



**An examination of field staff compensation and incentive
structure at Indian MFIs intended to shed light on
allegations regarding loan payment collection practices in
India**

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1. Introduction

Businesses often assume that low-level employees are easily replaceable and, as a result, sometimes eschew competitive wages and benefit schemes for this segment of staff¹. In the realm of microfinance, field staff - those responsible for determining the creditworthiness of potential borrowers, extending loans and collecting payments - are generally at the lowest level of the institutional hierarchy. The behavior of this echelon of microfinance worker has come under increasing scrutiny in the last few years, especially in the wake of the Andhra Pradesh crisis.

During that event and since, Indian politicians have laid the blame for a number of suicides at the feet of Indian microfinance staff and the institutions to which they belong, accusing field staff in particular of unethical collections practices². In December of 2010, for example, Sunita Laxma Reddy V, a minister in the Andhra Pradesh government, stated that “not only are the MFIs charging usurious rates of interest on loans extended to women but also adopting strong arm tactics for recovery³.” Practitioners have also commented on the problem: Vijay Mahajan, chairman of [BASIX](#) and president of the Microfinance Institutions Network ([MFIN](#)), mentioned “coercive recovery practices” among his list of problems with the Indian microfinance sector in a 2010 interview with the BBC⁴.

The aim of this article is to investigate whether Indian field staff compensation levels and practices shed light on the allegations of unethical lending and collection at certain Indian MFIs.

MIX’s findings suggest four conclusions:

- There is remarkable variation in Indian MFI field staff compensation levels
- Compensation levels for some Indian MFI field staff are significantly lower than those of semiskilled laborers in several non-financial sectors of the Indian economy
- Incentives and bonuses (variable pay) feature prominently in overall field staff compensation
- The prominence of variable pay in overall field staff compensation heightens the significance of the content of these incentives

¹ Jody Heymann, *Profit at the Bottom of the Ladder: Creating Value by Investing in Your Workforce* (Boston, MA: Harvard Business Press, 2010), 2-4.

² Eric Bellman, Arlene Chang, “India’s Major Crisis in Microlending,” *Wall Street Journal*, Oct. 28, 2010 (<http://online.wsj.com/article/SB10001424052702304316404575580663294846100.html>). See also *Economist*, “Microfinance in India: Discredited,” *The Economist*, Nov. 4, 2010 (<http://www.economist.com/node/17420202>).

³ “AP Assembly passes Bill to regulate MFIs,” *Business Today*, Dec. 15, 2010 (<http://businesstoday.intoday.in/story/ap-assembly-passes-bill-to-regulate-mfis/111432.html>).

⁴ Soutik Biswas, “India’s microfinance suicide epidemic,” *BBC News South Asia*, Dec. 16, 2010 (<http://www.bbc.co.uk/news/world-south-asia-11997571>).

2.1 Base pay and overall compensation among Indian MFIs

This article reviews recent research on field staff compensation⁵ at microfinance institutions (MFIs) in India and combines it with MIX data on staff incentive structures.

Apart from MIX’s own data, this article draws on three principle sources:

- Data gathered by Unitus Labs and Hewitt Associates in 2010 for their *Unitus-Hewitt 2011 Remuneration and Benefits Study for the Microfinance Industry*
- An unpublished survey of field staff salary levels conducted in 2011 by Access Development Services among its member MFIs
- A 2008 [International Labour Organization \(ILO\) report](#) using the most recent countrywide wage data gathered by India’s National Sample Survey Organisation (NSSO) (survey date 2004-2005)⁶

There is substantial discrepancy between the compensation levels reported by Unitus-Hewitt and those reported by Access, as well as significant variation within each. Among the fifteen MFIs surveyed by Unitus-Hewitt, the median annual compensation for the lowest tier of credit delivery staff⁷ was about Rs 91,000 per annum. The same study found a lower bound of Rs 48,000 per annum for field staff, while the highest compensation was three-and-a-half times that amount (about Rs 168,000). Access, on the other hand, found a median per annum salary of Rs 96,000, a lower bound of about Rs 43,750 and an upper bound of about Rs 256,500⁸ among credit officers at the 26 MFIs it surveyed⁹.

