

Managing Loan ‘Delinquency’ and Microfinance: Lessons from Zambia

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ABSTRACT

The paper seeks to correct the neglected importance of loan officers in microfinance by explaining their roles, dilemmas and tensions when actually working with clients. Few existing studies have used data outside Bangladesh and many focus upon well-performing institutions. This study draws its data from Zambia and focuses on the recent repayment crisis of CETZAM and the effects of strategies for dealing with defaulters. Our findings firstly show that loan officers faced powerful hierarchical accountability pressures and under intense pressure, used inappropriate methods to compel repayments. Second, because of their problematic relationships with clients, loan officers experienced job-related tensions through performing conflicting roles that called for a particular management of emotions. Third, the approach to borrower default is shown to be so detrimental for CETZAM’s short and long-term survival that it could call other developments into question.

INTRODUCTION

“Microfinance has proved its value, in many countries, as a weapon against poverty and hunger. It really can change peoples’ lives for the better –especially the lives of those who need it most” (Kofi Annan, UN Secretary General, 18 November 2004).

2005 had been declared the ‘International Year of Microcredit’ by the United Nations. This declaration was a demonstration of support from the world community of the importance of microcredit for overall economic development. Governments, NGOs, the private sector and the media had been invited by the UN to highlight the role of microcredit and microfinance in poverty reduction. The target of reaching 100 million impoverished people (especially women) with credit by 2005 (Microcredit Summit, 1997) had once again attracted world-wide attention for the tool of microfinance. As a build up, therefore, to the year of microcredit, evaluation of microfinance programs had attracted much attention as an increasingly important aspect of development activity. Agencies, and particularly aid donors, have all sought to ensure that funds are well spent (Eversole, 2003; Hulme, 2000), and thereby prove that microcredit activities reduce poverty (Gulli and Berger, 1999).

Consequently, accountability and justification are distinctive features of microfinance today. Despite demonstrated successes in reaching some of the poor in providing credit (Hulme and Mosley, 1996; Morduch, 2000), the poorest remain beyond many microfinance institutions’ reach (Ahmad, 2000; Ito, 1999) and this has required particular –often economic- explanation.¹ Such evaluation research therefore reflects an ‘economic bias’ in its impact assessment of microcredit on poverty (Copestake, et al., 2000, 2002; Hulme and Mosley, 1996, 1998); outreach to the poor (Gjerding, 2002;

¹ Economic models from an institutional perspective have used transaction costs and show that these are too high for the poor (Bhatt and Tang, 1998; North, 1990), sociologists have looked at social capital and the role of networks (Coleman, 1990; Portes, 1998; Woolcock, 1998, 2001), while anthropologists have pointed to cultural factors (Mayoux, 1999, 2001).

Hulme, 2000; Navajas et al., 2000); and empowerment of women (Goetz, 2001; Kabeer, 2001; Mayoux, 2001; Rahman, 1999a).

Replications of lending methodologies and issues such as, client/borrower exit from credit programs have been studied with a view to improve service delivery (Hulme and Mosley, 1996; Hulme, 2000; Pal, 1999; Wilson, 2001). In short, evaluations of microfinance programs have hitherto been dominated by a concern with impact assessment, program replication, client outreach and financial sustainability.

While relevant to understanding microfinance, and also attractive to donors, such research nevertheless neglects the processes of microfinance at work and puts more emphasis upon its original strategy than subsequent implementation. Research particularly neglects field workers or loan officers (Ahmad, 2000; Goetz, 2001, 1997) and their interface with poor people (Holcombe, 1995; Jackson, 1997). A number of issues and problems concerned with the work loan officers actually do at the most critical interface have arguably not been sufficiently addressed before, which are potentially critical for frontier territory like Zambia, where microfinance still needs to progress from simply promising beginnings. Loan officers are the major link between microfinance institutions (MFIs) and their poor clients and are central for service delivery (Ahmad, 2002; Goetz, 2001). Because they mediate transactions between MFIs and borrowers, loan officers are thought to implement policies of MFIs in ways that imply in-depth understanding of clients and empathy for successful lending (Ahmad, 2002; Chua, 1998; Goetz, 2001; Holcombe, 1995; Jain and Moore, 2003; Pawlak, 2002). In short, it is argued that “the heart of MFI lies with its fieldworkers” (Chua, 1998), yet that argument has not really been fully examined.

Loan officers face tensions and challenges because of conflicting expectations between clients and MFIs, accentuated by inability to enforce joint liability and social sanctions in group based lending methodologies (Jain, 1996; MKNelly and Kevane, 2002; Matin, 2000; Vogeldesang, 2003). The dilemmas between fulfilling their client ‘nurturing’ roles which call for the use of time and social skills as opposed to the other tasks assigned by their home MFIs are not necessarily easily resolved. So far there has been little research into how loan officers adapt to these situations and what effects these

adaptations then have. There are particular questions about how each actor within the lending process uses the existing relations to further their interests in a given context. For example, how do these interactions between clients, loan officers and their management shape MFI performance? Such questions are important because the actions of loan officers have substantial and sometimes unexpected and unintended consequences for the actual direction and outcome of many credit programs. The following sections therefore review the literature on loan officers' work within microfinance, describe the context to the study, the MFI selected and the research methods used, and resulting research findings. The study concludes by considering why the implementation of group based lending programs can prove so unexpectedly problematic especially where the lending process so depends upon appropriate social relationships and becomes flawed when these are not suitably developed.

Fieldworkers: A Brief Review

Among the few empirical studies of loan officers/field workers are those of Ahmad (2000) and Goetz (2001) based on the MFIs in Bangladesh moving from a pioneering to developing stage where high repayment rates are considered a notably 'heroic' outcome of their continuing progress. Goetz (2001) for example, explores the question of institutional change from the point of view of women fieldworkers and their role in promoting gender equality within a microcredit program among poor women. These field workers were critical to communicating policy changes to borrowers and responsible for effecting the 'fit' between top-level policy 'initiatives' and local 'realities'. They operated under particular pressure to secure high rates of repayment as their institutions sought financial sustainability, and were assessed primarily on the basis of their credit-delivery performance. Findings in other countries have been similar (Ito, 2003; Rahman, 1999b; Reinke, 1998; Schreiner, 1999). Goetz concluded that the importance and influence of field workers was in principle reflected in whether and how they reconciled their organisations' goals with their own personal preferences. Ito (2003) observed that field workers with diverse roles faced the rival demands between increasing loan disbursement and repayment as compared with borrowers' requirements to be sensitive to their own specific circumstances and requirements.

Ahmad (2000, 2002) also argued that the microfinance literature has evaluated the activities of Non-governmental organisations (NGOs) without sufficient reference to

the views of those who actually work with clients. Like Goetz (2001) Ahmad (2000) also found field workers to be implementers of policies but were nevertheless organisationally dis-empowered. 'Very little research has been conducted on the field workers in both the North and South and yet, it's the strength of field workers, which ensures the smooth functioning of the MFIs' (Ahmad, 2000: 64). Both Ahmad and Goetz (op cit) argued that the practices and perspectives of field workers themselves were under researched. Outside South Asia, little knowledge exists about their actual roles within the group lending programs. Understanding of the loan officers' roles within the credit lending process in Southern Africa is particularly limited to findings based on MFIs in South Asia and also from general studies on impact assessment of microcredit programmes, client exit surveys, outreach of MFIs and group dynamics.

