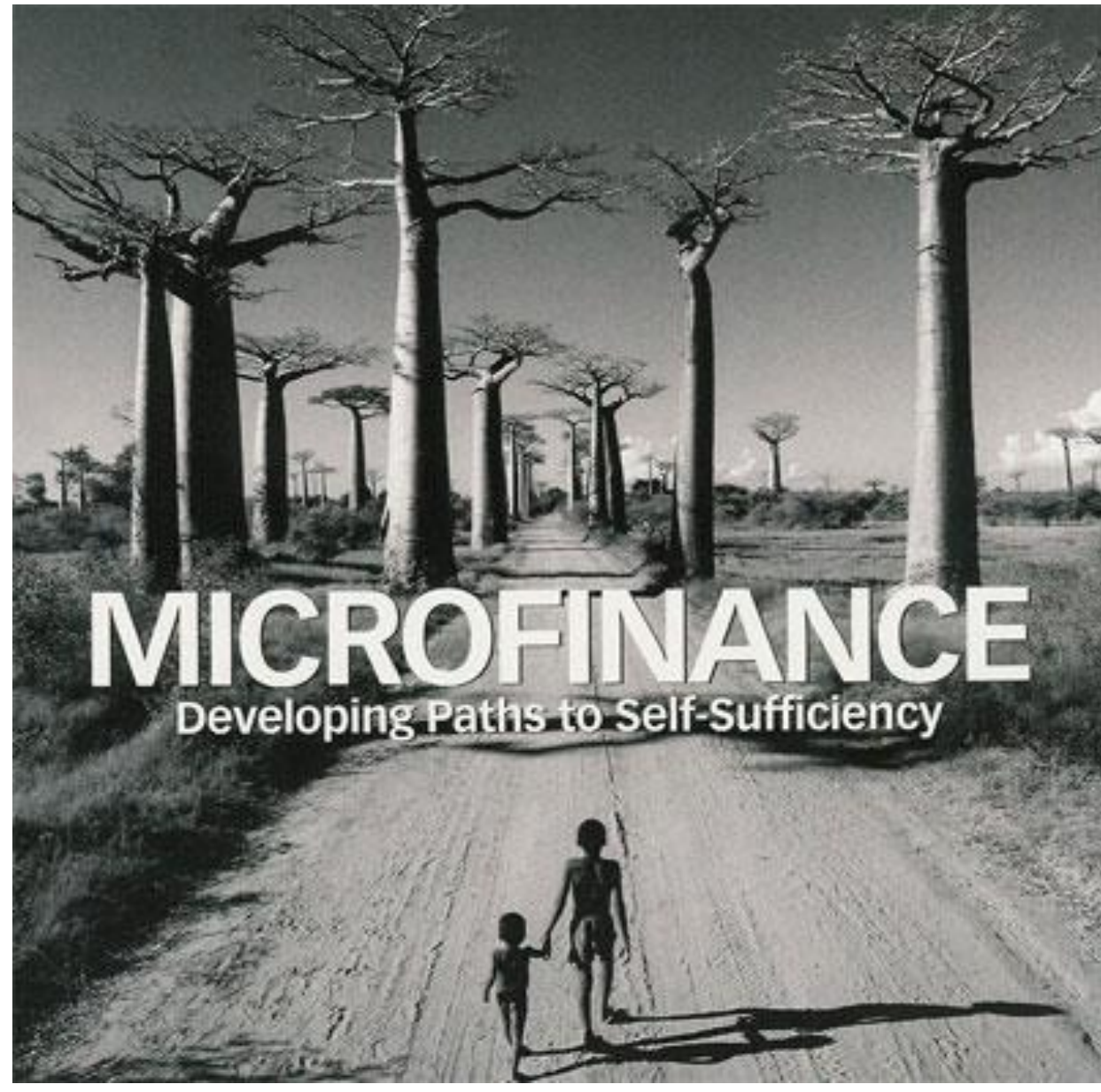


# How to reconcile financial incentives with prosocial motivation in microfinance?

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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

Model with complete information

Model with incomplete information

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**