KWFT in Nakuru County. The researcher chose this setting because, Nakuru County has higher client exit than other areas and is the most profitable region in the organization.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction
The main objective of this chapter is to provide a detailed synthesis of client exit studies worldwide, focusing mainly on why clients leave. It begins with a brief description of features of microfinance group lending in Kenya and to organize the discussion and conceptual framework was developed to classify client exit reasons. A more in-depth examination of client exit issues in Nakuru County for the KWFT MFO under study was done. The MFO program in Kenya is described, where stylized facts on client exit of Microfinance Organizations, are presented and discussed. The chapter concludes with conceptual framework upon which the study is premised and a conceptual model of group client exit is proposed based on the model and the stylized facts.

Kenya Women Finance Trust changed its name to Kenya Women Holding Limited, a company limited by guarantee in July 2009. A subsidiary company Kenya Women Finance Trust Deposit Taking Microfinance Limited (KWFT DTM) was created to take over the credit and deposit mobilization business from the holding company after the year end. Kenya Women Finance Trust Deposit Taking Microfinance Limited (KWFT DTM) is 100% owned subsidiary of Kenya Women Holding Limited. In April 2010 KWFT DTM was granted a license to operate as a nationwide deposit taking microfinance institution by the Central Bank of Kenya (KWFT 2010)

2.1 Introduction to Literature Review
The principal role of microfinance was to help the poor people to escape or alleviate poverty. It was presumed that participation in microfinance programs would help the poor people to derive both the material and social benefits at the individual, household and enterprise level (Woller et al., 2001). With credit, poor people could smooth consumption and create or expand productive activities and thus accumulate capital and wealth to mitigate poverty. The particular emphasis was put on the stimulation of the small businesses in the informal sector, which was considered as one of the prerequisites for economic development. According to (Lucarelli, 2005) It was believed that investment in informal sector would increase employment leading to increase in income and consumption.
The target group of microfinance was the poor people who show the propensity to engage in entrepreneurial activities. Yet many microfinance programs aimed specifically at women. This tendency could be explained by several reasons. Firstly, women perfectly suited the goal of microfinance to serve "the poorest of the poor", as in many less developing countries women constituted the most impoverished members of the society (Diop et al., 2007). Secondly, some microfinance institutions targeted women, as it was regarded that women have fewer opportunities to get credit. Thirdly, enhancing the possibilities for women was considered as contributing to the advancement of living conditions for the whole household (Comim, 2007). Finally, it was assumed that microfinance would help women to strengthen their self-reliance and self-confidence and would increase their bargaining power within the household (Izugbara, 2008; Karim, 2008).

Whoever the intended beneficiaries were, the studies have shown that clients of microfinance institutions witnessed a positive impact on their lives since the start of participating in the program. Microfinance has helped to increase income and consumption on individual and household level (Khandker, 2005; Swain et al., 2008; Mosley, 2009), at enterprise level, it contributed to capital accumulation and creation of employment opportunities (Hiatt et al., 2006; Mosley, 2009).

Microfinance has also exhibited ability to achieve wider impacts on community level through labour markets when clients who took loans for their businesses employed new workers from within the poor group (Mosley, 2009), and by increasing income and consequently consumption and expenditure, which stimulated the local economies (Khandker, 2005). When discussing the impact of microfinance on client groups with different wealth status, it should be noted that wealthier clients benefit more from microfinance than the poorer clients. According to (Lucarelli, 2005; Mosley, 2009) the poorer clients tend to borrow primarily to protect their livelihoods and avoid strategies that might increase their vulnerability including investment in fixed capital (Mosley, 2009).

As a result the micro loans create only a modest increase in income for the very poor clients; these clients are also more likely to be forced to sell their assets when they encounter adverse circumstances (Mosley et al., 1998). The wealthier clients are expected to be less susceptible to risk and thus could consider employing labour and
investing in fixed assets that “have higher rates of return than consumption or purchases of working capital backed by no or primitive equipment” (Mosley, 2009). It was also noted that the clients both wealthier and poorer who continue their participation in microfinance programs improve their livelihoods more than the ones who leave (Hiatt et al., 2006).

Client exit, in finance and banking, has not been modeled explicitly per se; however, an extensive literature exists on the benefits of banking relationships. Theoretically, bilateral benefits of long-term relationships are formally modeled in Rajan (1992), Berglof and von Thadden (1994), Boot and Thakor (1994). Microfinance practitioners, especially those of older, more established microfinance organizations (MFOs) for which growth has slowed, are starting to take a serious look at client exit and its drain on profitability. This is not to say that younger Micro Finance organizations are not experiencing problems associated with client exit. It is just that the impact of this phenomenon for younger Micro Finance organizations is eclipsed by high client growth in which the rate of new incoming clients is much greater than the rate of exiting clients. Once growth begins to wane, the impact of client exit on profitability and overall sustainability becomes much more visible and dramatic.

MFO practitioners usually portray client exit as a negative phenomenon, mostly perceived as a threat to the organization’s financial health. This is a valid portrayal if Micro Finance Organization’s are losing good clients, i.e. those that pay on time, generate larger interest revenue, and require less monitoring. On the other hand, client exit can be a positive phenomenon if Micro Finance Organizations are losing bad clients i.e. those that are delinquent, have poor cash flows, require much monitoring, and generate little interest revenue. Until recently MFO practitioners have not known who was leaving their organizations. In the last couple of years, however, practitioners have begun to investigate client exit in some detail.

KWFT and its clients in the Nakuru County operate in a very fragile physical, social, and economic environment, typified by a rugged landscape and harsh climate; a weak infrastructure; and absence of basic social services; rudimentary labour and capital markets; and volatile economic growth. Understanding this environment and the threats it poses to the viability of the MFO and clients’ business is essential in
examining this issue on client exit. The design and structure of the MFO is often a function of this environment, which in the end affects the types of services it offers its clients. Therefore, the environment affects clients both directly and indirectly. Understanding the physical, social, and economic environment is important, especially in correctly modeling the issue of client as well as interpreting the main results of this study.

Worldwide experience shows that Micro Finance Organizations have responded to the issue of client exit in different ways nonetheless, a client can drop out because of various other reasons which this study seeks to establish.

2.2 Empirical Review
In their study on client dropout rates from KWFT in Kenya, Githimu et al (2006) established that exit occurs in two different ways; the first category comprises of clients who are successfully weaned out of the loan program upon having successfully accomplished their goals. The second category comprises of clients who drop out of the loan program either through failure to service their loans or failure of the groups to which they belong in meeting its set out objectives.

In a market study report Githimu et al (2006) stated that client exit especially from drop out was singled out as a problem to Microfinance organizations in Kenya because; they increase the cost of training, they lead to raised administrative costs, discourage other clients from joining, reduce the prospects of sustainability and lastly, they are one of the factors constraining outreach. This chapter therefore reviews the literature on some of the condition which is responsible of client exit in micro finance in Kenya.

Many studies has argued that one of the main reasons for the success of microfinance institutions is because they target women (Armendáriz and Morduch, 2007; Guérin et al., 2009). In dropout issue, Schreiner (2004) has shown, with empirical evidence, that women are less likely to exit than men and also that occupation is correlated with dropout. In the East African research however, there was no clear evidence indicating that women were more or less likely to drop out of MFIs that serve both men and women (Wright et al., 1999). Moreover, while some credit officers in Uganda have
claimed that women were more likely to dropout than men (Hulme et al., 1999), other studies have implicitly argued that men can dropout more than women, because, they are less reliable.

2.2.1 Influence of Group Dynamics on Client Exit
KWFT caters mainly for women clientele offering both group and individual loan. It has general criteria requires that a group should have a minimum of 15 members before they can be funded. However, a woman entrepreneur has to meet certain conditions in order to be eligible for KWFT group loans. These include: being at least 18 years old, running a viable business activity for a minimum of 1 year; being a permanent resident of the region or the surrounding area; respecting all KWFT and group conditions, such as, making regular savings and participating in monthly meetings and providing all the required information on the individual enrolment form which is filled out by a KWFT business development officer. Clients are attracted to individual loans for various reasons although most of them initially start out as members of a group before maturing into individual borrowers. Despite the popularity of individual loans, group loans still remain attractive to clients who feel that it enables them to meet the strict conditions imposed on repayment (Kashangaki, 1999).

