

# Loan Officer Incentives and Graduation from Microfinance: Evidence from Chile

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# Loan Officer Incentives

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We present evidence that this compensation scheme causes loan officers to impede graduation

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- Two primary loan products:
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- JL loan officers were not forthcoming with endorsements for whom to graduate
  - Each loan officer only manages one type of loan product
  - Loan officers rewarded based on size of their portfolio, number of borrowers, risk

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  - Loan officers were withholding endorsements for best borrowers
- Fondo is special, but the compensation scheme is ubiquitous



## Related Literature

- Strategic behavior of loan officers in banks and MFIs
  - Hertzberg, Liberti, Paravasini (2010), Cole, Kanz, and Klapper (2014), Fisman, Paravasini, Vig (2017), Gine, Mansuri, Shrestha (2017), Fisman, Sarkar, Skrastins, Vig (2018), Karlan, Osman, Zinman (2018)

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- Incentives in social organizations
  - Ashraf, Bandiera, Jack (2014), Ashraf, Bandiera, Davenport, Lee (2019), Berg, Ghatak, Manjula, Rajasekhar, Roy (2019), Desarranno (2019)

## Fondo Borrowers

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# Fondo Borrowers

- 120K borrowers, 100 million USD portfolio, 56 branches in Chile
- Borrowers' businesses
  - Almost all are sole proprietorships
  - Over half in retail, remaining between manufacturing and services
  - Median monthly profits USD 506, median HH income USD 950
    - Poverty line in Chile USD 241 per person

# Joint Liability Loan Officer Compensation

- Impediments to recommendations
  - ① Compensation structure until Feb 2019- Rewarded based on # clients, portfolio size, default
  - ② Minimum group size requirements
  - ③ Concerns about group cohesion

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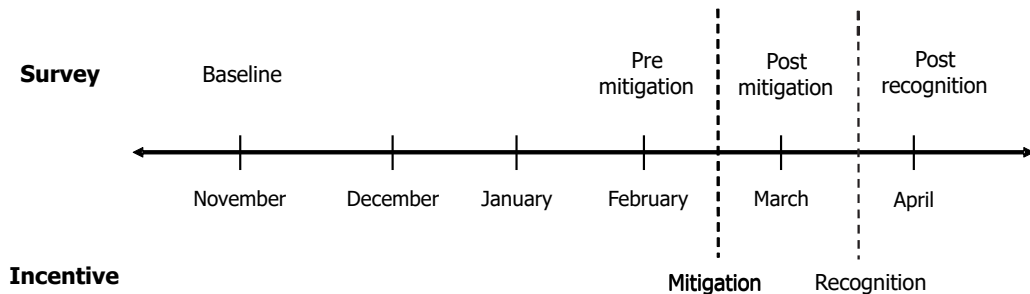
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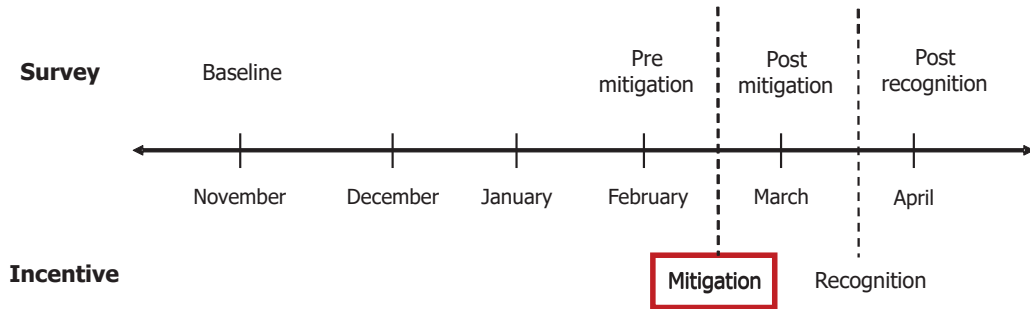
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Optimal design?