The focus of this study is on loan officers in MFIs in Zambia and how they adapt to the respective demands of MFIs and their clients, as illustrated by how one emerging MFI-CETZAM- managed its own repayment crisis. It finds that loan officers pressured to account for their activities and recover money pursued strategies that called for them to 'manage emotions' in such a way as to increase the sense of shame among defaulters, thereby weakening their groups' mutual guarantee even further. The strategies pursued by CETZAM in dealing with widespread 'delinquency' (a term actually used by the institution themselves when referring to those defaulting on mutually assured loans) are found to be of a short term in nature and potentially detrimental to outreach and sustainability. Such an approach, coupled with a poor national credit culture, weak governance rules, mistrust and competition from other MFIs ultimately weakened CETZAM's trust bank methodology. 'Delinquency' turns not only on the lending policies and costs of the program but also on the nature and extent of social relations (a) among clients in groups, (b) between clients and loan officers and (c) between loan officers and management. This is significant given the 'benchmarks' now used regarding microfinance performance and a bias towards reporting 'excellent' loan repayment rates of 98 per cent and above among 'successful' mature MFIs elsewhere. Such benchmarks may conceal the underlying problems of MFIs in early stages of development unless these further issues are recognised and resolved.

The Zambian Context and the CETZAM's Case

Microfinance in Zambia is relatively young and has operated without a distinct legal and regulatory framework until recently (Dixon, et al., forthcoming).² The sector emerged in the 1990s (Maimbo and Mavrotas, 2003; Musona, 2004) and is largely donor driven, with an urban concentration. By September 1999, there were nearly thirty organisations engaged in MFI activities (Maimbo and Mavrotas, 2003). Currently, it is estimated that there are twenty established MFIs (AMIZ membership list, 2003)³, most of which are either inactive or quite localised and small compared to other MFIs in South Asia and East Africa. Despite their numbers outreach remains low in relation to the potential 'market', and the scope of services is likewise limited, mostly to microcredit with little savings mobilisation. Like MFIs in Kenya (Johnson et al., 2003), Zambian MFIs face relatively high levels of delinquency and default, high operating costs, slow intake and high client exits which constrain their efforts to achieve the financial and organisational sustainability now considered so important. Indeed, most are now faced with challenges of 'good governance' (given their NGO status) and often struggle to maintain high repayment rates.

CETZAM is funded by the British Department for International Development (DFID) and is one of Zambia's best known microfinance institutions. Its headquarters are in Kitwe (Copperbelt province) and was founded in 1995 as an NGO driven by Christian principles to 'transform the lives of the poor' by 'providing opportunities to create employment and generate income through credit and training services' (Field notes, 2004). Its first loans were disbursed in July 1998, and DFID agreed to provide £2.29 million in financial support for a five-year period starting February 1998 (Copestake, 2002). CETZAM expects its clients will become agents of transformation⁴ within their communities (CETZAM CEO, Nov. 2003) where 'transformation', may be economic, social, spiritual or political in scope. CETZAM therefore originally anticipated its loan

² The Bank of Zambia has finalised the regulatory framework that would allow some MFIs to mobilise savings, but more importantly, establish governance rules (that have been non-existent hitherto) and formal accountability channels with the central bank.

³ AMIZ stands for the Association of Microfinance Institutions of Zambia. Most of the MFIs are affiliated to AMIZ, including CETZAM.

⁴ Opportunity International Network defines 'transformation' as a 'deeply rooted positive change in beliefs, values, attitudes, actions, relationships and structures manifested in a higher level of existence of an individual and/or community' (Cheston, S. et al., 2000).

officers as having a transformational role with poor clients, but this research will question how transforming their relationship has been.

CETZAM expressly uses a group-based poverty lending methodology specially intended to target the poorest of the economically active population-especially women (CETZAM brochure, 2001). To qualify for a loan, a borrower needs no physical collateral, but must belong to a joint-liability credit group, as is the practice with most group lending methodologies (Dixon, et al., forthcoming). A loan officer's intended role is to assess the eligibility of potential clients, visit their businesses, and train them in CETZAM's lending methodology -including some basic book keeping skills- for ten weeks before disbursing loans to them. Trust Banks are thus supposed to become tightly knit self-support groups with the ability to transform their lives and communities. Self-selection of group members is a major element of the methodology together with joint mutual guarantees (Bastelaer, 1999; Matin, 2000). In addition, group lending programs operate in a way that the work of screening, monitoring, and enforcement of repayment are to a large extent progressively transferred from the MFI's agent (loan officer) to the group members themselves (Hermes, et al., 2005, Marr, 2002; Rhyne, 2001; Sharma and Zeller, 1997). Several observers have addressed the perceived advantages of such collective action in the actual screening of loan applicants and monitoring of borrowers (Bhatt and Tang, 2001; Besley and Coate, 1995; MckNelly and Kevane, 2002; Morduch, 1999; Navajas, et al., 2003; Reinke, 1998; Rhyne, 2001; Stiglitz 1990; Varian, 1990). One main argument is that group members can obtain, at low cost, an understanding of the reputation and indebtedness of the loan applicant and their efforts to ensure repayment (Bastelaer, 1999) and thereby 'socially obligate', rather than formally compel, that repayment.

The principle behind these groups is that they will be readily mobilized, cost effective, and boost repayment rates through an enforcement mechanism where group members can use social sanctions against their defaulting members, offer a screening function (to avoid forming groups with risky borrowers), and thus co-guarantee any loans. This joint-liability mechanism, it is argued, has been a major methodological breakthrough for lending to the poor (Ahmad, 2002; Bhatt and Tang, 2001; Goetz, 2001; Hulme and Mosley, 1996; Ito, 2003; Rahman, 1999a). However, there is mixed evidence on actual 'enforcement' of joint liability, and several authors observe that, while issues of joint

liability are widely discussed in weekly meetings, it is not always ‘enforced’, making the intended shared responsibility difficult if not impossible to realize (Ito, 1999, 2003; Jain, 1996; Jain and Moore, 2003; MKNelly and Kevane, 2002; Pal, 1999; Rahman, 1999a; Schreiner, 1999; Vogelgesang, 2003).

Research Methodology

The study is based on a period of intensive qualitative research conducted in late 2003 based on the researcher’s ‘indigenous knowledge’ of the local context and culture as well as extensive prior local field experience. It was not originally intended to be a study of CETZAM and its ‘delinquency’ crisis. Rather the researcher set out to explore the emerging role of loan officers in MFIs providing credit to the poor (especially women). CETZAM was originally selected for study as a successful model (Copestake, et al., 2002).⁵ The problem of ‘delinquency’ at CETZAM was therefore not known prior to the study but later emerged in an iterative way while field work continued. A combination of observations, semi-structured interviews, focus group discussions and informal discussions with loan officers, clients, immediate supervisors and senior management were used in the study.

In all 20 formal interviews were conducted, tape recorded and subsequently transcribed, each lasting between forty-five minutes to one and half hours.⁶ A semi-structured interview approach was taken using broad open ended questions in order to encourage the interviewees’ own interpretations of everyday actions (Maykut and Morehouse, 1994). This approach is intended to empower interviewees, enabling them to speak in their own “voices” (Llewellyn, 2001) and a degree of freedom to explain their thoughts and highlight any areas of particular interest. While the interview guide imposed some structure on each interview, the researcher ensured that it was the interviewees’ perspectives being gained and therefore the guide was not used in an overly

⁵ CETZAM has 5 branches on the copperbelt, 1 branch was picked (for detailed study) that had the highest number of loan officers (5), with range of 2-4 years of service. All the loan officers were interviewed and observed. This also meant interviewing the branch accountant and manager as well. This branch is typical of the other 4 branches.

