Voices from the Frontlines:

A Research Project Focused on Listening to Microfinance Credit Officers

Working Paper

Version: February 15, 2013

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Executive Summary

Listening to the poor without preconceptions has generated remarkable insights about their desires, challenges and capabilities, with significant implications for designing programs that more effectively meet their needs. To complement these efforts and the learning they have generated, Freedom from Hunger undertook a project to listen to the frontline fieldworkers; specifically, to listen to the credit officers of financial service providers who utilize the village-banking model as a platform to provide financial and non-financial services to groups of poor women.

Freedom from Hunger worked with five microfinance institutions (MFIs) to conduct this research. All five have been partners in adopting value-added microfinance as a strategy to reach the poor. This means they use village banking as a platform for reaching groups of primarily poor women, and they provide them with both financial and non-financial services—loans and savings opportunities in combination with health, business, financial education and/or health services. Almost 200 interviews and focus-group discussions (FGDs) were conducted with credit officers, clients and supervisors to answer five key questions: 1) What motivates credit officers? 2) What is the state of the relationship between the credit officer and the client? 3) What can we learn from credit officers about the people they serve? 4) How can we better support credit officers? and 5) How faithfully are programs, policies and procedures carried out by credit officers?

In summary, we found credit officers of these five institutions to be primarily socially motivated; they work for these organizations "to help people." Their relationships with clients are crucial for client as well as organizational success. These relationships can either make or break client recruitment and retention. Product designs and attributes can be of secondary importance or can help a credit officer build stronger relationships. Product attributes and relationships with credit officers are intertwined. The client's relationship with the credit officer therefore deserves more attention than it normally receives when evaluating client satisfaction and outcomes.

Credit officers are founts of information regarding client needs and client well-being. As they spend three-quarters of their time in the field with clients, their direct interaction allows them to hear, see and experience client needs directly. To play a more effective role, credit officers desire administrative efficiency, more training (mainly on the financial aspect of their job and on group management and conflict resolution), someone else to play the "collector" role when there are repayment issues (due to negative impact of repayment problems on relationship dynamics) and more recognition for their efforts. While they receive value from their work (because of their direct interaction with clients and seeing clients satisfied and their lives improving), credit officers have mixed perceptions of the value their organizations place on their opinions and their efforts. Some credit officers feel their direct supervisors value them, but are not sure whether this extends to the institution as a whole.

There is an inherent tension for credit officers: they have a stake in the well-being of their clients, but they also must have a stake in their employer's successes. While supervisors acknowledge that this tension exists, they acknowledge that policies and procedures are put into place to ensure more compliance by removing much of the decision-making that might cause a conflict of interest for the credit officer. When credit officers break the rules, this generally results in their termination. However, how credit officers interpret and implement policies and procedures seems to vary by supervisor or situations. Credit officers acknowledge that policies and procedures are in place to protect the client and the institution and yet they often make their own decisions within their interpretation of the rules. When they bend the rules, they feel they are doing this for the benefit of the client. Or they simply feel they understand the rules well enough to know how to stay in compliance with the spirit if not the letter of the rules and still meet the goals of their clients. We found more homogeneity than we anticipated in their responses regarding their compliance with policies and procedures.

Below are several important points for financial service providers:

1. While we question whether we can generalize these results to other geographies or financial service providers, especially those that provide individual loans that require less interaction with credit officers, we feel that the relationship with credit officers cannot be underestimated for all types of lending and for all contexts.
2. We hypothesize that organizations with stronger social performance systems, compared to those with weaker ones, should experience better adherence by credit officers to policies and procedures. If credit officers are primarily motivated socially, are they more likely to follow policies and procedures when they feel their organization really "cares" about the client as well and that the policies and procedures are there to actually help the client? If the organization does not appear to care about the client, are they more likely to bend the rules?
3. These findings have implications for hiring policies and training systems. The hiring profile for those organizations that are socially driven may need to be different from the hiring profile for organizations that do not have a social mission.
4. Training is crucial and desired for credit officer performance and cannot be underestimated**,** particularly regarding the financial aspects of the job, such as group management, conflict management, determining repayment capabilities of clients, etc.
5. While the institution may provide certain non-credit, even non-financial services to improve client well-being, credit officers often see non-credit services, especially non-financial services, as an aid to building positive, stronger relationships with clients.
6. It does not seem to matter which methodology is used to conduct the information-gathering; what is important is that we engaged in learning from credit officers and gained important insights from them. Interviewing credit officers, clients and supervisors allowed triangulation to strengthen findings when all three had similar perspectives and opinions, and it was enlightening when they differed.

In conclusion, this study suggests that we should more formally "listen to credit officers" as we do to clients. While the role of the credit officer is often appreciated and recognized as an important part of the equation for meeting the needs of the poor, it is unlikely that they have been seen as real levers for change.

This research suggests that

1. much more can and should be done to build a more mission-aligned workforce, particularly by socially oriented financial service providers;
2. accuracy of credit officer knowledge of client needs and desires should not be underestimated; and
3. organizational and monitoring systems should provide more formal and frequent avenues for incorporating credit officer knowledge of client needs.

While we recognize that financial service providers do not always have the human resource capacity to frequently train and support credit officers, this is an important need for the industry. Credit officers unhappy about their professional development at one MFI might simply move to another MFI, but this research suggests that because of their own social motivation, they might actually leave the industry altogether. This creates an ongoing recruitment challenge for developing a workforce of seasoned and effective credit officers. Providers should also more intentionally and effectively tap the social motivation of the credit officer for the well-being of the clients and the institution alike.

Introduction

Listening to the poor without preconceptions (as done in prior publications such as *Voices of the Poor*[1] and *Portfolios of the Poor*[2]) has generated remarkable insights about their desires, challenges and capabilities, with significant implications for designing programs that more effectively meet their needs. To complement these efforts and the learning they have generated, Freedom from Hunger undertook a project to listen to the frontline fieldworkers; specifically, to listen to the credit officers of financial services providers who utilize the village-banking model as a platform to provide financial and non-financial services to groups of poor women.

Because credit officers often spend up to 70 percent of their time in the field with clients, they are the faces of the microfinance institution (MFI); to the MFI, they are the employees who best know the clients. Because credit officers spend most of their time away from the office and often beyond cell-phone coverage, they at times must make important credit and management decisions without the benefit of supervisor or peer input. Thus, as MFIs grow and expand, a growing number of policies and procedures are put into place to assist the credit officer in making decisions. These policies and procedures are designed to ensure credit officers operate in ways that align them to mission achievement as well as to the sustainability of the MFI. However, this creates a tension: credit officers must develop trust and relationships with clients to successfully build, grow and support clients receiving loans. Consequently, they have a stake in the welfare of the client. However, they must maintain commitment to organizational goals and follow policies and procedures. These dual "responsibilities" can sometimes be inconsistent with each other.

Given the pivotal role that credit officers of MFIs play in client success as well as organizational success, we set out to "listen" to them in order to answer these questions: 1) What motivates credit officers? 2) What is the state of the relationship between the credit officer and the client? 3) What can we learn from credit officers about the people they serve? 4) How can we better support credit officers? and 5) How faithfully are programs, policies and procedures carried out by credit officers? In addition to these questions, we also set out to understand how to best communicate with credit officers in order to elicit comprehensive and honest responses. Thus, part of our journey was also to evaluate the methods we were using, which are explained in the methods section below.