At first glance, these two sources appear to correspond rather well. Unfortunately, this similarity hides an

⁵ As the overall remuneration of low level microfinance workers can vary significantly from their base salary, we use the word “salary” to indicate base salary and the word “compensation” to indicate overall pay including variable pay (i.e. bonuses and incentives). Retirement benefits are not included in the analysis but research shows that these benefits make up on average about four percent of total field staff compensation in India (Unitus-Hewitt, see main text below).

⁶ Anup K. Karan, Sakthivel Selvaraj, *Trends in wages and earnings in India: Increasing wage differentials in a segmented labour market*, International Labor Organization, http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/publication/wcms_098852.pdf (Jan. 6, 2012).

⁷ Defined as: “Entry level front line sales officer, typically involved in routine work. No supervisory role.” Unitus-Hewitt defines job descriptions functionally to facilitate comparisons between workers in the microfinance and traditional finance sectors. Elsewhere in the study, this position is described in specific reference to the microfinance industry as a field officer whose total loan portfolio is less than Rs 350,000.

⁸ The Rs 256,500 figure from Access’ survey appears somewhat anomalous: apart from one other institution paying a slightly smaller amount, the next largest salary among Access members was Rs 126,000 per annum - a decline of almost 50 percent.

⁹ Six MFIs were included in both researches.

essential difference: Unitus-Hewitt's figures include annual variable pay (bonuses and incentives), while those of Access do not. According to Unitus-Hewitt, variable pay makes up an average of 25 percent of Indian field staff's total compensation. Hence, without variable pay, the lower bound of field staff salaries reported by Unitus-Hewitt is around Rs 36,000 per annum, the median around Rs 68,250, and the upper bound around Rs 126,000. Conversely, adding an additional 25 percent variable pay to Access' numbers, one gets a lower bound of about Rs 54,500, a median of about Rs 120,000 and an upper bound of about Rs 320,750 (see Table 1).

Unitus-Hewitt further divides field staff into two categories - those managing loan portfolios smaller than Rs 350,000 and those managing loan portfolios equal to or greater than this amount¹⁰ - while Access does not. Given this added division, it is safe to assume that Access' data averages the salaries of these junior and senior field staff categories together, while Unitus-Hewitt separates them. When one considers the compensation figures reported for Unitus-Hewitt's second, more senior category of field staff, they match those of Access quite closely (Table 1). Furthermore, Unitus-Hewitt found more instances of field staff falling into the senior category than into the junior (fifteen observations versus twelve), so it would make sense for Access' averages to be skewed towards this upper range as well.

Given that our investigation focuses on the lower end of Indian field staff compensation, the following three sections consider only Unitus-Hewitt's junior field staff

data. Access' data will be brought back into the discussion when comparing field staff compensation to other sectors in India.

2.2 Field staff compensation in subsistence terms

Working out Unitus-Hewitt's junior field staff figures in terms of subsistence, the total compensation for the median staff member in this category is about Rs 250 per diem, while the lowest paid staff members are only compensated about Rs 130 per diem. These figures include average variable pay, however, which is by definition not guaranteed. Looking at base pay only, the median junior field staff member can only rely on about Rs 190 per diem, while the lowest paid members of this group are guaranteed somewhere around Rs 100 per diem. Given that the international US \$2/day poverty line also translates to around Rs 100 per diem for the period in question¹¹, it is clear that many Indian MFI field staff live in what MFIs themselves often term the "at-risk" group - individuals living at or just above the poverty line.