⁶ Most interviews with clients could not be tape recorded (6 out of 9) due to noises at their trading premises and were also not comfortable with the recording machine. Detailed notes were written up immediately after these interviews. 3 senior managers, 2 immediate supervisors (at branch level), 1 former loan officer, 3 clients and 6 loan officers made up the 15 recorded interviews.

constraining manner (Patton, 1990). The one-to-one interviews with loan officers were supplemented with a semi-structured questionnaire which addressed the personal background of loan officers, reasons for seeking employment with the organisation, knowledge of their organisation's client target, aims and services provided. Access to internal reports at branch level (though very limited) added meaning to the interview data with loan officers.

Access to internal meetings was granted by the branch manager on condition that tapes and notes were not taken during the meetings. Twelve morning review meetings of loan officers and their immediate supervisor were observed in situ (Dixon, et al., forthcoming). This method was found to serve the purpose of exposing the meanings, perceptions and interactions from an insider's perspective and gave context to the other data that could not be accessed through interviews alone. The researcher also accompanied loan officers in the field to capture the 'oral' character of microfinance and observe the process as it occurred. In order to capture a grassroots view of loan officers in the field, the researcher attended six trust bank group meetings to observe the interactions between loan officers and clients, and noted their reactions. Observed contradictions were followed up and clarifications obtained through informal interviews and conversations. Field notes were written up soon after meetings and at the end of each day. Focus group discussions with clients and loan officers were held (separately) to gain their perceptions about microfinance in practice (Bryman, 2001; Krueger, 1994) while other data was collected by observably 'being around' (Rahman and Goddard, 1998, p. 187).

By focusing on the actors' own interpretation and subjectivity, this field study therefore sought to find how the actors involved in the lending process made sense of situations and everyday practices. Consequently, the style of research required for this purpose was a grounded theory approach to the process of microfinance of an interpretive character (Morgan and Smircich, 1980; Miles and Huberman, 1984 in Hoque, et al., 2004, p.61; Silverman, 2000). The intention was to capture the 'ambiguities, tensions and contradictions' in the 'messiness' of a loan officers' work and also specifically bring out the emotional and social character of microfinance in action. It also helped the researcher interpret how loan officers brought the MFI and their clients together. This link between documents, interviews, questionnaires and observations is referred to as the degree of correspondence (or lack thereof) between what people [loan officers] say-

their 'espoused theory'-and what they actually did- 'theory in action' (Argyris and Schon, 1978 in Collier, 2001 p. 471). It is therefore this triangulation of data that provided a check for internal validity of the results of the study.

The Founding Phase

A synopsis of CETZAM's first six years of operation- July 1998 to December 2003 reveals its impressive start considering the near collapse that followed five years after those first loans. Even in its initial phase it faced pressures of expansion, then later had to deal with the problems of 'delinquency' in order to survive, an issue that dominated the period of this research. CETZAM was the first of the 'new wave' minimalist microcredit organisations and originally claimed great success (in terms of client outreach), then recording repayment rates of 98 per cent and over (Copestake, 2002; Copestake, et al., 2000), with low percentages of Portfolio at Risk⁷ (PAR), and Portfolio in Arrears. This founding 'success story' led to a massive client outreach drive (see fig. 1) that was partly driven by outside donors as well as itself as together they envisaged conversion of CETZAM into a registered bank with a network of at least 20 branches serving 50,000 clients by 2005 (Cheston, et al., 2000). CETZAM expanded its outreach to about 9,390 active clients and five branches by year 2000,⁸ and had by all standards exceeded all original grant targets (Copestake, et al., (2000). As Figure One shows, the numbers of borrowers started small, rose quickly, approaching 16,135 by 2002, but then fell dramatically to 5,382 by the end of 2003. Notwithstanding the success CETZAM achieved over those six years of its operation, it bore symptoms of crisis that its new chief executive officer (the third in 7 years) said:

'It is a pity you have come at such a time when the organisation is going through a very rough patch. CETZAM is being restructured and things are not good and work is hectic as we try to put the organisation back on its feet'. CETZAM has experienced declining client membership, low repayment rates and rising percentages of PAR (Interview with CEO-5/11/03).

By the end of 2003, PAR thirty days and over stood at 30 per cent (the set target being 5 per cent), while the percentage of portfolio in arrears at thirty days and over was 22

⁷ PAR is a measure of loan quality that considers not just missed repayments of delinquent clients, but the remaining outstanding balance of loans, which are at risk of not being repaid. The determination of when a loan is at risk is based on the age of the arrears and can vary among MFIs. A 'cut-off' of 30 days is usually the norm.

⁸ For CETZAM, active clients are clients with loans appearing on the aging analysis, while inactive clients are those on recess, or on orientation, or waiting for a re-loan. Clients in arrears are those with delinquent loans but are within the loan cycle, which has not expired. Overdue clients are defined as clients with loans that are out of loan cycle but still owing money (CETZAM Memo- CET/482/SHZ/03. Dated: 6/5/03, accessed 21/11/03).

per cent (see Fig. 2). In part the high arrears rate may be associated with the rapid growth of the institution when screening, evaluation, and monitoring of loans may have been weakened by the relatively abundant availability of funds.⁹ From the clients' perspective, the perception of CETZAM as an NGO [and] using external funds may have created an incentive to default. Loan disbursement in the year 2003 fell to minimal levels due to PAR related problems.