[1] Available at http://go.worldbank.org/H1N8746X10

[2] Available at http://www.portfoliosofthepoor.com/

To lay the groundwork for this study, we highlight here a few studies that have direct relevance to our study because they have looked at the role of credit officers in both delivery of services and client outcomes:

- Schoar[3] documented the results of a study on the intensity of the relationship between an individual borrower and a credit officer and found that individual borrowers who had a more intensive interaction with a credit officer during the length of their loan had better repayment behavior and client satisfaction and were less likely to default on their loan. She also documents several other studies regarding "relationship banking" and generally finds that "soft information" collected by credit officers and the personal relationships built between credit officers and clients led to better outcomes for clients and the supporting institutions alike.
- Agier and Szafarz[4] found in Brazil that a gender gap in loan size was attributed to the credit officer's decision-making. While a significant system of monitoring credit officers would likely reduce their gender-bias, it would likely be too expensive. A next-to-best solution would be a better hiring policy to ensure organizations were hiring credit officers who better matched their mission and goals.
- Canales[5] looked at three MFIs in Mexico and describes how loan officers systematically bent the rules to resolve the tension between making decisions for client well-being and adhering to rules and regulations set out by the organization. He finds that this rule-bending often results in positive outcomes for clients and that credit officers deviate from the rules not necessarily due to greed but often due to commitment to client welfare. He concludes that credit officer rule-bending can result in MFIs actually remaining true to their mission and that MFIs must accept loan officer discretion as an integral part of their work and as a useful source of client information. Organizations that embrace this dynamic can benefit from it by using it for learning and innovation and remaining true to their mission for social change.

Research Partners

Freedom from Hunger worked with five MFIs to conduct this research. All five were prior partners and all five have adopted value-added microfinance as a strategy to reach the poor. This means they use village banking as a platform for reaching groups of primarily poor women and they provided them with both financial services and non-financial services such as health, business, or financial education or health services. This means that clients come together as a group of approximately 10–30 people and guarantee each other's loans. While they meet biweekly or monthly for repayment of their loans and for other financial transactions, such as savings, they also participate in non-financial

[3] Schoar, A. 2012. "The Personal Side of Relationship Banking." Working Paper. Massachusetts Institute of Technology. Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2024653

[4] Agier, I and Szafarz, A. 2010. "Credit officers and loan granting in microfinance: Brazilian Evidence." Available at http://ssrn.com/abstract=1729234. Accessed January 25, 2013.

[5] Canales, R. 2012. "The Stranger as Friend: Loan Officers and Positive Deviance in Microfinance." Working Paper. Yale School of Management. Available at: http://mba.yale.edu/faculty/pdf/canales_stranger_friend.pdf

services during the meeting that are provided by the same credit officer, provided in parallel or linked services provided by other staff.

In Table 1, below, we provide the profile of these partners. Most have provided value-added microfinance services for at least five years and up to 13 years. They differ significantly in their client outreach, from 7,000 to 124,000 clients. Two of the institutions provide all clients with education (FINCA Peru and CRECER), while others only provide education to a subset of their clients. The average number of clients that each credit officer serves is 260. The average age of the credit officers interviewed in our study is 29 years, and they have been employees of their current organizations for slightly more than two years.

Table 1: Partner Profiles[6]

	CRECER BOLIVIA	ALSOL MEXICO	PRISMA PERU	FINCA PERU	CONFIANZA PERU
Year partnered with Freedom from Hunger	1990	2008	2006	2003	2006
# of borrowers	123,711	18,748	6,905	16,134	21,727
Percentage of female borrowers	86%	100%	67%	87%	54%
# of borrowers receiving education	111,443	4,687	2,187	16,134	15,209
Borrowers/credit officer	359	137	219	354	235
Portfolio at Risk (30 days)	1.1%	3.2%	9.0%	1.9%	2.0%
Operating Self-sufficiency (6 months)	114%	132%	91%	120%	123%
Average age of credit officer (in study)	33	26	28	32	28
Average time credit officer has been with the organization (in study)	3.4	2.5	.9	3.3	1.5
Range of time credit officer has been with the organization (in study)	3 months–13 years	3 months–6 years	6 months–4 years	2 months–12 years	3 months–4 years

Methods

This report represents the results from primary research conducted by Freedom from Hunger. Five interns were trained on the tools and were sent to Bolivia, Peru and Mexico to conduct the data-collection. Questionnaires and focus-group discussion (FGD) guides were designed by using the key research questions and all questions were then tested and tailored to the three types of participants: credit officer, supervisor or client. Each of the key research questions had a series of related questions, amounting to interviews that took approximately one hour to complete. In addition to the questionnaires developed specifically for this project, we also interviewed clients using "Impact Stories," which is a qualitative interview that looks at the life story of a client. In this case, the impact stories completed during this interview process were of clients from CRECER and Alsol who we interviewed three years prior to this study; thus, we were following up with clients after three years of their possible participation in the program. These two research activities were already scheduled

[6] Data pulled from Freedom from Hunger Credit with Education Status Report and from the MIX Market.

for the same time period as this research project, so we capitalized on the opportunity to expand the questioning to their relationship with their credit officer.

In total, as seen in Table 2, below, we completed 49 impact stories, 13 client FGDs, 85 credit officer interviews, 8 credit officer FGDs, 28 supervisor interviews and 10 health-provider interviews across the five partner organizations. The ten health-provider interviews were only conducted at CRECER; the purpose of adding these interviews here was because CRECER has a program that links and refers its clients to local healthcare providers. We interviewed healthcare providers to see how much "collaborative spirit" exists between credit officers and other types of credit officers as well to see what collaboration outside of the financial services space looks like.

Table 2: Voices from the Frontlines Methods

	CRECER BOLIVIA	ALSOL MEXICO	PRISMA PERU	FINCA PERU	CONFIANZA PERU	TOTAL
Client Impact Stories	12	37	0	0	0	49
Client FGDs[7]	6	0	2	2	3	13
Credit Officer Interviews	41	9	8	11	16	85
Credit Officer FGDs	6	0	0	1	1	8
Supervisor Interviews	18	4	3	3	4	28
Health-Provider Interviews	10	0	0	0	0	10

While efforts were made to ensure a representation of partners' credit officers in the interviews, the interviews were conducted using opportunistic sampling. Time spent with each partner was often one to two weeks, maximum, and credit officers who were able to participate in the interviews did. However, in some cases, such as with FINCA, PRISMA and Confianza, we interviewed most of their credit officers participating in the *Credit with Education* program. This was one reason why we asked some credit officers to fill out the questionnaire—so we could ensure more representation, even when time was limited. We tried to schedule most interviews on days when the credit officers were likely in the office for staff meetings. It was during these meetings that individual interviews and FGDs were completed. Generally, all supervisors associated with the interviewed credit officers were included. Client FGDs were conducted opportunistically as well, so that we could assess what we could actually learn in a discussion related directly to their credit officer. Because of CRECER's size as an institution, we chose four of their nine regional offices. We chose four that would give us a range of perspectives: urban and rural, older programs compared to newer programs, and significant geographic and cultural differences.

We used FGDs and individual interviews with both credit officers and clients as a way to both be efficient with our time and to look into questions of methodology. In some cases, because of time constraints or schedules, FGDs with credit officers were conducted instead of individual interviews. But use of the FGD and the individual interview also was meant to help us understand how credit officers might respond to the questions in an FGD versus an individual interview. In some cases, we hypothesized that credit officers participating in an FGD would participate more fully because the

[7] Most FGDs, for clients and credit officers, were small, with approximately two to five participants.

FGD would encourage reflection as well as create confidence among the peer credit officers to respond to sensitive topics such as their relationships with their supervisors or the organization. However, we also hypothesized that they might share more truthfully and in more detail if interviewed independently on questions such as whether they ever made decisions on their own that were in conflict with policies and procedures. Except for the impact stories, we did not ask nor did we collect any personal identification information; participants were assured of their anonymity during all interviews.

