STAFF INCENTIVE SCHEMES

AN ONLINE SPEAKER'S CORNER HOSTED BY USAID, THE MICROFINANCE NETWORK (MFN) AND THE CONSULTATIVE GROUP TO ASSIST THE POOR (CGAP). THE FORUM WAS MODERATED BY MATTIAS GRAMMLING, MARTIN HOLTMANN, AND MARTHA OTTENBACHER.

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WELCOME TO THE SPEAKER'S CORNER ON STAFF INCENTIVE SCHEMES

Post By: Mattias Grammling

Welcome to the Speaker's Corner on Staff Incentive Schemes. Over the next three days, we will discuss critical issues in the design of staff incentive schemes that can make them a success or failure.

During the first day, our discussions will focus on the goals, the effectiveness and the efficiency of staff incentive schemes to identify their potentials, risks and limits.

The second day will be somewhat more technical, and we will try to find answers on how to design efficient incentive schemes for different functional levels of staff. While we are quite comfortable in designing incentive schemes for loan officers, there is little experience with staff incentive schemes for other functional levels of staff, such as bad debt collectors, tellers or head office employees.

At the third day, we will share ideas on a rather new topic: the role of staff incentive schemes in achieving social goals. Can they be used to balance social and financial goals?

Co-hosted by USAID, the MicroFinance Network (MFN) and the Consultative Group to Assist the Poor (CGAP), the Speaker's Corner is co-moderated by Martin Holtmann, Martha Ottenbacher and me (Mattias Grammling). Martha and I are both based in Germany and will facilitate the discussions during the next 10-12 hours. Martin (based in Washington, D.C.) will join us in a few hours to continue moderating the forum during American working hours.

To make the next three days interesting and productive, we are looking forward to your contributions.

Mattias

RE: WELCOME TO THE SPEAKER S CORNER ON STAFF INCENTIVE SCHEMES

Post By: Volodymyr Tounytsky

Dear participants,

Can anyone comment on the following questions:

* how effective are your staff incentive systems in supporting the short term and the long term institutional objectives?

* if you consider SIS to be a managerial tool to support shorter term objectives, how often do you modify the system and what are the mechanisms that inform such changes?

Thank you very much,

Walter

RE: WELCOME TO THE SPEAKER S CORNER ON STAFF INCENTIVE SCHEMES

Post By: Motaz El Tabaa

Dear Walter,

It is very clear that our scheme is serving for our short term objectives in good manner, how ever you should follow up the results closely to ensure the long term , so it is modified every 2 - 3 years to cover this.

Motaz

RE: WELCOME TO THE APRIL 15-17 SPEAKER'S CORNER ON STAFF INCENTIVES

Post By: Shabbir Ahmed Chowdhury

The issues that we still do not know is on what is the best incentives system?

Shabbir

RE: WELCOME TO THE APRIL 15-17 SPEAKER'S CORNER ON STAFF INCENTIVES

Post By: Shabbir Ahmed Chowdhury

Monetary incentives increases staff efficiency and effectiveness. They work hard and try to increase their portfolio outstanding and also the number of borrowers. This in turn increases the income of the MFI.

Shabbir

RE: WELCOME TO THE APRIL 15-17 SPEAKER'S CORNER ON STAFF INCENTIVES

Post By: Motaz El Tabaa

Dear Shabbir , I think that new staff do not realize incentive, as they still building up portfolio, and most of the staff turnover comes within the first year of operations, where they do not have enough income from the incentives, however in Countries setting a minimum salary level, you can not but more burden on your cost as an incentive until the loan officer reach certain level of clients, which make them feel desperate and leave early before getting into the full scheme of incentives.

RE: WELCOME TO THE APRIL 15-17 SPEAKER'S CORNER ON STAFF INCENTIVES

Post By: Gerry Lab-oyan

It is better to design staff incentive scheme(s) based on the long term focus of the institution. This means the incentives will be biased on cumulative (unbroken) work performance, commitment & loyalty (number of years working) with the Institution, team (business unit or branch) contribution to the (annual) growth of the Institution.

Gerry

RE: WELCOME TO THE SPEAKER S CORNER ON STAFF INCENTIVE SCHEMES

Post By: Ana Dragic

I would like to share some of my thoughts/questions.

Incentive program need to be created in alignment with overall organizational objectives. This should be positive effect because this is one additional tool which can help to align interest on employees with interest of organization. Inceptive should focus on some critical points which are important for organization or organization want to make some change in certain areas.

The major financial motivation factor for employees should be salary not bonus/incentive? Incentive program should stimulate employees to work better and achieve excellence in the work? Bonus should be only for the best? What is the percentage of staff which need to received it?

Looking forward to see more comments.

Ana

RE: WELCOME TO THE APRIL 15-17 SPEAKER'S CORNER ON STAFF INCENTIVES

Post By: Shabbir Ahmed Chowdhury

The negative impact of monetary incentives is that those who are poor performer get frustrated of not getting monetary incentives and become so hopeless that they will not be able to make it. After almost three years of implementation I have not noticed any fraud. The most important is that how you develop the package and how do you monitor it. These definitely help to avoid fraud.

RE: WELCOME TO THE APRIL 15-17 SPEAKER'S CORNER ON STAFF INCENTIVES

Post By: Shabbir Ahmed Chowdhury

We have not noticed any link with staff retention or drop out with the incentives system.

Loan officer are initially all same. All do the same type of work. But when recruited some of them are Graduate and others are post graduate. Shabbir

RE: WELCOME TO THE SPEAKER S CORNER ON STAFF INCENTIVE SCHEMES

Post By: Miroslav Divcic

Yes, I agree with Ana regarding major financial motivation for employees, but all that is different from region to region. Do not all employees see incentives on same way. So I am more for decreasing fixed part of salary and increasing the variable part (monetary incentive) But variable part must be in correlation with long term performance and loyalty.

RE: WELCOME TO THE APRIL 15-17 SPEAKER'S CORNER ON STAFF INCENTIVES

Post By: Martha Ottenbacher

Dear Shabbir,

Many thanks for sharing BRAC's experience with us. Results of a survey that we just conducted for the MFN and CGAP also support your assessment: effects of staff incentive schemes on productivity (number of borrowers) and the portfolio outstanding can be very high when incentives are used for loan officers. Also, the survey participants reported very good effects on loan portfolio quality. But there were very few MFIs that reported an increasing PAR.

Do you consider portfolio quality in your scheme, and have you experienced any changes to it after the introduction of the incentive scheme?

I am also interested in how you measure or assess the effectiveness of your incentive scheme.

Martha

RE: WELCOME TO THE APRIL 15-17 SPEAKER'S CORNER ON STAFF INCENTIVES

Post By: Shabbir Ahmed Chowdhury

I would like to know Compartamos of Mexico and Al Amana of Morocco's incentives systems?

RE: WELCOME TO THE APRIL 15-17 SPEAKER'S CORNER ON STAFF INCENTIVES

Post By: Shabbir Ahmed Chowdhury

Dear Martha,

To address PAR we introduced like No payment missed or O payment missed and % of loan crossing current. Accordingly we introduced if "O" payment missed increase by more then 1% and if 3% current loan become that means just cross one year then staff ceases to get incentives. This increases those who are performing well.

Shabbir

RE: WELCOME TO THE SPEAKER S CORNER ON STAFF INCENTIVE SCHEMES

Post By: Artur Bala

It's true that the salary vs bonus is an acute trade-off but I agree with Miroslav that things differ form country to country. On the other hand, making the salary's variable part dependent on the long term performance and/or loyalty may discourage the new staff performances.

Artur Bala
Enda-interarabe, Tunisia

RE: WELCOME TO THE APRIL 15-17 SPEAKER'S CORNER ON STAFF INCENTIVES

Post By: Shabbir Ahmed Chowdhury

I think incentives package should be designed in term of both social and economic goal of the MFI. It means to address as many borrowers as possible. A staff is entitled to get incentives if he/she increases the number of borrower irrespective of poor or ultra poor. If a point can be accrued by enlisting borrower it encourages staff to include poor.

Shabbir

RE: WELCOME TO THE SPEAKER S CORNER ON STAFF INCENTIVE SCHEMES

Post By: Dale Lampe

Dear All,

Incentives are a complicated and context specific calculation. I was fortunate enough to work with an organization that had monthly incentives for loan officers and branch managers, and annual incentives for back office staff and other management. This was a robust system that relied on number of groups and arrears for the monthly incentive (a scheme based on portfolio size lead to inappropriate loan amounts and client exit/bad debt). In addition there was a quarterly calculation for client exit and all employees participated in a programme rewarding organizational success.

However, the annual bonus had to be paid from excess revenue over annual budget. Therefore if 100 Drams were available at the end of the year, then it would be shared. If there was 1 million Drams then that was the pot. Of course it was limited to a per cent of salary, so one could have excess revenue even after bonuses.

Although incentives were relatively unlimited, there were also quality criteria beyond a certain point to insure that loan officers weren't shooting for a short term profit and then have arrears and client exit problems later. If a loan officer was not approved to grow their portfolio beyond a certain limit, no incentives above the existing limit were paid. A bit of an accounting pain, but somewhat effective, as financial incentives were extremely important where I was at (although not the sole motivation).

Finally, I would add that non-pay incentives can be effective. We found that they were most effective amongst the lower level staff. It as a sign of recognition, exposed them to new people and ideas (training courses) and was a break from the field. This applied to both administrative and field staff (which again is a whole other subject in that one can only incent for what a staff member can control, so for instance admin shouldn't be rewarded or punished on the amount of processing, but rather on the timeliness an! d quality).

Best regards,
Dale

POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Mattias Grammling

Welcome to the first day of the Staff Incentives Speaker's Corner.

Today, we will discuss the effectiveness and efficiency of staff incentive schemes. Two recent surveys on staff incentive schemes suggest that incentive systems have become increasingly popular during the last years: While 35% of the MFIs that responded to the surveys have utilized staff incentive schemes in 1999, it seems that 74% of all MFIs make use of incentive systems today (a paper on the survey findings is forthcoming).

BRAC (Bangladesh), for instance, has implemented monetary incentive schemes only 2 years ago, with around 5 million customers and after having operated successfully for more than 30 years without incentive schemes. In contrast, Prodem (Bolivia) reported that their staff incentive scheme produced negative impacts on team-spirit and encouraged corruption.

Hence, what are the factors that make staff incentive schemes a success or failure? What can and what can't we expect from incentive schemes?

To address these key issues, I would like to invite you to share both, your positive and negative experience with staff incentive schemes. Let me ask a few questions to facilitate the discussions:

1. Is there some evidence that staff incentives work? For instance, do staff adjust their behavior or work harder if incentive formulas are changed (or newly introduced)? Do employees "go the extra mile" in order to increase their payouts?

2. What are the negative effects of staff incentive schemes? For instance, have you had (or heard of) any cases of poor customer service quality, high portfolio at risk, ongoing staff complaints or fraud that were caused by staff incentive schemes? How well can negative effects be anticipated?

Your contributions to these points as well as related areas are welcomed. You are also encouraged to ask questions or raise other topics. I am looking forward to lively discussions.

Mattias

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Adil Sadoq

Dear All,

First of all let me introduce myself: My name is Adil Sadoq and I worked for 9 years with Fondation Zakoura in Morocco, one of the largest MFIs in Africa. Now, I am working as a senior consultant for MF consulting Company. I am not a native English speaker, but will try to share some ideas with you. I will start with a true story that happened to me back in 1999. It was during a staff meeting with Zakoura's president of the board of directors. He asked a colleague of mine: will your productivity be better if you have financial incentives? and my colleague responded: Sure.

So we started giving incentives to the field staff and the results were much better. After a few years, and with the tremendous growth of the institution, the incentives created an unhealthy atmosphere in the branches. Giving more loans (the incentives scheme was based on the number of active loans and the repayment rate not the outstanding portfolio, thanks God) was the main objective for every field staff regardless of the client's profile.

Incentives can be a very useful tool to encourage staff for a better productivity. Once an MFI management establishes an incentive scheme, they can go back and stop it or reduce the financial package. Most MFIs have an incentive scheme, and most MFIs staff and management are not happy with it.

Thank you
Adil Sadoq

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Martha Ottenbacher

Dear Adil,

Thanks for sharing your experiences with your incentive scheme with us.

I can share your assessment that most MFIs have an incentive scheme. But the results of two recent surveys suggest that the majority of them are basically happy with them (although I am sure that there is a potential for improvements in most MFIs).

You write that the incentive scheme created an "unhealthy atmosphere" in the branches. Could you please tell us what exactly happened? I think this is an important issue.

Thank you,
Martha

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Adil Sadoq

Hi Martha,

The introduction of an incentive scheme based exclusively on the number of active loans and the repayment rate killed the team spirit. Loan officer were not ready to help each other resolving problems. They all tried to expand geographically their outreach, zone what created an overlap between them. Also the scoring system itself created a large problem. Many loan officers were unable to meet the requirements to get a good bonus and they stopped even trying.

Best,
Adil

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Tatjana Brbovic

I think that beside the financial incentive it is very important to include non monetary incentive as well. Building the team spirit and work satisfactory will be the solid ground in achieving organizational goals, and building organizational image.

Tatjana

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Michael Fiebig

1. Is there some evidence that staff incentives work? For instance, do staff adjust their behavior or work harder if incentive formulas are changed (or newly introduced)? Do employees "go the extra mile" in order to increase their payouts?

I have seen instances were banks and MFIs thrive with and without monetary staff incentives. Is there any empirical data comparing those with or with monetary incentive schemes?

I worked with a bank which did micro lending, and loan officers got nothing but a good base salary. They were motivated by the challenging task and enthusiastically managed by good mid-level management, with a clear focus on productivity and portfolio quality. PAR, portfolio outstanding and loans disbursed were a matter of constant discussion and focus; and all loan officers knew at any time how the other loan officers were performing. Results were excellent. Loan officers that performed well got an eventual salary increase; those that did not do well were trained, coached etc. or eventually got moved to other positions or left/were made to leave. This was in Kosovo, a country were traveling around a lot is far from convenient.