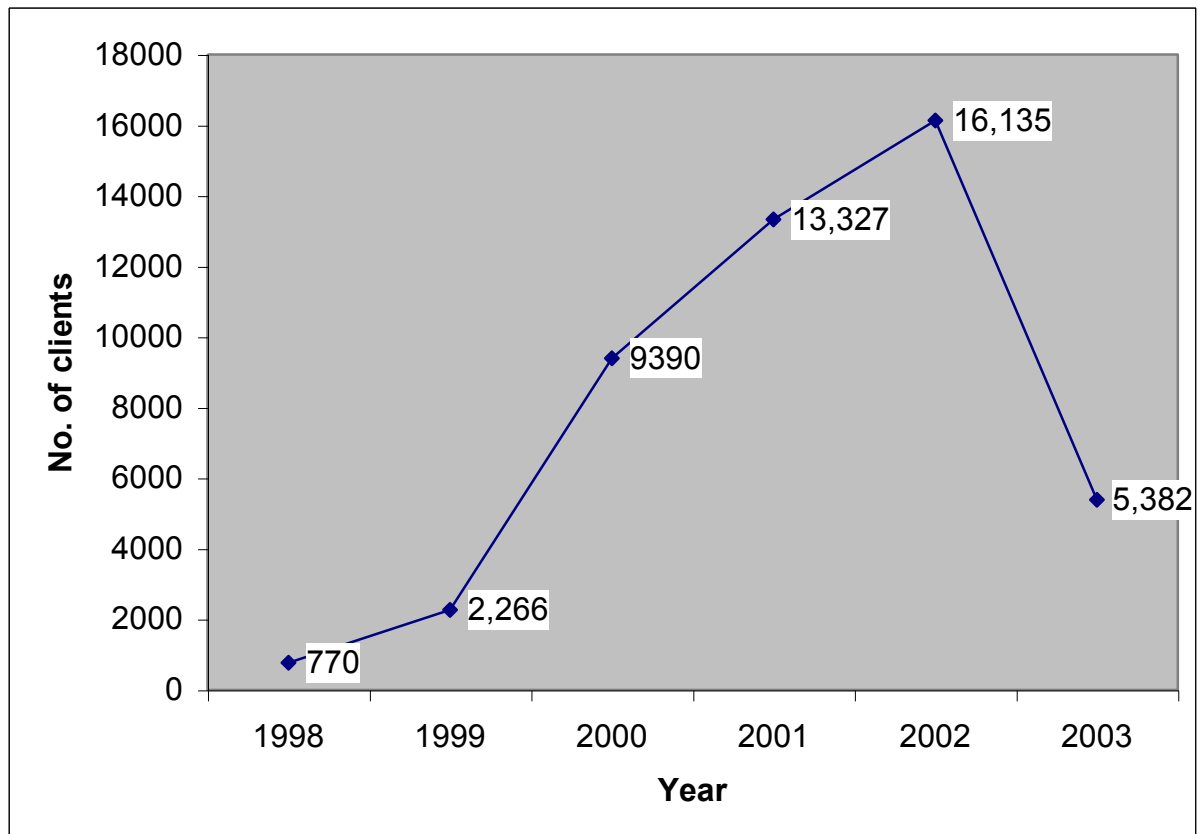


Figure 1 Number of borrowing clients from July.1998-Dec. 2003

Source: Dixon, et al., forthcoming.

By the end of 2001, CETZAM had opened twelve branches (most not eventually sustainable), employed eighty-five loan officers who operated under the ‘pressures of expansion’, (Cheston, et al., 2000), and had a large number of clients. According to its loan officers, the received message from head office had been “disburse, disburse”. Average number of clients per loan officer stood at 375 against the expected standard load of 350. Meanwhile CETZAM had a significantly high-risk portfolio that consisted

⁹ Loans disbursed to fake client groups and ‘ghost’ clients created by loan officers also contributed to high arrears and eventually written off (Based on interviews with clients, management and loan officers-Nov 2003)

of overdue clients, ‘ghost clients’ and those in arrears (debtors), together reflecting significant sums of capital at risk (Fig.2).

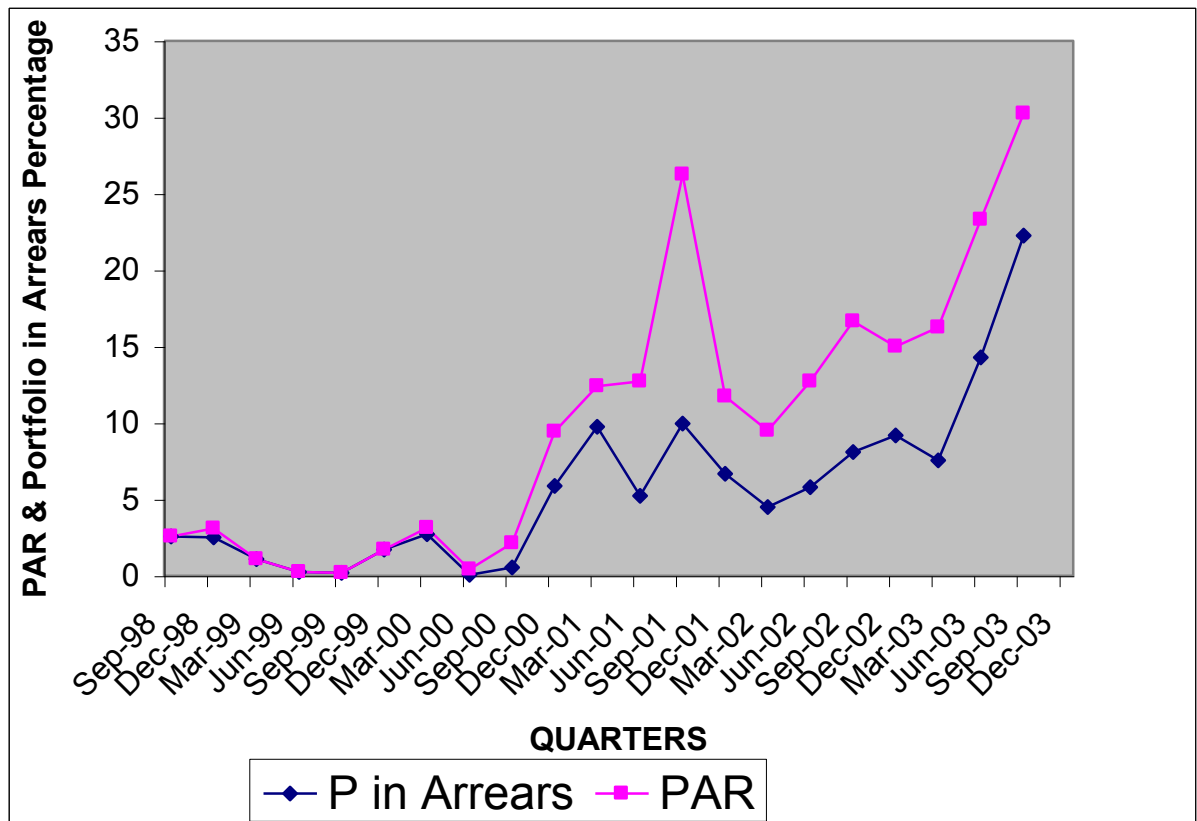


Fig.2 CETZAM’s Quarterly Portfolio at risk and in arrears over six years of operation. Source: CETZAM’s internal figures.

With branches in twelve towns located in three broad provinces, CETZAM was widely spread and risked losing control. There was also a lack of timely and accurate information that made the program vulnerable to potential staff fraud (Field notes 2003). By mid 2003, CETZAM decided to write off thousands of clients as ‘bad debts’ and loan officers became focused on ‘pressures of delinquency’. As a result, CETZAM reduced its branches from twelve to seven and loan officers from 85 to 28 (see table One) while this study was in progress.

Ironically, its quarterly loan disbursements increased up to 2002 (see fig. 3) and thereafter declined as the organisation stood at the verge of its potential collapse¹⁰, amid widespread default and other rumours of unethical behaviour. Interestingly, the

¹⁰ 2003 figures for amounts disbursed were not made available and proved difficult to access. The statement referring to decline in disbursement of loans is based on the interview with one of the managers at head office-CETZAM, 26 November 2003.

outreach and financial performance indicators (as seen in Fig. 1 and 2) did not tie up with other activities. This supports Jain and Moore's (2003) view that organisations so focussed upon collecting overdue payments are already in trouble.