Loan amounts for each member in the group do not have to be the same size. Each member's loan is based on her business needs and the amount of savings she has mobilized. KWFT offers groups three different group loan products; biashara, mwangaza and mwamba loans. These loans are categorized into; small loans from Kshs.10,000; medium loans from Kshs.50,000 and large loans from Kshs.1,000,000. Although the group is required to remain within the same loan product category, members in the group can receive different loan amounts according to her need and ability for repayment. The loan product determines the length and repayment schedules. Therefore, group members have loans for the same period and repay them on the same frequency, monthly basis. Type of loan is different than the cycle of loan here since a borrower may elect to experience several loan cycles in one loan category or type. It is her choice to continue with the same loan type or advance to the next loan level.
In microfinance Organizations like KWFT, the group lending technology is based on group solidarity, i.e. joint liability, in which each member pledges to pay the group loan in full in the event of nonpayment by any member. In addition, each member attests to all other members' trustworthiness and ability to respect group by-laws. For this reason, the dynamics of group lending in microfinance are largely determined by the environment within which these groups come to exist and the interrelationship between and among the group members as well as with the lending MFO. For this reason, group lending poses some unique challenges for an MFO as well as the group members themselves who have to contend with the uncertainty arising from the group dynamics as well as the loan products and services whose terms may be new to them (Besley and Coate, 1995; Ghatak and Guinnane, 1999).

Finally, the other mentioned reasons for client exit were dynamics within the group in case of joint liability contracts and management problems in the microfinance institution. (Hulme, 1999; Karim et al., 1999) The groups might decide to disband or to expel one of the group members because of conflict or fraud; the clients might also decide to leave the group when he/she has to vouch for loans that are much higher than his/her loan and when there is a high possibility that client would default (Pagura, 2003).

2.2.2 Terms and conditions of the loan contract
Many authors in microfinance literature found that financial services of MFIs are inflexible. Guérin (2009) has shown that MFIs still had difficulties to adapt their offer to the diversity of clients' needs. Hulme and Mosley (1999) have pointed to similar observations and therefore have called MFIs to more diversification of products and segmentation of the clientele in order to better serve them. In the same line of ideas, Wright (1999) has stated that MFIs would gain by standardizing less their products and services. He has emphasized as has Hulme et al. (1999) that, much of this standardizing problem is driven by the attempts to "replicate" products and services from foreign cultures without taking into account the socio economic environment into which they are being imported.

Thus, when MFIs products and services do not meet clients' needs, there is a high dropout rate. Loan size, delays in loan disbursement, repayment schedule, costs of
loan, loan eligibility criteria, group lending issue are the variables most cited as proof of this in adaptation.

Hulme et al. (1999) have pointed out that many clients voluntarily withdrew from MFIs due to the loan amount. In fact, the group has shown that, when the loan amount is small, leading wealthier clients to dropout. The opposite holds insofar that when the loan amount is increased, poorer clients voluntarily dropout.

Musona and Coetzee (2001) have highlighted that the repayment schedule was perceived as too rigid and therefore not adequately taking into account the realities of micro businesses. Hulme et al. (1999), in the same line of thought, have observed that a long period of waiting for disbursement of a loan, most of the time, pushes clients out of MFIs (Hulme et al., 1999). This means that the longer the loan disbursement takes the more clients exit from MFIs.

Problems related to group borrowing concerned group dynamics issue such as group size, group liability and the lack of time for weekly meetings (Painter and Mc Knelly, 1998; Mustafa and Al, 1996; Wilson, 2001; Meyer and Al, 2001; Wright, 1999).

2.2.3 Organizational service factors/staffing influence on client exit
In a study done in South Africa, Stark and Nyirumuringa (2002) have shown that the lack of products and services information between management staff and clients lead to clients dropouts. However, Urquizo (2006) has a different opinion about the quality of services. He contends that the staff attitude rarely accounts for client’s desertion, because the clients have lower expectations towards.

It is stated by many practitioners that microfinance allows poor people to increase their income and assets and decrease their vulnerability because households have better health outcomes (Morduch and Hashemi, 2003; Armendáriz and Morduch, 2007). Therefore, microfinance is being seen as a virtuous circle which has increased well-being, economic, social and political empowerment especially of women. However, sometimes, the reality is often much complicated. Some studies have shown different results: over-indebtedness of many clients, reallocation of loan, client’s delinquency and the decrease of schooling levels (Meyer et al., 1999). One reason for
the conflicting results could be that the poor face continual risks and unexpected events such as illnesses, death of a family member, the loss of a job, funeral expenses and wedding or children education (Rutherford, 1999). This group includes variables such as age, gender, location of residence and occupation as well as socio-economic characteristics.

Pagura (2004) and Lehner (2009) have shown that crisis reasons are generally the main factors for dropouts. In Bangladesh and in Africa for instance, many clients migrate to other areas because they are looking for better life conditions or news markets, therefore resulting in dropouts. Other studies have just mentioned occupation and location of residence without giving a real correlation between those variables and the causes of departure (Musona and Coetzee, 2001).

Client maturity means that clients will take larger loans to expand or maintain the working capital of their business or to finance asset acquisition (Wright, 1999; Simanowith, 2000; Dackauskaite, 2009). Client maturity also means that clients will accumulate enough capital and they do not need another loan (Dackauskaite, 2009). Therefore, this phenomenon can also lead to clients’ exit. In the same of thought, Wright (1999) has shown that there were two schools of graduation: One held that after a limited number of subsidized loan cycles, the beneficiaries would no longer need credit. However, for Wright, this was a supreme naïveté, because there is scarcely a business in the world that does not use overdraft facilities. The other school, more plausibly, believed that poor clients could “graduate” with enough wealth and self-confidence to become the clients of commercial banks. Wright et al. (1999) has observed that socio economic characteristics and crisis reasons play a tremendous role in the reasons that lead to clients dropouts.

Urquizo (2006) pointed out that client service is rarely a reason for exit, as clients have lower expectations towards it. However, the clients could leave if they encounter fraud from the side of the staff or are not able to get loans as microfinance institution suffers from cash flow problems that delay the loan disbursement for its clients (Hulme et al., 1999).
2.2.4 Contribution of external factors/competition

As far as the competitive environment is concerned; many authors have recognized that over the past few years, microfinance sector has faced high competition. The so many institutions which have been created over the last years and which are competing in the same market account for the above. As observed by Wright (2001) and Pagura (2004), dropouts are frequent because of dissatisfaction with the financial services being offered by one MFI and the belief that other MFIs or other financial institutions can offer better facilities. Thus, they switch from one financial institution to another.

In adapted products and competition have been unanimously recognized by the microfinance practitioners as reasons which lead to high dropout rate. However, others have different opinions concerning the relationship between staff attitude and clients. We can therefore formulate our first group of hypotheses: This group is more related to crisis reasons, socio economic characteristics and client’s maturity.

Environmental reasons are linked to downturn in the national economy and adverse climatic conditions. Clients generally served by MFIs have fewer assets and their income is not diversified. Thus, the poor are more vulnerable to financial difficulties due to economic downturns or other crises. All the African MFIs studies have reported that dropout rates increase when there is a bad economic climate, seasonality and natural calamities (Wright and al., 1999; Meyer et al., 2001), because clients have fewer ways of coping with such events and are more likely to drop out. African countries as others faced climatic conditions these last years. However, in Africa more than other countries, people who face economic downturns or other crises receive fewer supports.

2.3 Critical Review of Major Issues

The empowerment of the poor people especially women was one of the promised outcomes of participation in the microfinance programs. The empowerment had to be exercised through participation in free markets and through ability to engage in income generating activities, which would increase the income of the poor people and thus would boost their self-reliance and self confidence.(Briggs, 2001; Karim, 2008) Microfinance was also seen as a way to expand the entitlements of poor people. M. Yunus went was far as to proclaim microfinance a human right (Brigg, 2001)
In case of women empowerment, there was much trust that microfinance would help women to increase their bargaining power within the household and that “the organization of women into groups that meet regularly will build solidarity among them and result in wider challenges to gender hierarchies” (Rao, 2008). However, the literature often omits the role of the male and the dynamics in the household as well as the social and cultural constraints that women face. Therefore, even though microfinance mechanisms enable women to increase their income, they rarely encourage them to question and challenge the gender relations in the community. Also the assumption that if woman starts earning, her husband will inevitably start to value his wife has no solid ground especially being aware that husbands or other male members of the family often use women as an intermediary to get a loan from microfinance institutions, as they are not eligible to get one themselves. (Karim, 2008) It does not imply, of course, that women cannot derive benefit from the loans as it is usually used for common purpose of the household, and contribute to increased economic independence of women but it is not likely that microfinance could bring more than a marginal improvement in women’s life.

In addition, it is often argued that focus on women is based on purely pragmatic motives, as there is a perception that women are more responsible and reliable in repaying loans and are more susceptible to social pressure in comparison to the male counterparts (Lucarelli, 2005; Karim, 2008). Thus the goal of microfinance institutions from the publicly declared empowerment of women shifts to a goal of collecting loan installments. Furthermore, the narrow view in which the women’s empowerment is seen only through increase in their income, access to credit and ability to take up income generating activities fails to recognize the lack of education and literacy of women, which forces them to depend on their husband for help, “which is most likely to perpetuate rather than challenge the basis of women’s subordination”. (Izugbara, 2004, p. 81) Tesoriero (2006) resonates this view emphasizing that the capability poverty women face cannot lead to effective poverty alleviation, though admitting that microfinance does help women to expand their choices, strengthen their agency and increase their self-confidence.
2.3 Summary and gaps to be filled by the Study

Client exit, in finance and banking, has not been modeled explicitly per se; however, an extensive literature exists on the benefits of banking relationships. Theoretically, bilateral benefits of long-term relationships are formally modeled in Rajan (1992), Berglof and von Thadden (1994), Boot and Thakor (1994).