In many MFIs I have seen staff incentives work well, but loan officers got very tired after a few years and left or wanted to move on to other positions. I understand this is also one of the reasons why the Procredit group has abolished any individual monetary incentives for loan officers (maybe we have someone on the discussion list who knows more?). I have also come across many MFIs where incentive formulas get changed every year or two, and loan officers are getting tired of effectively taking salary cuts from year to year, as they need to work out the new formula and then maximize again what they need to maximize. A bonus so quickly psychologically turns into a part of the base salary, and if you do not get it in the next period you perceive it as an effective salary cut, which has a lot of frustration potential.

2. What are the negative effects o f staff incentive schemes? For instance, have you had (or heard of) any cases of poor customer service quality, high portfolio at risk, ongoing staff complaints or fraud that were caused by staff incentive schemes? How well can negative effects be anticipated?

I have seen cases were pushing out as many loans as possible and recovering outstanding payments towards the end of the month no matter what it takes have negatively impacted client service quality. I think this would be true for some (but only some) of the Bosnian MFIs.

There are also quite a few cases of monetary incentive formulas trying to incorporate too many things, e.g. portfolio quality, disbursements, portfolio outstanding, poverty focus, client retention etc. etc. Things then get very blurred and one can often offset poorer performance in one are with good performance in another, which on the aggregate level might lead to mediocre performance.

Another negative effect can be that everything turns monetarized. I am personally convinced that good loan officers (just like all other employee levels) in a healthy corporate environment are in it not mainly because of the money they get for it, but also for ability to earn their families a stable salary, build a career, be recognized for good performance, excitement of a field job (many LOs are young and fresh graduates), good teams around them, good managers who support them in their personal and professional growth etc. Somebody once told me "incentive schemes are only something for bad managers", i.e. those that cannot create the non-monetary environment for high performance. Surely something to think about.

Michael

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Mattias Grammling

Dear Michael,

Many thanks for sharing your experience with us. I would like to comment on a point that I find particularly interesting: performance targets.

I also have seen a number of organizations that did quite well without incentive schemes. But in many, the work climate was not better than in organizations that made heavy use of incentives - because staff feared to loose their jobs if they did not meet their (challenging) targets (this also applies to some MFIs that utilize incentives in addition to challenging targets).

The point is not, that performance targets should not be used – they are crucial. But organizations that put too high pressure on staff to achieve very challenging targets may well face the same problems (high staff turnover, etc.) as organizations that pay very high variable portions.

The fact that performance targets can have very high impacts on performance also implicates that performance targets need to be closely aligned with the message that is sent by the incentive scheme.

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Alma Budakovic

Our organization introduced the incentive system in 2006 and it had very positive results. The criteria defining the bonus include: the number of clients, portfolio amount and portfolio at risk. Since then it have been modified in order to enable majority of the loan staff to fulfill defined criteria to a different extent.

At the moment we are considering introducing the bonus for the non-loan staff, but we are not sure what would be the appropriate criteria for this kind of a bonus and how many criteria should be taken into consideration when determining this bonus? We would appreciate very much if you could share your experiences with us!

Alma and Tatjana

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Erum Farhad

We at The First MicroFinanceBank Ltd offer annual increments based upon yearly appraisals to all the employees based upon their achievement of\ targets. Currently we are planning to introduce some recognition and rewards in form of monetary incentives to our field staff. These incentives have two fold objective; inclination towards out mission of alleviating poverty and enabling individuals to achieve sustainability along with improving Loan officer's productivity.

While designing the incentives, we came up with one of the prospective negative impacts that rewarding Loan officer productivity in terms of number of loans or amount of outstanding portfolio would lead to the employee's inclination towards loan selling rather than addressing the depth of poverty in his/her area of operation. We have yet not introduced our incentive programs. Kindly let us know if any of the participants have had any such experiences.

Regards
Erum Farhad
The First MicroFinanceBank Ltd

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Sachin Kumar

Dear Shabbir,

As you mentioned that there is no cap for earning the maximum cash incentives. Could you try to analyze the financial implication of this? Or you mean to say that one can earn up to the maximum of one's gross salary.

I liked the idea of giving training to the field staff on staff incentives, so that they could understand the ways to calculate. In my experience I have come various MFIs in India, wherein field officers used to say that they are not exactly aware of the incentive calculation formulas, it gets calculated in the head office, is communicated through the branch managers. I feel that training to field staff on incentive system should be institutionalized. The frustration only creeps among the field staff, if they are not clear about the incentive calculation system.

The cash based incentive does not work in isolation unless it is complemented by non-cash incentives like:

* Opportunities to the well performing and older staff! for attending conferences and skill enhancement training

* Recognition to the outstanding performance of the staff in the annual or semi-annual forum

* Well defined promotion policy

Regards,
Sachin Kumar
MicroSave-India

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Motaz El Tabaa

I want to share some experience at ABA , we had a step by step easy to calculate scheme, however all officers were keen to have the limit they can achieve during the month and add no more since it will not add to their bonus, and we moved to complicated multi-segment scheme, including what we want to achieve as organization, such as growth, quality, case load, ..etc.., without maximum.

Some of the loan officers who realized the huge difference, started to manage their portfolio on better way, increased their productivity while maintaining quality, this resulted in an improvement in their portfolio

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Gerry Lab-oyan

#2. What are the negative effects of staff incentive schemes?

The negative effect of a staff incentive scheme design based on long term focus of the Institution is to loss those head starter performers, however, they don't intend to stay long with the Institution anyway.

#3. For instance, have you had (or heard of) any cases of … ongoing staff complaints or fraud that were caused by staff incentive schemes? Yes, the staff incentive scheme was based on the volume (in terms of amount) of deposits mobilized. The depositor and the staff colluded to share 50% each of the incentive given to the staff as a reward for convincing the depositor to save a certain amount of money to the Institution.

Gerry

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Motaz El Tabaa

One of the most negative points is that the staff can give loans for the reason of getting more Bonus, and deal aggressively with clients to maintain repayment rate, not taking into consideration the vision and mission of the institution

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Fahan BAMBA

Can we consider career perspective as a tool for staff incentive scheme? For young or start-ups MFIs the growth of business and the perspective of career in the Institution may be included in the staff incentive.

Fahan BAMBA
Afrique Emergence & Investissements SA

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Pon Aananth

Dear Fahan,

I must agree with you.

If some one thinks that the monetary rewards to staff based on certain parameters like portfolio quality and clients enrollment is going to help the MFIs then I would say they are wrong. In stead, these parameters will invite great perils in the long run. One should consider both quantitative and qualitative parameters while designing their SIS.

The kind of parameters you are going to select to the SIS should match the age of or the stage of the MFIs ie starts up/young/matured. Secondly, people can also think of designing their SIS in such a way that the rewards are awarded once in a year rather every month along with their regular pay. If you are prepared to give incentives once in a year then your parameters should be broad and should include monetary and non- monetary aspects like promotions, gifts, specialized trainings, additional responsibilities and hiking their position among the staff. This will help you! to prepare your staff members with a long term perspective. Comprehensive parameters are always better to SIS rather than considering few based on monetary aspects.

Best Regards,
pon. Aananth

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEME

Post By: Mattias Grammling

Dear Fahan,

yes, I would consider career perspectives as extremely important (if MFIs can offer them). I know a number of organizations that have implemented different levels of loan officers (e.g. new loan officers, junior loan officers, senior loan officers, loan supervisors, etc.) to assure that there are enough vacancies. Basic salaries, performance standards and the incentive scheme's calibration increase with each level.

Mattias

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES - INITIATION AND MONITORING

Post By: Tony Pryor

This has been an incredibly rich conversation so far, so rich that the odds are high that we've already covered some of my questions elsewhere!

Several of you have mentioned the context specific variables which make an incentive effective, or turn it into something with adverse, sometimes unexpected consequences. These discussions alone should give folk a sense of the risks and pitfalls, but is there anywhere a practical field guide to setting them up? And does that guide help in setting up a monitoring plan that tracks the effectiveness of the incentive, but also keeps a lookout for unanticipated consequences?

One variable seems to be the extent to which the objectives of the incentive have been well-articulated (staff retention, increased loans, etc.), and are not potentially contradictory. But it's been extremely interesting, and sobering, the extent to which culture and institution-specific variable affect the universality of any one approach.

I have a second question but will start that as a new thread.

Tony Pryor
Knowledge Management Advisor
Microlinks Team

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Fabiana Pastor

Mattias, in your investigation, it was found that the primary area of operation (urban vs. rural), credit methodology (individual or group lending), and age of MFI do not influence the pattern of utilization of SIS. With my company we have worked for MFIs of different size and credit technologies.

Among the aspects of concern on the SIS that we have found, was the fact that many MFIs don’t have different SIS for each type of product or technology, and neither have it for different disbursement amounts. So, the loan officers, new or old ones, have the same incentive toward obtaining a small credit, or one of great size, and therefore bigger risk, for example, and this is reflected in the same structure of their portfolio.

I wonder if when you don’t have an evident difference in the design of the SIS for amount of credit, for technology, and involved risk, this could break the growth of the portfolio and Keep the average performance of the staff. What do you think about it?

I also want to know if anybody had experience in designing a SIS for village banking exclusively, and how the impact was. Thanks, regards

Fabiana Pastor
Perfect Point Partners SRL- La Paz - Bolivia

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Mattias Grammling

Hello Fabiana,

I agree with you: It will not be possible to design one single incentive scheme that fits all types of specialized loan officers or products. On the other hand, the schemes should be designed simple enough for staff to understand. Hence, there are many organizations that use the same incentive scheme structure for all loan officers and then calibrate the scheme differently for different types of loan officers. For instance, all loan officers may receive a certain commission for each loan disbursed, but the size of this commission varies according to the types of loans the loan officer manages (e.g. microcredit or SME, urban vs. rural products, etc.), and/or according to the seniority of the loan officer. I hope we can discuss more on this critical issue tomorrow.

The study you mention (I suppose you refer to Andrew McKim's and Matthew Hughart's MFN paper) has indeed found that the primary area of operation (urban vs. rural), credit methodology! (individual or group lending), and age of MFI do not influence the utilization of SIS. But this only refers to the use of monetary incentives, not to the design details. By the way, we have been updating this study recently (forthcoming) and now find that medium size and larger MFIs (>50 employees) as well as maturer MFIs (>8 years experience) are more likely to adopt monetary incentives than smaller or younger MFIs.

A good example for a very well designed incentive scheme in a village banking environment is Banco Compartamos: I would suggest that their incentive system belongs to the top 10 factors that have contributed to their success!

Mattias

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES - EFFECTS ON WHAT?

Post By: Tony Pryor

I understand some of what I am asking below will be discussed in Day 3, when we talk about the role of incentives in meeting financial and social objectives, but let me ask a question as a prelude to that discussion, in light of the back and forth we've had so far. (And I have to say, given the widespread interest in this topic, and in having part of the Moderator team over in Germany, I don't think we've EVER had a Speaker's Corner with a faster rate of acceleration during its first few hours - the autobahn must be rubbing off!) Also please forgive me if some of this has already been well-covered, or is somewhat simplistic, since this isn't my area of expertise (putting it mildly).

My question revolves around the strategic intent of the incentive. Is it to make the organization more sustainable? To ensure that its most scarce resource - trained, experienced staff - remain as long as possible? To increase the number of loans processed by the MFI? To increase the payback rate on those loans? To ensure that the loans are offered for the purposes the stakeholders of the MFI were expecting? Or to help ensure that the loans indeed are for sustainable activities? Depending on what that objective is, how do incentives differ?

Also, are there any incentives that are somehow linked to longer term impact, including well after the loan is repaid? The problem here is that you do want to support risk taking, and many micro-entrepreneurs won't succeed over the long haul. But is there any way to have incentives NOW for the impact loans will have in the future?

Tony Pryor

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Roderick Ayeh

When the criteria for paying staff incentives are not made clear (E.g. payment of bonus on specific indicators like staff ability to recover a loan that has been written off etc,) other staff members can read different meaning into the payment of incentives. This can lead to serious inter-staff relationship problems that can affect productivity. Another issue is that when the indicators are not clear it can be a means to reward personal favorites and not necessary performances..

Roderick
Ms - Student University of Bergamo Bergamo Italy

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Getaneh Gobezie

Dear Michael Fiebig, Martine Holtman, and others,

Thank you for your serious observations and remarks.

From my direct observations as a microfinance practitioner in one of the largest MFIs in Africa (the Amhara Credit & Saving Institution, ranked 6th from the top 50 MFIs by FORBES Magazine), I would say that there are two critical points that staff incentives need to (kind of) 'strike a balance':

1) The need to balance between 'monetary' incentives and other moral build up. I mean it is wrong to believe that people would be motivated 'only' by money. As Holtman and others listed out, there are many other factors. Most successful MFIs here in Ethiopia and other African countries attract and maintain staff by good leadership, sharing a clear

'vision/mission' statements and ultimate objective of helping fellow country men escape poverty. The moral outrage about the living standard and general situation need to be there and shared. ... These kind of peop! le are very important for your MFIs. ...You cannot establish effective internal control and good working behaviour by introducing 'incentive' schemes..... Thus, while such (monetary) staff incentive schemes, may have some 'supplementary' role, they need to be very carefully crafted, lest they create more damage.

2) The need to balance between 'financial' objective and 'social' objective. Currently, most incentives are based on 'financial' objectives, with little attention to social ones. The latter happens to of less priority 1) because many believe

that the institution first needs to ensure sustainability and 2) the 'social' thing is much less clear, and hard to reach a consensus on. Such issues as 'empowerment' are much more vague. So in a drive to attain the financial objective, there are often trade offs on the 'social objectives' as many MFIs actually enter into a 'mission drift'.

More latter...

Getaneh Gobezie
ACSI-ETHIOPIA

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Motaz El Tabaa

Getting to the point of paying incentives on past due loans collection, I think this is so dangerous to pay to the employee on such accounts, unless they are not his clients, as we are rewarding what previously was penalizing, some of the branch managers request this, we pay incentive to the lawyer for this, but paying to loan officers or branch manager could open the door for fraud.