Hence, on a day-to-day basis, qualifying for as many incentives as possible can mean an average increase of between Rs 30 and Rs 60 per diem, or roughly US \$0.70 and US \$1.30, for Indian field staff at or below median base pay¹². For a person only guaranteed between US \$2.20 and US \$4.40 a day - and given that each dollar represents a greater percentage of total wealth as one's income decreases - the value of staff incentives is not to be taken lightly.

Table 1: Field Staff Base Salaries and Total Compensation, Unitus-Hewitt vs. Access (INR per annum)

	Junior Field Staff (Unitus-Hewitt, n=12)	Senior Field Staff (Unitus-Hewitt, n=15)	Field Staff (Access, n=26)
Base salary, lower bound	36,000	Unavailable*	43,750
Base salary, median	68,250	91,500	96,000
Base salary, upper bound	126,000	Unavailable	256,500
Total compensation, lower bound	48,000	Unavailable	54,500
Total compensation, median	91,000	121,750	120,000
Total compensation, upper bound	168,000	Unavailable	320,750

* Due to the way Unitus-Hewitt's data was stored, only median values are available for this tier of field staff

¹⁰ The functional definition for this level is: "Junior level officer. In a sales profile, [this] is an experienced sales officer. In an operations role [this] is typically [someone] involved in routine transactions/planning."

¹¹ The US \$2/day poverty line was set by the World Bank in 2005. Using the average yearly United States CPI inflation data at www.inflation.eu (Jan. 19, 2012), this translates to about US \$2.20 in 2010 (the same timeframe as the Unitus-Hewitt study). Currency conversions in this section use the December 1, 2010 conversion tables available at www.xe.com (Jan. 19, 2012).

¹² These are the increased compensation gained through variable pay for the lower bound and median MFI field staff member respectively.

2.3 The content of staff incentives

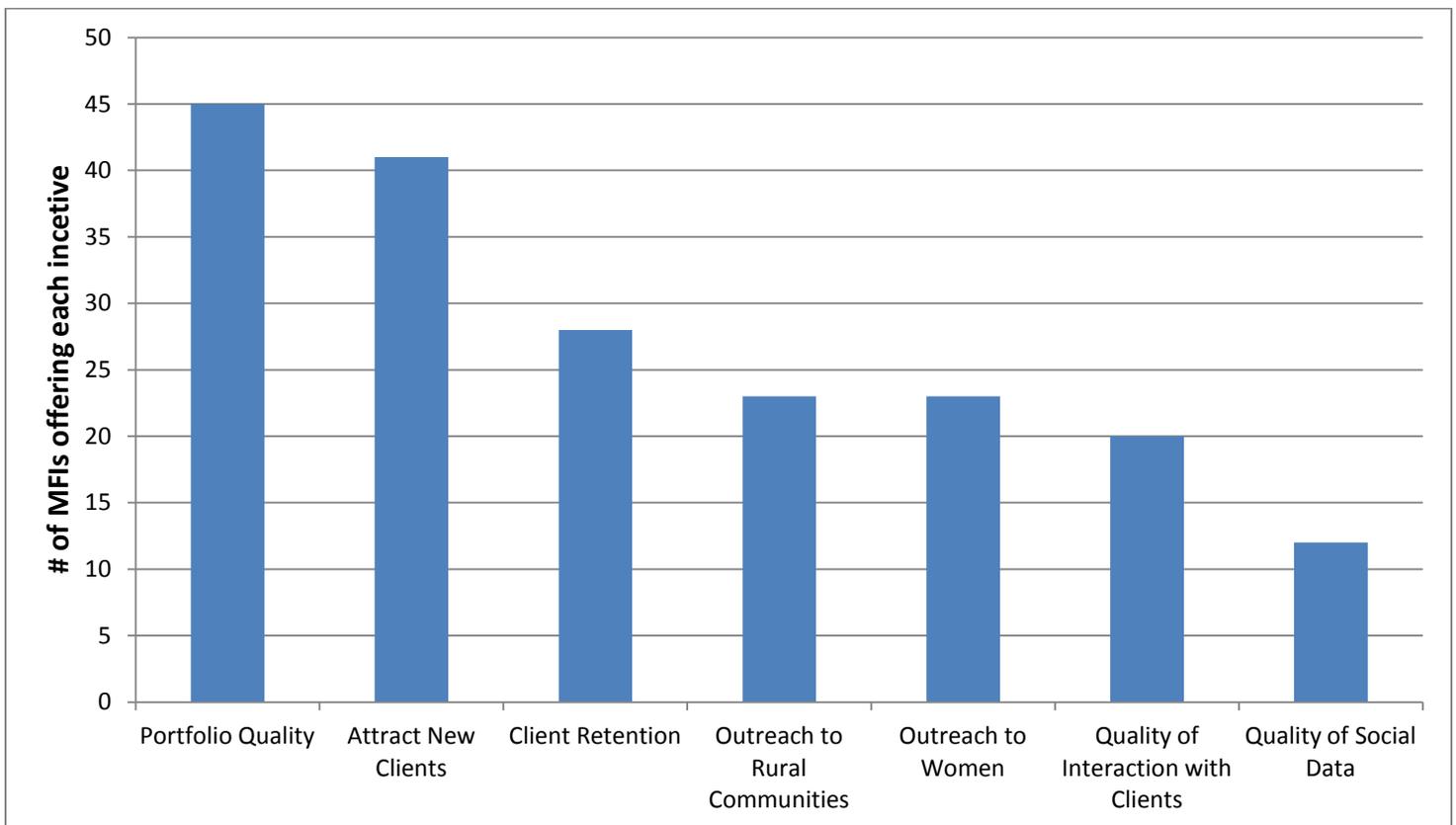
Turning to the content of these incentives, Unitus-Hewitt’s findings correspond more or less to those of MIX: growth and portfolio quality are the most heavily incentivized aspects of field officer performance, with a significant dip in incidence between these two and the next most incentivized activity. This can be seen clearly in Figure 1, where new clients and portfolio quality are incentivized twenty percent more often than any of the other MIX/SPTF incentive categories¹³.