Microfinance practitioners, especially those of older, more established microfinance organizations (MFOs) for which growth has slowed, are starting to take a serious look at client exit and its drain on profitability. This is not to say that younger Micro Finance organizations are not experiencing problems associated with client exit. It is just that the impact of this phenomenon for younger Micro Finance organizations is eclipsed by high client growth in which the rate of new incoming clients is much greater than the rate of exiting clients. Once growth begins to wane, the impact of client exit on profitability and overall sustainability becomes much more visible and dramatic.

MFO practitioners usually portray client exit as a negative phenomenon, mostly perceived as a threat to the organization’s financial health. This is a valid portrayal is Micro Finance Organization’s are losing good clients, i.e. those that pay on time, generate larger interest revenue, and require less monitoring. On the other hand, client exit can be a positive phenomenon if Micro Finance Organizations are losing bad clients i.e. those that are delinquent, have poor cash flows, require much monitoring, and generate little interest revenue. Until recently MFO practitioners have not known who was leaving their organizations. In the last couple of years, however, practitioners have begun to investigate client exit in some detail.

In their study on client dropout rates from KWFT in Kenya, Githimu et al (2006) established that exit occurs in two different ways; the first category comprises of clients who are successfully weaned out of the loan program upon having successfully accomplished their goals. The second category comprises of clients who drop out of the loan program either through failure to service their loans or failure of the groups to which they belong in meeting its set out objectives. However, it is the latter group that is of concern to the operations and sustainability of an MFO.
2.5 Conceptual Framework

**Independent Variables**

- Terms and condition of loan
- Influence of group dynamics
- Organizational services
- External factors/competition

**Dependent variable**

- Client Exit

**Intervening variables**

- Demographic factors
- Weakly financial sectors
- Environmental reasons
- Legal and regulatory features

**Source:** Researcher (2012)

**Conceptual model for client exit**

Client exit is caused by a variety of reasons that often coincide and jointly induce client desertion. The reasons behind client exit could be translated into certain sets of factors that play a role in termination of banking relationship. These factors are presumed to affect the client desertion in the case of Kenya Women Finance Trust-Nakuru County. However, at first it is important determined the reasons for client from practical experience at KWFT. Other factors conceptualize include competitive environment, characteristics of product, quality of services and influence of group dynamics that these factors show impact on client exit measured in terms of demographic factors, environmental policy, weakly financial sectors and legal and regulatory features reasons amongst others.
The management problems often relate to the poor execution of the responsibilities connected with client service.

**The Independent Variable**

These are factors which influence other variables to change and the researcher has control over. This "control" may involve manipulating existing variables. From above presentation these Variables are; terms and conditions of the loan, influence of group dynamics, organizational services and external factors/competitions. This means that KWFIT has to define policies and operational framework that are aimed at achieving these objectives to avoid more client exit. Whatever the case may be, the researcher expects that the independent variable(s) will have some effect on (or relationship with) the dependent variables.

**Dependent Variable**

The dependent variables show the effect of manipulating or introducing the independent variables. They change depending on the influence of the independent variable. Satisfactory study and analysis of independent factors will reduce client exit. The dependent variables will be measured by group reorganization, reduction of loan borrowed, creating awareness by the financial institutions for new members and rate of exit amongst others. The variation in the dependent variable depends on the variation in the independent variable.

**Intervening variable**

These are factors that will have effect on both independent variables and dependent variable. The factors that prevent micro finance institutions from operating smoothly are recognized to be broader and include macroeconomic policies, weakly regulated financial sectors, institutional features (legal and regulatory), and specific constraints related to financial intermediation in rural areas. Typically, there are weaknesses in the policy environment, which hamper the development of MFI and limit poverty reduction efforts. In particular, unsound macroeconomic policies that result in volatility and high real interest rates, can adversely affect all financial intermediaries, while misaligned exchange rates distort price signals and lead financial markets to channel excessive resources to inefficient sectors. The Legal and Regulatory Framework; too often the institutional foundations for financial markets in rural areas are absent. Lenders need a system that provides formal procedures for claims against
property and enforcement of financial contracts. The more uncertain and expensive this process, the less willing lenders are to lend. Other intervening are demographic factors, group dynamics and environmental reasons.
3.1 Introduction
This section outlines the steps that will be undertaken in executing the study. It explains the research design, describes the population, the sample, the research instrument, and then outlines the data collection technique. A procedure that is in data analysis is also outlined. Reliability and validity of the instrument is also been explained.

3.2 Research Design
The research design adopted was a descriptive survey that was used to collect data from KWFT clients’ dropouts on reasons for their exits. A survey research sought to obtain information that describes existing phenomena by asking individuals about their perception, attitude and behavior or values Mugenda and Mugenda( 2003).

3.3 Target Population
The study targeted all the clients of KWFT in Nakuru County from nine Districts for the period 20011/2012 which was 8154.

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Active groups</th>
<th>No. of members</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Nakuru Town</td>
<td>50</td>
<td>1887</td>
</tr>
<tr>
<td>2. Gilgil</td>
<td>35</td>
<td>1050</td>
</tr>
<tr>
<td>3. Njoro</td>
<td>30</td>
<td>963</td>
</tr>
<tr>
<td>4. Naivasha</td>
<td>43</td>
<td>1,161</td>
</tr>
<tr>
<td>5. Molo</td>
<td>39</td>
<td>1053</td>
</tr>
<tr>
<td>6. Subukia</td>
<td>24</td>
<td>552</td>
</tr>
<tr>
<td>7. Rongai</td>
<td>21</td>
<td>525</td>
</tr>
<tr>
<td>8. Nakuru North</td>
<td>18</td>
<td>342</td>
</tr>
<tr>
<td>9. Kuresoi</td>
<td>27</td>
<td>621</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>287</strong></td>
<td><strong>8154</strong></td>
</tr>
</tbody>
</table>

Source: KWFT Nakuru Office (2012)

3.4 Sampling procedure and Sample size

3.4.1 Sampling Procedure
The researcher used multistage method. Multistage sampling is a complex form of cluster sampling. Using all the sample elements in all the selected clusters may be prohibitively expensive or not necessary. Under these circumstances, multistage cluster sampling becomes useful. Instead of using all the elements contained in the
selected clusters, the researcher randomly selected elements from each cluster. Constructing the clusters is the first stage.

In the first stage, 10% of the nine Districts were sampled representing 1 District. Nakuru Town district was randomly selected. Nakuru Town District has a population of 1887 clients. In the second stage, 10% of the population was selected using simple random sampling resulting to 188 clients.

3.4.2 Sample Size Determinant
A sample is a set of entities drawn from a population with the aim of estimating characteristic of the population (Sigel, 2003). It is a fraction of population selected such that selected portion represent the population adequately. From the population of 1887 the researcher chose a sample size of 10% using simple random sampling. To justify the choice of 10%, researchers have indicated that a representation sample is one which is at least 10% of the target population (Mugenda and Mugenda, 2003).

3.5 Research Instrument
In carrying out research, the researcher used methods that provide accuracy, generalization and with administrative convenience. Data was collected using questionnaire which uses the attributes to elicit information about existing group client exit and MFO performance. A set of attributes in form of statements was used with perception of KWFT MFO performance hence client exit is measured. Therefore a matrix of varied number of constructs was used to develop statements measuring group client exit attributes for each objective. Questionnaires is also convenient tools where there are large numbers of subjects are to be handled. This is because they facilitate easy and quick responses within a short time. This research will utilize a self administered questionnaire.

3.6 Data Collection Procedures
Primary data was collected using questionnaires which are administered on drop and pick from the selected respondents in MFO client groups. The questionnaires will consist of five parts. The objective of the first part is to capture the general information deemed relevant for the study. The other parts capture the study objectives. A 5-scale Link type scale ranging from agree strongly to disagree strongly was adopted for part two, three and four of the questionnaire. The questionnaires
were simplified as much as possible so that all respondents have a clear meaning of each of the question.

Secondary data were collected from management of KWFT on those clients who have dropped out and their last known locations identified.

3.7 Validity and Reliability
A test is valid if it measures what it claims to measure (Koul, 1986). The questionnaire used in this study was designed to measure MFO performance client exit in Kenyan MFOs. To ensure that it is valid expert judgments of client exit in MFO performance MFO clients, professionals and supervisors at Kenyatta University was sought. Reliability of a test is the accuracy of the scores that are free of errors. It is the degree of consistency that an instrument or procedure demonstrates (Best and Kahn, 1989). To ascertain the validity and reliability, a pre-testing of the instrument was done. Pre-testing identifies problems and isolates the problems and provides solution before the actual study.