# Surveys and Experimental Design



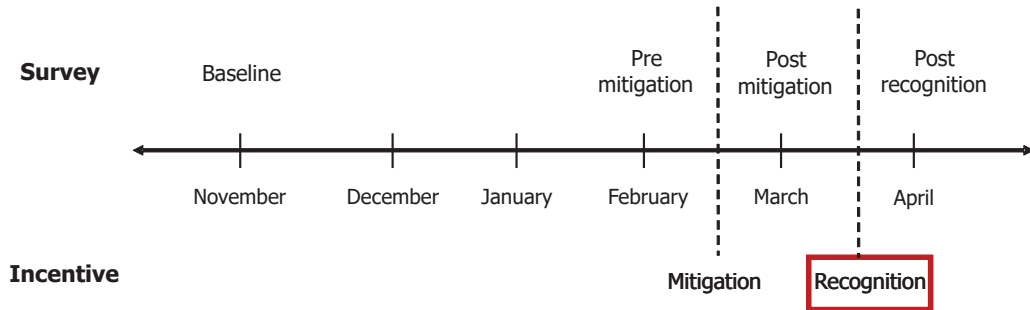
# Surveys and Experimental Design



Mitigation – surprise announcement implemented organization-wide March 6, 2019

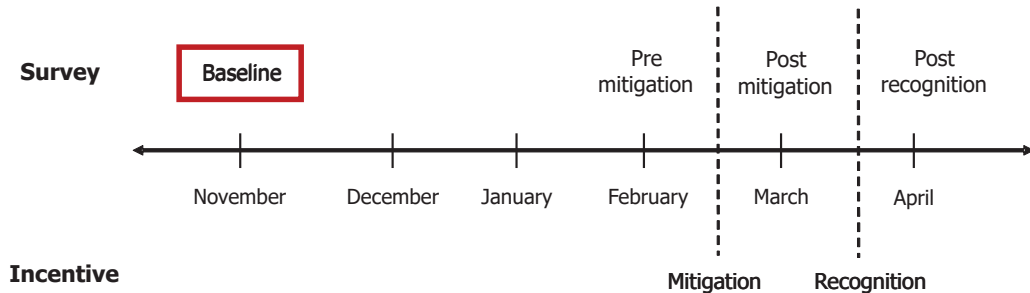


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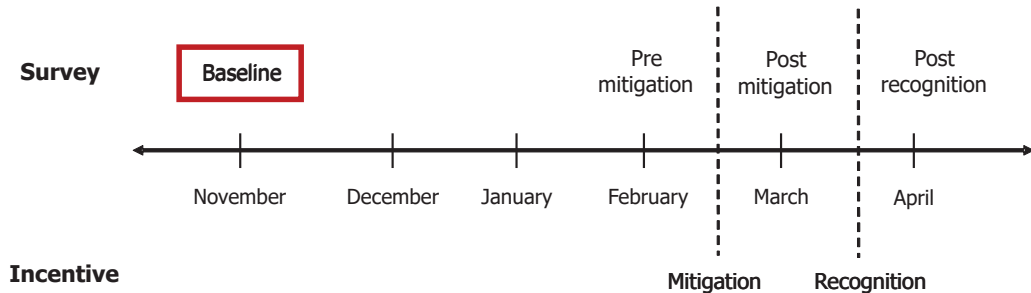
Recognition - surprise announcement implemented organization-wide April 3, 2019