Most interviews were completed in person, whereby the intern asked questions from the questionnaire and the interviewee(s) responded. Transcripts of these interviews were written out on the questionnaire. In some cases, supervisors and credit officers filled out the questionnaire by hand. Transcripts of all interviews/questionnaires were entered into MSExcel spreadsheets with one answer per question posed in the questionnaire. To analyze the data, we used an inductive approach whereby the transcripts of the interviews were read and re-read and summarized by both the interns who conducted the interviews as well as by a research team of three people at Freedom from Hunger. Each partner's data was summarized separately, which facilitated our ability to see patterns across all five organizations. When patterns appeared to emerge, we coded some questions to test the depth of our understanding of a particular theme. Some questions in the individual interviews were already pre-coded, such as the amount of time they spent working directly with clients or on administrative tasks, and on questions where we only expected answers of "yes" and "no." Percentages to quantify results will only be used in this report when they are particularly meaningful. Otherwise, this report focuses on providing broad summaries of our interpretation of the data.

RESULTS

The Results section is organized by the five key research questions posed in the Introduction. Within each of the five questions, we explore the motivation behind the questions as well as the sub-questions asked. We analyze the answers by credit officer, supervisor and client. Unless a direct quotation mentions one of the partners by name or there is a finding that really differs among the five partners, references to partners are left out.

What motivates credit officers?

In order to understand the relationship of credit officers with their clients and with the institution they represent, we first wanted to understand what motivated credit officers to work in the microfinance field, whether they felt their work met personal and professional aspirations, what they liked or disliked about their current job, and how the institution could better support them in their position. Supervisors were asked about the qualities of successful credit officers, the hiring profile description for the credit officer position, and how they support the credit officer position. Clients were asked whether their credit officers like their jobs and understand the clients' reality.

1. **Credit officers primarily have a desire to support the communities they serve.** Credit officers were asked an open question about what they thought of their job as a credit officer. While most credit officers described what they liked or disliked about their role as a credit

officer, any answer was recorded. By far, the most frequent answer given by the credit officers was that they are motivated primarily by a desire to help the communities they serve. Averaged across all five organizations, 58 percent of the credit officers reported this desire to help as a key motivator, either alone or among other motivations. Fifteen (15) percent of them indicated that providing education and training was among their reasons for working for their current organization; often, they saw this as an important tool they used to help their communities. One might assume that where education was not a core product, such as Alsol (previously provided education then experienced a hiatus due to splitting into two entities), a credit officer might be more motivated financially. On the contrary, the desire to help the community was still the most frequent motivator cited. One credit officer shared, *"We better the qualities of life of people. The institution helps people and women. I think that my work is to help people of scarce resources. We help clients of all social, economic and education levels. We work for the good of society."* The third most frequently cited answer was that they appreciated that their role as a credit officer allowed them to meet some personal or professional aspirations.

2. **Credit officers see themselves as "development workers.**" While they take seriously their financial obligations to the institution, credit officers often most enjoyed and saw great value in the additional services that accompanied the loans available to clients:
   - *"I most enjoy that we work to empower women. CRECER is different because of the quality of education we offer."*
   - *"I work here instead of the competition because of the educational part. It is the more human side of the work of a credit officer and distinct from the work of credit officers at other institutions that only collect from their clients."*
   - *"I am trained as an educator, and I get to use that here. With other institutions, I would not be able to use that as much."*
   - *"First, I am an agronomist and I always have loved to work in rural areas. I liked to learn about the financial part."*

In addition to asking the credit officers about their perception of their current job, they were also asked where they saw themselves in five years. This question strengthens our understanding of credit officer motivation. Most credit officers saw themselves in one of three "futures":

a. **Moving to a position that does not require the financial aspect of their job**, such as only conducting education or becoming a teacher:
   - *"I don't want to work with credit anymore. Perhaps I would like to work in CRECER if I could work exclusively with education."*
   - *"[In 5 years, I would like to] help to better the quality of life of a greater amount of people in my community."*

b. **Moving up into a supervisor role** in their current organization or a similar organization: "*I would like to become promoted to a more important job, like supervisor or agency boss."*

c. **Owning their own business**: *"I would like to own my own business raising and selling livestock."*

3. **Credit officers have to strike a balance between the client and the organization, and they want both to succeed.** One credit officer shared that, *"To maintain this balance, I respect the clients, and orient them to try out credit and invest well. At the same time, I'm keeping an eye out for the rules and following them. I try to be honest. That helps a lot. I try to put myself in the place of both parties, too. It is a bit complicated. I am always on CRECER's side, but I have to protect the client within the policies. To do this I am flexible and have to understand the clients' problems to find a balance."* We also sense that credit officers generally agree with the policies and procedures they have to support because they see them often protecting clients from over-indebtedness and other repayment risks. However, when clients indicate dissatisfaction with the policies, the credit officers find themselves playing "good cop" with the clients; the "bad cop" is the organization. They try to respond to client needs with compassion and understanding, but indicate their hands are often tied and they too have to follow policies and procedures. To deal with the tension, one credit officer *"inform(s) the clients. I give trainings. Clients ask me to break the rules but I say 'no.' To prevent conflicts of interest, I take out the manual and explain the rules to them."*

4. **Credit officers see education as a tool for building relationships with their clients.** Most of the credit officers interviewed felt that conducting education sessions with their clients were key to building strong relationships. The education component of their job allows them to be both "hard" regarding the financial aspect of their job and "soft" because the education gives them a way to communicate positively with clients. Several quotes summarize this point best:
   - *"The aspect of my job that helps me have a good relationship with clients is the education sessions. They allow me to open the door, smile and feel part of the group."*
   - *"The meetings we have and inclusion of the group in educative sessions help maintain positive group dynamics."*

5. **Credit officers see their non-financial services as a key to their competitive advantage.** In addition to education helping build relationships between credit officers and their group members, credit officers see their offer of all non-financial services such as education and health services as part of their competitive advantage in a very competitive market.
   - *"PRISMA should continue giving clients education and not lose the culture of educative sessions. This is our comparative advantage."*
   - *"I most enjoy interacting with my clients. What makes CONFIANZA different is that we offer education, not just credit; and many clients value this education."*
   - *"[They join for] capital. They also join for the health days and trainings, particularly on themes of the environment and family values."*
   - *"[Clients are satisfied because of] educational chats, and being able to tell their problems to the credit officers who will listen."*

6. **Clients recognize credit officer motivation.** Clients at most institutions feel that their credit officers are motivated to work with them. However, some groups also shared that they have had several credit officers over time and some have been more motivated or more trustworthy than others. Rotation of credit officers, while seen as important to avoid collusion between clients

and credit officers, can contribute to satisfaction and dissatisfaction, particularly when clients have been quite satisfied with their relationship with a particular credit officer. For example, one group indicated they had had four credit officers; they trusted two of them but the other two did not appear to care about the success of the group.