3.8 Data Analysis and Presentation
Data collected was presented using percentages and proportions. Statistical analysis identify those constructs that correlate closely with client exit and MFO performance attributes and those constructs that were significant in a principal component analysis. The frequencies of occurrence were indicated. Descriptive statistics such as T-test analysis, correlation analysis, measure of central tendency and frequency distribution was conducted with help of statistical packages for social science (SPSS). T-test analysis is a systematic statistical procedure to be used to uncover relationships among several variables. This procedure enabled numerous unrelated variables to be condensed to fewer dimensions known as factors. The results from the analysis were presented using summarized percentages, proportions and tabulations.

SPSS is a data management and analysis product produced by SPSS inc. among its features are modules for statistical data analysis including descriptive statistics, such as plots, frequencies, charts, cluster analysis, ANOVA (Analysis of Variance). SPSS is particularly suited to survey research.

3.9 Ethical issues in Research
Ethics refers to norms that govern human conduct and which have significant impact on human welfare. It involves making judgments about the right and wrong behavior. Ethics has become a cornerstone for conducting effective and meaningful research. As
such, the ethical behavior of individual researchers is under unprecedented scrutiny (Best & Kahn, 2006; Field & Behrman, 2004; Trimble & Fisher, 2006). Although some guidelines are relatively firm, the best insurance against unethical research practices is the knowledgeable individual researcher who can intelligently consider the circumstances being faced.

Consent involves the procedure by which an individual may choose whether or not to participate in a study. The researcher’s task is to ensure that participants have a complete understanding of the purpose and methods to be used in the study, the risks involved, and the demands placed upon them as a participant (Best & Kahn, 2006; Jones & Kottler, 2006). The participant must also understand that he or she has the right to withdraw from the study at any time. The two forms of consent are direct and substitute. Direct consent is the most preferred because agreement is obtained directly from the person to be involved in the study. Substitute consent, or third-party consent, is given by someone other than the person to be involved in the study. Substitute consent may be obtained when it is determined that the person does not have the capacity to make the decision or is dependent on others for his or her welfare, such as children under the age of 18 or people with cognitive or emotional disabilities (Nagy, 2005; Roberts, Geppert, Coverdale, Louie, & Edenharder, 2005). Both direct and substitute consent must meet the requirements for informed consent. In this study the names of respondents will not be disclosed and consent will be acquired appropriately.
CHAPTER FOUR
DATA ANALYSIS AND INTERPRETATION

4.1 Introduction
This chapter reports the results of data analysis pertaining to the objectives of this study. This reporting of statistical results in this chapter follows a fairly consistent pattern, after which the pertinent descriptive statistics, inferential and appropriate conclusions are presented. Data is presented in order of the following research objective; determined whether terms and conditions of the loan contract lead to group client exit, to evaluate the influence of group dynamics on client exit and to evaluate how external competition contribute to client exit from KWFT in Nakuru County, Kenya.

4.2 Demographic Information
The researcher found it worth to establish the demographic representation of the respondents since the study intends to establish the factors influencing client effects of internal audit on organizations performance. These effects have already occurred but are embedded on the general information of the respondents i.e. the years they have been members, amount of loan, reason for loan borrowed and other factors pertaining their personal data. The demographic information collected from the respondents and thus was prerequisite to establish the respondents’ background information. Out of the 188 questionnaire that were sent to the field, 149 were filled and returned therefore the return rate was 79.3%.

4.2.1 The Unit of the group
All the respondents who were involved in the study were the group leaders and individuals who have been there for some time. The respondents were drawn from different group units in Nakuru.

4.2.2 Duration of Membership
The period of time that a member have been in the group was necessary in telling if the member has been there long enough to know the factors causing the group members to leave.
Table 4.1: Duration of Membership

<table>
<thead>
<tr>
<th>Group Unit</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 1 year</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>1 – 2 years</td>
<td>24</td>
<td>16</td>
</tr>
<tr>
<td>2 – 3 years</td>
<td>86</td>
<td>58</td>
</tr>
<tr>
<td>4 and above years</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>149</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Findings illustrated in table 4.1 imply that majority of the respondents have been members of KWFT for 2 – 3 years and thus could give reliable information regarding the theme of study from findings most of them 58% have been there for 2-3 years.

4.2.3 How they knew about KWFT

Some organizations exist that could be of benefit to a lot of people both economically and socially but because it is not known by the potential consumers it remains untapped. When asked how they got know about KWFT most of them 30% agreed they heard about the organization through other members.

Table 4.2: How Clients knew about KWFT

<table>
<thead>
<tr>
<th>Ways</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Through the media</td>
<td>37</td>
<td>25</td>
</tr>
<tr>
<td>Broadcasting</td>
<td>22</td>
<td>15</td>
</tr>
<tr>
<td>Newspaper</td>
<td>45</td>
<td>30</td>
</tr>
<tr>
<td>Through other members</td>
<td>45</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>149</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

From study findings although some members got to know about KWFT through other ways like media and broadcasting majority of them 30% only get know about it through newspapers and through other members.

4.3.4 The highest amount of loan borrowed

It was also seen fit by the study to establish the highest level of loan borrowed and from the study findings most of them 62% have been able to borrow loan below Kshs.20,000.
Figure 4.1: The highest amount of loan borrowed

The findings imply that most of the members have been able to get a maximum of Kshs.20,000 which meant that they may not have been members for a long period to qualify for higher loan.

4.3.5 The use of loan borrowed

Although some microfinance institutions give out loan with restriction on what should be used in the findings revealed that KWFT does not limit its clients use of loan and most of them 25.2% and 39.26.3% borrowed loan for business start up and business expansion respectively as shown in Table 4.3

Table 4.3: The use of loan borrowed

<table>
<thead>
<tr>
<th>Use</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farming</td>
<td>18</td>
<td>12.1</td>
</tr>
<tr>
<td>Business start up</td>
<td>38</td>
<td>25.2</td>
</tr>
<tr>
<td>Own education</td>
<td>15</td>
<td>10.1</td>
</tr>
<tr>
<td>Children’s education</td>
<td>15</td>
<td>10.1</td>
</tr>
<tr>
<td>Pay debts</td>
<td>24</td>
<td>16.2</td>
</tr>
<tr>
<td>Expand your business</td>
<td>39</td>
<td>26.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>149</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
It was revealed in table 4.3 findings that KWFT gives loans to its members without restricting them on use but most of them use the loan for business starting and expansion.

4.3.6 Number of times Borrowed Was loan
Most organization give loan starting form small amount while increasing the same as membership grows and savings increase and as the number of times of borrowing loan increase the amount also increases. From study findings most of the respondents 40% have borrowed.

Figure 4. 2: Number of times loan was borrowed

The findings implies that most of the members are still new members in KWFT and thus have just taken once or awaiting their second loan service.

4.3.7 Processing Loan Elsewhere
Most members 60% disagreed when asked if they have any other loan in any other financial institutions.
Some clients seek for services elsewhere if they are not satisfied with the current services and from study it was revealed that most of the KWFT members do not have any other loans.

4.4 Terms and Conditions of the Loan Contract and Client Exit

One of the core businesses of Micro finance institutions is to allow clients to save for the purpose of accessing loan in the future. Therefore loaning remains to be a key aspect of MFIs. The terms and conditions attached to loans by micro finance institutions could have an effect on the clients continued stay or exit depending on how comfortable the client is with the terms. This study therefore sought to establish whether the terms and conditions offered by KWFT influenced clients to exit or not. The key terms focused on were: loan approval procedures, interest rates, loan processing fees, duration of payment and the speed with which loan are processed. The findings are shown on Table 4.4.
<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Not sure</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complex Loan approval procedures</td>
<td>16.1%</td>
<td>6.8%</td>
<td>10.7%</td>
<td>55%</td>
<td>1.3%</td>
</tr>
<tr>
<td>High interest rates</td>
<td>0%</td>
<td>29.5%</td>
<td>14.1%</td>
<td>1.3%</td>
<td>55.0%</td>
</tr>
<tr>
<td>High Loan processing fees</td>
<td>0%</td>
<td>12.8%</td>
<td>85.9%</td>
<td>1.3%</td>
<td>0%</td>
</tr>
<tr>
<td>Unfavourable loan repayments terms</td>
<td>0%</td>
<td>27.5%</td>
<td>27.5%</td>
<td>43.6%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Slow loan processing</td>
<td>16.8%</td>
<td>28.2%</td>
<td>0%</td>
<td>43.6%</td>
<td>11.4%</td>
</tr>
</tbody>
</table>

Majority of the respondents 55% disagreed that the loan processing procedures by KWFT were complex, those of contrary opinion however included 16.1% who strongly agreed, and 16.1% cumulatively forming 32.9% of the respondents. This implies that KWFT clients have varied opinion on the procedures that go through in processing loans, those who term these as complex, could therefore quit the MFI owing to the difficulties they experience in processing loans which is a key element of saving and loaning business.