Unitus-Hewitt framed its own incentive question somewhat differently than MIX and the results are even more dramatic¹⁴: “loans disbursed” and “collections” were incentivized nearly twice as often as the next category, “group formation.” Furthermore, 92 percent of the MFIs surveyed in the Unitus-Hewitt study offered incentive-based motivation for field staff.

Hence, the most common way in which field staff members at Indian MFIs capture the increased income available through variable pay is by extending the greatest possible number of loans and ensuring the timely collection of payments on these loans. Taking care that these loans and collections are carried out in a sustainable way - represented here by incentivizing client retention - is an available means of capturing this extra income less frequently.

Muddying the picture, however, is the distribution of staff incentives. The majority of MIX’s MFI sample offers more than simply growth- or collection-based incentives, as seen in Figure 2. Hence, it is difficult to assert the content of staff incentives, rather than their weight in overall field staff compensation, as the more significant factor¹⁵. Furthermore, almost a quarter of MFIs surveyed report offering no incentives whatsoever (which is at odds with Unitus-Hewitt’s findings). In these cases, variable pay, when it exists, must come exclusively from non-performance-based sources.

Figure 1: Prevalence of various incentive categories at Indian MFIs (n=68)



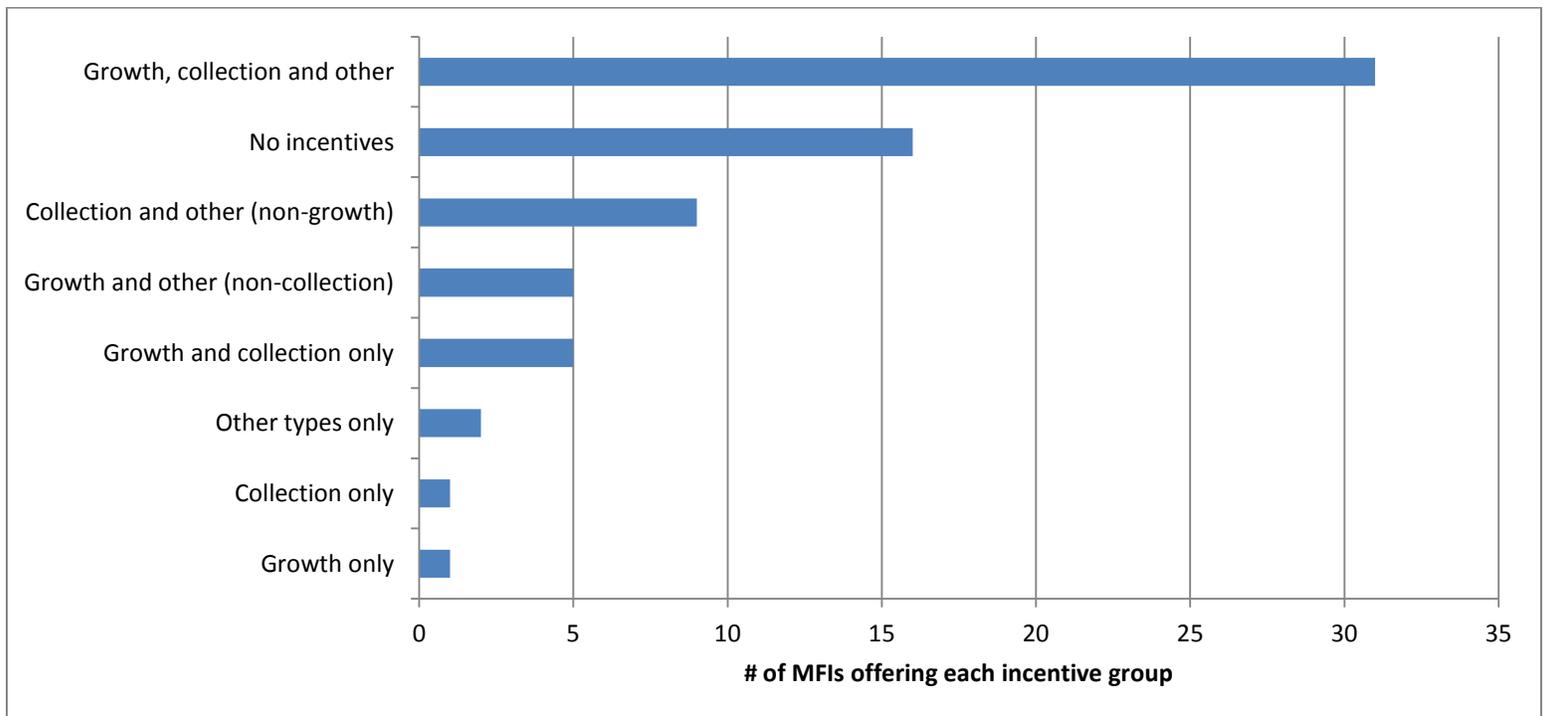
Source: MIX Market social performance profile data, 2008-10

¹³ A full list and description of the MIX/SPTF social performance indicators is available at <http://www.themix.org/social-performance/Indicators> (Jan. 6, 2011).

¹⁴ It is worth noting, on the other hand, that MIX’s sample size is more than four times as large: 68 MFIs as opposed to 15.

¹⁵ Unfortunately, more detailed data on the prominence of each incentive category in overall MFI incentive structures is currently unavailable.

Figure 2: Distribution of staff incentive categories¹⁶ at Indian MFIs (n=68)



Source: MIX Market social performance profile data, 2008-10

Incidentally, another finding of the Unitus-Hewitt study was that Indian MFIs do not commonly link base salary increases to staff performance. This would have the effect of heightening the impact of variable incentives and bonuses on field staff behavior.