Table One: CETZAM's TREND DATA (2000-2004)

	Dec2000	Dec 2001	Dec 2002	Dec 2003	April 2004	Dec 2004
No. of branches	7	12	12	07	07	07
No. of loan officers	-	60	85	28	26	35
Active clients	9,390	13, 327	16,135	5,402	4,901	6,214
Average client load per loan officer	-	222	233	192	188	180

Source: Compiled from CETZAM documents

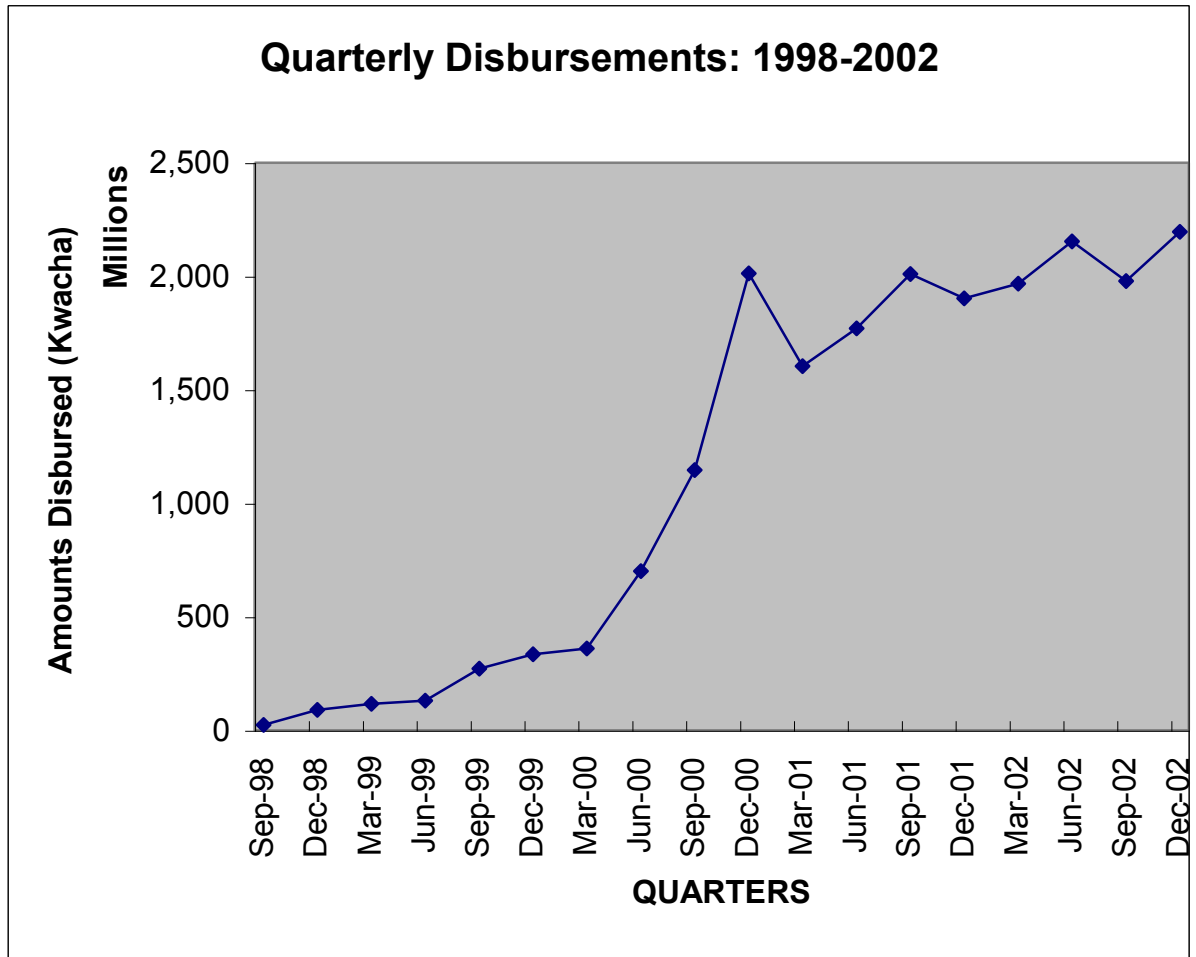


Fig. 3. Quarterly amounts in loan disbursed over four years.

Source: CETZAM documents

The further evidence-based discussion on ‘delinquency’ is based on one of CETZAM’s five branches on the Copperbelt. ‘Wesu’ (fictitious name) branch for instance had 2,024 clients in January 2003, and an average of 350 clients per loan officer. By December 2003, this fell to 825 clients (others being ‘written off’), and loan officers reduced to five from seven. Interviews with loan officers and branch manager and close observations in the field revealed there were different perspectives about the problems at hand (see box 1):

BOX 1

Loan officers’ views

The problem is not just with us loan officers. Management is to blame as well as they had put us under pressure to form groups. We were just fighting to have groups so that we reach targets within a short period of time. So we started compromising. People, oh, I mean loan officers just started getting anyone and not the economically active. So when money was given to them it was hallelujah!! They [clients] didn’t bother to pay. But the end result was disastrous and we paid dearly as most loans were just written off in the end. That is why even our donors wanted to withdraw (LO 1).

At times we loan officers don’t visit clients’ businesses before the loan appraisals, but just sit in the office and the loans come out. So some clients may not even have businesses and defaulting becomes inevitable (LO 2).

The cornerstone of microcredit in CETZAM is the methodology and we have to follow it. But there are

The Loan Officer's Position

One internal document listed the loan officers' key formal responsibilities as: Marketing CETZAM products and services to clients, explain CETZAM lending policies and procedures, facilitate group formation, train clients on CETZAM methodology, facilitate timely loan disbursements, monitor usage of loan funds and make follow ups with clients to ensure timely repayment, engage in delinquency management with clients who are failing to make repayments on time and also implement transformational activities aimed at empowering all clients.

Formally loan officers then report directly to the branch manager and indirectly to the operations manager. In view of their many roles, one head office manager described loan officers as having a 'transformational role' where the organisation expects them to be 'change agents' as they interact with clients. That loan officers are key to the success of microfinance and have:

A very difficult job to do in that they carry with them the financial services CETZAM provides to the client, the vision of the organisation and their personality. All these factors are quite difficult to handle. In addition, there are expectations from the organisation and clients that we need to balance with (Interview-26/11/03, Kitwe).

In a group discussion, loan officers alternatively themselves claimed that:

We are mediators, agents, front-liners and key players. Loan officers are seen as providers from the clients' perspective and as deliverers of services on behalf of organisation. So a loan officer is expected to meet the demands of the clients who expect loan officers to be understanding and quick with loan disbursement while the organisation expects targets to be met (FGD-21/11/03).

The point loan officers are making here is that they link clients with the MFIs through daily interaction (Jackson, 1997; Reinke, 1998). As Schreiner (1999) states, 'microfinance rests on personal relationships, in particular, that between the loan officer and the borrower.' However these 'affective ties' are constructed in the presence of divergent expectations and can be emotion laden. Evidence suggested that loan officer-client interactions and relationships were complicated by conflicting expectations as well as the targets set (for example, zero arrears) that consequently impacted on all relations concerned with 'delinquency'. One loan officer said:

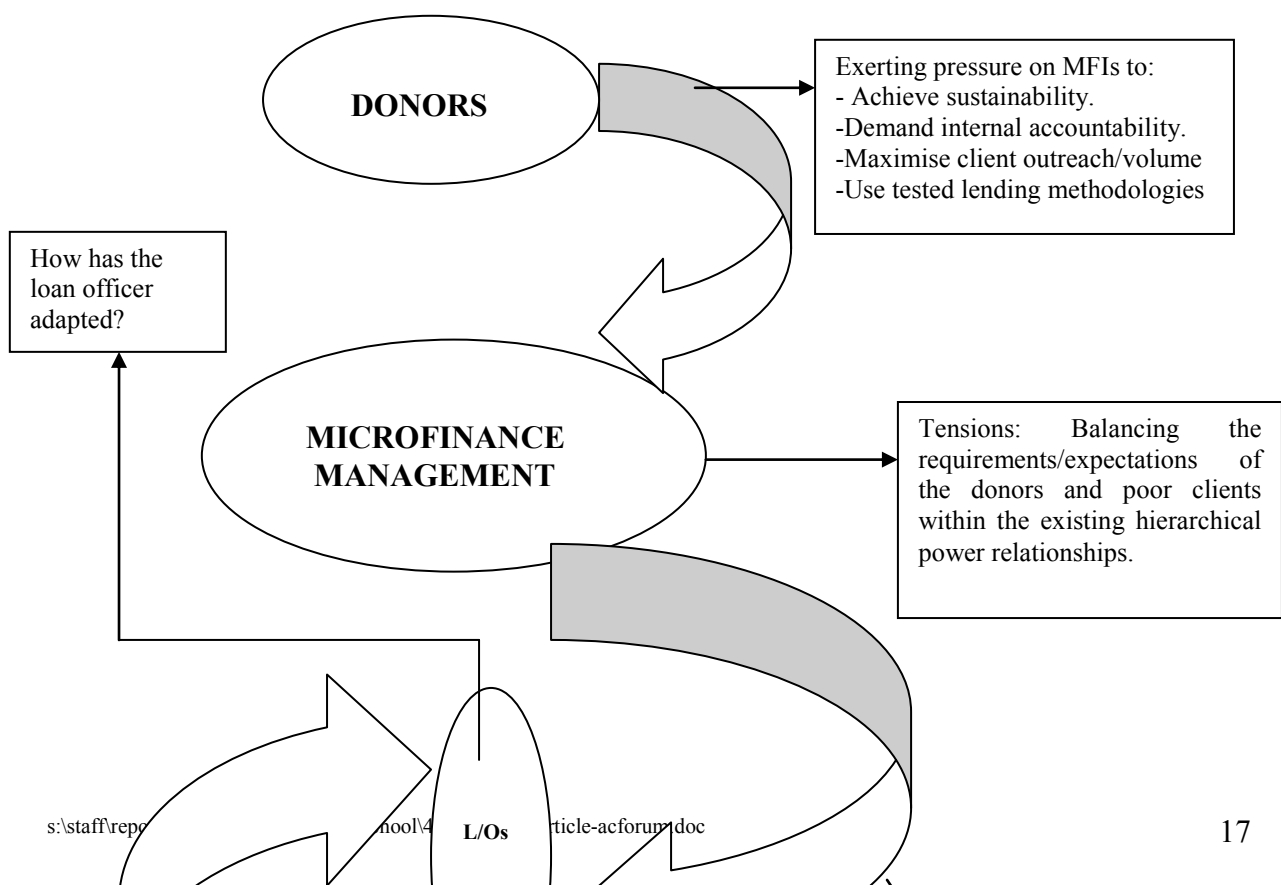
But management and donors do not understand the realities on the ground. Most of them up there [management] have not been in the field, never formed and managed a trust bank to have a feel of what it takes to mobilize people and ensure loans are repaid, while keeping clients loyal and motivated.

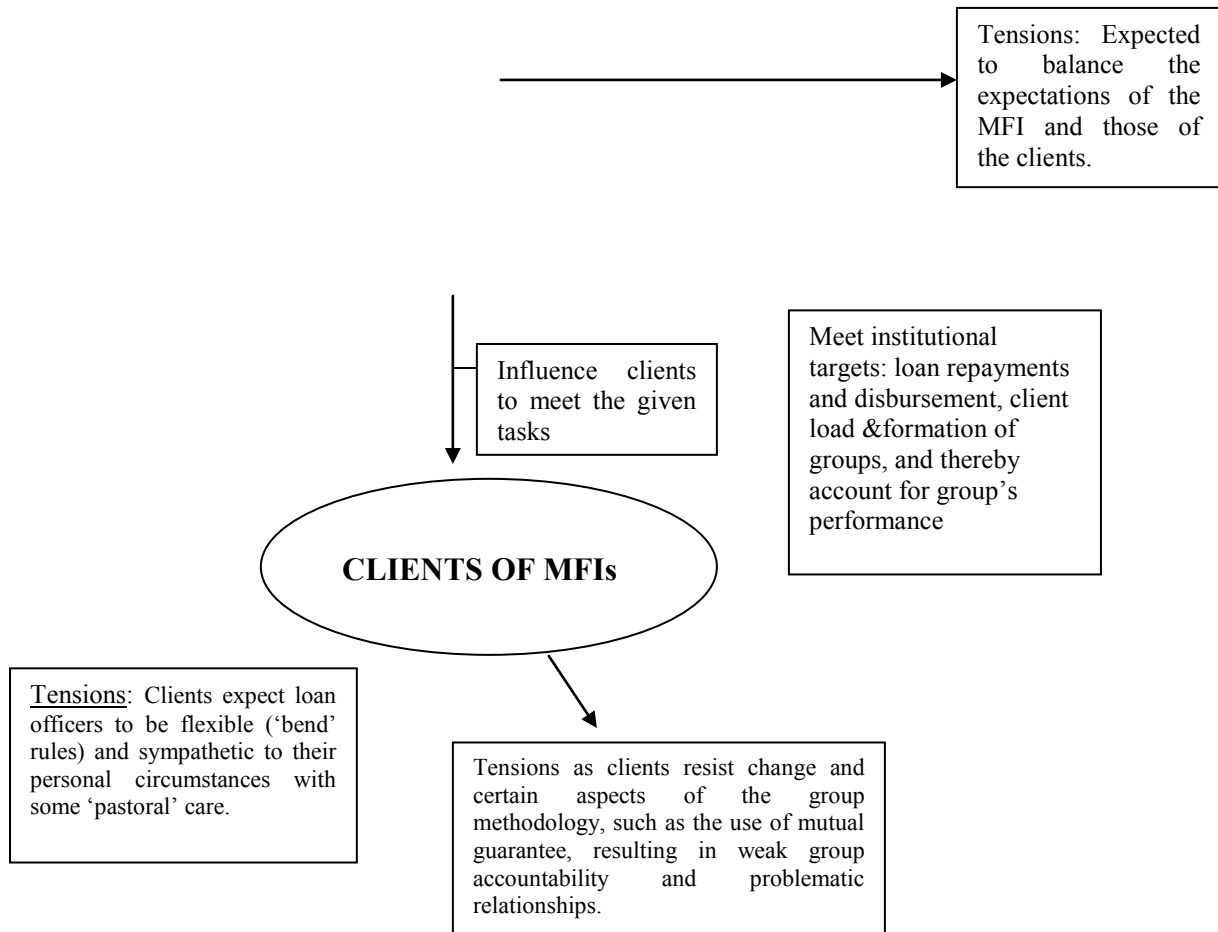
Another indicated:

"Our job is about meeting targets and management does not want to hear any other story. But the problem is that these expectations keep pulling us in different directions".

Such disparate demands and tensions at the client-loan officer interface, loan officer and management within the broader demands of the MFI are captured in Figure 4.

Fig. 4 Framing the tensions and conflicting demands within microfinance





Source: Author- 2004

Problems occurred at four levels. First, the MFI had to balance donors' requirements and expectations with those of the poor. Donors became more focused on internal efficiency and tangible, reported results. As a result, the MFI must contend with pressures from donors to prove they are providing better services while using fewer resources to do so. Problems should therefore be seen in the light of existing unequal power relations between the two. Second, problems are expected between loan officers and management of the MFI as loan officers face powerful hierarchical accountability pressures and offset MFIs expectations against clients', as if to imply they were simply 'caught in the middle'. At a third level, problems arise between loan officers and clients as peer pressure within groups does not induce good repayment, forcing accountable loan officers to use other informal means. Under these circumstances, tensions rise between loan officers and borrowers as loan officers begin to absorb tasks that, in the original model, groups themselves ought to do, especially loan accounting work and

recoveries. The fourth level of problems occurred within the clients' groups due to their inability to enforce the mutual guarantee. All this occurs amid increasing mistrust and secrecy regarding credit related matters. Such sensitivity could offend clients if loan officers for example followed them to their own homes, particularly in a Zambian context where microfinance is still in its infancy. The problem of 'delinquency' should therefore be understood from that perspective, coupled with loan officers' position that: 'we are everything' and have jobs to protect.