- *"The credit officer is dynamic, active, understands us and supports us."*
- *"[Our first credit officer] was more formal in his work, more communicative, better trained, more respectful."*

One client said she sometimes would not be able to pay, but the first credit officer negotiated the situation in a way that worked for her. *"Sometimes we could not pay, because of costs or because my husband was not paid, and he was nicer. He said we could pay tomorrow by four… he helped us with a little grace time."* Her group eventually received a new credit officer that changed her view of the institution. Her credit officer rarely showed up for meetings and eventually did not renew their loan and the group was left questioning why. A client of the same group who was also forced to leave shared that she would have liked to have stayed and that *"the majority of my family is with the organization, but they have better credit officers."*

7. **Supervisors appear to hire credit officers who are "multidimensional" and "brave."** One of the common themes across the supervisor answers to the question regarding the characteristics of a successful credit officer is that credit officers first have to be committed to helping people—this was more important than having a strong background in finance:

- *"It is not necessary that they come from a finance background; it is more important that they can work with people."*
- *"Unfortunately, many of the new credit officers feel that CRECER is foremost a bank. They begin to work with that mentality, but as we stress the importance of the non-financial developmental services as well, that mentality begins to change. In some cases, though, that means we have some credit officers who work here for three to six months then decide they don't like it and leave. Because they then have the financial work experience and training with us, they can go work for a bank."*
- *"CRECER is different because of its culture of solidarity and savings for clients. If the best of our credit officers were not working here, they would most likely go back to working in their original careers, not continue in finance, and probably end up at an NGO or other social service institution."*

Supervisors also recognize that the credit officers have to have an important mix of skills to be successful. "*The best credit officers have to have good perception of their clients, as well as good handling of money. It is also important that the group know them well. While credit officers come from different backgrounds of study such as economics, education and agronomy, some adapt better than others to the role. Some say educators do better, but it's not certain. It is important to balance well the relationship with the women and with the bank."*

Supervisors also recognize that this position is not easy, and some being credit officers themselves before becoming supervisors could identify with the needs of their employees:

- *"They are brave, go to far-away places and put up with the weather. They are honest and committed. If they are not, I have to make sure they are."*

- *"Being able to say 'no' to a client [is a challenge]. Sometimes it's hard. When I first started as a credit officer, I got close to some clients and it was hard to turn them down. We finance businesses, not dreams. It's sometimes hard to kill dreams that are unrealistic."*

What is the state of the relationship between the credit officer and the client?

Financial methodologies for the poor have been designed to be primarily relationship-based, particularly among the partners Freedom from Hunger works with. For village banks, groups of clients come together, guarantee each other's loans and the credit officer builds knowledge and trust with the group members. The credit officer often determines loan sizes, whether groups receive loans or whether groups are disbanded. As noted in the prior section, education provided to the groups is a way for credit officers to build positive rapport with their group members. As the financial services industry becomes more commercialized and adopts cost-saving technology, what happens to the "relationship base" as the interaction with clients becomes more transaction-based? What can we learn about the importance of the relationship between the client and the credit officer? To answer this question, credit officers were asked about the techniques or activities they use to build strong relationships with clients. Supervisors were asked to describe what the organization does to encourage (or discourage) relationships between the credit officer and his/her clients. Clients were also asked to describe the importance of their relationship with the credit officer.

1. **Relationship with the credit officer is critical.** The relationship creates both mutual satisfaction of clients and credit officers and huge risks of dissatisfaction and drop-out. One credit officer explained this dynamic the best: *"Clients decide whether or not to remain with FINCA Peru because of the relationship with their credit officers. Our repayment policies are not flexible, and complicate our relationships with clients when they can't repay and ask us to help them, but we can't break the rules to help them. The educative part of the program facilitates a positive relationship with clients."* These relationships can become so intensive that, *"Sometimes I don't know the names of my nephews, but I know the names of all my clients."* When credit officers were asked why clients choose or remain with their organization, many answered, *"due to identification with the credit officer and the company."* Clients echoed this sentiment, some to an extreme. Yolanda shared, *"CRECER is like a father who orients me. Rolando [credit officer] is a hard worker, he must like (his job)."* Yolanda said he "*was like Jesus and they were his lambs. When he makes mistakes, he recognizes them and apologizes. We trust him. He also has to check with his bosses that he is doing things the right way."*

   When supervisors were asked about their perception of the importance of the relationship between credit officer and client, one supervisor's comment summarizes the feelings across many of the supervisors: *"It's the central or main point. Without a good relationship, you don't get anywhere. You have to have trust. I know that they are more loyal to the credit officer because of my experience. I think that by reducing the interest rate or having more fun activities or games [we can gain the clients' loyalty more]. Sometimes, the clients place more importance on and love the little gifts that the credit officers give them, no matter how small or insignificant they may seem."*

2. **But product design and offerings can facilitate or strain this relationship.** While much of the industry talks about meeting the needs of the poor by offering flexible products and services, the relationship with the credit officer, in this research, appears to often trump the attractiveness of products and offerings, even if the competition offers better products on paper, such as better interest rates, variety of products, etc. For example, "*When I started working here, I didn't know what I was doing but they told me about the social aspect and it called my attention. It's very different from typical credit officer jobs and what I had imagined. We're very well known here in the community and we go to the places that are furthest away. Everyone here knows us. Sometimes they offer lower interest at other places but the people still trust us.*" Another credit officer said, *"First, I think that we give them an opportunity. Our product doesn't have a lot of requirements and they like that. They like the social groups and sometimes the treatment you give them makes them stay no matter the interest rate."* A supervisor echoed this sentiment: *"The* Credit with Education *program is very important. The credit has a high interest rate, but if there is a good relationship with the credit officer, the clients will come to meetings. The client is more loyal to the credit officer than to the institution. If a credit officer leaves, usually their clients do, too. To gain more loyalty, we should treat clients well."* Unfortunately, the questions we posed to the clients were not developed to allow us to compare the importance of the relationship with the credit officer with specific product descriptions. However, in a review of the Alsol impact stories regarding satisfaction with the institution, clients mentioned that the group structure and the willingness of the credit officer to work with them and offer flexibility when needed were key reasons for satisfaction. Two clients interviewed actually left Alsol because of their poor relationship with the credit officer, because of some inappropriate behavior by the credit officer and what they felt were false promises made by the credit officer that were never realized.

   Freedom from Hunger experience in applying product attribute-ranking tools with clients has shown that the relationship with the credit officer is often first or second in terms of priority. It is important to note that while we find the relationship is crucial, product design can either facilitate this relationship or strain it. As the credit officers have voiced in these interviews, many of them wished their institution would lower the interest rate or provide more flexibility. For example, *"Clients were happier with the old system, when they left each loan term with all of their savings and we did not take any of it. We would be more competitive if we went back to that system."* Another credit officer felt that the minimal group size was reducing the likelihood his groups would be successful: *"It is difficult when five or six people want to form a group—the minimum is twelve—so they will look for people to complete the group and this is hard to manage because it can bring in bad people with no trust."* Another felt that *"in order to ensure client loyalty, we could offer a wider range of services, such as health fairs."* A credit officer said, *"If Alsol would just let me decrease the interest rate or increase capital for my good clients, my clients would be happier…."* So, relationship alone will not necessarily ensure loyalty, but giving the credit officer the right tools to facilitate a positive relationship with the institution is important. Supervisors acknowledge this dynamic: *"[The relationship between credit officer and client] is decisive. It determines whether or not the client is satisfied, and the credit officer is the direct face to the client. They support clients and help the group leadership team. The client is more loyal to the credit officer because of the leadership of the credit officer. If a credit officer leaves, clients leave, too. Also, financial conditions are better in other institutions. To gain the loyalty of clients, [we] need to improve [our] financial conditions and eliminate the* *commission fee for disbursing loans and lower the interest rate. They also need to offer a variety of financial products, improve infrastructure and improve the process of recouping money (right now clients go to BCP*[8] *and get a voucher and are charged a commission). We should motivate personnel more with trainings at the institutional level and better salaries."*

What can we learn from credit officers about the people they serve?

While credit officers are often considered points of information for learning about client needs, their perspectives often have to be validated by market research conducted directly with clients to be considered unbiased and valid. However, in market research that Freedom from Hunger conducted to assess health-protection options with five MFI partners around the world, we found that perceptions of client needs voiced by microfinance staff mirrored what we found in the research conducted with clients. We and the partner institutions had underestimated the validity of the credit officers' perspectives. We later advised new MFI partners to build on this staff knowledge and only conduct field research on questions about which staff had no prior knowledge or experience relating to client needs. Therefore, we set out in this research to learn not only about perceived client needs and factors for client retention, but also to study how this information is shared within the institution and utilized for decision-making.