3.1 Comparing microfinance field staff compensation with that of traditional finance workers

To fully understand the compensation situation for field staff at Indian MFIs, two further elements are necessary: a comparison to traditional financial sector workers in India and a comparison to jobs in other sectors of similar activities or skill levels. Fortunately for MIX, the Unitus-Hewitt study also included a detailed comparison between MFI compensation levels and those of the traditional finance sector in India¹⁷.

At the field staff level, Unitus-Hewitt found *no comparably paid position* to a junior level MFI field officer in the traditional finance sector. In other words, there are no traditional finance workers in India with a median compensation level as low as that of the lowest paid tier of MFI field staff - this includes bank tellers, cashiers, etc.

¹⁶ For ease of presentation, "Attract new clients from target market" has been shortened to "growth" and "portfolio quality" to "collection."

¹⁷ The comparison is to formal workers in the banking, financial services and insurance sector. Non-financial remuneration (benefits, employee stock options, etc.) are not included in the comparison. Traditional banking sector figures in the Unitus-Hewitt study come from the Hewitt India Banking Forum 2009-2010.

The next lowest level of microfinance workers in the Unitus-Hewitt categorization scheme is that of field officers in charge of loan portfolios exceeding Rs 350,000¹⁸. The median compensation for this tier of employees is about Rs 121,750 per annum. In traditional finance, on the other hand, the lowest paid position receives a median of Rs 194,000, which roughly corresponds to the compensation received by the middle-management tier¹⁹ of microfinance workers. In other words, one needs to "graduate" to management - in more senses than one - to obtain a similar salary to that of an entry level worker in the traditional finance sector! Furthermore, the lowest paid microfinance field staff member only makes about 25 percent (including variable pay) of what the median entry level worker at a traditional finance institution does.

3.2 Comparing microfinance field staff compensation with other sectors in India

Attempts to compare microfinance workers' compensation with that of other service workers in India are difficult²⁰. The last countrywide survey of

¹⁸ Referred to above as "senior field staff."

¹⁹ The functional definition for this level is: "Entry level for graduates. Responsible for team/small group/sales; territory/specialist area. First level supervisors."

²⁰ As with the comparison in the previous section, this comparison is to formal sector workers making a regular salary or wage. The ILO study breaks workers into two categories: wage labor and non-wage labor (i.e. self-employment). The former category is further broken down into "regular salary/wage earners" and "casual laborers." The comparison here is with the first of these two subcategories. Benefits and other non-financial compensation are not considered.

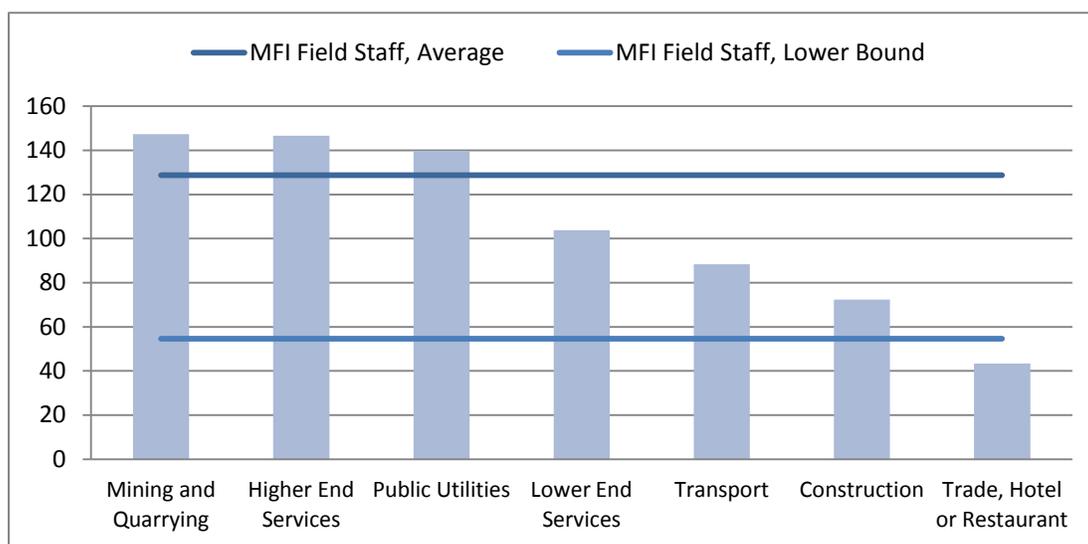
wages was carried out by the NSSO in 2004-2005. An ILO report dated 2008 breaks this data down into daily wage rates for a host of different occupations. Again, the comparison is striking: using the standard shorthand of 20 business days per month, a full-time worker in the public administration, education, health/social work, or “other community, social and personal” sectors made an average of Rs 103,810 per annum in 2004-2005 (at 2011 prices) and full-time workers in the financial intermediation, real estate or “renting and business activities” sector²¹ made about Rs 146,580 (at 2011 prices)²². See Figure 3 below for a visual comparison of these rates with those of MFI field staff in India.