The rating on whether interest rates charged by the KWFT were high to the loan applicants, majority 55% strongly disagreed indicating that clients they did not consider interest rates as a significant factor that could trigger clients exit from the microfinance. Further on whether the loan processing fees charged were significantly high, most of the respondents surveyed 85.9% were not sure, another 43.6% disagreed that loan processing fees were high, while 27.5% termed these fees to be high, and even trigger clients exit from the finance institution. The main reason for majority opinion could be attributed to the prevailing wave of high interest rates charged across the finance sector making respondents not sure in comparing with other finance institutions. These however play a key role in enhancing clients growth, and continued stay in the microfinance institution.

Over a quarter of the clients surveyed 27.5% cited that loan processing fees charged by KWFT were significantly high, which could initiate clients exit from the
institution, an equal number were not sure. However, majority 43.6% disagreed that the fees charged were high.

Majority of the customers of KWFT use the loans awarded either for business or sometimes for pressing personal financial challenges such as paying school fees, hospital bills among others. Therefore the speed in which loan are processed play a key role in ensuring customer satisfaction and their continued stay in the organization. On whether KWFT was slow in processing loans, majority of the clients surveyed 43.6% disagreed, however majority 45% either agreed or strongly agreed that the loan processing was slow. This makes speed loan processing to emerge as one of the key issues that clients were not happy about which could trigger their move to other financial institutions.

To establish among the terms of loan contract which had the highest influence on clients exit from KWFT, spearman Rho correlation coefficients were obtained. The factors with highest score were found to have higher contribution to clients exit. The findings are presented on Table 4.5.
Table 4.5: Influence of loan terms and conditions on clients exit

<table>
<thead>
<tr>
<th></th>
<th>Complex Loan approval procedures</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Correlation</td>
<td></td>
<td>0.685*</td>
</tr>
<tr>
<td>Spearman’s rho</td>
<td>Correlation coefficient</td>
<td>Sig. (2-tailed)</td>
<td>0.030</td>
</tr>
<tr>
<td></td>
<td></td>
<td>N</td>
<td>149</td>
</tr>
<tr>
<td>High interest rates</td>
<td>Correlation</td>
<td></td>
<td>0.745*</td>
</tr>
<tr>
<td></td>
<td>Correlation coefficient</td>
<td>Sig. (2-tailed)</td>
<td>0.023</td>
</tr>
<tr>
<td></td>
<td></td>
<td>N</td>
<td>149</td>
</tr>
<tr>
<td>Loan processing fees</td>
<td>Correlation</td>
<td></td>
<td>0.437*</td>
</tr>
<tr>
<td></td>
<td>Correlation coefficient</td>
<td>Sig. (2-tailed)</td>
<td>0.044</td>
</tr>
<tr>
<td></td>
<td></td>
<td>N</td>
<td>149</td>
</tr>
<tr>
<td>Unfavourable loan</td>
<td>Correlation</td>
<td></td>
<td>0.532*</td>
</tr>
<tr>
<td>repayments terms</td>
<td>Correlation coefficient</td>
<td>Sig. (2-tailed)</td>
<td>0.037</td>
</tr>
<tr>
<td></td>
<td></td>
<td>N</td>
<td>149</td>
</tr>
<tr>
<td>Slow loan processing</td>
<td>Correlation</td>
<td></td>
<td>0.717*</td>
</tr>
<tr>
<td></td>
<td>Correlation coefficient</td>
<td>Sig. (2-tailed)</td>
<td>0.019</td>
</tr>
<tr>
<td></td>
<td></td>
<td>N</td>
<td>149</td>
</tr>
</tbody>
</table>

From spearman rho ranking to establish the factors that had highest influence on clients exit, it is evident that there was a strong relationship between clients willingness/ exit levels and their opinion on the interest rates charged by KWFT (r = 0.745, p = 0.023) followed by the speed of processing loans (r= 0.717, 0.019) the complexity of loan processing procedures (r= 0.685, 0.03), terms of payment of loans (r= 0.532, p = 0.037) while the loan processing fees has the least influence on clients exit from the microfinance (r = 0.437, 0.044). All these factors had significant influence at p = 0.05.
4.4.1 Conditions Fulfilled Before Loan Is Given
Other the financial aspects associated with loaning, other terms attached in the event of loaning and which could influence clients to exit KWFT were considered. Client’s were asked to identify whether each of the terms in question influenced their colleagues to exit from the finance institution. The findings are presented on table 4.6.

**Table 4.6: Conditions fulfilled before loan is given**

<table>
<thead>
<tr>
<th>Conditions</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>One must be a member of a registered group</td>
<td>8.1%</td>
<td>91.9%</td>
</tr>
<tr>
<td>Must have collateral</td>
<td>84.6%</td>
<td>15.4%</td>
</tr>
<tr>
<td>Must have savings with KWFT</td>
<td>2.7%</td>
<td>97.33%</td>
</tr>
</tbody>
</table>

Findings indicate that although, for someone to be given loan by KWFT they should be member of a registered group, this did not affect their contained commitment to stay in the institution as cited by majority 91.9% of the clients surveyed. However, the collateral terms demanded by the institution played a key role in the exit of clients as cited by majority 84.6%. The saving condition attached was accepted in good faith by the clients as 97.33% did not consider this as a causative factor to the exit of clients from the KWFT.

4.4.2 Whether KWFT monitors loan utilization
To enhance successes of saving and loaning programmes, microfinance institutions monitor their client’s loan utilization and advice them on how to invest wisely encourage growth and continued stay in the organization. This study therefore sought to establish whether monitoring of funds utilization was carried out. Slightly above half of the clients 55.7% indicated that monitoring was carried out to ensure that clients utilized their loans for the intended purposes. The rest 44.3% cited that no monitoring took place.

The frequency of monitoring especially in business undertaking enhances the chances of success in that threats are identified in due time and handled to avert clients financial distress and ultimately pull out from the MFI. The frequency of monitoring is as shown on Table 4.7.
Table 4.7: Whether KWFT monitors loan utilization

<table>
<thead>
<tr>
<th></th>
<th>Very often</th>
<th>Often</th>
<th>Not sure</th>
<th>Rarely</th>
<th>Never at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency of monitoring clients loan utilization</td>
<td>0%</td>
<td>18.1%</td>
<td>21.5%</td>
<td>16.1%</td>
<td>44.3%</td>
</tr>
</tbody>
</table>

From findings most of the respondents felt that the organization does not monitor their loan utilization of their clients despite the critical role it plays especially in the micro and small scale business enterprises at startup. This ultimately could be attributed to clients failure to achieve their financial goals, repay back loans, and continue saving with KWFT. These findings also imply that the organization is not concerned on what its members invest in as long as they keep paying the agreed installments.

4.5 The Influence of Group Dynamics on Client Exit

For easy management and follow-up microfinance institutions require members to form and work in saving groups that have a group leader who in charge of the group affairs. Although this business model makes work easier for the organization to monitor members contributions, loan repayment, and recruitment of new members, the model may not be favorable to group members owing to the challenges associated with group management. The study sought to establish the same in KWFT and its findings were presented in this section.

First on the members opinion as to whether group dynamics influenced members to exit from the KWFT, it was found out that group dynamics highly contributed to exit from KWFT according to 74.5%, the remaining 25.5% cited that group dynamics had moderate influence while none of the respondents cited that group dynamics do not affect members exit from KWFT.

Further, specific factors associated with group dynamics which have an influence on clients exit were examined by asking clients to rate them on a scale of 1-5 on their influence to clients exit.
Table 4. 8: Group Dynamics on Client Exit

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree (5)</th>
<th>Agree (4)</th>
<th>Not sure (3)</th>
<th>Disagree (2)</th>
<th>Strongly disagree (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of commitment by members</td>
<td>50.3%</td>
<td>49.7%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Contribution for defaulting members</td>
<td>23.5%</td>
<td>76.5%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Group conflicts</td>
<td>12.1%</td>
<td>86.2%</td>
<td>0.0%</td>
<td>4.7%</td>
<td>0%</td>
</tr>
<tr>
<td>Group Management</td>
<td>16.1%</td>
<td>75.8%</td>
<td>8.1%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Group cohesion</td>
<td>0%</td>
<td>19.5%</td>
<td>53.7%</td>
<td>26.8%</td>
<td>0%</td>
</tr>
</tbody>
</table>

From the findings it is evident that lack of members commitment to the groups and group activities lead members to exit from the groups and ultimately exit from the KWFT as evidenced by 50.3% of the clients who strongly agreed and 49.7% who agreed. Loans by KWFT are based on members' savings, collateral, and security guaranteed by members. In the event that a member defaults to pay loans, other group members are liable to offset the loan from their savings, and even collateral. This according to 23.5% of the members who strongly agreed and 76.5% who agreed forces many members to exit from these groups and the KWFT after they have been frustrated or for fear.

On the other hand, groups which are not cohesive, with poor group management contribute a lot to clients exit. According to 94.6% of the respondents who agreed or strongly agreed, group conflicts have an influence on members continued stay, 91.9% indicated that group management contributes a lot to members drop out from KWFT groups.