# Surveys and Experimental Design



Baseline survey = November 2018 for **ALL** loan officers

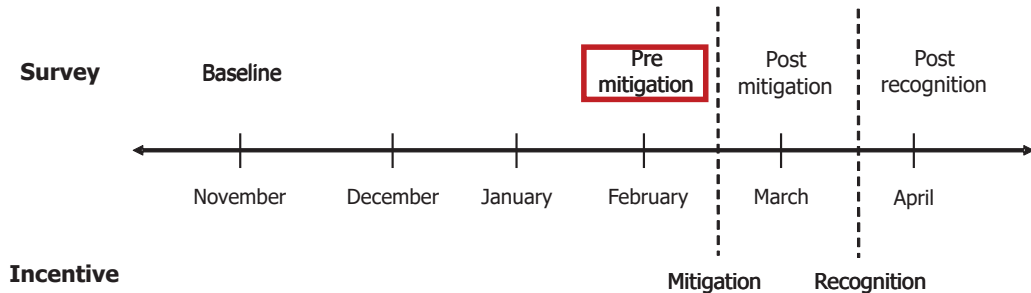
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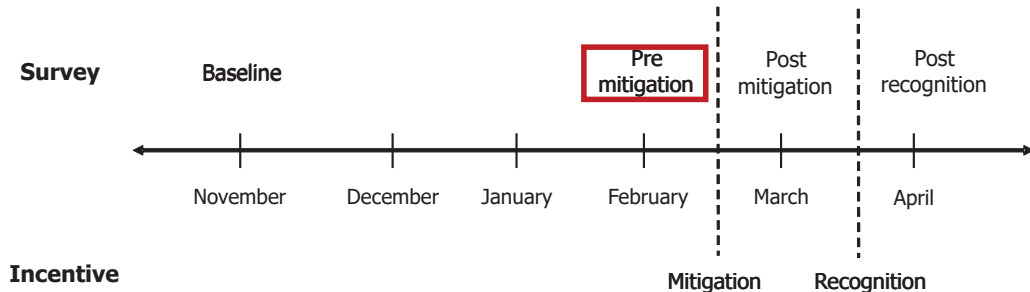
- 1 question: do you recommend this borrower for graduation to an individual liability loan

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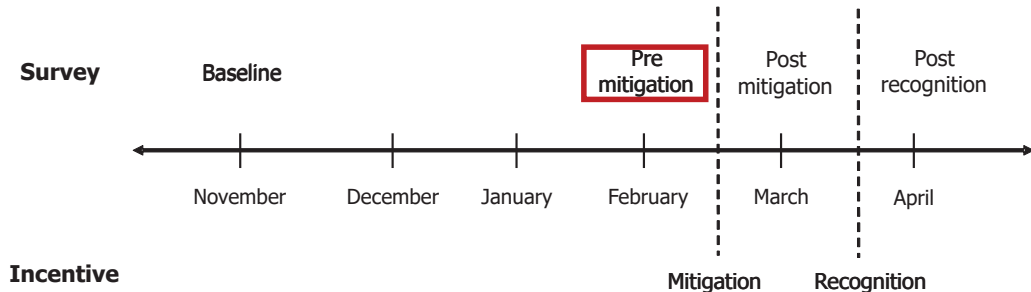
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- 1 question: do you have any new endorsements to provide for graduation to individual liability?

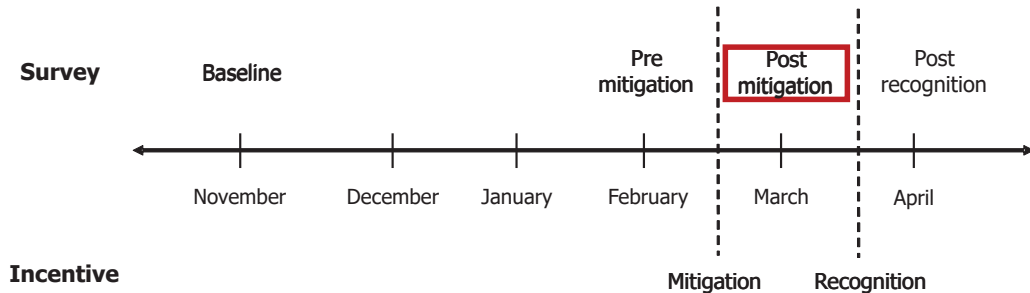
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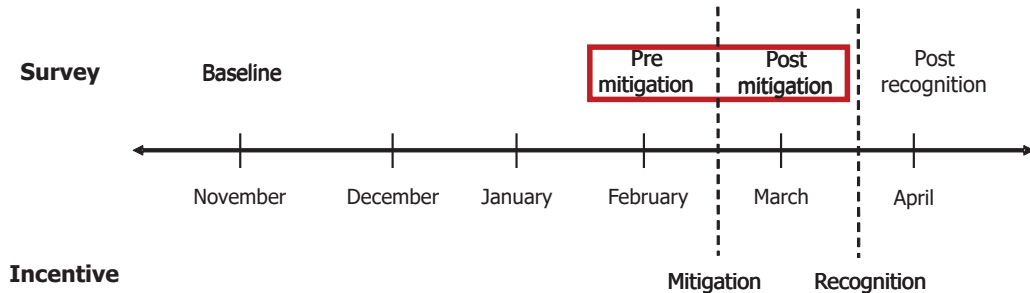
- Note: same incentive scheme as baseline