It is important to note that the wages reported above are averaged between the sexes. If one happens to be a woman, pay decreases from these averages by about 17 percent for the lower paid category and about 13 percent for the higher paid one²³. In the case of Indian MFIs on MIX Market, women accounted for slightly more than 20 percent of both loan officers and total staff in 2010.

As previously mentioned, the ILO report gives daily wage figures for workers in many different sectors. In order to benchmark Indian MFI field staff compensation more fully, here are a few more sectoral averages (using the same method of calculation as in the service worker example):

- A full-time worker in the trade, hotel or restaurant industry in 2004-2005 made an average of Rs 43,350 per annum at 2011 prices
- A full-time worker in the construction industry in 2004-2005 made an average of Rs 72,420 per annum at 2011 prices
- A full-time worker in transport in 2004-2005 made an average of Rs 88,280 per annum at 2011 prices
- A full-time worker in public utilities in 2004-2005 made an average of Rs 139,710 per annum at 2011 prices
- A full-time worker in the mining and quarrying industry in 2004-2005 made an average of Rs 147,420 per annum at 2011 prices

Figure 3: Comparison of average and lower bound per annum field staff compensation with that of other industries in 2004-2005 India (in INR ‘000s at 2011 prices)²⁴



Source: 2008 ILO Trends in Wages and Earnings in India; Access survey

²¹ The ILO report uses the standard Indian National Industrial Classification (NIC) Divisions. The lower paid category corresponds to NIC numbers 75-93 and includes: education, health and social work, sewage and refuse disposal, activities of member associations, and recreational, cultural and sporting activities. The better paid category corresponds to NIC numbers 65-74 and includes: financial intermediation and most auxiliary activities, real estate, renting and business activities, computer and related activities, and research and development. These two categories are shortened in what follows to “lower end services” and “higher end services” respectively.

²² Inflation calculated from December 2004 to December 2011 using the December on December historical Indian CPI inflation data available at www.inflation.eu (Feb. 10, 2012).

²³ Unfortunately, the data from Access and Unitus-Hewitt are not gender differentiated. Such data would be worth collecting, given known gender disparities at various levels of employment in Indian microfinance.

²⁴ The ILO report uses averages instead of medians. Averages are unavailable for the Unitus-Hewitt data, so Access’ data has been used for this graph. Average and lower bound MFI field staff figures include 25 percent average variable pay.

The average MFI field staff member's overall compensation is thus comparable to workers in many other industries in 2004-2005 India. However, *some* MFI field staff members' compensation is less than that of a full-time construction worker in 2004-2005 and almost half that of a full-time social, education or public sanitation²⁵ worker during the same timeframe. For confidentiality reasons, Unitus-Hewitt was only able to share aggregate statistics with MIX, but five of the 26 MFIs surveyed by Access pay their field staff salaries of Rs 60,000 or less. Not including variable pay, these employees are guaranteed less than half of what a worker in real estate or financial intermediation was making in 2004-2005.