1. **Credit officers know client needs, "because they tell me."** The key finding is that the interchange between credit officers and clients during credit meetings produces a reasonably accurate understanding of client satisfaction and dissatisfaction. One credit officer at CRECER indicated that he knows the needs because he has seen their homes, their children and the area in which the clients live. This fieldwork perspective (in contrast to the clients only coming to see him at the office) makes him aware of their needs. They also know that clients appreciate the inter-organization differences in transparency, relationships between credit officers and group members, customer services and credit officers who speak their language and appreciate their customs. They also learn what the competition is offering and how that influences client needs, *"Because the clients tell us about the interest rates in the other institutions.*" Some credit officers try to address these needs themselves: *"If possible, I offer my own help. For example, my clients wanted to all have a group lunch at the end of the cycle, but [my organization] did not cover this cost, so I did. I shared this idea, and now we can expense such costs."*

2. **Clients want recognition for their loyalty.** The five organizations represented in this report operate in markets where competition is fierce. One credit officer shared that credit officers from the competition will often wait until his group meetings are over to advertise their services to his members. The competition often provides small gifts to gain and retain new clients. Surprisingly, these small gifts are important from the clients' perspective and credit officers feel that, to be competitive, they should be able to provide similar trinkets and gifts. *"CRECER should improve its retention of clients. It is harder to get new clients than it is to keep current ones, and clients*

[8] **BCP =** Banco de Crédito del Perú

often leave to the competition because they are offered objects (gifts, prizes, etc.). The groups at CRECER are fine but members complain about not getting prizes and want little objects or prizes."

The other four organizations face similar challenges. In addition to gifts, clients want other forms of recognition for their loyalty to the organization. One client shared that she had been a member for 13 years and never missed a payment and that she should receive prizes for that. The credit officers agree: *"[We] should dedicate [ourselves] more to the members, through organizing festivals and health fairs. [We] should reward punctuality, and give prizes or recognition to members who pay on time."* In some cases, they felt the need to provide gifts and other expressions of appreciation is quite extreme:*"We explain to them and even kind of lie to them that soon we'll offer what they need so they stay. Sometimes we have to buy things from our own pockets, like gifts, to make them happy. I have shared my ideas with [my organization] many times. We share them in our meetings and trainings but they can't buy gifts for the clients because they don't have the funds."*

3. **Credit officers think most of their clients are benefiting from the services they receive.** When the credit officers were asked to estimate the percentage of their clients who were "better off," "about the same" or "worse off," across all five organizations the estimates fell approximately in the following range: 70%–80% better off, 15%–25% about the same and 15%–25% worse off. For those clients they estimate being worse off, the credit officers note that, most of the time, this is either due to over-indebtedness or because the household has faced some negative shock, such as a health crisis or accident. One credit officer shared that "*the neutral clients are those who have been with us for awhile and just want to continue participating in groups. When clients become worse off, it is generally because something bad happens in their lives, or they make poor decisions and take out too many other loans*." Credit officers feel that those who are better off are so because they have grown their businesses. Another echoed much of the same sentiment: *"With the access to the education we provide, they are either all neutral or better off. If they are worse off, it is not from anything we are doing."* Credit officers feel that their clients are better off mainly due to the fact the clients have invested and managed their money well and because they've followed the rules. Research that Freedom from Hunger has been conducting, utilizing client interviews called "Impact Stories," actually confirms much of what these credit officers are saying in terms of the percentages of clients being better off, the same or neutral and the reasons for falling into these categories. Our research has found that most clients who stay with an institution are better off or neutral, and that for the percentages that drop out or are having negative experiences, this is often due to a shock, business failure or over-indebtedness.

4. **Rural areas remain underserved**. Most of the credit officers shared that their institution's advantage is that they are reaching rural or isolated communities, which remain relatively unserved. However, they feel products, policies and procedures do not always help them to meet the realities of rural clients. For example, at one organization, one of the biggest complaints from credit officers and supervisors alike was that the credit officer was located far from the communities and clients they served. Another credit officer shared the same: *"I would change some requirements. Women from rural zones have to come here to Huancayo for their dispersals; it would be better to*

open up smaller agencies in these areas to avoid this." Some also felt it was necessary to *"have … more promotion of the product and go to even more rural zones where there aren't a lot of MFIs."* Credit officers from another organization felt the same: *"I would suggest increasing the number of employees we have working in rural areas."* Some credit officers acknowledged that the same product does not work the same way in urban and rural areas. *"There are incentives for both the credit and education parts. The goals for the credit part are much harder for credit officers in rural areas to reach. The educational part is harder to reach in urban areas, where people are different and don't want to participate—they are more often professional and don't participate in things like PAP campaigns. In rural areas it is easier to reach goals for education."* But some also feel that, *"The impact is the greatest in the most remote and isolated areas."*

Supervisors often shared these opinions, but the multiple levels of leadership within an MFI might tie their hands as well. One supervisor shared that, *"There is a lack of support from Lima. They need to motivate personnel more. There is a lack of motorcycles and training. The institution should make its employees more loyal to it. The placement of offices in the field will doom us to fail…they are too far from our actual clients and credit officers must travel far."*

5. **There is great variability in credit officers collaborating with others outside of the organization to organize services for clients.** For some of the partners referenced in this report, collaborating with other organizations is part of an official program. For example, CRECER and FINCA have designed "health fairs" and other medical referral linkages for their clients; therefore, credit officers have been given official roles to facilitate these linkages for their clients. When credit officers were asked whether they tried to "unofficially" link their clients to other services not provided by their organization, we found that this happens less frequently than when part of a program, and it happens organically, particularly when the credit officer has a specific background that facilitates giving advice (e.g., agronomist, nurse, etc.). *"If possible, I try to refer them to other services, or provide the services myself. For example, my clients wanted me to have a discussion with their husbands, so I developed a curriculum and held 'charlas' for fathers."*

   When credit officers indicated they did not try to address additional client needs that were not already addressed by their own institution, it was due to a lack of time for researching options for their clients. *"I only have the time to offer/assist with products that we offer. I discuss our other services, but nothing more. I communicate these needs with [my organization]."* They also indicated that they felt "*it wouldn't be loyal to the institution"* if they tried to link their clients to other services.

   When health workers from health organizations that already collaborate with CRECER on its health-protection services were also interviewed about their perception of cross-sectoral collaboration, we found that they rarely collaborated with "credit officers" from other sectors, except when there was a program to officially link them, such as the one CRECER manages.

6. **Credit officers share client needs with supervisors, but often this is informal and may not reach decision-makers.** Credit officers and supervisors alike indicate that they discuss client needs frequently. Even within the same institution, however, there is variability of the process (formal vs. informal) and the extent to which ideas affect management decisions. For example, a

credit officer shared that, *"Here when we have meetings, we always talk with the coordinator but there are very few times when we see the results of our suggestions."* Another credit officer echoed the same challenge: *"We basically don't do that because all of our suggestions never end up being taken into account."* However, his colleagues were just as likely to say, *"I communicate with [the organization] through a monthly meeting in which we talk and explain needs of our clients. There is also a good environment for sharing ideas, such as my idea about the fair for my clients to sell goods."* So, for some credit officers, they see their ideas eventually put into practice, and for others, sharing with their supervisor leads to a black hole of client information.

When supervisors were asked this same question, their answers seemed to reflect a reality in which these data are crucial for product ideas and changes discussed at the management level. A supervisor shared, *"Many of our products have been adjusted based on what the credit officers have told us. Our credit officers are our eyes. I'm sure this is not always the case, as many credit officers have said, but at least there is the acknowledgement of importance."* Another supervisor said, "*Everything that we plan comes from bottom to top.*" Other supervisors shared similarly, *"We learn of the variety of products and services that our clients want via our credit officers. For example, we know that our clients are asking for 'health fairs/clinics' and have begun to think of how to implement them."* Another supervisor shared how information was passed along to leadership: *"Yes, we are listening because each branch has a branch leader who takes care of the credit officers and the clients; they listen to the needs and feed this information to the central leadership."*

How can we better support credit officers?