Motaz

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Mattias Grammling

Dear Motaz,

I fully agree with you. To encourage loan officers and branch managers to maintain a high loan portfolio quality, it might be best to deduct something from the bonuses they can earn in other areas (e.g. outstanding loan portfolio volume, number of disbursed loans, etc.).

I would be interested in the transition of the loan portfolio from the loan officer to the lawyer. Can they collude, e.g. that lawyers offer loan officers a small part of their bonuses in order to receive delinquent clients whose debt can be recovered easily? Are portfolios transferred regularly or irregularly? How are re-scheduled loans treated in the incentive scheme for lawyers?

Mattias

RE: POSITIVE AND NEGATIVE EFFECTS OF STAFF INCENTIVE SCHEMES

Post By: Motaz El Tabaa

Dear Mattias

The lawyer are getting bonus if their branch have 100% repayment rate, and get bonus for the loans collected under their supervision without legal action, also the past due loans collected through legal action.

The loan officers are penalized for these loans in amount more than the lawyer can get, as the repayment rate is the most effective ratio for loan officer and branch manager scheme. The loan is totally transferred to the lawyer after the last installment is due

Motaz

HOW MUCH SHOULD WE PAY? AND WHOM?

Post By: Mattias Grammling

I see two very important points coming up in our discussions:

1. How much should we pay as incentives (e.g. in percent of the total pay)?

2. What is the percentage of staff that should qualify for incentives?

Shabbir e.g. mentioned that those who do not receive any incentives can become frustrated and do not even try to achieve them. If we pay too high bonuses for "ordinary performance", we may soon end up with non-profitable schemes. If we pay too little, staff may not be motivated to "go the extra mile".

I typically recommend to assure that at least 80% of the field staff should earn incentives, or have at least a very fair chance to receive a payout that reflects their efforts. Paying field staff 30%-50% of the total pay as incentives works very well in my experience. Other staff may receive somewhat lower variable portions.

I also agree with Miroslav that this depends a lot on the region (and probably the organization culture, too). In my experience, paying higher variable portions works particularly well in Latin America.

But I would be interested to learn whether these numbers work well in your experience.

Mattias

RE: HOW MUCH SHOULD WE PAY? AND WHOM?

Post By: Ana Dragic

Some additional thinking. Let me know what your thinking .

Incentive should not be the same for all positions.

Loan officers should have chance to earn fix salary and variable bonus each month in alignment with indicators and standards set in alignment with long term organizational objective. Still have doubt, those this bonus should be paid for ordinary work or extra work?

For the other position more than positive that they should not have variable pay on monthly basis or on the individual level. Should focus on team bonus and team performance which make stronger organizational unity. Team bonus should be in alignment with organizational objective. Different positions should get different positions of team bonus. Doubts which I have - How often to be paid? And should be paid for ordinary or for extra work?

Ana

RE: HOW MUCH SHOULD WE PAY? AND WHOM?

Post By: Shabbir Ahmed Chowdhury

How much should we pay as incentives? What are the effect who do not qualify? What we can expect from non-monetary incentives?

1. Initially we kept 50% as limit but later on we weaved this. Now they can earn as much as they could. The incentives are on point. And the points are calculated separately for each indicators. Finally all points are added together and on

the basis of points her/his incentives are calculated. The incentives are calculated on the gross salary. If some one acquire 10 points he will get 10% of his gross salary as incentives.

The staff who do not get initially they tried to get and we also provide extra training on how to earn incentives. Due this input some of them succeed and other do not. Who fail to get incentives they get frustrated. We are still looking for non-monetary incentives for them but not yet discovered. If any body know please share me on non-monetary incentives.

Shabbir

RE: HOW MUCH SHOULD WE PAY? AND WHOM?

Post By: Mattias Grammling

Dear Ana,

Whether one should pay for "ordinary work" or only for "extra work" is a very relevant question, especially for those who think about implementing incentives from scratch (because they cannot and should not reduce basic pays). If we pay for extra work only, many employees who do not see a scope to reach these targets will not try to reach them. In my experience it works well to pay slightly lower basic salaries than organizations that do not utilize incentives, and to set the minimum requirements of the incentive scheme at very reasonable levels, thus paying something for ordinary work.

Example:

Basic pay of a competitor that does not pay incentives: $500

Basic pay of an organization that pays incentives: $400 plus and average incentive of e.g. $200-$250, and 80%-90% of all staff earning at least $50-$100.

"Ordinary performers" should receive somewhat more than the $500 offered by the MFI without incentives (to compensate for their higher risk an! d to retain them). Poor performers could receive somewhat less than that (or only their basic pay). High performers should receive significantly more to encourage outstanding achievements ... and to retain them.

Mattias

RE: HOW MUCH SHOULD WE PAY? AND WHOM?

Post By: Sachin Kumar

Dear Mattias,

I agree with you on this. I want to know from the discussants:

* Should there be a maximum limit to the incentive amount e.g. one can earn maximum up to 100% of basic salary or 50% of gross salary?

* Generally fixing the incentive formula is easier for the field staff, as the performance can be easily quantified in terms of no. of clients, loan outstanding amount, PAR, repayment rate etc. However as we go further in the organisational hierarchy of the MFI, it starts becoming difficult in the design of the cash based incentive system for the support staff e.g. accounts, monitoring, HR, administration.

* Could the members also share-whether they use a systematic calibration method using the spreadsheet based cost-benefit analysis for designing the cash based incentive system?

Regards,

Sachin Kumar
MicroSave-India

RE: HOW MUCH SHOULD WE PAY? AND WHOM?

Post By: Motaz El Tabaa

I wanted actually to ask about the schemes of non-operational staff, how can we design incentives for them, I think we can related to the branch performance, to feel that they are part of the overall improvement of the branch, and could be a percentage of the overall bonus of the productive staff, as they are the back office support for them.

Also I want to comment of setting maximum limit for bonus , as many officer reach the level of this limit and exceed it by little and just maintain his portfolio at this level as he do not have any reason to take more risk for nothing

Thanks
Motaz El Tabaa

RE: HOW MUCH SHOULD WE PAY? AND WHOM?

Post By: Michael Fiebig

Dear Mathias,

In the Example you describe: why not pay all loan officers $500 and then pay a bonus to the 10-20% that show exceptional performance? Or, after a year of consistent exceptional performance increase the base salary up to $500, $600 or $650?

Difference would be you need to make clear what is minimum performance required, if they don't make it they better have a good reason (things outside their control, hick-ups in the back-office) or get a limited period to make it (step up or step out).

Advantage is that you can take into account aspects outside of staff's control: challenging environment, competition levels, temporary slow-down of lending due to lack of funds or cautiousness in riskier regions etc.

I have made very good experience with simply providing full transparency of front-line staff's performance (individual and branch), including rankings, etc. Nobody wants to stay at the bottom of the list for long (peer pressure).

RE: HOW MUCH SHOULD WE PAY? AND WHOM?

Post By: Mattias Grammling

Dear Michael,

I agree with you that these non-monetary tournaments (transparent rankings of staff and branches, eventually combined with some small, symbolic rewards) can have good effects on performance. These are valuable tools for organizations that cannot (or do not want to) employ monetary incentives as well as to supplement monetary incentives. Peer pressure can help. But there is always the likelihood that staff collaborate to keep the average performance (and, thus, management expectations) low. I have even heard of an example (outside microfinance) where there was peer pressure on high performers to decrease their productivity.

Merit pay schemes (salary increments, e.g. as you suggested in your posting) can be invaluable tools to retain staff. However, they need to be applied with great care and long-term visions to avoid that tellers with a tenure of e.g. 10 years earn more than branch managers with a tenure of 2 years. Once staff have reached the hig! hest level in such a merit pay scheme and do not see any scope to become promoted (e.g. because they lack leadership skills), they start "relaxing" on their previous achievements. Ambitious newcomers will perceive this situation as unfair as they may earn less for producing the better results.

As you already said, it is thus necessary to make clear what the minimum performance requirements are. This requires staff (e.g. branch managers) that can adequately assess the performance of employees. This can be quite difficult as staff frequently suspect that supervisors' performance appraisals are biased.

In my experience, it is the better (and smarter) way to utilize short-term incentive schemes for staff whose performance can be measured adequately over the short term, because these schemes react more sensitive to performance. But, of course, I do not want to disqualify good leadership as important incentive mechanisms. At the end, it will be the organization culture that determines the scheme that works best.

Mattias

RE: HOW MUCH SHOULD WE PAY? AND WHOM?

Post By: Roderick Ayeh

Staff incentives as it is quite a complex issue. Complex in the sense that what might motivate a staff today might not be the same for him or her in different situations or condition. A staff may be motivated today by cash and the same amount of cash may not have any impact on his motivation. I think the issue of individual difference plays an important role in trying to develop a model for staff incentives.

RE: HOW MUCH SHOULD WE PAY? AND WHOM?

Post By: Martin Holtmann

Roderick,

These are very valid points. Staff incentives must fit with the institutional culture. At the same time, good incentive schemes are flexible in that they provide room for individual growth and aspirations. Invariably, you will see that once a scheme is in place, it attracts a certain "type" of individual. This is called the "self-selection effect".

Best,

Martin

EFFECTS ON STAFF RETENTION AND RECRUITMENT

Post By: Martha Ottenbacher

A number of participants have raised an interesting issue: what are the effects of staff incentives on staff retention? I understand that some say, paying high incentives will lead to higher staff turnover for new loan officers (because they cannot cope with the incentive scheme’s requirements). Others say that more experienced loan officers tend to leave if their remuneration was largely based on their performance, because they strive for a more stable income. And there are also those who say that incentives do not influence staff turnover to a significant extent. There is probably no doubt that promotion opportunities are very valuable to retain staff.

Are there best practices in the incentive scheme design?

For instance, is it effective to combine short-term, productivity based incentives with long-term ones? Or to incentivize new and senior staff differently (e.g. raise the variable portion for senior employees, and lower the minimum requirements to earn incentives for new staff)?

Another question: Does anyone have experience with the effects of staff incentives on staff recruitment? I would suspect that those who offer high variable salaries are more likely to attract those employees that are willing to work hard.

Martha

RE: EFFECTS ON STAFF RETENTION AND RECRUITMENT

Post By: Motaz El Tabaa

I have some experience from outside the microfinance sector , where we tried to have some stability for staff income, we had a minimum payment of bonus to be given to the staff every month, if this exceed the generated incentive, the difference is considered as an obligation on the employee to be covered from the upcoming month incentive, the minimum level and the backlog is to be reviewed every three months

DAY 1 SUMMARY

Post By: Mattias Grammling

I think we had very fruitful discussions during the first day. We could identify key issues that are important to make incentive schemes successful. Of course, there is no "one size fits all": Tony Pryor stressed that the main features of effective incentive schemes depend on the scheme's objectives, and others pointed out that the degree to which employees can be motivated with financial incentives depends on the region (Miroslav Divcic, Artur Bala) and the individual (Roderick Ayeh). Fabiana Pastor highlighted that incentives need to be adjusted to the products, credit technology and clientele of the MFI.

A number of participants emphasized the importance of non-financial incentive schemes to supplement monetary schemes or to foster team-work (Tatjana Brbovic, Sachin Kumar and Getaneh Gobezie). Dale Lampe stated that non-monetary incentives such as training courses are particularly important for new staff. Michal Fiebig mentioned that some MFIs perform very well without monetary incentives and argued that non-monetary tournaments, good leadership and merit pay schemes can replace monetary incentives in certain environments.

Pon Aananth advised to use "broad parameters" to accrue long-term and non-monetary rewards. Fahan Bamba, Sachin Kumar and Michael Fiebig also stressed the importance of career opportunities.

Staff incentives do not only develop positive effects (e.g. as Shabbir Chowdhury and Dale Lampe reported), but do also incorporate a number of risks: Shabbir Chowdhury and Adil Sadoq experienced that poor performers become frustrated if they do not achieve the eligibility requirements of the incentive scheme. Gerry Laboyan reported a case of fraud: employees shared their incentive with clients to encourage them to deposit. In order to earn bonuses, staff were observed to market products too insistently and to react too aggressively to recover loans in arrears – which may contradict the social mission of the organization (Motaz El Tabaa and Michael Fiebig). Adil Sadoq indicated that incentive schemes can reduce the team spirit, and Roderick Ayeh emphasized the importance of an objective and transparent performance measurement to avoid that employees suspect biases in the performance assessment.

Some participants have observed a link between staff turnover and incentive schemes. Motaz El Tabaa mentioned that staff typically leave within their first year, when they have not managed to earn incentives. Michael Fiebig indicated that older and more experienced staff strive for a more stable income and that paying higher fixed salaries and lower (or no) bonuses can help retaining them. Shabbir Chowdhury has observed no connection between staff incentive schemes and staff turnover in his organization.

Ana Dragic pointed out that effective incentive schemes need to be designed according to the position of the employee: in her experience, short-term incentives for loan officers and long-term incentives for other staff work best. Both, short-term and long-term incentives should be closely aligned with the long-term organizational goals. Motaz El Tabaa recommended to design short-term incentives and to adjust them every 2-3 years to assure that the scheme stays in line with long-term organizational goals. Pon Aananth, Gerry Laboyan advised to use comprehensive long-term incentives instead of short-term ones.

Sachin Kumar reported that performance measurement (and, thus the potential effectiveness) becomes more difficult if incentives are designed for staff that are not engaged in lending activities. He emphasized that many incentive schemes cannot develop their full potential because staff do not understand the calculations well enough. Motaz El Tabaa recommended not capping bonuses to avoid that outstanding performers are not rewarded adequately, and Shabbir Chowdhury mentioned that BRAC has eliminated its bonus cap recently.

Many thanks to all the contributors!

Mattias

DAY II: DESIGNING INCENTIVE SCHEMES FOR DIFFERENT POSITIONS

WELCOME TO DAY 2 – DESIGNING INCENTIVE SCHEMES FOR DIFFERENT POSITIONS

Post By: Mattias Grammling

After our lively discussions yesterday, I am excited to open our second, somewhat more technical session: Staff incentives for different functional levels of staff.