Finally, zooming out even further, the World Bank's World Development Indicators cite US \$3,280 - about Rs 151,630²⁶ - as India's gross national income (GNI) per capita in 2009²⁷. Hence, the median MFI field staff salary is only about half of 2009 GNI per capita in India (60 percent at average variable pay) and the lowest paid members of this group are guaranteed less than a third of 2009 GNI per capita (a little over 30 percent at average variable pay).

4.1 Conclusion

Field staff members represent the principal point of contact between an MFI and its clients. The analysis above illustrates that these staff members are, on the whole, paid rates comparable to many other industries in India. However, their compensation is lower than that of their colleagues in traditional finance and, at the extremes, can be very low relative to a variety of semiskilled industries. Furthermore, a significant portion of this compensation is tied to an incentive scheme prioritizing actively seeking new clients, collecting payments on time and sometimes little else.

While a causal connection between these practices and the various rumors and allegations about MFI field staff behavior in India cannot be inferred from the above, our analysis paints a picture of the pressures on some members of this group. It is likely that many Indian field staff members subsist on incomes quite close to the international poverty line, and that the primary means of increasing this income is through extending as many loans as possible and collecting on these loans as quickly as possible. Such a situation represents a legitimate danger from a client protection perspective

over and above any considerations of social responsibility to staff.

In the end, the quality and productivity of any work force depends on whether employees are motivated and well prepared to carry out their daily tasks. This article has not analyzed other areas related to staff performance, such as human resources policies, staff selection and training or the implementation of a code of ethics. These are all important areas of investigation when assessing the conditions and performance of MFI field staff and deserving of further research. Nevertheless, institutions that are serious about client protection must carefully assess their field staff compensation and incentive structure to make sure they are not creating unintended consequences for clients and moral hazard for staff.

4.2 Implications for future research

The present discussion raises many further questions regarding MFIs' social responsibility towards both staff and clients: what are the determinants of field staff pay? What would be the consequences if Indian MFIs were to pay field staff more? Would this raise costs to clients at the same time? How do field staff compensation levels and incentive structures in India compare to neighboring countries in South Asia and around the world²⁸? And, finally, what solutions have individual MFIs implemented as safeguards against the pressures described in this article? Answers to these questions would go a long way towards helping microfinance providers better ensure the wellbeing of both staff and clients.

²⁵ A public sanitation worker defined by the ILO report as "regular" (i.e. not casual) and hence most likely government-paid. The wages in 2005 for a casual worker in this category are far lower: about Rs 23,310 per annum at 2011 prices.

²⁶ At December 1, 2009 exchange rates, www.xe.com (January 19, 2012).

²⁷ This is the most recent figure available. It is important to note that, in India, differences in things like GNI per capita can be massive when examining regions in isolation. In fact, regional fluctuations may account for some or most of the overall variation observed in field staff compensation. The data available for the present analysis is nationally aggregated, however, rendering regional analysis impossible.

²⁸ The Pakistan Microfinance Network (PMN) recently released a study that addresses some of these questions for the case of Pakistan. Their analysis divides microfinance providers into microfinance banks (MFBs) and microfinance institutions (MFIs), and finds that low level employees in both types of institutions are less well paid than their colleagues at traditional banks (in the case of MFBs) and traditional NGOs (in the case of MFIs). It further finds that institutional size, as measured by number of employees, is strongly correlated with salary at all pay levels. See Syed Mohsin Ahmed, Microfinance Industry Salary Survey, PMN MicroNOTE no. 13 (September 2011), downloadable at http://www.microfinanceconnect.info/user_articles_display3.php?page=6&cat=3 (February 16, 2011). Unfortunately, PMN's methodology diverges enough from our own to make including it in this analysis untenable.