4.6 Whether staffing at MFIs influence client exit

Staff in any organization has a very large part to play in ensuring that the customers are satisfied and that they are maintained as good clients of the organization. It is on this note that the study sought to find whether staffing influences the clients exit from KWFT microfinance. The staff were rated on a scale of 1-5 on friendliness to
customers, whether they are biased in the provision of services, whether they were corrupt and their competence levels. The findings are as shown on table 4.9.

Table 4.9: Staffing and Client Exit

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree (5)</th>
<th>Agree (4)</th>
<th>Not sure (3)</th>
<th>Disagree (2)</th>
<th>Strongly disagree (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not friendly</td>
<td>0%</td>
<td>40.3%</td>
<td>0%</td>
<td>47.7%</td>
<td>12.1%</td>
</tr>
<tr>
<td>Biased in offering</td>
<td>16.1%</td>
<td>6.7%</td>
<td>1.3%</td>
<td>60.4%</td>
<td>15.4%</td>
</tr>
<tr>
<td>services defaulting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corrupt</td>
<td>0%</td>
<td>4.0%</td>
<td>20.8%</td>
<td>35.6%</td>
<td>39.6%</td>
</tr>
<tr>
<td>Competence</td>
<td>0%</td>
<td>19.5%</td>
<td>32.2%</td>
<td>47%</td>
<td>21.3%</td>
</tr>
</tbody>
</table>

Varied reactions exist on the client’s opinion on staff’s friendliness, 40.3% agreed that KWFT staff were not friendly, while majority 50.3% disagreed that KWFT staff were not friendly. On whether KWFT staff were biased in the provision of their services, majority 75.8% were of the opinion that staff were not biased as opposed to 22.8% who based on their experiences and encounter with the staff felt that they were biased to varying degree. Corruption however seems to be almost completely absent in the organization. Only 4% cited that they agreed that the staff were corrupt. Staff competence was however doubted by majority of the clients 32.2% was not sure, while 47% disagreed.

4.6.1 Staff contribution to clients exit

Client’s opinions drawn from their interaction with staff influence their perception on the entire organization. Bad experiences could lead to client’s loss of confidence and eventual exit from the organization. The relationship between clients rating of KWFT staff and their exit were derived using pearson correlation coefficient as shown below.

Table 4.10: Staff contribution to clients exit

<table>
<thead>
<tr>
<th>Staff Rating</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.537*</td>
<td>0.021</td>
<td>149</td>
</tr>
</tbody>
</table>
There is a positive correlation between unfavorable staff and clients exit ($r = 0.537, p < 0.021$) This implies that those clients who perceived staff badly were more likely to exit from KWFT based on their perception on staff.

4.6.2 Opportunities provided by the KWFT officers
The study tried to find out the type of opportunities that were being provided by KWFT and according to most of the respondents 47% agree that the most offered opportunity was the meetings held for the KWFT with client groups

<table>
<thead>
<tr>
<th>Table 4.11: Opportunities Provided By the KWFT Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Problem recognition and solving techniques</td>
</tr>
<tr>
<td>General need description and solving techniques</td>
</tr>
<tr>
<td>Meetings held for the KWFT with client groups</td>
</tr>
<tr>
<td>Performance of monitoring and evaluation</td>
</tr>
</tbody>
</table>

This implies that the services which are mostly offered by then KWFT officers effectively is the meeting held for the KWFT client groups followed by monitoring and evaluation. Other services like need description and solving techniques rarely do they offer. This implies weaknesses on the side of management in service provision where more emphasis is given to loaning, and as long as the client is able to pay back regularly very few attempts is made to develop them, or to assist them achieve their financial goals and objectives.

4.6.3 The Staff Age Affecting the Client Retention
When asked of if the age of the staff affect the client retention in KWFT most of the respondents 57% stated that it did.
This implies that the client’s retention is highly affected by the age of the staff and thus need for mature staff who can understand the need of the customer.

4.7 Effects of Competition on Clients Exit from MFIs
Other than internal factors specific to the institution, external factors also play a role in influencing clients exit from microfinance institutions. Competition highly affects the performance of any organization because it makes client leave the organization and go to other organization which is offering them better terms and services.

To establish the influence of competition, first the study sought to establish whether KWFT were affected by competition from other microfinance institution. All clients studied 100% indicated that other microfinance institutions existed in their areas offering similar products to the same customers. This clearly implies tough competition among MFIs in Kenya.

4.7.1 Clients exit to other MFIs
Further, to establish whether competition has influenced clients to exit from KWFT to other micro finance institutions, it was established that indeed, there was migration from one MFI to another.
Table 4.12: Clients exit to other MFIs

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>89</td>
<td>59.7</td>
<td>59.7</td>
</tr>
<tr>
<td>Yes</td>
<td>60</td>
<td>40.3</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>149</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

Majority 59.7% indicated that there has not been cases of migration from KWFT to other MFIs in their groups. However, 40.3% cited that some clients had moved from KWFT to their institutions. This is a clear indication that completion has already taken its toll in influencing clients to exit from one MFI to another.

4.7.2 Rating of KWFT relative to its competitors

To determine the level of influence of competition on clients exit, first clients were asked to rate their institution relative to its competitors, this was then compared with the rating on their likelihood to exit the current institution to measure the influence of competition on their exit behaviour. Seven factors were considered in the rating, that is interest charged on loan, interest on savings, business support, loan recovery mechanisms, collateral needed, saving required before first loan, and the amount of loan awarded on different levels. The ratings are shown on Table 4.12.

Table 4.13: Rating of KWFT relative to its competitors

<table>
<thead>
<tr>
<th></th>
<th>Best (5)</th>
<th>Better (4)</th>
<th>Same (3)</th>
<th>Worse (2)</th>
<th>Worst (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not friendly</td>
<td>0%</td>
<td>40.3%</td>
<td>0%</td>
<td>47.7%</td>
<td>12.1%</td>
</tr>
<tr>
<td>Biased in offering</td>
<td>16.1%</td>
<td>6.7%</td>
<td>1.3%</td>
<td>60.4%</td>
<td>15.4%</td>
</tr>
<tr>
<td>services defaulting</td>
<td>Corrupt</td>
<td>0%</td>
<td>4.0%</td>
<td>20.8%</td>
<td>35.6%</td>
</tr>
<tr>
<td>Competence</td>
<td>0%</td>
<td>19.5%</td>
<td>32.2%</td>
<td>47%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>
5.1 Introduction
This chapter presents a discussion on the determinants of clients' exit from microfinance organizations in Kenya: a survey of Kenya women finance trust in Nakuru County. The presentation flows in accordance with the study objectives starting with respondent's background information.

5.2 Summary of Findings
This section presents results from the findings of the study in comparison to what other scholars say as noted under literature review. The discussion follows in accordance with the study objectives and finally the conclusions and recommendations.

The study found out that most of the members 58% have been in the group for 2-3 years an implication that they could give reliable information regarding the study. The members learnt about the organization through other members as well as through the media as supported by some of them 25%. The highest amount borrowed was below 20,000 at 61%. Most of the members did not qualify for higher loans because they may not have been members of the organization long enough. Although some microfinance institutions give out loans with restriction to what should be used in, the findings revealed that KWFT does not limit its clients on loan usage as supported by most of the respondents 25% and 26% who borrowed money for business startup and expansion respectively.

When asked to state the number of times that they have borrowed loans from the institution, most of the respondents of 52% have borrowed only once and most of them 60% disagreed of having other loans elsewhere.

5.2.1 Whether Terms and Conditions of Loan Contract on Clients Exit From Group

From past studies done in Africa, primarily East Africa, Kashangaki, (1999); Maximambali, (1999) examined client exit issues of 17 Micro finance Organizations, most of whom offering group loans and it revealed that annual exit rates are high in this part of the world, ranging from 14 to 60 percent. Clients in this region are more
frequently pushed out of the microfinance market due to organizational failures and systemic shocks, than they are pulled out due to competition and client maturity factors. This sought to find out whether terms and conditions of loan contract lead to group exit from KWFT. From the findings 56% disagreed that loan approval procedures were simple, 55% disagreed that KWFT delivers cheque on time, 30% felt that the organization charges high rate of interest, 1% disagreed that it charges high processing fee. When asked if time taken to get loan was one of the contributing factors almost half of them 33% agreed that it takes them a period of one month to access the loan. Half of the members 19% agreed that the rate charged on loan were very high.

Most of the members 70% agreed that it takes them six months to service their loans and when asked what they felt about the time of repayment 60% agreed that the period given to them was very short and should be increased. When asked whether the organization monitors members’ loan utilization 18% agreed that the organization does not monitor their utilization.

5.2.2 The influence of group Dynamics on client exit from KWFT microfinance

Many scholars and development practitioners have devoted much time to the study of group lending methods (Besley and Coate, 1995; Ghatak and Guinnane, 1999; Paxton, 1996, Rodriguez-Mesa, 2000). The empirical model developed from these studies incorporates the key features of their theoretical model as well as the stylized facts on client exit and the virtues of group lending. Group lending has further been vindicated by recent literature on development finance that has touted group lending as an efficient way to mitigate informational asymmetries that exist between borrowers and lenders that is often exaggerated in developing countries where institutional infrastructure is weak (KWFT 2005).