Some rightly pointed out that staff incentive schemes can produce negative effects if they do not fit the organizational culture or if they are poorly designed. And designers will probably agree that even small technical details can decide whether an incentive scheme succeeds or fails.

The microfinance sector has already gathered a lot of experience with incentive schemes for loan officers, and I think most of yesterday's comments were about such schemes. There are definitely good reasons for MFIs to focus on incentive schemes for loan officers: they work in the field, are engaged in marketing activities, bear a high level of responsibility, they need to recover loans in arrears, and their performance can be measured straightforward. These are almost perfect conditions for powerful incentive schemes.

Apart from discussing the critical technical design issues for lending staff, I would like to invite you to share your experience with incentive schemes for other functional levels of employees.

Let me start with three questions:

1. What are the critical issues in the design of incentive schemes for lending staff?

2. What are the critical issues in measuring the performance of lending staff?

3. How are incentive schemes designed for employees that are not directly engaged in lending activities and how can we measure their performance?

I am looking forward to an interesting day!

Mattias

RE: WELCOME TO DAY 2 DESIGNING INCENTIVE SCHEMES FOR DIFFERENT POSITIONS

Post By: Erum Farhad

I think the two main critical elements for designing the incentives scheme for lending staff are:

-Loan officer's productivity; growth in number of loans and number of MicroSavers

-Depth of poverty; average size of loan disbursed

Regards

Erum Farhad
The First MicroFinanceBank Ltd

RE: WELCOME TO DAY 2 DESIGNING INCENTIVE SCHEMES FOR DIFFERENT POSITIONS

Post By: Sachin Kumar

For MFIs working to meet the financial and social profitability, integrating this in the staff incentive schemes for the field/loan officers becomes an uphill task. For example: its pretty easy to measure no. of clients, no./amount of loan o/s and disbursement, potfolio quality etc. But problems come when try to measure the qualitative aspects such as poverty level of client (before and after the loan cycle), depth of client outreach (i.e. whether it is road side microfinance finance or more deep in the jungle microfinance so to say).

Other issues related to design of SIS:

* Who are engaged in the design of SIS?

* Whether done by the internal staff out of gut feel or by third party having expertise in this following scientific approach

Regards,
Sachin Kumar
MicroSave-India

RE: WELCOME TO DAY 2 DESIGNING INCENTIVE SCHEMES FOR DIFFERENT POSITIONS

Post By: Erum Farhad

Further to my point earlier regarding designing of incentives for lending staff; i would also like to add that these incentives should be on team basis and not individual basis. They can be designed at a branch level where contribution of all the branch staff is recognized and rewarded for achieving targets and exhibiting superior performance

RE: WELCOME TO DAY 2 DESIGNING INCENTIVE SCHEMES FOR DIFFERENT POSITIONS

Post By: Erum Farhad

In response to Sachin's point regarding measuring the qualitative aspect of microfinance such as depth of poverty, so as I mentioned earlier this can be quantified by using proxy indicators of poverty such as average amount of loan size; the smaller the average loan size can reflect the type of households being addressed.

Regards,

Erum Farhad
The First MicroFinanceBank Ltd

RE: WELCOME TO DAY 2 DESIGNING INCENTIVE SCHEMES FOR DIFFERENT POSITIONS

Post By: Mattias Grammling

Dear Erum,

I think this largely depends on the organization culture. I made better experience with individual incentive schemes for lending staff. In team incentives, there is a phenomena that is called the "free rider effect": believing that others do the work (and accrue the team incentive), individuals decrease their efforts. The link between individual efforts and the reward is closer in individual schemes, and loan officers have a good idea what they can expect from e.g. disbursing an additional loan at the end of the day.

A combination of team and individual incentives does not work well in my experience - staff only strive to maximize their individual incentives if mixtures are employed.

But I would agree with you when we talk about other functional levels of staff, where individual achievements cannot be measured as easily (I hope to learn more about this point today).

Mattias

RE: WELCOME TO DAY 2 DESIGNING INCENTIVE SCHEMES FOR DIFFERENT POSITIONS

Post By: Sachin Kumar

I agree with Mattias to some extent on the mail below. However I have seen few MFIs using the right mix of individual and team based incentive distribution. They use team based SIS, when they want to recognize the best branch for adhering to the operational processes and meeting branch based target and portfolio quality. This promotes a sort of healthy competition among the branches.

Regards,
Sachin Kumar
MicroSave-India

RE: WELCOME TO DAY 2 DESIGNING INCENTIVE SCHEMES FOR DIFFERENT POSITIONS

Post By: Shabbir Ahmed Chowdhury

Staff incentives for different functional level of staff.

In BRAC we have developed incentive scheme for CO and Manager but for others like accountant, internal auditor we have not yet developed but we thinking and looking for examples.

Shabbir

RE: WELCOME TO DAY 2 DESIGNING INCENTIVE SCHEMES FOR DIFFERENT POSITIONS

Post By: Fabiana Pastor

I also consider that it should be analyzed the different characteristics of the employees (technology, experience, clients type, etc) when designing a SIS for different areas or jobs in the institutions.

I think the experiences in Bolivia (PROMUJER), Mozambique (Fundo de Credito Communitario FCC) and Bosnia & Herzogovina (MI-BOSPO) shows us that it is difficult to develop appropriate and effective incentives for other functional levels of employees besides the loan officers, as they experienced that loan officers' pay ended up being twice the salary of the branch manager for example, when these last ones were not included in the SIS scheme. And in the PROMUJER example, they deal with a legal constraint (if a staff member gets a bonus two or three times, that bonus becomes the person's new salary in the eyes of the law, which removes the motivational effect of the incentive).

So, probably the incentive scheme for different employees must also consider the lo! ng term, the risk, motivation (economical and non economical), institutional mission, and short term objectives, as for the loan officers.

I would like to know, if someone had experience in SIS based on sharing the ownership (number of shares as annual benefit) between the employees, like PRODEM's experience in Bolivia, and the results. Thanks

Fabiana Pastor
Perfect Point Partners SRL-La Paz - Bolivia

RE: WELCOME TO DAY 2 DESIGNING INCENTIVE SCHEMES FOR DIFFERENT POSITIONS

Post By: Michael Fiebig

Fabiana,

Private equity investor in commercial banks and also microfinance non-banks would probably always prefer to see the CEO and senior management hold equity stakes. In the case of our investments some have purchased these, but we are also working with share-option schemes for top management. The issue is aligning management interest with shareholder interest. In another case we had a wide range of employees participate in a capital increase at a good price – which I believe has served well for the long term commitment of staff. The lower you get in staff levels however, there more I find that the interest is higher in shorter term profit shares or similar annual cash

bonuses rather than long term capital gains (the shares are often quite illiquid as unlisted and it is very unclear when an IPO or a strategic sale could happen).

Michael

TEAM INCENTIVES TO SUPPORT FUNCTION STAFF

Post By: Erum Farhad

I would be specifically interested to know that what kind of incentive schemes have been designed or adopted to reward the support function staff? (staff other than lending staff)

Erum Farhad
FMFB-P

RE: TEAM INCENTIVES

Post By: Michael Fiebig

I had a good experience over a few years with a branch-based performance bonus. This was created in a bank environment, where we felt it would be very difficult to reward loan officers (selling up to more than 15 different loan products, some focused on SME, some on micro, some on SME and micro, some on retail consumer; they were also acting as client relationship managers selling deposits and all kinds of other services), tellers, branch managers, accountants, lawyers etc.

We used four dimensions - one related to lending performance (quality & quantity), one related to deposit performance, one related to payments and other fee-business, and one related to overall branch profitability. In all dimensions a ranking of the branches was created. The top 3 would receive maximum points, the next a little less, anybody below the average no points. Points across dimensions were aggregated. Then a certain % (up to 20%) on top of each branch employees including branch managers base salary was paid based on the branches ranking - again, all branches below the average would not receive a bonus. Far from perfect, but it worked quite well and showed some balanced improvements in performance in all four dimensions.

We did not experience that some branch staff would lean back and let others bring in the performance - instead it improved team spirit and we felt it reflected that client relations are maintained by the full team. The system also incorporated a moving target, as the average line increased over time as branches were trying to inch up the ranks. So no collaboration to keep averages low in this case. It created some healthy internal competition!

Difficulty remained, that the branches were very different in size, scope and location and it proved impossible to reflect this somehow in the indicators without making the scheme too complex. Some branches found it difficult to improve their ranking significantly for these reasons.

Michael

RE: TEAM INCENTIVES

Post By: Masami Hayashi

Michael,

Thank you for sharing this. I wonder if team-based incentives are the answer when the MFI reaches to have a variety of products like a normal commercial bank. What do the others think?

When the MFIs are less complex, only with a couple of loan products and probably some savings and microinsurance, then I think the question of team-based or individual-base is up to the institutional culture. In other words, if the MFI gives importance in general to team work or not.

Masami

RE: TEAM INCENTIVES

Post By: Erum Farhad

Thanks Michael for sharing the experience. Here I would like to share a brief proposal of staff incentives prepared by us (The HR Department at FMFB, Pakistan). Since we are also working in a Bank environment, the idea is somewhat similar to what I understand from your response. I would like to have your feedback on this.

Erum Farhad
FMFB-P

RE: TEAM INCENTIVES

Post By: Adil Sadoq

Dear all,

For Loan officers, I think it's easy to have an incentive system. The MFI should set a clear number of criteria easily measurable for the loan officers. For branch managers, we used to give them an incentive based on the realization of their loan officers. That way, they are more involved in the branch realizations. For management staff, I think it should be based on mutually agreed objectives and the incentives should be done maybe once or twice a year not more.

Best
Adil

CALIBRATION OF LOAN OFFICER INCENTIVE SCHEMES

Post By: Martha Ottenbacher

Loan officers work in (sometimes very) different operational circumstances for which they are not accountable. For instance, some manage individual micro loans and others may be responsible for village banks or SME loans. Some operate in rural areas and others operate in cities. Loan officers can be transferred to a different branch and receive a new portfolio or need to build up a new portfolio from scratch. There are new loan officers with very small portfolios and experienced officers with a large customer base. Within branches, loan officers may be assigned to different zones with different economic circumstances. And finally, the location of the branch may largely determine its success.

It will be impossible to design an incentive scheme that is fair to everyone. But what are good indicators to calibrate the incentive scheme for loan officers (urban vs. rural branch, junior vs. senior loan officer, SME vs. micro loans, economic capacity of the district of the branch, economic capacity of the zone of the credit officer)?

How many different incentive schemes do we need to design to get the right balance between fairness and feasibility?

Martha

RE: CALIBRATION OF LOAN OFFICER INCENTIVE SCHEMES

Post By: Adil Sadoq

Dear Martha,

I totally agree with you. Its difficult to have a fair incentive Scheme for all the loan officers. We used to have a different notation for loan officers working on rural and urban areas Means the scoring was different but not the criteria themselves. I used to spend a long time doing the incentives every three months for around 110 employees.

Adil

RE: CALIBRATION OF LOAN OFFICER INCENTIVE SCHEMES

Post By: Michael Fiebig

Can anyone share experiences with moving portfolios of loan officers who left the organization to existing loan officers, when an individual bonus scheme is in place? How did you deal with this?

Everyone naturally just wants to pick the raisins - how do you deal with the problem clients in those portfolios?

RE: CALIBRATION OF LOAN OFFICER INCENTIVE SCHEMES

Post By: Masami Hayashi

Martha,

In the context that MFIs diversify their product range as they grow and become mature, with or without transforming to banks, I also wonder how MFIs change their staff incentive schemes over time.

I think it is important that SIS also cover as MFIs introduce new products. I've heard from a MFI in South America, that the field officers do not sell credit cards because it is not part of their SIS.

Interesting discussions so far, by the way, congratulations!

Masami Hayashi

MFN

RE: CALIBRATION OF LOAN OFFICER INCENTIVE SCHEMES

Post By: Mattias Grammling

Masami, you raise a very important point: MFIs that pay high incentives for doing A, will have difficulties to convince staff to do B if there is no fair reward for that. In my experience the efforts of credit officers need to be measured as exhaustively as possible. In your example, credit officers would eventually even loose a customer (and cash!) if they sold a credit card? If it was a debit card or insurance policy, they "only" would lose time.

Is there any experience with incentive schemes to promote insurance policies, debit cards, credit cards, savings accounts, fixed term deposit, current accounts, etc.?

Mattias

RE: CALIBRATION OF LOAN OFFICER INCENTIVE SCHEMES

Post By: Motaz El Tabaa

Dear Martha,

I think it is very important to set different schemes according to the institution, you can also set one scheme, but differentiate between parameters, i.e., it will be the same formula, but changing the number and value , so you can set different standards for Urban and Rural, for group and individual , for loan size...etc

While using the same formula, you can adjust in it according to the situation, for example, for individual lending we are using the same formula in Alexandria and out side, but we multiply with a different factor as the standard of living in Alex. is higher and accordingly prices, more over the loan officer outside Alex. have better chance to increase his client base, as penetration rate is still lower than Alex.

Thank you

RE: CALIBRATION OF LOAN OFFICER INCENTIVE SCHEMES

Post By: Motaz El Tabaa

Dear Michael,

What we usually do , is to check who are covering the same area, and distribute according to their performance, so, the best gets more as percentage to his portfolio, for the problematic accounts, it is kept under the branch manager supervision or transferred to the legal (lawyer follow-up)

Motaz

RE: CALIBRATION OF LOAN OFFICER INCENTIVE SCHEMES

Post By: Martin Holtmann

Michael,

Depending on logistics etc. you may want to consider just splitting the PF between several officers.

If the PF is in bad shape, just suspend the new "owner" from the scheme and pay based on past performance.