Credit officers were asked about tools and processes that would make their jobs easier as well as changes that would improve their performance as a credit officer. Supervisors were asked what processes they have in place to support their credit officers in balancing client and organizational needs.

1. **In all organizations, credit officers desire efficiency and tools to do their job better—technology, motorcycles, marketing materials, tools geared toward reaching rural clients.** Credit officers commonly cited technology as a desired facilitator of their work. Many felt the forms they had to fill out at the end of a long day could be filled out during the day if they were able to input group information into a computer as the day progressed. *"[My organization] asks for lots of documents and the women want the credit quickly—this loses the essence of an opportune credit."* Also, this credit officer shared that the process of closing a cycle is done manually, which she said is sufficient but takes too much time. *"Perhaps using a computer to do this would be easier."* Among these five organizations that primarily focus on rural lending and village banking, the lack of personal transportation, generally motorcycles, was cited as a reason for low productivity. Many relied on poorly maintained motorcycles or had to use public transportation to reach their groups. This often resulted in only attending to one or two groups per day, depending on how far apart these groups were located. *"Transport. We are limited in this aspect. They ask for results first but without tools for the job. For example, we are six credit officers in this branch and we only have three motorcycles."* Marketing and promotional materials were often cited as tools to improve their ability to recruit new clients and to advertise new products to existing clients. Credit

officers often said the competition's use of flashy marketing materials or gifts to market their products made it difficult to stay competitive. *"One thing they could do is better marketing. Sometimes we lack materials and have scarce resources and that makes it hard for us to do our work. We don't have enough computers for the number of credit officers we have."*

2. **In most organizations, credit officers desire more training.** Because many of the credit officers come from non-financial backgrounds, very few feel competent in the "financial aspect" of their job and want assistance in group management and default/repayment issues. Even long-term credit officers desire additional training for professional growth and increased efficiency:
   - *"[My organization] could follow through with incentives they offer. Also, they could provide more training so we are better equipped to carry out our functions."*
   - *"They could give more training—most trainings are education-related and they need more credit-related training."*
   - *"They should give talks and trainings to us and the clients. They leave us aside and don't take us into account. We only get training once a year."*

3. **Credit officers prefer that someone else handle repayment challenges because this puts them in an awkward position with clients, a potentially dangerous one.** Many credit officers wondered whether there could be a team that deals specifically with repayment. The task of following up with over-indebted clients is time-consuming, uncomfortable and sometimes dangerous for them personally and often contributes to them leaving their posts as credit officers because of the pressures from their organization as well as the discomfort they feel with the group members. While they are playing good cop and bad cop with clients on an ongoing basis and balancing the needs of both the clients and the organization, repayment issues cause them to become just a bad cop:
   - *"Each credit officer should have their own manager of collections. It is hard for us to verify and collect at the same time."*
   - *"The theme of default can make this relationship difficult because I need to be strict and say things strongly. Some people say credit officers need to be more strict. The aspect of this job that makes it easier to have a good relationship with clients is that I am flexible and can be understanding."*

4. **In all organizations, credit officers desire recognition for their hard work—from both the clients and the organization.** They often buy gifts with their own money to keep clients happy. They work very long days, doing paperwork and dealing with client issues:
   - *"I have to work really hard and there is a lack of [in person] recognition for the quality of my portfolio—only through e-mail. I feel my ideas and opinions are valued, but they perhaps don't make it very high up in [my organization]."*
   - *"[I feel] medium valued. I am viewed as one of the best, but I do not know if that means I am valued. I would feel more valued if [my organization] listened to my suggestions."*

   Even simple gestures are considered meaningful: *"Maybe they could remember my birthday. They haven't even given me a chalkboard or any materials like that in the five years I've been here."* Just as clients want tangible tokens of appreciation for their loyalty, credit officers do, too. *"Well, they could train us more or maybe give us more prizes and incentives for doing our job well. It's been a long time since they've done that."*

5. **There is variability in how valued credit officers feel.** More than one-half (63%) of the credit officers feel very valued, some (25%) feel somewhat valued and the remaining (12%) don't really feel valued at all. Those who feel valued indicate that they feel "listened to" at multiple levels of the organization and feel as though their direct supervisor recognizes their efforts. If feeling valued stops at their direct supervisor, this contributes to them feeling less valued; for example, *"Our value as credit officers is recognized by the agency boss and our co-workers, but not formally within [the organization]."* Some supervisors acknowledged that credit officers often receive more negative than positive feedback, even though there are processes in place to give feedback and support on an ongoing basis, such as during monthly meetings or through monthly "performance reviews":
   - *"We have evaluation forms that the supervisors use. Also, we let the credit officers provide feedback on training they receive. Credit officers tend to receive more negative than positive feedback."*
   - *"Trainings, workshops, sometimes individual meetings with credit officers when it is necessary. Credit officers receive both positive and negative feedback."*

How faithfully are programs, policies and procedures carried out by credit officers?

One of the key questions asked in this research is about the principal-agent challenge; basically, organizations (principal) try to get their staff (agent) to deliver a particular service or follow particular rules. But as we've seen so far, credit officers, in this case the "agents," are a heterogeneous group for the most part. As a heterogeneous group, they are likely to deliver services primarily based on relationships in very different ways. So, how do the organizations design "systems" to ensure a fairly homogeneous delivery of their services?

Credit officers were primarily asked questions about how they balance client and organizational needs and under what circumstances they might make their own decisions. They were asked to share decisions they had made on their own, perhaps contrary to policies and procedures, and reasons behind these decisions. Supervisors were also asked whether credit officers are encouraged to make some of their own decisions or what guidelines and support systems exist to reduce individual decision-making. In this section, we give the supervisors' commentary first to indicate what is expected of credit officers in these scenarios, then we share the credit officers' perspectives and experiences.

1. **Supervisors indicate that there are policies and procedures that credit officers must follow, but they acknowledge that credit officers have to often use their own judgment…and that the institutions depend on this judgment.** Credit officers can use their own judgment as long as their decisions are in compliance with the policies and procedures. Where they see most credit officers using their own judgment is in how to handle group conflict. Most of the organizations manage village banks and repayment re-structuring is rare because

groups are supposed to use their group solidarity to ensure repayment. Only in extreme cases or for individual loans are there strict policies for restructuring payments:

- "*When clients miss payments due to a financial crisis, the group has to be [guarantee for the loan]. If one person doesn't pay, the others must pay for her. This doesn't always happen in every group, and in that case credit officers sometimes give a longer deadline or act to collect the payment themselves. Sometimes credit officers apply their own policies, such as rare cases where credit officers have taken items from an indebted client's home.*"
- *"Yes. We understand—I was a credit officer. If there is a member with a problem, it is expressed in the group, the group listens—this is the group solidarity—this is a value. Some credit officers use their own judgment, but this always has to be in the spirit of policies."*

Some supervisors believe that when credit officers do break the rules, this is usually for their own benefit. *"[We have] a system to make sure that the clients pay the loans back. But in case of difficulties, we try to be flexible and give some alternative payment options. The credit officers mostly follow the policies and norms. Sometimes you see dishonesty, but this doesn't really happen frequently. [When credit officers break the rules,] it's more about self-benefit and not about helping the clients."*