From study it was revealed that 99% of members left due to lack of commitment by members. Majority 98% agreed that members left because of group conflict, 92% agreed that there is poor group management, 20% agreed that members leave because of lack of group cohesion and 100% agreed that savings requirement in KWFT being too high made members to quit. It was also revealed by 59% of the members that
group system of evaluation was not adequate. Almost half of the members borrowed loan for starting up their business as supported by 25% of them and when asked the challenges they face during loan acquiring 60% agreed that procedure of loan was time consuming and 65% felt that there was favoritism in the process.

5.2.3 Whether staffing influence client exit
From the study some of the respondents 20% agreed that the staffs are incompetent and make mistakes while processing the loan documents. Majority 33% agreed that KWFT staff is biased in offering of their services, 47.7% and 35.6% disagreeing respectively that KWFT staffs are friendly and that KWFT staffs are corrupt and ask for bribes to process credit which implies that the staffs are not doing their best to ensure that their customers are satisfied. According to most of the respondents 56% the most offered opportunity by the credit officers are the meeting held for the KWFT with client groups.

From the study it was also revealed that the age of the staff affects the client retention in KWFT as supported by most of the respondents 57% which implied that young people need to be given working opportunity in the organization. Some of the respondents 23% stated that the way of handling the clients determines the clients exit.

5.2.4 External competition contribute to client exit
In the quest to discover why most of the clients quit to join other organizations it was revealed that most of the group members quit because of the following reasons; they offer low interest rates on loans, offer investment advice, offer interest on savings, no need for joining groups to qualify for a loan, short period of loan processing, do not need a collateral, no saving required and there is automated loan recovery this as supported by most of the respondents 77%, 77%, 56%, 64%, 72%, 74% and 69% respectively which implied that most of the KWFT clients leave for other microfinance institutions because they offer better services than they do. From the study it was also found that the kind of training offered by the KWFT was the entrepreneurship training as supported by most of the respondents 40%.

It was also noted that during the assessing of loan/credit from the KWFT was that they increased the value of assets, business transformation, sales volume and increase in competitiveness as supported by most of the respondents 65%, 58%, 65% and 59%
respectively which implied that the loans were very useful in the various organizations that borrowed it. In the quest to discover the obstacle to accessing KWFT loans, most of the respondents 58%, 50%, 38% and 63% strongly agreed that lack of collateral, high interest rate, requirement to assess loan and lack of guarantor are the main obstacles to accessing KWFT respectively and 41%, and 48% agreed that unregistered business poor business performance respectively.

5.3 Conclusion
Client exit is an urgent problem within the microfinance industry. It creates costs for the Microfinance institution, as it has to recruit, screen and train new clients and undermines the prospects to become sustainable and to achieve deeper outreach. From client perspective exits increase transaction costs and reduce the possibilities to derive benefit that continuous participation in the microfinance programs could bring. High exit rates are also detrimental for the microfinance as a poverty alleviation tool as it puts in question the ability of microfinance to serve the poor and meet their requirements and needs.

The objectives of this study were to analyze factors influencing client exit in KWFT MFO in Nakuru District. In conclusion it can be said that; most of the respondents have been in the group for a period of 2-3 years thus they could give reliable information regarding the study. Most of the respondents heard of the organization through other members and the highest amount borrowed by them are 20,000 shillings. KWFT does not restrict their client to use the money for the specific purpose that it was borrowed for and most of those who borrowed money are used for business start up and expansion.

Dissatisfaction with product and its properties, while all clients expressed their discontent with specific loan attributes and indicated it as a factor that caused their desertion, the clients with groups loans were more likely to leave because of the dissatisfaction and flaws of the product design than the rest of the clients. This trend could be attributed to the weaknesses of the group lending methodology that largely caused client dissatisfaction. The study also revealed that exit because of the group conflict, conditions of the loans, loan size, high interest rate and systemic shocks was more common for poorer clients whereas the wealthier clients tended to leave, as they did not need another loan or accumulated enough capital. The respondent’s also said
loan approval procedures not simple and KWFT does not deliver its cheques on time. The organization charges high rates, savings are given on time and that the organization charges high interest rate.

The study also revealed that members left the organization due to lack of commitment by other members, members also left of the following reasons; group conflict, there is poor management, failure to attend meetings by members and the savings requirement in KWFT being too much made members to quit. Other reasons are; the group system evaluation is not competent, the system of evaluating client creditworthiness was adequate. It was also noted that there is poor relationship with KWFT credit officers.

The staffs are incompetent and most of the respondents agreed that KWFT staff is biased in offering their services. They also said that they wait for long before being served and they disagreed that KWFT staffs are friendly. They concluded that KWFT staffs are corrupt and ask for bribes to process credit which implied that the staffs are not doing their best in trying to ensure that their customers are satisfied and the most offered opportunity by the credit officers is the meeting held for the KWFT with client groups. They also stated that age of the staffs affects the clients exit and in this particular case younger staff are recommended to older staff.

Most of the group members quit to other organization because of the following reasons; they offer low interest rates, they offer investment advice, they offer interest in savings, there is no need for groups, short period of loan processing, they do not need collateral, no saving is required and there is automated loan recovery. The kind of training offered by KWFT is the entrepreneurship training. Changes made during the assessing of loan/credit from KWFT are that they have increased the value of assets, business transformation, and sales volume and increased in competitiveness. Lack of collateral, high interest rates, requirement to access loan, lack of guarantor, accessibility to institutions, poor business performance are the main obstacles to accessing KWFT loans.

The research on client exit showed that a variety of factors affected client exit but not all of them were equally important in inducing client desertion. The competition within the financial sector played only marginal role in causing client exit. The clients were not enticed to switch to other microfinance institutions, as they offered similar products and services and the switching costs were high, while informal sector was
the source to add extra funds to meet household and business needs rather than a preferred alternative to microfinance institutions. Dissatisfaction with quality of service did contribute to client exit. The analysis of needs and wants revealed that clients are critical of certain aspects of client service, which cause their dissatisfaction and if not attended could evolve into reason for exit.

3.4 Recommendations
Starting with the beginning of banking relationship, the clients were pleased that KWFT supported them with information about the loan before and after taking it. They also praised short loan approval period and emphasized that the MFI did not overburden them with bureaucratic procedures. In loan disbursement phase, clients valued that the loans were paid out on due time and that the clients did not have to wait in long lines. So this should be enhanced.

Clients expressed their satisfaction with the work ethics and integrity of the staff members especially with their honesty in giving back savings. This remark hints that the clients distrust the financial institutions and could explain their reluctance to keep their savings there. As mobilization of clients’ savings is vital for the operation and sustainability of the microfinance institution, it should put efforts to recommended itself as a trustworthy financial institution and thus encourage clients to entrust their savings to it.

Turning to the aspects disliked by the clients, it should be noted that the majority of the complaints were made about the program and the products than about the service. Concerning the program related issues, clients emphasized that KWFT should pay more attention to client’s credit record and give bigger loans or loans with smaller collateral to clients who proved to be trustworthy borrowers. This aspect was often mentioned by clients with group loans, who preferred to take individual loans but were not eligible to borrow individually, as the required collateral was too high.

The majority of complaints related to product characteristics were pointed towards high interest rate and small loan amount, which was highlighted by the representatives of all loan groups. The clients with group loans expressed their dissatisfaction with weekly payment method and gave preference for payments made on monthly basis. Some clients pointed out that the fine for late payment was too high. In terms of
service quality, KWFT received criticism on several counts. These complaints need to be addressed seriously.

The clients with individual loans suggested making the collateral smaller, as the size of collateral was much bigger than the loan given by the microfinance institution. As for quality of the service, the clients indicated that staff members should finish the bureaucratic procedures faster, which were pointed out by the client in the branch outside Nakuru where all the activities had to be approved by the central office in Nakuru. Other clients required better customer service and less bureaucracy.

5.5 Recommendations for Further Research

The findings of the study were limited to the area of study and thus there is need for further research on the same field of study to establish the impact of group on loan repayment period in microfinance institutions. Further studies should also be done to establish the impact of loan interest on amount of loan taken by members, and the effects of group responsibility in times of loan default by members.
REFERENCES


Marguerite S. Robinson (2001), The microfinance revolution; sustainable, finance for the poor, lessons from Indonesia, The emerging industry.


Rao, S (2008), Reforms with a Female Face: Gender, Liberalization, and Economic Policy in Andhra Pradesh, India. - World development, Volume 36.


Appendix i: Letter of Introduction

Dear respondent,

RE: Cover Letter

My name is Bagaja Yussuf Roba, I am a student at Kenyatta University carrying out research for my Masters in Business Administration (MBA) on the determinant of client exit from microfinance institutions in Kenya; a case study of Kenya Women Finance Trust in Nakuru County. The research is purely academic and will help me and the KWFT in identifying critical issues that need to be addressed to successfully implement the group loan products and services in the region.