Best,
Martin

RE: CALIBRATION OF LOAN OFFICER INCENTIVE SCHEMES

Post By: Franz Gomez

I had the opportunity to see a SIS that rewarded the selling of all sorts of products such as insurance policies, savings accounts, long-term deposits, savings accounts for children, among others. From this experience I believe that if you give too much weight on the SIS to these products, the loan officer can be seriously distracted. We have to keep in mind that the loan officer's main functions are to disburse loans and keep a low delinquency rate. Another unintended consequence of rewarding the selling of other products is that every time the loan officer has a prospect client in front of him, the officer tries to attach to the loan operation all the products for which the loan officer gets an economic incentive. This will inevitably increase the cost of the loan.

Franz Gomez
ADAM Project-Colombia

RE: CALIBRATION OF LOAN OFFICER INCENTIVE SCHEMES

Post By: Sachin Kumar

I agree with Franz, I worked with an MFI which used to give targets to loan officers for insurance selling along with the routine work of credit promotion. As a result of this, the credit officers used to recommend higher loan amount for the borrower than the required loan amount, so that the borrowers could purchase the insurance product, and pay at least for the first insurance premium.

Regards,

Sachin Kumar
MicroSave-India

STAFF INCENTIVES FOR NON-CREDIT STAFF

Post By: Mattias Grammling

I have observed a high interest in how to design incentive schemes for other than lending staff. Thus, I open this thread, so we can keep our discussions better structured. We had already a lot of comments on staff incentives for non-lending staff – but most ended with a question mark (so will this one, too).

The difficulty is probably that the performance of back office staff, tellers, and customer service officers cannot be measured objectively and on an individual level. Also, their achievements (e.g. savings mobilization, branding, local reputation) can only be measured over the longer term. Hence, longer-term branch based incentives might be more appropriate? Such incentives do probably not have the same impact as the short-term monetary schemes that MFIs frequently offer to loan officers. Thus, it might also be wise to pay a smaller variable portion to these functional levels of employees.

A question that frequently arises in East Africa: can we pay different average bonus sizes for loan officers and other branch staff? Or do some feel disadvantaged? How is this dealt with?

Is there any experience in the design of individual schemes for e.g. tellers, data typists, customer service officers, accountants, or head office employees? All the attempts I have seen worked well for some positions, but not for others.

Let me finally give an example of an incentive scheme for tellers in an East African bank: it introduced a tournament scheme to rank tellers according to their number of transactions. The bank noticed two effects: tellers started to increase their number of transactions slightly, but at the cost of the customer service quality. Secondly, the scheme was rejected by many, because the number of transactions alone was not a good performance measurement indicator. Tellers indicated that the number of transactions is only a fair and meaningful performance indicator if the volume transacted and the type of transaction (withdrawal or deposit, type of savings account) were considered as well.

Mattias

RE: STAFF INCENTIVES FOR NON-CREDIT STAFF

Post By: Motaz El Tabaa

Let us agree that the back office and supportive staff are important in productivity, and they can contribute to customer satisfaction and branch success, I think we can set a percentage of the overall loan officers bonus, or the branch manager bonus, as this will be a good reflection to the branch performance, and put it as a pool for the other staff to be distributed according to previously set ratio, could be salaries, contribution, performance or any other ratio, this is for monthly bonus and despite the fact that it could be small amounts I think it we work , at least for their support to the loan officers and client handling.

But the major scheme should be longer term, quarterly or annually based on the branch performance.

As for head office it should be long term according to performance

Motaz

RE: STAFF INCENTIVES FOR NON-CREDIT STAFF

Post By: Erum Farhad

For incentivising the Head office staff, what would you suggest on forming cross functional teams and then giving out team rewards. This could further trigger achievement of new initiatives in the organization.

Regards

Erum Farhad
The First MicroFinanceBank Ltd

RE: STAFF INCENTIVES FOR NON-CREDIT STAFF

Post By: Martin Holtmann

There is a tradeoff between covering all possible staff with some form of tailored incentives, and the cost and effort of designing and managing such schemes

Thus, I would ask whether there is really such a compelling case for including back office staff etc in the scheme. The people who we really want to target are the ones who are difficult to replace, which is usually front office staff in operations, and middle/upper management.

Best,
Martin

RE: STAFF INCENTIVES FOR NON-CREDIT STAFF

Post By: Motaz El Tabaa

As I mentioned the head office staff should be in longer terms plan, annual bonus for the overall performance of the organization, however as we are talking about back office in branches who will be receiving monthly bonus such as the accountant of branch, while the accountant in the HO will not be receiving similar, so we can do it as a percentage of the overall bonus of the branches, and to be distributed according to ratio that could be based on certain criteria

Motaz

RE: STAFF INCENTIVES FOR NON-CREDIT STAff

Post By: Tony Pryor

Actually, I was wondering this yesterday too. Especially to the degree where a successful entrepreneur, and not just increased volumes of loans, is a key objective. Not only does this promote team work, but in other circumstances it can help to strengthen relationships across the office in general. But in some cultural/institutional settings the reaction can be counter-productive. How would the idea of team awards work in an MFI? And I assume some sort of personal incentive (loan officer of the month, even) probably is also needed.

By the way, most incentives talked about seem to be linked lockstep with salary, be it weekly or monthly. Wouldn't "awards" and not incentive pay, where the awards are announced and there's some sort of ceremony and appreciation from both mgt and colleagues work better in some contexts?

RE: STAFF INCENTIVES FOR NON-CREDIT STAFF

Post By: Martin Holtmann

Dear Motaz,

That sounds very reasonable to me.

Best,
Martin

RE: STAFF INCENTIVES FOR NON-CREDIT STAFF

Post By: Erum Farhad

Structured awards such as Best officer of the month etc contribute a lot towards enhancing the productivity and retaining the efficient employees.

Recognition in form of exposure is one of the greatest tools to reward high performers may it be lending staff or back office staff.

Regards,

Erum Farhad
OD & Employee Relations

RE: STAFF INCENTIVES FOR NON-CREDIT STAFF

Post By: Motaz El Tabaa

As for ABA, we have several levels of rewarding, and incentives, an annual bonus based on the overall performance of the organization, for the past 4 years it was one month salary, and one and half for 2007, also we have three 10 days in feasts and school entering, also we have annual personal awarding for the best performers, in our annual gathering over breakfast during the wholly month of Ramadan, this includes all staff and BOD and our guests...1000 people, more over we do also awarding for our best clients during this occasion, we have also other schemes and personal touches...such as I refused the invitation of branch during the holy month of Ramadan due to the bad performance, while I accepted with the management team the invitation of the good performers only.

Motaz

RE: STAFF INCENTIVES FOR NON-CREDIT STAFF

Post By: Shabbir Ahmed Chowdhury

Another important point I like to mentioned is that all the District/Sub-district in Bangladesh are homogeneous in terms of economic opportunities. Some areas are very poor and some are growth centered. Accordingly we in BRAC categories all our Branches into A, B, C and D. D means the extremely poor area and our weight are low. CO deployed or posted in A are in an advantageous position then CO posted in B,C or D. This we found work very well. The formulae are same but weight is different. As a result all CO working in different area feel comfortable the incentive package.

Shabbir

RE: STAFF INCENTIVES FOR NON-CREDIT STAFF

Post By: Erum Farhad

Team awards in a MFI or MFB can work out in form of project based assignments. For instance in case of back office staff; implementation of Human resource management system in the Bank can be done by forming a cross functional team of HR, IT and Finance departments. Successful implementation can be rewarded.

Erum Farhad
FMFB-P

RE: STAFF INCENTIVES FOR NON-CREDIT STAFF

Post By: Shabbir Ahmed Chowdhury

Just a correction " all the District/sub-district in Bangladesh are not homogeneous"

Shabbir

RE: STAFF INCENTIVES FOR NON-CREDIT STAFF

Post By: Motaz El Tabaa

I want to add also, that we usually try to nominate our best performers (staff and clients) for local, regional and international awards, we get them in our news letter.

On the other hand training, and expose the best performers to TOT courses, whereby, when he is certified trainer , he go to the training and this is considered working days, while he is contributing his training fees for himself, we acknowledge them that this is considered award from ABA to them and they should represent the organization in good way

Motaz

RE: STAFF INCENTIVES FOR NON-CREDIT STAFF

Post By: Mattias Grammling

Dear Motaz,

I largely agree to pay supporting branch staff and branch managers a certain percentage of what loan officers earn (or a percentage/multiple of the average bonus that loan officers earn - but this would not consider the size of the branch ...). This sends one important message to these employees: "you are part of the branch's success".

However, MFIs that offer a very wide range of products, such as fully fledged banks, will quickly notice that tellers, accountants and other branch staff are mainly engaged in managing other products (savings, ...). Thus, the support staff should also be rewarded according to the achievements in these areas so that their efforts, tasks and responsibilities are better reflected.

Again, I would not have too high expectations at incentive schemes for staff not engaged in lending and, thus, only pay them a small variable portion and, if possible, over the medium or longer term (quarterly, semi-annually or annually)! . The purpose of these schemes is somewhat different: these schemes attempt to support the overall motivation and commitment of the employees. In contrast, incentives for credit officers frequently attempt to boost productivity by offering a very concrete reward for very concrete work results ("do this - get that").

Mattias

RE: STAFF INCENTIVES FOR NON-CREDIT STAFF

Post By: Pon Aananth

As far as bonus allocation is concerned, all staff members can be grouped vertically into two groups ie., main operations team and support team and within the teams staff shall be graded based on few core parameters. For an example, in case of main operations team, staff can be graded based on few parameters like years of experience with the organization, responsibilities held (CO, Credit Manager, Branch Manager, Area Manager etc), achievement/performance during the year and value addition done to the program during the year. All staff within the team should placed in different grades in a comparative way based on the scores that each staff obtained against the parameters considered and the bonus can be linked to the grade they obtain.

Best Regards,
Pon. Aananth

RESOURCE DOCUMENTS POSTED ON THE WEBSITE -- YOU ARE INVITED TO ADD YOURS

Post By: Anna Van Der Heijden

Hi everyone,

Thank you for your active participation in this forum. The document that Erum Farhad shared earlier, Introduction of Incentives for Staff, is posted in the resource area of the main Speaker's Corner page, www.microlinks.org/staffincentives , along with other resources selected by the forum moderators.

You are welcome to add documents you want to share. You can add them yourself by logging on to the site and clicking on the plus sign on the top right corner of the resource area. Or just e-mail them to me at avanderheijden@irgltd.com.

I am enjoying the dialogue on Day 2 and look forward to Day 3!

Best,
Anna

DAY 2 SUMMARY

Post By: Mattias Grammling

The very active second day's discussions focused on some technical issues in the incentive scheme's design for different functional levels of staff: It seems that there is a wide consensus that incentives for non-credit staff and credit staff need to be designed in a different way – or at least, that it is virtually impossible (and also not necessary) to design short-term individual incentives for supporting staff in the branches.

Shabbir Chowdhury mentioned that BRAC uses incentive schemes for credit officers and branch managers, and has just started to think about implementing staff incentives for other functional levels of staff, such as accountants or internal auditors. Motaz El Tabaa stressed that it is important to align medium and long-term schemes for support staff with the short-term bonuses that lending staff earn.

Erum Farhad and Tony Pryor asked whether it would make sense to form and reward cross-functional head office teams that are rewarded if their project succeeds. Motaz El Tabaa and others recommended using long-term incentives for head office staff, and Adil Sadoq added that manager rewards should be based on mutually agreed objectives.

Adil Sadoq stressed that MFIs should define a number of criteria that are easily measurable to reward individual loan officers. He suggested to accrue incentives for branch managers as a function of the loan officers' payouts. Franz Gomez highlights that rewarding loan officers for achievements in too many areas may distract them from focusing on their core business (lending). Sachin Kumar added a case study in which a loan officer provided a client with a larger loan so that the customer could purchase an insurance (for which the loan officer received a bonus). Masami Hayashi mentioned a case in which field officers did not promote credit cards because they did not receive respective rewards.

Michael Fiebig reported that a bank with multiple products and highly specialized staff made good experiences with a branch-based incentive scheme under which the employees of the best performing branches received payouts. He indicated that the tasks of individual staff members were too heterogeneous or too numerous to design individual schemes. In response, Masami Hayashi asked whether utilizing individual incentives remains feasible as the number of products that MFIs offer increases over time.

Erum Farhad indicated that he would design incentives on branch level, rather than on individual level, and Sachin Kumar reported that some organizations successfully supplement individual incentives with tournaments between branches.

Some emphasized that recognizing the best performers (e.g. in newsletters) is extremely important (Erum Farhad, Motaz El Tabaa), and Motaz El Tabaa added that he excluded staff of weak performing branches from the participation in an organization-wide gathering.

Pon Aananth suggested dividing branch staff into an operational team and a support team. Within each team, staff would then receive "comparative grades" for their performance, position and tenure. The grades would determine the reward.

There are many factors that influence the work results of employees. But staff cannot be held accountable for all of them. These factors are typically difficult to assess, and attempts to include them in incentive schemes quickly lead to very complex systems. Thus, incentive scheme designers need to identify the most important criteria according to which incentive schemes can be calibrated.

Some recommended to utilize the same incentive formula for all loan officers, but calibrate its parameters differently for (1) urban and rural loan officers (Motaz El Tabaa, and Adil Sadoq), (2) officers that manage group and individual loan products, and/or (3) officers that manage small and large loan sizes (Motaz El Tabaa). Shabbir Chowdhury explained that BRAC has clustered its branches into 4 categories according to the economic potential of their location. The incentive scheme is calibrated differently for each cluster. Michael Fiebig made good experiences using tournaments between branches, but also observed that variations in branch size, scope and location could not be reflected adequately in these schemes.

The shift of bad loan portfolios of exiting loan officers was identified as a critical issue in the incentive scheme's design. Motaz El Tabaa explained that ABA transfers these portfolios directly to credit supervisors or lawyers. Martin Holtmann suggested to split these loans between several loan officers or to replace the regular incentive scheme by a special system for a certain grace period.

Fabiana Pastor explained that the Bolivian law requires transforming bonuses into entitlements if the same bonuses were paid two or three times. This reduces their motivational effects. From an equity investor's point of view, Michael Fiebig desires MFI managers to hold equity stakes to align management interest with shareholder interest. Sachin Kumar stressed that measuring (and rewarding) social performance is not as straightforward as measuring outreach, portfolio quality and portfolio volume.