2. **When credit officers break the rules, they are fired.** While organizations rely on credit officers knowing the policies and procedures and knowing what decisions they can and cannot make, when rules are broken, they are often fired. However, it is important to also point out that depending on the rule broken or the supervisor, there appears to be some flexibility in how this is handled. For example, *"The problem is that there are a ton of rules and we don't comply with some things. Seventy percent of the time we do and thirty percent we don't, out of necessity. There is a meeting every morning and if a credit officer breaks a rule we talk about whether it worked or not. If it didn't work, we decide it will be the last time. To collect from clients, credit officers will have to sell things that belong to clients—it is the only way to get money from them. The policies in [our organization] are not very updated, and the system in Satipo is very slow."*

3. **There is disagreement among supervisors about how much their credit officers are following policies and procedures.** Some supervisors say they have 30% compliance and some say as much as 100%:
   - *"Thirty percent comply with all the rules without fail. The rest depends on the quality of the Agency Boss in enforcing changes. Though we have many formalized policies, it is often the case that credit officers are unfamiliar with them. Even though they have access to policies, they do not know them well."*
   - *"Rules and regulations are almost always followed. The supervisor knows this because he is always in contact with the branches. To know that changes are being complied with in practice, agency managers meet with credit officers and submit a report and observations to the supervisor. The credit policies of [our organization] were updated, just two weeks ago. Every credit officer has access to institutional policies—every agency has copies."*

Supervisors feel they know when there is compliance because the documentation that credit officers fill out reflects the policies, or they apply direct observation, or they rely on their internal control teams to verify compliance.

Some additional insights demonstrate that even supervisors see things differently:

- *"… if a decision between the two must be made, it has to be on behalf of the organization rather than the client. I always have an 'open door policy' with credit officers who want to discuss how to improve this balance."*
- *"…the credit officers always opt for the institution. In the case of default, they have to collect even if the client is dying. The interest rate is difficult and it would be good to find a way to make decisions without losing clients. They inform the groups so as to not endanger the group."*
- *"The institutional goals are structured around portfolio and making sure the client is satisfied. Protecting the organization and protecting clients are one and the same. The principles that orient decisions by credit officers on how to navigate conflicts between what the organization says and what is good for the client include the sustainability and mission of the organization. Also, controls and visits by management ensure compliance."*

4. **Credit officers vary regarding how much of their own decision-making they have to do.** Fifty-six (56) percent of those interviewed individually indicated they relied on their own decision-making much of the time, 30% use their judgment somewhat throughout the day, and 12% indicate they rarely used their judgment. Only one person indicated they never make any decisions without consulting the supervisor. One credit officer shared that all of his job requires using his own judgment. He sees how the group members work, and if there is a problem with a member, he tries to stimulate a solution to the problem among the women. When credit officers indicated they used their own judgment, most said they did so within the restrictions of the policies or procedures or when it's related to the educational component of their job:
   - *"The materials and manuals were made not with Satipo in mind but rather another place. We change the material to make it adequate for the region."*
   - *"We base our decisions on the rules and if there is something outside of the rules that you want to do, you have to get approval from your supervisor first."*

5. **Their motivations to make decisions on their own vary.** Credit officers were then asked what motivates them to make their own decisions. Requests from clients to break the rules are common: *"It's that we already know the rules and norms and I have to do my job and can't depend on him [supervisor] constantly. They [the clients] almost always ask you to break the rules. They don't understand the rules but we always have to tell them 'no'."* Being outside of the office and out of cell-phone range was also a common reason.

   Newer credit officers are less likely to make their own decisions compared to more seasoned credit officers, and it depends on their confidence in their understanding of the rules:
   - *"Depends on how familiar one is with the rules. If you are comfortable with the rules, you can adapt them slightly to specific situations without really needing to consult with the Agency Boss."*

- *"[I make my own decisions] when I am sure that what I'm doing is right. When I'm alone, I'm the boss and I have to make the decisions. I'm the one making the decisions but always in accordance with the regulations and rules of the institution."*

6. **The types of decisions they've made without supervisor support generally have to do with managing default of group members, group membership and dynamics, personal time management, and deciding which clients are appropriate for individual loans.** For example, when they mentioned they did make decisions without supervisor support, they often mentioned making decisions about how to recuperate loans. "W*hen I lose money due to defaulted loans, I have to use my own judgment to decide how to fix the situation."* Another declined to give a loan to a particular member: "F*or members who don't fulfill their payments in a cycle, it is his [the credit officer] own decision to prevent the member from taking more credit. However, this doesn't happen much."* One credit officer shared he let a family become its own village bank, "*because, why not?"* One made a decision about loan size: *"Yes, I could not communicate with my supervisor because there was no cell-phone coverage, and I made the decision to increase the amount of the loan for a client because her savings covered the increase."* Several indicated they make changes to the way they provide education: *"I have never broken with the rules, but I often adapt the education materials so they are better suited to the clients."* In some cases, they bend the rules because they think the organization doesn't understand the reality of the client. "F*or example, sometimes the institution says that the women can have only three defaulted loans but sometimes we bend the rules but we always consider the regulations before we make a decision. It's just that the rules are too strict sometimes for the women and their reality isn't taken into account."*

7. **Credit officers have mixed opinions on whether they feel supported by their supervisor in making their own decisions.** One shared that, *"They train them with examples and give them vague ideas of the things that they might encounter, and they have to use the situations in the examples and apply them in real life and the chief of agency supports their decisions because they base them off of their training."* However, some in the same institution felt as though their supervisor never supported them: *"Sometimes he doesn't support us because sometimes we have to break the rules because it is the only way to fix things."* Some don't know whether they'll be supported in their decisions until after decisions are already made:
   - *"If we can successfully adapt to a situation, we are supported, but we are never encouraged to change the rules without consulting with our supervisors."*
   - *"He backs us up for the most part. We explain the decisions we made to him and he helps us reflect on them."*

8. **The institution influences how much a credit officer does "outside of the job description."** At CRECER, credit officers appeared more likely to indicate that they conducted a lot of work outside of their job description and outside normal work hours. For the other institutions, it was more of a mix of those who felt as though they worked outside of normal work hours or not or whether they did anything outside of their normal job responsibilities. When credit officers felt as though they were working outside of normal hours, this very often concerned collecting payments or dealing with repayment issues. One credit officer shared that, *"I can't do all of my work within eight hours—I have to collect from clients in default outside of the work*

schedule." Another shared that she spends a lot of time doing things that don't officially correspond to her functions, such as taking clients to health centers where CRECER has agreements. Also, she spends a lot of time outside of normal work hours following up with clients who haven't paid and are in default. Another shared that because her group members trust her so much, she must serve in many roles other than credit officer. Many times she plays the role of psychologist, conciliator, judge or "heart doctor." She orients them in matters of services and family matters. *"This is perhaps what the women like."* One credit officer at another organization indicated that she spends *"…ten percent of the entire day. I won't tell my members that I don't have time for them."* However, most credit officers at that same organization felt that they don't have time outside of the work day to do "other things." This was reflected in the other three organizations as well. For example, one credit officer said, *"We know what we have to do and we don't dedicate a lot of time to other stuff."* How credit officers responded to this question likely has a lot to do with how they interpreted the question and how they interpret their "job description" and "normal duties."

Analysis

In review of the findings from this study, we can draw some rough conclusions and build new research questions and theories about the crucial role that credit officers play in organizational and in client success.

One key question raised is about **external validity**. How much can we generalize from these results? Are the results from the staff and clients of these five institutions likely to be found for other financial service providers in other geographic areas? Would we find similar findings among institutions that do not base their service on group lending or when the only interaction with the client might be through a technology platform or through a brief interaction at a bank-teller window? We noted in our Methods section that our sampling was quite opportunistic but that we also made efforts to ensure representation when we were unable to interview all of the credit officers at any given partner. While a random sample of credit officers would have strengthened our findings, this research was exploratory and we feel the findings provide us with fodder for future research. Furthermore, the research highlighted at the beginning of this report by Schoar[9] suggests that even for individual lending organizations, relationships and "touch points" with a bank's staff matters for client satisfaction and client "empowerment." Freedom from Hunger staff reflecting on this research felt we would find similar results across our geographic programs (Asia, Africa, Latin America) as well as across product-types that the organizations are providing. Organizations providing either or both group-based lending and individual-lending products would see similar results in terms of the importance of the relationship with the credit officer.