'Delinquency' and Loan Officers' Adaptation

Loan officers did not necessarily follow the officially stated lending procedures. For instance, the Trust bank size was reduced to 15 from 20 plus, and the formal orientation period of 10 weeks was not strictly adhered to, and client's businesses were not visited before disbursing loans. Officers also reprioritized their work to recover money in arrears and consequently sidelined other key roles such as marketing the product, facilitating the formation of groups (outreach), proper client orientation and timely loan disbursement (frustrating 'good' clients).

Loan officers pointed to a lack of shared understanding of the 'realities on the ground' regarding poor clients. This created suspicion within management and reciprocal frustration on the part of loan officers who, on the one hand, were being asked to be assertive in collection, and on the other hand, trust bank members expected them to be patient and understanding. Enforcing loan repayment at 'Wesu' branch was problematic, because CETZAM did not have a clear mandate to prosecute defaulters. Johnson et al (2003) report similar difficulties in handling defaulters at one of the MFIs in Kenya, but the difference is that, in this case, CETZAM and not the defaulting client bore the costs. The original intention was that the borrower progressively takes over the lender's responsibilities for monitoring group repayment behaviour, taking action, if necessary, to enforce repayment (Ito, 2003). These arrangements were supposed to free the loan officer for other constructive activities. However, loan officers devoted more time and effort to chasing up defaulters, and not initial loan disbursement or new group mobilisation, knowing that group enforcement of joint-liability was weak and ineffective.

While CETZAM management claimed to be aware of such problems, they did not espouse clear strategies to solve it. As a result loan officers actively pursued defaulters

(a task meant for group leaders) instead of building networks that would enable mutual guarantees (Copestake, et al., 2001; Ito, 2003). Members typically valued harmony more than alternative social sanctions. This is in line with findings by Paxton (1996) in Burkina Faso, where borrower groups applied little *ex post* pressure for the same reasons (quoted in MKNelly and Kevane, 2003: 2027). Loan officers, together with the branch manager at ‘Wesu’, considered they were under great pressure to retrieve the money borrowed and reduce the portfolio at risk. They therefore prioritised ‘delinquency’ at the expense of other activities as institutional survival came first. Sharma and Zeller (1997) reported the same concerns by field workers in Bangladesh. Consequently, money issues dominated discussions in the daily morning meetings.

One loan officer put it this way:

Clients shun meetings because they don’t want you to talk about them. They tend to lose interest if all you talk about is money and defaulters. To them, it’s a sheer waste of time to sit in these meetings. But again if the default thing is still there, we will be forced to talk about it

The outcome of such a pre-occupation with chasing up defaulters as seen at ‘Wesu’ branch (probably a reflection of the whole organisation) is twofold: The first is, the ‘gasp for cash’ – a concern for **immediate** survival where defaulters are pursued by whatever it takes. The second is the ‘suffocation’ of **growth**. There was no new growth as loan officers did not facilitate the formation of new groups and thereby failed to advance the outreach frontiers. Loan officers complained that, ‘management did not take into account the fact that the ‘delinquency’ exercise was time consuming, stressful and frustrating’. As we shall see below, however, the immediate survival strategy is problematic and potentially self-defeating. This is well illustrated by members from the solidarity group and trust bank (see box 2)

Box 2

I think that these loan officers have too many trust banks and solidarity groups that are not doing well and so they are spending their time debt collecting you see! So those of us doing well are suffering. We are neglected and concentration is on those in arrears and defaulting. For instance our loan officer is now just concentrating on groups that are giving him problems. He has just become a debt collector and sometimes he doesn’t even come to our meetings-just busy chasing those owing. Do we have to be pushing them? (Trust bank member-2).

I have seen a problem with CETZAM-this is that, initially when we started learning about their methodology they would tell us, ha! that the time of waiting for the next loan would be short once the previous one is paid for. They told us two weeks. But look at them now! They take their time and keep on promising until may be a month goes- even for those paying well. So where is the incentive in paying back on time? Now is this good? Admittedly, there are times when we clients cause these

The first client accused loan officers of concentrating on poor performing groups and neglecting the 'good' ones (i.e. management by exception), as their needs are not attended to in time. The second client claimed loan officers were delaying the disbursement of loans unnecessarily while both clients express feelings of frustration and disappointment with the resulting shift of emphasis. Musona (2004) found Zambian MFIs slow in loan processing and disbursement, which in turn increased client exit. Delays in loan disbursement here damaged the reputation of CETZAM (by word of mouth) and are harming both sustainability and growth. Consequently, outreach for the branch declined, but costs per member increased due to the resource intensive exercise of chasing up defaulters.

The survivalist approach taken had therefore displaced other key activities such as the selling of CETZAM's products to potential borrowers and the formation of new groups. One loan officer (visibly annoyed) said:

As loan officers we have no time to sell CETZAM products, form new groups and give proper orientation. It seems marketing is secondary and collecting money for now is priority.

Loan officers also revealed that, on average, each loan officer had only managed to form two new groups in that year. 'There is just too much time spent chasing up defaulters' they said, an exercise proving costly to the organisation, as well as immediately frustrating to loan officers.

'Delinquency' Management Strategies

Loan officers first threatened to use the group's loan security fund (LSF) to clear arrears. In several group meetings attended, loan officers used the LSF to force members into putting pressure on those defaulting and to create a sense of urgency in those who had finished paying and were not ready to forfeit their LSF. However, this practice of seizing clients' LSF may have been effective in the short-term, but could

well undermine members' long-term participation. Members whose repayment records were good did not appreciate losing the LSF and therefore leave. One client indeed said:

‘Why is the branch talking so much about arrears when our LSF is used to offset loan amounts not paid by the group’?

MKNelly and Kevane (2003) report similar negative sentiments among group clients in Burkina Faso, where the practice destabilized groups and consequently re-loans were delayed. Another strategy was to use external pressure- police officers- to get defaulters to pay or confiscate household items for sale to recover the money. While in Bangladesh (Grameen Bank, BRAC etc), field workers would not use police help to recover loans, but asked influential local people to exert pressure (Ahmad, 2002; Jain and Moore, 2003), at CETZAM the loan officer did use the police instead:

I have had two situations where I have used the police and in one case I had to take one person to the police and she was locked up and later paid something but relations were destroyed. I feel very bad about it. It's just that my job demands that I bring back the money. It is not right because in most cases items grabbed may not necessarily have come from CETZAM's loan (L/O 2).

Such ‘harassment’ however, serves both an immediate purpose of trying to recover the money and the more important, broader purpose of signalling publicly that the consequences of becoming a defaulter can be made to be embarrassing, especially in a society where credit and debt are intensely private issues (Aryeetey, 1996 quoted in Bastelaer, 1999: 13; Christensen, 1993). When asked why the police were being used, a visibly disturbed L/O said:

If I don't do this, what will the office think of me? They will not believe my story- at least if I tell them that the police went with me to clients' businesses, they will then take me seriously and believe that I am working. Those people [at the office] don't listen. And at times, clients have to see one of their friends dragged to the police for them to get serious with payments (L/O 4).