Thanks for all the contributions!

Mattias

DAY III: BALANCING SOCIAL AND FINANCIAL GOALS WITH STAFF INCENTIVES

WELCOME TO DAY 3 –BALANCING SOCIAL AND FINANCIAL GOALS WITH STAFF INCENTIVES

Post By: Mattias Grammling

Welcome to the third day of our Speaker's Corner on staff incentive schemes. Today, we will focus the discussions on the design of staff incentive schemes that balance social and financial goals as well as the role of staff incentive schemes in achieving social goals.

This takes the already very active discussions on social performance to the next level: Before thinking about designing incentives that balance social and financial goals, we need to be very clear about what the MFI's social goals are, how they can be measured and how these fit into the MFI's business case.

The next steps would include identifying those staff members that can be held accountable for balancing these two goals as well as selecting the right performance measurement indicators on which the rewards could be based. Finally, the financial and social performance measurement indicators need to be linked to a formula that can assure the desired balance.

Let me ask three questions to start the discussions:

1. During our first two days, some participants already indicated or suspected that incentive schemes may undermine the achievement of social goals. Do you agree with this perception, and what can be done to avoid negative impacts on social goals?

2. The branch locations and the products that individual staff members (e.g. microcredit officers, SME loan officers) can offer already largely influence the degree to which social goals can be achieved. As we have seen during the past two days, most incentive schemes are designed for branch staff (particularly lending staff). What is the potential of including social dimensions in incentive schemes for branch staff? Or, in other words, to which degree are branch staff accountable for achieving social goals?

3. While many sets of indicators that measure social performance have been developed during the past years, not all of them might be adequate for the use in incentive schemes – especially if short-term incentives with significant variable payouts are employed. Which social indicators can be used in incentive schemes?

Again, please feel free to raise any other related issues. I am looking forward to a productive and fruitful day.

Mattias

RE: WELCOME TO DAY 3 BALANCING SOCIAL AND FINANCIAL GOALS WITH STAFF INCENTIVES

Post By: Animesh Anand

Dear All,

Have been a passive participant of this forum for the past two days. The discussion is taking a great shape and the focus on the social goals while designing the staff incentive discussion is a welcome agenda for the day today.

The incentive structure can undermine the social goal to some extent as the incentive scheme mostly focuses on motivating the field staff to get the targeted numbers. However, since microfinance, by definition itself, is the activity which helps people and more the number of members are there, more is the penetration. Hence, in a way, getting the incentive scheme to drive numbers is desirable for the cause of microfinance. Having said that, I have assumed that the activities of the MFIs are directly relating to upliftment of poor and if that is not there then we may design the incentive structure to incorporate the social dimension as well.

Making the branch staff accountable for achieving the social goal is greatly desirable at places where the social goal is the primary concern of the mfi. However, putting the same field staff that is driving the growth to meet the social objective may lead to conflict of interests and can result in lower growth rates. Rather, the mfi can opt to have separate set of people running the social programs and the incentive structure can be designed for those staff separately so that both the objectives are being met by two different set of staff and there is no conflict of interest.

Regarding the use of social indicators, the yearly or half yearly social audit of members in terms of improvement in their life style can be taken in to consideration while designing the incentive scheme. These, however, are very subjective and should be used in accordance with the local conditions. Further, these are long indicators and can't be used to judge the monthly or quarterly performance. I am looking forward to get some more suggestions regarding social indicators from the members.

Best

Animesh Anan d | Manager (Business Development) | SKS Microfinance -

RE: WELCOME TO DAY 3 BALANCING SOCIAL AND FINANCIAL GOALS WITH STAFF INCENTIVES

Post By: Animesh Anand

Further to what mentioned above, the social and financial goals of the mfi are intact at the top and middle level but it is advisable to break them down at the field level to have very clear cut deliverables and avoid clash of interests. Other's views on this are welcome.

Best

Animesh Anand | Manager (Business Development) | SKS Microfinance -

RE: WELCOME TO DAY 3 BALANCING SOCIAL AND FINANCIAL GOALS WITH STAFF INCENTIVES

Post By: Ms. Anita Campion

Dear Animesh,

One concern I have about keeping social and financial performance management seperate is the potential for negative impact on the client. Can you describe a bit more how this is managed at SKS?

Thanks, Anita

RE: WELCOME TO DAY 3 BALANCING SOCIAL AND FINANCIAL GOALS WITH STAFF INCENTIVES

Post By: Artur Bala

Mattias,

Yours are the right questions. In my opinion, whatever the social performance indicator (SPI) may be, the may concern is more about implementing them rather than conceiving them. I mean, a (senior) loan officer who spent long years driven by, and making a habit of, monetary incentives related to financial performance I wonder if he or she will willingly give up some of his financial performance-oriented monetary bonus and that takes me back to your 1st question. The lack of monetary incentives on social performance has undermined to some extent the achievement of social goals.

Moreover, the social indicator monitoring is somehow more fluctuant in the sense that different areas (branches) experience different social realities. An IMF that let's say uses the PPI for monitoring social performance needs to calibrate the SIS for each of branches and may be for each of loan officers whose intervention areas may be so different one from another. This "fine tuning" may turn into a complex system to deal with.

We at Enda, have been for long time a women-oriented NGO. Recently, we transformed our mission towards an inclusive financial system meaning that we should encompass more men-driven activities. If one considers the percentage of men in the active clients as a SPI it can be easily incentivized (we haven't done it) because men and women activities are homogenously distributed throughout the country. Yet, the loan officers were somehow reluctant to this new direction as the men are considered to present a bigger risk.

Artur,

Enda inter-arabe

RE: WELCOME TO DAY 3 BALANCING SOCIAL AND FINANCIAL GOALS WITH STAFF INCENTIVES

Post By: Fethi Cherni

Dear All

I have been an inactive participant of this forum for the past two days. The discussion is taking more and more importance for the MFIs focusing on the social goals.

I think designing the staff incentive based on only financial indicators is a critical way for our sector, because the loan officers will select only the solvent clients to minimize the risk of default and undermine their "real work" as development actors and social mission.

On the other hand, what are the social indicators? How many of them can be quantified and included to incentives? Is it simple for MFIs to set up studies measuring the SPM indicators?

All these questions have only partial answers and the majority of the MFIs opt for financial sustainability when the dilemma of social and financial sustainability's come to blows especially with the increase of commercial micro finance "clan" with more and more private investors in the sector.

Concerning the team ! incentive, as a 10 years actor in the micro finance sector, I think it is pertinent and with excellent results on the service quality for the clients and also for the profitability of the branches.

It also engages the team to share responsibilities to achieve objectives.

Fethi Cherni
Enda inter arabe - Tunisia

RE: WELCOME TO DAY 3 BALANCING SOCIAL AND FINANCIAL GOALS WITH STAFF INCENTIVES

Post By: Adil Sadoq

Dear All,

I have difficulties thinking of an incentives system including Social parameters. The social objectives should not be included in the incentives system. It is the products design and the overall strategy of the MFI that help achieving these objectives. The loan officers' effort is a small portion in the success of achieving the social mission. MFIs are still struggling in setting their own social indicators, how can we ask them to introduce this indicators into a SIS? And also, setting the incentives should not be a very complicated task. We don't want to spend more time in calculating incentives than realizing objectives.

Thanks
Adil

RE: WELCOME TO DAY 3 BALANCING SOCIAL AND FINANCIAL GOALS WITH STAFF INCENTIVES

Post By: Mattias Grammling

Dear Animesh,

I agree that MFIs that already track their social performance should use the respective indicators in long-term incentive schemes (that are typically also designed as team incentives). Surely, we cannot expect staff to actively strive to achieve social goals in order to receive higher rewards. The incorporation of social performance evaluations should rather put staff attention on these goals and indicators.

However, the effects will be limited on the loan officer level, if loan officers can receive high rewards in other areas. What I found useful is not to include the outstanding portfolio volume (nor the disbursed volume, nor the growth in volume) into short-term individual incentive schemes. Loan officers may then tend to disburse smaller loan sizes, or at least avoid to actively seek new customers who may be eligible for larger loan sizes.

Mattias

RE: WELCOME TO DAY 3 BALANCING SOCIAL AND FINANCIAL GOALS WITH STAFF INCENTIVES

Post By: Animesh Anand

Dear Mattias,

Good to see the reply from you. While I agree that not linking the incentive to outstanding volume will not push staff to go for higher amount lending than the necessary, we should not always consider lower loan amount per client as an indicator of the good practice by the field staff. The field staff may knowingly keeping the loan amounts low just in order to keep their exposure to the default at a minimum level but in this process they'll end up not meeting the required credit need of the client. The client, in this case, may have to go to other sources of fund (which may also be local moneylender) to meet the extra cash requirement and the mfi end up meeting only the partial monetary requirement of the client. This also posses a potential risk of multiple borrowing to repay other's loan by the client.

Further, from a purely economic point of view, every extra rupee invested in business provides a certain percentage of return to the entrepreneur! (it may be decreasing with the increase in amount though). With a few extra thousand added to the loan kitty, the client may opt to have a better breed of cow or buffalo or may setup a better equipped shop to start with.

Hence, as I mentioned earlier, the mfi should identify the goals very clearly and work accordingly. The concept of accepting some percentage of delinquency or providing emergency loans to meet the dire needs should be the part of the systems and processes itself and should not be driven by the incentive schemes.

We at SKS, keep the two function of driving the growth and the social dimension of the activity totally separate by keeping two completely separate verticals to take care of these two activities. The staff incentive schemes have also been designed keeping in mind the required objective for each of the vertical.

Best,
Animesh Anand | Manager (Business Development) | SKS Microfinance -

RE: WELCOME TO DAY 3 BALANCING SOCIAL AND FINANCIAL GOALS WITH STAFF INCENTIVES

Post By: Motaz El Tabaa

Dear Mattias,

It seems that today is not that active as the past two days, but I think that everybody is thinking how to relate social goals to incentives. As you mentioned in ABA, we did not include the value of portfolio in the loan officer incentives, despite it is one of the components of the branch manager, so the direct distributor of the loans, have no objective to deal with the higher loan better than the smaller, moreover, it is considered an added value to have more smaller loans, as one un paid installment of the bigger will negatively affect his bonus, while several small loans will not have the same impact, so he will be happier when reaching the poorer people.

Another thing could be implemented, is to exclude the delinquency due to concrete reasons (illness, death, crisis etc...) from the loan officer ratio, so he will be keen to check the reason behind the delay before taking any action , and the MFI , will have an early sign about the client situation, so it can act accordingly, this will push the loan officer to stress on the delinquent clients, not the forced to delay, and will make him willing to support the clients, more than pushing them to pay.

Motaz

RE: WELCOME TO DAY 3 BALANCING SOCIAL AND FINANCIAL GOALS WITH STAFF INCENTIVES

Post By: Garrett Wyse

Hello all,

I think the design of staff incentive scheme will have to become very imaginative, to reflect the diverse masters of such schemes.

There may be a role for NGO's etc. to subsidies incentive schemes for harder to reach/deal with people (rural, poorer etc.), as it would directly fulfill their remits and not compromise the sustainability of the MFI. They could perhaps direct MFI activities toward a targeted market without the MFI suffering.

A progressive scale for commission may be developed, where officers get a higher commission on smaller loans.

Links to higher end financial services suppliers, where the loan officer who graduates a lender to these institutions receives a bonus.

Or a bonus when a certain level of loan (number of loan cycles) is reached, and then trails off perhaps so as not to put pressure on loan officer and clients to overstretch clients ability to repay. Government payments for deposit accounts opened and used.

Government transfers with a small amount payable to the loan officer for getting clients to sign up for this process.

NGO part-sponsored officers in rural areas where existing officers/MFI's can't/won't operate.

Just some ideas, many of which I am sure may be unworkable, but thinking as a loan officer and working from there regarding designing incentive structures may be a good idea.

Also has anyone done a survey of loan officers and asked them, or even an online suggestion box for them, surely they may be best placed to offer innovative ideas, once the underlying premise is made clear, social gain to be developed, and incentives structures to reflect this.

Garrett

RE: WELCOME TO DAY 3 BALANCING SOCIAL AND FINANCIAL GOALS WITH STAFF INCENTIVES

Post By: Animesh Anand

Dear Anita,

Please elaborate the kind of negative impact that may happen to the client.

Further, keeping too many parameters for the staff incentive adds to the confusion. We follow the philosophy where the field staff should be able to calculate the incentive that they are going to get at the end of the month. In order to make this possible it is vital that we use clear cut objective parameters to calculate the incentive and it should be simple enough for the field force to understand. Inserting too many parameters or subjective parameters will create lot of dissatisfaction regarding incentives for the field staff.

One method to check the bad practices by staff is to have a very strong Inter audit team auditing the branches at least once every month. The staff incentive can be linked to the grading received by staff in the audit. Since, we'll have separate set of people for audit, there we can introduce some subjective parameters to arrive on the overal! I grading of the branch.

Best,
Animesh Anand | Manager (Business Development) | SKS Microfinance -

RE: WELCOME TO DAY 3 BALANCING SOCIAL AND FINANCIAL GOALS WITH STAFF INCENTIVES

Post By: Ms. Anita Campion

Dear Animesh,

Well, if I understand correctly, loan officers might have incentives that mostly have to do with financial performance, while other staff are charged with monitoring client satisfaction and responding to client complaints - correct? Then loan officers might spend less time with clients building relationships in attempts to reach outreach goals, but they might miss opportunities for truly understanding clients needs and making clients feel "taken care of." Please let me know if I have misunderstood something.

Thanks,
Anita

RE: WELCOME TO DAY 3 BALANCING SOCIAL AND FINANCIAL GOALS WITH STAFF INCENTIVES

Post By: Animesh Anand

Dear Anita,

While I see the fact in your argument the loan officer may spend less time with the client in building relationship, judging the same and putting an incentive on time spent with the client is very difficult and measuring the same is not possible. Further to that, building relationship with client is incidental to microfinance as without that, it would be very difficult for a loan officer to make the rural women sit with him for the initial 3-4 days of training and then for the weekly meetings.

