How to reconcile financial incentives with prosocial motivation in microfinance?

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Finding an optimal reward for loan officers to avoid the decrease of the loan officers’ prosocial motivation and to maximize microfinance institutions’ profits

Motivations

Most microfinance institutions pursue both social and financial objectives and offer monetary incentives to their loan officers but literature shows that monetary incentives may reduce intrinsic and prosocial motivation (crowding-out effect).

→ To what extent are monetary incentives given by microfinance institutions compatible with loan officers’ prosocial motivation?

Methodology

1) loan officer’s utility:
Utility = wage + reward + prosocial motivation - disutility of effort

▪ Computation of the optimal effort to serve poor borrowers which maximizes the loan officers’ utility

▪ Comparison of the loan officer's utility for the optimal effort when he is prosocially motivated or not

2) MFI's profits when the bonus is granted:
Profit = revenue generated by the LO - LO's wage - LO's reward

▪ Computation of the optimal basis premium that maximizes the MFI's profits

Results

To maintain microfinance loan officers’ prosocial motivation, the basis premium has to be high enough

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