From the loan officer's perspective, this use of police met two purposes: authenticating their ‘audit’ reports to the manager, and shaming defaulters into paying. Presumably, such social shame creates difficulties for many, as defaulters become stigmatized, sending negative signals to non-members about CETZAM. Other studies have reported defaulters losing household items (see Ito, 2003; MKNelly and Kevane, 2003; Rahman, 1999b). Clients revealed that this can be equally embarrassing, especially if it leads to domestic tensions and violence, weakening marriage ties. This was illustrated in a focus group discussion of five women and three men.

It's important that women inform husbands because there are times when CETZAM grabs items from defaulters and so if [I] the husband has bought [my] TV, Fridge etc and discover that these have been taken for sale to recover money owed, my wife would be in big trouble [with a frowning face]. This creates a lot of tensions in homes (man client).

Those who do it in secret usually get in trouble and some even get divorces (elderly woman client 2).

However, the CETZAM chief executive officer believed that seizing assets from clients and using the police did not fit with the social agenda and therefore did not openly support such action, but acknowledged it as a sensitive issue.

A third option was that of policing 'time' by paying frequent visits and 'pouncing' on defaulters at dawn and dusk. Loan officers appeared compliant, citing that they had jobs to protect. Such visits at awkward hours were themselves shameful, visibly exposing defaulters to their community and also denied loan officers' control of their 'private' time. Loan officers voiced concern over their personal safety in these 'raids,' that they felt very vulnerable to attacks by angry and violent clients. The gravity of the matter was shared by one of the senior managers at head office who cited an incident where a dog attacked a loan officer as he visited a defaulter's home.

In view of these strategies, CETZAM had increasing problems with stressful and frustrated loan officers. This was well captured by two loan officers in separate incidents, the first after a hectic day out together, claiming that:

A loan officer you see is supposed to be on the side of management as well as on the side of clients. So you have no time for own personal things because of too much pressure, no time to relax and sometimes all you dream about is delinquency. I actually dread reporting for work, as I have to figure out what I will have to say to convince the manager.

The second, through an email two months later, wrote:

I have just had a lousy day at work, and thank God for your mail, it brought me back to the real world. My loan officer job is as usual, and we continue to write the daily reports-it is such hell! I think we just might end up resigning (communication received 26 February 2004).

These two quotations reveal signs of emotional stress and effort on the part of management to make loan officers explicitly justify what they have done, make their job more transparent, and thus controllable from above, in a manner of managerial surveillance (Hillhorst, 2003). A particular branch manager asserted that microfinance was a 'sensitive business' and 'the moment loan officers are frustrated you have a problem'. Ahmad (2002) makes reference to similar signs of stress in Bangladesh with PROSHIKA, where a field worker reported having no leisure but a life made tense whenever he had to abuse his clients to recover money and thus save his job. This

heightens tensions between both loan officers and clients, and management and loan officers, and also exacerbates repayment problems as well as ‘suffocating’ new growth.

It is clear that CETZAM cannot survive on the ‘core’ business of pursuing defaulters on the scale observed here where it also relied upon good client-loan officer relationships (Schreiner, 1999) and few defaults. Loan officers were acting more as debt collectors than enablers, and therefore experienced burnout and stress through increasing self-sacrifice. This expectation may lead them to withdraw and, as one manager said, ‘When a loan officer resigns, it’s difficult to replace them’ because, according to Schreiner (1999), ‘they are not interchangeable parts’.

In addition, the use of police, confiscation of assets and possible morning and evening ‘raids’ were creating tensions between the task-oriented role and the ‘nurturing’ role that loan officers were expected to perform. For example, the MFI formally expected ‘professionalism’ since they have to fulfil their organisation’s expectations, while clients on the other hand, expect to see more of the social skills of the loan officer-working ‘from the heart and not the mind’. Loan officers therefore engaged in what Hochschild (1983) calls ‘emotional labour’ to achieve the financial goals and were subject to ‘emotion management’ (Fineman, 2000; Taylor, 1998). This emotion management was demanding. For instance, loan officers acted as if they were interested in clients’ lives, their children, their personal problems such as sickness, family funerals etc. They ‘put on a sympathetic faces’ in matters that were otherwise purely financial. Clients on the other hand respond to loan officers who show that they care and feel for them. Anything else on the part of loan officers could reduce goodwill and make further client mobilisation difficult. In addition, when emotion management fails, it is possible that a trust bank will dissolve and loan repayment will fail. These performed emotions and tensions shape the course and outcomes of strategies used in recovering debt but are sometimes overlooked. Demanding as they might be, loan officers were quick to mention that such displays were rewarding to the extent that they produced increased loan repayment, (out of social rather than contractual obligation).

CONCLUSION

Although CETZAM is neither anywhere near the scale and size nor stage of development of the Bangladesh MFIs, it is nevertheless arguably increasingly representative of emerging MFIs –especially in Africa going through early

developmental problems. The case shows that, while the original Bangladesh model has been officially confirmed and/or academically studied and evaluated, albeit in strikingly economic terms, it is still possible to question the answers it would provide. Moreover, Bangladesh is no longer at the same early founding stage as other frontier territory like Zambia, which has its own 'greenfield' issues to resolve while Bangladesh moves on. The successes claimed for the latter nevertheless constitute important hopes and values for founding and developing microfinance at these other frontiers which few wish to quell with accounts about failings and failures as well. Emerging 'second generation' microfinance institutions may draw upon this other knowledge yet still encounter different problems in the field which they were not thereby led to expect or necessarily plan ahead for. To extend financial services to 100 million of the poor by the end of 2005 (Wydick, 2002), MFIs need further insights into the 'real' world of a loan officer faced with divergent expectations and powerful hierarchical levels of accountability if they are to advance their lending work and meet the set targets. The case shows that outside Bangladesh, there is more to be learnt about how microfinance has been translated elsewhere, what loan officers do, and how they are managed. An additional insight is that clients and loan officers bring very different expectations to their encounters, which clearly impact upon whatever results.

The findings also raise concerns over the nature of accountability that is becoming required of loan officers by management in the context of 'overblown' non-repayment of loans and the extent to which management can demand accountability without inhibiting loan officers' work and microfinance development. This is not to obscure the need to solve 'loan delinquency' problems with all the resources at its disposal but it does call for more consistency with the hopes and values of microfinance proper. Any such solution ultimately needed to be better aligned to, and also drawn from, those hopes and values for it to remain 'double tasked', knowing that anything less risked converting its mission and organisation into something else.

The case also provides evidence to support Schreiner's (1999) view that microfinance depends on personal relationships and that loan officers play a key role in building and maintaining the social bonds which serve as a resource for both clients and loan officers. However, what seems prominent in this study is the difficulties loan officers have in pursuing defaulters and the means used. In such a crisis, loan officer's success or failure may depend on how best the loan officer plays and manages emotions and relationships with clients. Consistent with Ahmad (2002) and Goetz (2001), the

findings of the study show that making the problems of late loan repayment more visibly public can be embarrassing or shameful for the client with lasting negative effects for the MFI. The findings also some support Gjerding's (2002) view that, microcredit lending process is not straightforward as complicated social and cultural patterns of behaviour, strategies and power structures have a big say when it comes to discovering what the outcome of a specific micro credit programme will be. This case, albeit related to one specific case study, indicates that giving careful attention to loan officers –the implementers of lending policies and mobilizers of clients can enhance our understanding of microfinance development. While the level of development and rules of governance of the microfinance industry, interest rates, organisational costs and lending policies are all important contributors to institution's performance, the success or failure of microfinance depends largely on loan officers. If loan officers fail, microfinance (especially group based) fails with them.

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