

How to Reconcile Financial Incentives and Pro-Social Motivations of Loan Officers in Microfinance?

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Abstract : Nowadays, achieving double bottom line has become a widely recognized objective for microfinance institutions (MFIs). They would like to be financially sustainable or even profitable while continuing to focus on their social mission. In order to rise their financial performance, MFIs tend to grant financial bonuses to loan officers so that they increase their performance and efficiency. However, as argued by motivation crowding theory, monetary rewards may not have only positive effects but can also erode intrinsic motivation. Since MFIs pursue social objectives in addition to their financial ones, their employees' intrinsic motivations may include the willingness to help others, like in many non-profit organizations. This is called pro-social motivation in the psychology literature. Particularly, this type of motivation should be highly reflected among microfinance loan officers as a part of their role consists in improving clients' welfare. Therefore, it seems to be crucial for MFIs to find an equilibrium between the efficiency benefits obtained thanks to the granting of financial incentives and the deterioration of social performance that may result from the reduction of the loan officers' pro-social motivation. This paper attempts to suggest, with a mathematical model, an optimal incentive scheme MFIs could rely on.

Keywords : loan officers, microfinance, prosocial motivation, rewards

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