The information you provide shall be treated with utmost confidence. In this regard, I am kindly requesting for your support in terms of time and by responding to attached questionnaire. Your accuracy and candid response will be critical in ensuring objectivity research. It will not be necessary to write your name on this questionnaire and for your comfort, all information received will be treated in strict confidence.

Thank you in advance.

Yours faithfully,

Yussuf Roba Bagaja

Email: byussufr@gmail.com
Appendix ii: Questionnaire for Group Members

Part I: General Information

1. Name of your group (optional) ........................................................................................................

2. Unit ...............................................................................................................................................

3. Town ..............................................................................................................................................

4. Position/designation in group:

   Officials [ ] Member [ ] Others (specify) .................................................................

5. How long have you been a member of this group?

   Below 1 year [ ] 1 – 2 years [ ]

   2 – 3 Years [ ] 3 – 4 Years [ ]

   4 and above [ ]

6. How did you know about KWFT

   Through media [ ] Broadcasting [ ] Newspaper [ ]

   Other members [ ] Any other ..............................................................................................

7. Please select the highest level of loan borrowed

   Below 20,000 [ ] 10,001 – 40,000 [ ]

   40,001 – 70,000 [ ] 70,001 – 100,000 [ ]

   Others, (please specify) .............................................................................................................

8. How did you use the loan borrowed? ............................................................................................

9. How many times have you borrowed a loan?

   Once [ ] Twice [ ] Thrice [ ] More than 4 times [ ]

10. Did you have another loan with another financial institution?

    Yes [ ] No [ ]

PART II: Whether terms and conditions of the loan contract lead to group client exit from microfinance

1. Indicate the extent to which you agree or disagree with the following statement by marking the appropriate boxes. Kindly answer all the statements using the scale as follows:

   5-Strongly Agree  4-Agree  3-Not sure  2- Disagree  1-Strongly Disagree
a. Loan approval procedures are complex  

b. KWFT charges high interest rates 

c. Loan processing fees are high at KWFT 

d. The loan repayment terms are not favorable 

e. Loans are not processed fast enough 

2. Do you consider the following conditions for the credit to influence clients exit from MFIs? Tick the appropriate box below

<table>
<thead>
<tr>
<th>Condition</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Must be a member of a registered group</td>
<td>[   ]</td>
<td>[   ]</td>
</tr>
<tr>
<td>Must be permanently employed</td>
<td>[   ]</td>
<td>[   ]</td>
</tr>
<tr>
<td>Must have collateral</td>
<td>[   ]</td>
<td>[   ]</td>
</tr>
<tr>
<td>Must have saved certain amount with the KWFT</td>
<td>[   ]</td>
<td>[   ]</td>
</tr>
</tbody>
</table>

3. a) Does KWFT monitor and evaluate how you utilize the loan awarded?

<table>
<thead>
<tr>
<th>Response</th>
<th>Yes</th>
<th>No</th>
<th>Don't Know</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>[   ]</td>
<td>[   ]</td>
<td></td>
</tr>
</tbody>
</table>

3. b) if yes in 3a) how often does KWFT monitor and evaluate loan utilization in your enterprise

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Very often</th>
<th>Often</th>
<th>Not sure</th>
<th>Rarely</th>
<th>Never at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response</td>
<td>[   ]</td>
<td>[   ]</td>
<td>[   ]</td>
<td>[   ]</td>
<td></td>
</tr>
</tbody>
</table>

4. What are your own recommendations to KWFT


PART III: The influence of group dynamics on client exit from microfinance

1. In your opinion, do you think group dynamics contribute to clients exit?

<table>
<thead>
<tr>
<th>Contribution</th>
<th>Highly Contribute</th>
<th>Moderately contribute</th>
<th>Don’t contribute</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response</td>
<td>[   ]</td>
<td>[   ]</td>
<td>[   ]</td>
</tr>
</tbody>
</table>

2. Indicate your level of agreement on whether the following group factors contribute to client drop outs in your group on the scale provided:

<table>
<thead>
<tr>
<th>Factor</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Not Sure</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Lack of commitment by members</td>
<td>[   ]</td>
<td>[   ]</td>
<td>[   ]</td>
<td>[   ]</td>
<td>[   ]</td>
</tr>
<tr>
<td>b. Contribution of defaulting members</td>
<td>[   ]</td>
<td>[   ]</td>
<td>[   ]</td>
<td>[   ]</td>
<td>[   ]</td>
</tr>
<tr>
<td>c. Group conflicts</td>
<td>[   ]</td>
<td>[   ]</td>
<td>[   ]</td>
<td>[   ]</td>
<td>[   ]</td>
</tr>
<tr>
<td>d. Group management</td>
<td>[   ]</td>
<td>[   ]</td>
<td>[   ]</td>
<td>[   ]</td>
<td>[   ]</td>
</tr>
<tr>
<td>e. Lack of cohesion in the group</td>
<td>[   ]</td>
<td>[   ]</td>
<td>[   ]</td>
<td>[   ]</td>
<td>[   ]</td>
</tr>
</tbody>
</table>
3. How did you access this loan?
   Individually [ ] In a group [ ] Both [ ]

4. Under which credit program was your loan?
   Biashara loan [ ] Mwangaza loan [ ] Mwamba loan [ ]

PART IV: Whether staffing influence client exit from the microfinance

1. On a scale of 1-5, how can you rate the staff of KWFT on the following parameters.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>5 - Strongly agree</td>
</tr>
<tr>
<td>4</td>
<td>4 - Agree</td>
</tr>
<tr>
<td>3</td>
<td>3 - Not sure</td>
</tr>
<tr>
<td>2</td>
<td>2 - Disagree</td>
</tr>
<tr>
<td>1</td>
<td>1 - Strongly Disagree</td>
</tr>
</tbody>
</table>

KWFT staffs are not friendly
The KWFT staff are biased in offering their Services
The KWFT staff are corrupt and asks for bribes to process credit
The staff are incompetent and make mistakes

2. Do KWFT credit officers provide the following opportunities for your enterprise

   Problem recognition and solving techniques
   General need description of your product or service
   Meetings held for the KWFT with client groups
   Performance monitoring and evaluation

   Any other (specify)...........................................................................................................

3.a. Does staff age affect the client retention in KWFT
   Yes [ ] No [ ]

PART V: External competition contribute to client exit in KWFT

1. Are there other microfinance institutions competing for the same clients?
   Yes [ ] No [ ] Don't Know [ ]

2. Are there cases in your groups where members have joined groups financed by other microfinance institutions?
   Yes [ ] No [ ] Don't Know [ ]
3. How can you rate KWFT on the following parameters compared to the competitors?

5 - Best, 4 - Better, 3 - Same, 2 - worse, 1 - Worst

<table>
<thead>
<tr>
<th>Parameter</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate charged</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business support</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest paid on savings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan recovery mechanisms used</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount of collateral needed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount of savings is required</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount of loan offered</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Any other, please specify.................................................................

**Part vi: Clients Exit**

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>Don't Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you contemplate leaving KWFT in the near future?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Are the KWFT products in line with your future goals?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Would you quit KWFT given an alternative?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Would you quit KWFT after repaying the current loan?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Are you looking for other MFIs offering better products than KWFT?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Appendix III: KWFT Clients Distribution (2009 – 2011)

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Active groups</th>
<th>No. of members</th>
<th>Number of Drop Outs</th>
<th>% Drop out</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nakuru Town</td>
<td>50</td>
<td>1887</td>
<td>284</td>
<td>16.8</td>
</tr>
<tr>
<td>Gilgil</td>
<td>35</td>
<td>1050</td>
<td>201</td>
<td>19.1</td>
</tr>
<tr>
<td>Njoro</td>
<td>30</td>
<td>963</td>
<td>142</td>
<td>14.7</td>
</tr>
<tr>
<td>Naivasha</td>
<td>43</td>
<td>1,161</td>
<td>181</td>
<td>15.6</td>
</tr>
<tr>
<td>Molo</td>
<td>39</td>
<td>1053</td>
<td>183</td>
<td>17.4</td>
</tr>
<tr>
<td>Subukia</td>
<td>24</td>
<td>552</td>
<td>72</td>
<td>13.0</td>
</tr>
<tr>
<td>Rongai</td>
<td>21</td>
<td>525</td>
<td>97</td>
<td>18.5</td>
</tr>
<tr>
<td>Nakuru North</td>
<td>18</td>
<td>342</td>
<td>51</td>
<td>14.9</td>
</tr>
<tr>
<td>Kuresoi</td>
<td>27</td>
<td>621</td>
<td>117</td>
<td>18.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>287</strong></td>
<td><strong>8154</strong></td>
<td><strong>1328</strong></td>
<td><strong>16.69</strong></td>
</tr>
</tbody>
</table>