Another theory to be tested is related to **social performance** of the MFI. In this case, we have five institutions that have been fairly active in building their social performance. They try to link their

[9] See footnote 3.

missions to every aspect of their organization: they build incentives around mission achievement; they build hiring profiles of staff who will more likely ensure that service delivery will support mission achievement; they do a lot of client research to understand client needs and desires. Would we find similar results among MFIs that either have less social focus or have weaker social performance management systems? A few specific questions regarding the **principal-agent challenge** mentioned earlier in this paper arise from this theme:

1. If credit officers are primarily motivated by the desire to help people in their community and if they work for an institution that they feel really cares about the desires and well-being of the client, are they less likely to deviate from policies and procedures?
2. On the flip-side, if credit officers are primarily motivated by the desire to help people in their community and if they work for an institution that speaks less about client well-being and seems to focus more on the financial transaction, repayments and defaults of the clients, are credit officers more likely to deviate from policies and procedures in their desire to help the clients?
3. If credit officers are primarily motivated by the desire to help people in their community, would their lack of adherence to the policies and procedures of the organization be a warning signal that the organization is experiencing mission drift? If we were unsure how social performance is "operationalized" within an organization, could we look at credit officers' reports on adherence to policies and procedures as an indicator of institutional alignment with its social goals?
4. Could we quantify or relate policy-procedure adherence of the credit officers to the financial bottom line of the institution? Would we find that organizations with strong social missions (and credit officers less likely to deviate from policies, procedures and product designs) also have better repayment rates, operational sustainability, etc.?

In the first two questions, credit officers have a stake in client well-being, but one organization gives them an avenue toward fulfilling their internal motivation for working in the microfinance field—the desire to help community members—and the other organization creates conflict with this internal driving factor. Most of the credit officers interviewed in this research seem to indicate that, for the most part, they agree with the policies and procedures of their institution—while the credit groups might encourage them to break the rules, they see these rules as protecting the client and the institution. For example, credit officers see rules that appear to be restrictions from the client perspective as protecting clients from over-indebtedness or default. Questions three and four would help us understand if and how the relationship among the mission, the principal-agent challenge, and performance of the institution are linked, and how closely linked. The research referenced in the introduction of this paper by Canales suggests that we might indeed find these linkages.

An additional question relates to the **hiring profile** for credit officers. Obviously, not all financial service providers are socially driven or have social missions. Does this suggest that the hiring profile for those organizations that are socially driven has to be different from the hiring profile for organizations that do not have a social mission? One partner shared that as it was growing as an institution, it started trying to hire accounting majors and people with stronger financial backgrounds, but soon found that these types of credit officers were actually less successful and a poor fit with their institution. It found, and the other four organizations seem to agree based on similar experiences, that it cannot teach someone to be motivated socially, but it can teach the financial aspect of the job. In fact, some of its best credit officers tend to be nurses, teachers and other professionals who come from more socially oriented fields. This finding supports the recommendation made by Agier and Szafarz[10] that rather than attempt strict and comprehensive monitoring to ensure credit officers are adhering to policies and procedures, a next-to-best solution would be a hiring policy and practice that ensures credit officers are well-matched with their organization's mission and goals.

However, it is clear from this research that while the hiring profile may need to focus on finding people with social motivations, **training is crucial and desired for credit officer performance and cannot be underestimated,** particularly regarding the financial aspects of the job, such as group management, conflict management, determining repayment capabilities of clients, etc.

The perspectives of the client, the institution and the credit officer vary slightly regarding the role of non-financial products and services. We found the credit officers' views of the non-financial products they were providing interesting and important. While the intent of the institution to provide health services, education or other non-financial services to the client is to improve client well-being, credit officers often also saw these aspects of their job as an opportunity to build positive relationships with their clients. While this finding is not surprising, it suggests that even for financial service providers who do not provide non-financial services and want to build strong client-credit officer relationships, they need to provide credit officers with tools to build positive relationships with clients. When credit officers, in their own words, had to be "hard" regarding repayment and default and following rules and regulations of their institution, they could also be "soft" with their clients by meeting other needs and strengthening their relationship with the client. This in turn appears to build client loyalty, retention and satisfaction. An additional implication of this research is that when we assess client satisfaction and want to evaluate existing or build new products and services, the client's relationship with the credit officer, or more generally, the client's interaction with the institution's personnel, cannot be left out of the equation. The relationship with the credit officer and the products and services offered support each other and often determine together whether a client is satisfied and decides to stay or not.

Talking to credit officers, supervisors and clients alike is an important step in understanding institutional performance—and **the methods may not matter as much as the intention to learn what lies behind the questions**. One question we had during this research was about methodology. Could you learn as much from FGDs as you could from individual interviews, and could you learn as much from individual interviews as you could from a person privately filling out a questionnaire? Obviously, we expected to gain more concrete information from the individual interviews, and we did. We have more specific examples and scenarios shared in the individual interviews compared to FGDs with credit officers. We could probe and interpret the answers from

[10] See footnote 4.

the individual interviews better than we could the written answers from credit officers filling out the same questionnaire. In all cases, individual privacy was protected, which we believe improved our chances that the information would be truthful and revealing. There are strengths and weaknesses in all of the methodologies, but what is clear and important is that it does not much matter what the methodology was; what was important is that we engaged in this activity and that we gained some important insights from these interviews. FGDs seemed to reiterate and triangulate what we found in the individual interviews—we had fewer details, but the findings were similar. Interviewing all three levels—clients, supervisors and credit officers—was important; we were able to strengthen findings when they had similar perspectives and opinions, and it was enlightening when these opinions differed.

Conclusion

We expected this research to be insightful in many ways but we learned much more than we anticipated. The microfinance industry has recently spent more time and effort on "listening to clients" and building social performance systems for the MFIs, which are both crucial and important. However, this research suggests that

1. much more can and should be done to build a stronger mission-aligned workforce, particularly among socially oriented financial providers;
2. credit officer knowledge of client needs and desires should not be underestimated; and
3. organizational and monitoring systems should provide more formal and frequent avenues for incorporating credit officer knowledge of client needs.

While we recognize that financial service providers do not always have the human resource capacity to frequently train and support credit officers, this is an important need for the industry. Credit officers unhappy about their professional development at one MFI are more likely to jump to another MFI, but this research suggests that because of their own social motivation, they might actually leave the industry altogether. This creates an ongoing challenge for recruitment of seasoned and effective credit officers.

While the role of the credit officer is often appreciated and recognized as very important for meeting the needs of the poor, it is unlikely that they have been seen as real levers for change; there is an opportunity to more intentionally and effectively tap the social motivation of the credit officer for the well-being of the clients and the institution alike.

Acknowledgements

We would like to thank the five organizations that participated in this opportunistic study: CRECER in Bolivia, Alsol in Mexico, and Confianza, FINCA Peru and PRISMA in Peru. We would also like to thank the energy, bravery, and assistance from the five interns who conducted the field work for this study: Byron Hoy, Kelly Taylor and William Roberts from the University of California–Davis and Sara Maldonado and Paul Ream from Davidson College. Many thanks to Lauren Brunner from

Tulane University who also assisted in report-writing for the individual partner reports. Finally, we greatly appreciate the financial support of New York University that funded a major portion of this study and the essential guidance from Timothy Ogden and Jonathan Morduch.