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Post-mitigation survey = Mar 8, 2019 for **ALL** (240) loan officers

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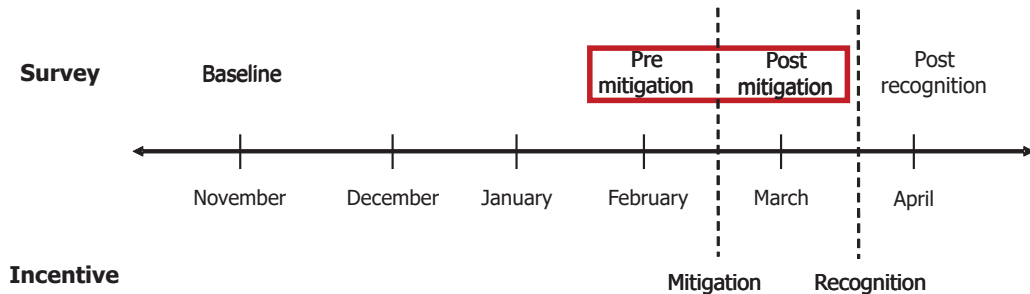


## Randomization

- whether LO provides endorsements the week before the announcement (and then right after)



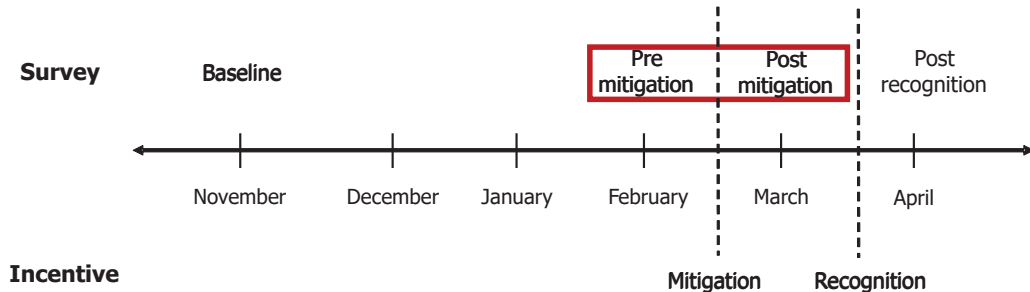
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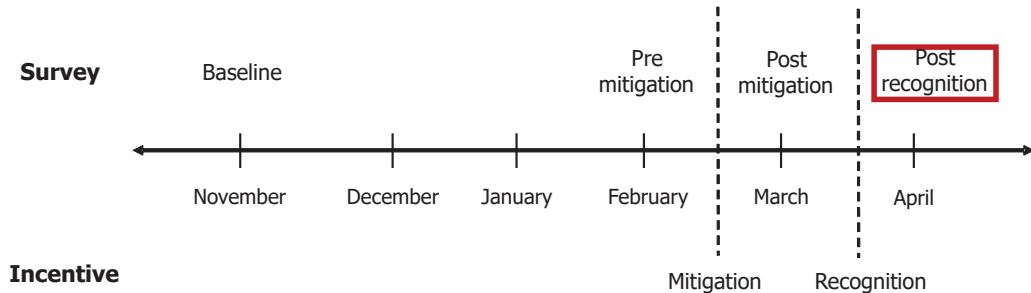


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Identifying assumption – nothing else changed in intervening week other than the incentives

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Post-recognition survey = April 5, 2019 for **ALL** (240) loan officers

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- Postscript: Fondo reorganized such that a single manager oversaw both portfolios

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