Best,
Animesh Anand | Manager (Business Development) | SKS Microfinance -

RE: WELCOME TO DAY 3 BALANCING SOCIAL AND FINANCIAL GOALS WITH STAFF INCENTIVES

Post By: Sachin Kumar

It has been a very fruitful discussion on SIS. Was just wondering whether the discussion would be consolidated in some form?

Regards,
Sachin

WHY I THINK INCENTIVES ARE IMPORTANT TO ACHIEVING SOCIAL PERFORMANCE

Post By: Anton Simanowitz

Dear all,

I'd like to share some of my experience working with an MFI (SEF, South Africa) that makes a serious attempt to balance social and financial performance in its incentive scheme, and more recently with the Imp-Act Consortium (www.Imp-

Act.org) working with MFIs world wide that are committed to social performance. As I've lots to say, I'm going to break this up into three emails!

First let me say that there are no easy answers. Second that i think cracking this is vital for organizations that seek to achieve a good balance between social and financial performance.

In my experience incentives can be a very powerful influence on front line staff behavior. Lets take a common example of how organizations deal with arrears. Often incentives are significantly reduced if PAR rises above quite a low threshold. This sends a clear message to staff that repayment is essential - zero tolerance. The organization does not consider how clients repay, just whether they do or not.

What does this mean in practice? Avoidable negative impacts on clients such as the following I've personally witnessed: starving women selling food to make their loan repayments; clients leaving a centre meeting to 'find' their repayment going to money lenders; a woman grieving after the death of her husband arriving in a centre meeting on the following day after to make her repayment....

Given the vulnerability of poor people this is a problem, as death, illness, disasters etc etc do happen and we need to find ways to respond to this beyond just insisting on repayment. As a former colleague in SEF put it, we need to have "bankers brains and social workers hearts". We need to incentives the heart as well as a brain. This means helping staff to understand what is happening to their clients and rewarding them when they respond appropriately. I've posted a short video talking about this on the SPM Network that discusses this further:
http://www.youtube.com/watch?v=YrOTna1nV-A

Anton Simanowitz,
Director, Imp-Act Consortium

RE: WHY I THINK INCENTIVES ARE IMPORTANT TO ACHIEVING SOCIAL PERFORMANCE

Post By: Anton Simanowitz

...following on from my last posting

I would say that before we start worrying too much about indicators and measurement we should start with the basic human premise that MFIs should care about their clients and communicate and incentivise this message in the organization.

What are the social goals that need incentivising?

1. WAY OF WORKING

- social responsibility towards clients (eg. by internal audit)

- appropriate response to client need (matching correct products, advice/support, recommendations for rescheduling etc)

2. OUTREACH TO TARGET CLIENTS

- recognizing tougher working conditions of e.g. give a bonus for working in rural areas

- rewarding recruitment of specific target group (e.g. women, poverty status, ethnic groups):

3. CLIENT SERVICE

- evaluation of field staff/client interface (direct observation, reports etc)

- client retention as a proxy! for good service. Increasingly exit is recognised as an important indicator for social performance. Yes, some people leave for positive or unavoidable reasons, but in organizations with exit rates often 20 % or more a lot of exit is driven by client failure or inappropriate services for their needs. Incentives on retention/exit need to note that exit is partly controlled by field staff, partly by the organizational design, and partly by external factors; also some exit is for positive reasons. In SEF a strategy that focused on getting the methodology right, client service and incentives was successful in reducing exit rate from 38% to 15%. Given the different factors contributing to exit care is needed to ensure that levels are set that are realistic. Monitoring individual loan offer exit rates over a period should demonstrate large variance in performance and allow realistic levels to be set.

- client satisfaction - can be evaluated at a branch or individual level, but again satisfaction is based on a mixture of factors determined b y the organization as well as field staff. It would be important to ask clients questions that relate to field staff service rather than products and services.

4. CLIENT PROGRESS

Many people focus on this level, but longer terms changes in client lives are not good indicators to give feedback to field staff to affect their day-to-day actions. Field staff need to understand and see a link between their actions and the results incentivised, and may not be impressed by having to wait several years to see the poverty changes their work produces.

So whilst incentives such as the Grameen star system that rewards movement out of poverty may have a good motivational effect, they are probably best applied at branch or organizational level rather than individual.

- change in social indicators captured when clients enter the programme (e.g. poverty status, assets, education). Difficult to do this at an individual level, but feasible at branch level. Challenges in how to ensure quality of data (e.g. loan officers can manipulate results if they collect data), and link between field staff work and outcomes not easy to see i.e. not clear what behavior it is incentivising. Note here that you cannot give an incentive that depends on data that the field staff have control over collecting. So, for example if your field staff collect information about the poverty level of your clients, you cannot give an incentive for depth or outreach or change in poverty status unless you have a very good quality control for the information. You would be better off having a branch level incentive and collecting a sample of data from clients using an external team, than asking loan officers to collect repeat information from all clients. Fonkoze (Haiti) has branch based client impact monitors that fulfill this function (for case-study see: http://www2.ids.ac.uk/impact/news/publications.html)

- business growth (for enterprise lending MFIs) - th! is is a good indicator to include that many MFIs have data for

I hope these inputs are helpful

Anton Simanowitz,

IDEAS FOR BALANCING SOCIAL AND FINANCIAL PERFORMANCE

Post By: Anton Simanowitz

Below are some suggestions I gave to an MFI in terms of presenting an incentive scheme that balances social and financial goals.

If…

… you bring in target clients…

…. bonus on breadth and depth of outreach (individual incentive)

…and work with them in a good way

…. Branch manager of evaluation of Centre meeting (procedures 50%, loan officer approach 25%, client feedback 25%) (individual incentive)

Then…

…they will grow their businesses and stay with you and your portfolio will grow

…. portfolio outstanding (individual)

…and they will really pay on time

…. delinquency (individual incentive)

Then their businesses will succeed

…. graduation to individual loans (branch incentive)

and they will rise out of poverty

….poverty assessment by R&D department (organizational or branch level incentive)

Anton Simanowitz,
Director, Imp-Act Consortium

RE: IDEAS FOR BALANCING SOCIAL AND FINANCIAL PERFORMANCE

Post By: Adam Sorensen

Briefly, but hopefully with some relevance, I'd like to add 5 short 'principles' to Anton's discussion of the social/financial motivations for staff incentives. These observations are informed by my work at SEF, South Africa and with the Imp-Act Consortium as well.

Principles:

1) Staff incentives are the simplest, most powerful 'messages' from management – even (especially?) when poorly-designed.

2) Well-designed incentives allow staff to read – if not calculate – their incentive payouts.

3) Audit procedures must be in use for any information included in the incentive scheme – before the incentive scheme is launched.

4) To ensure a social/financial balance in staff motivations, activities and outputs, each indicator used for regular performance management (e.g. branch manager evaluations of loan officers) must be included in th! e incentive scheme.

5) You can't have just 4 bullet-points, right?

In short, the concept of staff incentives as constant 'messages' from management means that, if an organization is to use incentives as a performance management tool, then they must be: (1) simple; (2) comprehensive; and (3) checked. I emphasize these relatively broad, bland points because I do not know of any MFIs that apply each of them (although I plead ignorance if I am wrong).

Most importantly for today's discussion: An MFI that is nominally socially-motivated does not achieve a social/financial balance at the staff level if it requires loan officers to track clients' loans, businesses and livelihoods, but only incentives loan-related indicators, such as disbursements and PAR. The result is that staff quickly understand the message – the simple, powerful message – that loan-related indicators are important while the others are not, regardless of whether or not management is supposed to use business and livelihood-related information for staff appraisals.

Finally, where I am going with this, is that I view the challenge of implementing comprehensive – social and financial – incentive schemes as central to 'social performance management'. But, that's another discussion…

Adam J. Sorensen

RE: IDEAS FOR BALANCING SOCIAL AND FINANCIAL PERFORMANCE

Post By: Anita Campion

I am entering this discussion late, but share the concern that many MFIs have overly focused on financial performance incentives, possibly to the detriment of its social mission and performance. So, I would be curious to know what are some good social performance indicators that should be used by MFIs for individual staff performance and which are better for group or branch level staff performance?

Thanks,
Anita

RE: IDEAS FOR BALANCING SOCIAL AND FINANCIAL PERFORMANCE

Post By: Adam Sorensen

An additional idea posing as a question.

At the risk of being called a 'contrarian', I would like to ask the collective wisdom:

Taking the concept of staff incentives as 'messages' from management, and assuming the incentive scheme is designed to be understood (calculated?) by staff, why shouldn't incentive schemes be adjusted regularly, in line with management initiatives/priorities?

For example: Despite management's attempts to design a 'balanced' incentive scheme, an MFI finds that client retention (an incentive parameter) is declining - or annually declines - during a three-month period. Why shouldn't management increase the weighting or top-up client retention in the incentive scheme? Wouldn't this make the incentive scheme dynamic and clearly convey a message that typically requires workshops, memos, senior management visits, etc.?

Adam J. Sorensen

RE: IDEAS FOR BALANCING SOCIAL AND FINANCIAL PERFORMANCE

Post By: Anita Campion

Dear Adam,

I think your idea sounds like a good idea in theory, but in practical reality, MFIs spend a lot of time explaining incentive schemes to staff and frequent adjustments would likely be costly and cause confusion. Nonetheless, slight alterations using the same indicators are probably reasonable. I know that BRI in Indonesia adjusts its savings rates frequently to cause clients to change behavior (increase or decrease savings) depending on their own financial resource needs. So if clients can respond to such changes, probably staff can too. Does that sound like I am contradicting myself? :)

Cheers,
Anita

RE: IDEAS FOR BALANCING SOCIAL AND FINANCIAL PERFORMANCE

Post By: Adam Sorensen

Hi Anita,

We're thinking along the same lines, in terms of regular, particularly seasonal, adjustments to incentive parameters - not designing a new scheme.

In response to your query, and following up on Anton's longer discussion, many MFIs collect client business-related information that could be used as incentive parameters and would, in theory, improve social performance. The obvious risk is that staff will 'massage' the numbers; but, this is always a risk and this is why the audit function exists and is so important. Granted, though, non-portfolio-related parameters are more difficult to audit...

Thanks for your thoughts.

Adam J. Sorensen

RE: IDEAS FOR BALANCING SOCIAL AND FINANCIAL PERFORMANCE

Post By: Mattias Grammling

Dear Anita, I am also keen to learn this.

For now, let me suggest that if MFIs employ one sort of social performance measurement technique (regardless what type, as long as it is meaningful), the MFI can incorporate it into long-term and team-based incentive schemes (e.g. as PRIZMA does with its statistical scorecard). Such a measurement technique could also be part of a balanced scorecard for senior management. The advantage is that no special technique needs to be designed for the incentive scheme, and that everything is well aligned.

Short-term and/or individual incentive schemes are more "tricky" to design (but produce higher effects). I would put a high weight on the number of loans (disbursed, outstanding) and a low weight (or a weight of 0 on the volume of loans in order to emphasize depth and breadth of outreach. Or maybe there is a special loan product for the very poor that could have an adequately calibrated weight in the bonus formula?

More importantly, I would have a very close look at operations and loan officer perspectives: Most loan officers would be happy to lend to any client that can repay (regardless of the poverty level) if they were incentivized "as usual". Loan officers are frequently assigned to homogenous geographic zones (e.g. a market area in which they cannot really choose between wealthy and poor customers - and again, they would disburse loans to anyone who repays). Loan officers may also be specialized on certain products: we would not expect SME loan officers to disburse loans to poor customers or to analyze the social impact of the enterprise.

Hence, maybe a pragmatic starting point would be to design a comprehensive incentive scheme for senior managers. From there, it might be wise to start looking how well products (e.g. including optional loan/life insurances and/or emergency loans), locations and responsibilities fit the desired balance between social and financial goals. If all ! this was accomplished, it's maybe not even necessary to have any special short-term performance indicators to achieve social goals.

Mattias

RE: IDEAS FOR BALANCING SOCIAL AND FINANCIAL PERFORMANCE

Post By: Anita Campion

Thanks for your input Mattias,

So, what about indicators related to client satisfaction - at what level should they be monitored (individual, branch, overall)? And is monitoring drop-outs the best indicator? I'm curious to hear people's thoughts on this.

Thanks, Anita

RE: IDEAS FOR BALANCING SOCIAL AND FINANCIAL PERFORMANCE

Post By: Nhu-An Tran

Hello all,

This has been a wonderfully rich discussion, congrats to the moderators for this successful event. I too have been "lurking" in this conversation for the past two days but wanted to chime in with a couple of thoughts on the use of staff incentives to enhance social performance.

1) To me, social performance is not just about how poor your clients are, so I agree with some earlier posters that establishing your SIS based on the loan size may not be the right "carrot". For me, social performance is also about being socially responsible and responsive to the customer and the community in which you are operating. So perhaps focusing on indicators like customer service and customer retention would be better proxies?

2) I was intrigued by BRAC's (I believe) posting about categorizing their branches according to zones A,B,C,D depending on how rural or remote the localities are. By tweaking the SIS to reward officers who are working in harder to reach areas, or for promoting savings or insurance over credit e.g., would also be a good indication of the MFI's commitment to its social mission.

Thoughts? Look forward to the continued discussion on this.

Nhu-An
Nhu-An Tran | USAID Microenterprise Development office

RE: IDEAS FOR BALANCING SOCIAL AND FINANCIAL PERFORMANCE

Post By: Dale Lampe

I don't wish to monopolize the conversation with SEF Alumni, however I would add a few thoughts to Adam and Anita's insightful comments. Having studied economics, and worked in the private financial sector, where the paycheck was how we kept score, I would assume that the inclinations of "homo economicus" would prevail in determining staff behavior.

However, my experience in South Africa proved different. It is extremely difficult to develop incentive plans based on financial incentives (somewhat incongruous as well). I believe that the recruitment and training process, as well as the inculcation of a client-service based system of values is far more valuable in this regard than a financial reward.

During a periodic review of the SPM system at SEF, I once posited that we eliminate the process in its entirety. After all, we know the programme has a positive impact for the majority of clients and it would reduce the workload at both the field and administration levels (not to mention the USD 10,000 cost of forms alone). Almost to a woman or man, the staff rejected this idea. It allowed staff to develop relationships with clients not based on purely commercial conversations, delineated SEF's programme from the for profit lenders (they actually care), and there was a lot of pride amongst clients documenting how much progress they had made.

So perhaps the greatest incentive for social management is the creation of a positive, pro-poor, developmental mission and vision and ensuring that this is constantly emphasised and reinforced, but not necessarily via monetary means.

Best regards,
Dale

RE: IDEAS FOR BALANCING SOCIAL AND FINANCIAL PERFORMANCE

Post By: Masami Hayashi

Hi Nhu-An,

I agree with you, social performance is not just about how poor your clients are. Which indicator to use should depend on each MFI's mission, and this is particularly relevant when we talk about social indicators.

In addition to MFI's mission, its short-term or mid-term strategies are also relevant. I agree with an earlier comment about changing SIS periodically in order to include the focus area at that moment; could be growth (higher market share), or deepening the outreach, or product diversification...

We cannot have complicated formula for the changing variables, though. For short-term "campaign-type" goals, "non-monetary incentives may work better, such as recognition (best field officer of the month) or awards (presents).

Masami

RE: IDEAS FOR BALANCING SOCIAL AND FINANCIAL PERFORMANCE

Post By: Franz Gomez

Whatever the incentive scheme is, it should be easy to understand and easy to be put in practice, e.g the information needed to do all the calculations should be easy to get. Moreover, I think that loan officers should be well informed about the SIS. If the SIS is not simple then confusion will arise, which ultimately may cause a lower productivity.

Perhaps, what I am saying seems to be obvious but once you start designing incentive mechanisms one tends to forget these important details.

Along the same lines, the problem with having constant changes on the SIS and/or various parallel schemes is that branch managers and loan officers may get confused.

Franz Gomez
ADAM Project - Colombia

RE: IDEAS FOR BALANCING SOCIAL AND FINANCIAL PERFORMANCE

Post By: Getaneh Gobezie

Dear Participants,

As I said on Day 1, 'striking a balance' between social and financial objective is difficult, yet essential!. Measurements, however, need to be simple and manageable. There are already good measurement indicators for the financial achievements (Portfolio At Risk, etc). The social one is hard; but I would like to list some (simple) indicators (weight attached) that work best in our case:

-No. of borrowers (below various loan size, by branch) (+)

-% of women borrowers (+)

-% of youth (+)

-No. of 'voluntary' savers (+)

-% of women in the 'voluntary' savers ('empowerment') (+)

-% of youth (+)

-No of villages reached (especially those identified as 'food-insecure', and in-accessible) (+)

-etc

Regards,

Getaneh Gobezie
ETHIOPIA

SOCIAL PERFORMANCE MEASUREMENT ON SHORT-TERM AND INDIVIDUAL LEVELS

Post By: Mattias Grammling

As highlighted by Anton, there are many social performance indicators that are very important, but cannot be measured over the short term or for individuals. Hence, it is definitely important to supplement individual schemes for loan officers by longer term and/or team-based schemes if MFIs want to encourage and reward social performance. But I also would not expect too much from this if loan officers double their basic pay by following a "zero-tolerance" loan policy and disbursing large volumes. Hence, let me attempt to summarize the suggested indicators & techniques to measure social performance in staff incentive schemes for individual loan officers and over the short term:

- Do not include loan portfolio volumes (loan officers then tend to disburse smaller loan sizes)

- Look more detailed into the reasons for the client's arrears and write off certain loans in arrears from the loan officer's portfolio (that is used to accrue bonuses); As far as I understand this is one of the most important factors – is there any experience on how respective clients can be identified adequately and at reasonable costs?

- Client retention rate

- Reward recruitment of specific target group (this may be difficult in most cases: wives already take loans for their husbands' businesses, clients may be asked and trained to give the right answers so they can be classified as poor, …). It is probably important that absolute numbers (as opposed to percentages) are used, or that different parameters are linked in the right (and unfortunately complex) way, because 80% poor clients can be achieved by seeking poor or by refusing to disburse to wealthier loan applicants.

- …. Please complete this list ….

My question: If we look at a standard short-term individual incentive scheme for loan officers and incorporate one or two of the parameters/techniques listed above … would we then be able to avoid negative impacts on social performance or could we even encourage social performance? Could we calibrate such a scheme in a way that reflects the desired balance between social and financial goals?

I am looking forward to your thoughts and experiences!

Mattias

RE: SOCIAL PERFORMANCE MEASUREMENT ON SHORT-TERM AND INDIVIDUAL LEVELS

Post By: Ana Dragic

What about "depth of outreach = average loan balance/GNI per capita" as indicator of right target group? How can be used? I would like to hear your opinion.

Ana

RE: SOCIAL PERFORMANCE MEASUREMENT ON SHORT-TERM AND INDIVIDUAL LEVELS

Post By: Martha Ottenbacher

Dear Ana,

I am not sure ... Why dividing the average loan balance by GNI? While this is interesting to compare organizations across countries or eventually in countries with a high inflation rate, it tends to make the scheme too complex. I would suggest to introduce the number of customers with a certain small initial loan size because the average loan size can also be lowered by not disbursing larger loans.

Martha

RE: SOCIAL PERFORMANCE MEASUREMENT ON SHORT-TERM AND INDIVIDUAL LEVELS

Post By: Michael Fiebig

Some advocatus diaboli thoughts:

- Do not include loan portfolio volume? - I am not sure. Tiny loans are not always the best. We all want people to graduate and grow their business. A successful microfinance program in my mind will show increasing average loan sizes over the first few years of operation. So at least for young MFIs this might not be a good idea.

- Look into the reasons for arrears and exclude "justified" arrears

- I am not sure how this could be done in practice? Loan officers get an incentive to explain arrears, and if you ask other staff to go and check costs are an issue plus collusion. A better way might be to move to a tolerated PAR which is not Zero and to allow restructuring or emergency add-on loans in specific cases. Also, higher arrears often reflect poor loan analysis or over standardized repayment schedules.

- Client retention rate. Very difficult, too. If we run a pure lending program - do we really want people to stay indebted all of the time? You would need to add "comeback clients" and "dormant but good client relations" - but how to measure?

- Specific target groups - Traditional portfolio management would give out limits and/or targets for certain sectors or segments, which is good on a global or branch level. But on an individual loan officer basis my experience is that you will find some which are good at serving certain ethnic groups or work in certain areas which in themselves reflect a certain social profile.

Michael

RE: SOCIAL PERFORMANCE MEASUREMENT ON SHORT-TERM AND INDIVIDUAL LEVELS

Post By: Martin Holtmann

Michael,
These are all very relevant points. On PF volume: This is indeed an important target, and totally disregarding it may be costly for the MFI. If you use a composite formula (ie both number of loans and volume) you may want to give a higher weighting to the number.

I also share your concerns regarding client retention. On the other hand, many programs suffer from dismal retention rates, so that one may be tempted to include this indicator. But then again, low retention is often a reflection of fundamental flaws in product design, so this begs the question what loan officers can do about that.

Best,
Martin

RE: SOCIAL PERFORMANCE MEASUREMENT ON SHORT-TERM AND INDIVIDUAL LEVELS

Post By: Motaz El Tabaa

Dear All

This is very good discussion that bringing out a lot of issues:

1- Yes, the tiny size loans are not the solution, and increasing the average loan size , even when compared to GNI , would mean that our clients are achieving growth rate higher than the national growth rate. But taking into consideration, that this is not shifting out of the mission. As we are realizing that an important sector is not receiving financial services, while this is very important for job creation, not just self-employment and actually cross subsidizing the small loans which is not generating profits.

2- An important issue in the case of loans in arrears, is when we are releasing some burden from the loan officer for the justified loans, which is probably will be written off due to social reasons , he will came up with this cases faster, to improve his repayment rate, while the MFI will have better chance to deal with it on time, so reducing the reported level of PAR an! d deliver its social mission to the people faster, which will improve its image, and also will improve the staff moral.

Motaz

RE: SOCIAL PERFORMANCE MEASUREMENT ON SHORT-TERM AND INDIVIDUAL LEVELS

Post By: Martin Holtmann

Dear Ana,

Avg. Loan Balance / PC income is indeed a possible and commonly used indicator for measuring "social" orientation.

"Hardwiring" this measure into incentive formulae may be a way to focus loan officers on the social mission. At the same time, we need to keep in mind that many MFIs are becoming more "universal" in their outreach, thus covering wider loan ranges.

Also, in the extreme case, a consumer lender with small average loan sizes (such as in Brazil and South Africa) may "shine" on this front, when in fact the social impact of their lending activities may be rather questionable.

Best,
Martin

RE: SOCIAL PERFORMANCE MEASUREMENT ON SHORT-TERM AND INDIVIDUAL LEVELS

Post By: Fabiana Pastor

I agree with Michael, small loans for some MFIs represent the mayor percentage of their portfolio, but regarding its very high costs, are subsidized by the largest ones necessarily.

I believe that the majority of the MFIs (small or big ones) look for the sustainability and the efficiency in fact to be able to reach their social objectives. Therefore, I think the designing of SIS in the practice works in both ways, as - on one hand - incentives can be designed primarily to enhance efficiency and productivity without harming the social objectives, and on the other hand, long term social incentives for the management staff (using balance scorecard for example) can also improve productivity, and sustainability.

In that way, I think what is common known as social indicators: depth of outreach (targeting poor clients), impact (poverty alleviation and/or socio-economic empowerment) and social development outside of the MFI (e.g. social welfare programs, customers' capacity building) can be an important way to measure the execution to the MFIs mission and objectives, but must be designed for the employees who actually can change those indicators, and controlled by the owners (board of directors for example).

Without demerit their importance, it could be dangerous (operational risk) to mix this statistic to measure the back office and support staff performance. MFI can reach their social objectives by well designing of their programs or products (i.e. programs that target the "ultra poor" BRAC Bangladesh) that are not always profitable and have to be cross – subsidized by others programs. Another way to fulfill their goals is to offer the "microfinance plus" programs, combining credit with other services or activities (business and capacity building trainings, health education, donations, sponsors, etc.). Also, the human resources policies are very important, as PRODEM managers said, it is important from the beginning recruiting new staff ho have a strong social commitment to achieve its social goals.

PRIZMA is a good example, with their performance measurement parameters used to accrue the team-based bonus that represent a reasonable mixture of social and financial indicators: Administrative efficiency, productivity, portfolio quality, breadth of outreach, and customer retention.

Fabiana Pastor
General Manager
Perfect Point Partners SRL - La Paz - Bolivia

RE: SOCIAL PERFORMANCE MEASUREMENT ON SHORT-TERM AND INDIVIDUAL LEVELS

Post By: Masami Hayashi

I've heard that some partners of Grameen Foundation are using PPI score as a parameter in order to reach the target populations.

I think it's an interesting additional use of PPI - though the internal control cost may increase for avoiding fraud.

Masami

RE: SOCIAL PERFORMANCE MEASUREMENT ON SHORT-TERM AND INDIVIDUAL LEVELS

Post By: Franz Gomez

Loan officers tend to concentrate their operations close to the branch. As a mechanism to increase outreach (and be fair with loan officers) I propose a differential economic incentive for getting clients that are not in the vecinity of the branch. Thus, not only geographical location is important (urban - rural) but also geographical distance should be taken into account in designing an incentive scheme that promotes social goals.

Franz Gomez
ADAM Project - Colombia

INCENTIVES FOR SENIOR MANAGEMENT

Post By: Martha Ottenbacher

I understand that branch location, product design and policies to follow up on delinquent clients can significantly influence the achievement of social goals. These factors are largely under the control of senior management. Would it be a good idea to focus our strengths on the design of staff incentives for senior management in order to encourage social performance? Is there any experience with incentives for senior management?

Martha

RE: INCENTIVES FOR SENIOR MANAGEMENT

Post By: Roderick Ayeh

Hi Martha,

I was reading and thinking through the issue of having some kind of an incentive package for senior management. I however think that SM incentives should not be linked to a just a sector of the organization. My reason for saying this is : SM are responsible for the overall day to day management of the organisation. It is therefore binding on SM to ensure that the mission and vision of the organisation are being achieved. I, therefore, think that when SM are hooked onto a particular incentive e.g. recovery of bad loans, what happens to the other areas of the operations which might not be incentive driven? Rather what I think is that all incentives for SM should be inshrined in the position they occupied and then an agreed bonus can be paid to the SM team based on the overall performance of the organisation. In summary incentives for SM should be based on the overall performance of the group and no one incentive system should be design for each position at the sm level.

Roderick

EXAMPLES FROM THE FIELD: PUTTING A SOCIAL PERFORMANCE LENS ON STAFF INCENTIVES

Post By: Katherine Knotts

Dear all,
I thought that it might be useful to share some practical experience from our partners in the field on how they are maintaining a balance between social and financial performance through their SIS. Two organisations spring to mind: AMK in Cambodia and PRIZMA in Bosnia & Herzegovina.

AMK, for example, has a twice-yearly system of staff performance assessment which includes an assessment of staff behaviour with clients as part of assessing overall work ethic. The other half of the appraisal is task-focused, and the lower of the two scores in taken as the final performance score. Additionally, AMK's staff incentive scheme is designed to balance financial and social priorities. At the field level, incentives are based on operational and portfolio quality indicators. Incentive payments include a percentage of the interest collected - a feature which supports both growth and quality.

Another interesting feature rewards AMK staff working in more difficult and remote areas. This is the area potential adjustment - which increases the incentive amount for staff in areas which have lower population density, higher reliance on farm-based livelihoods, higher incidence of flood/drought and higher incidence of poverty. An incentive adjustment factor has been calculated for every district, based on the area potential index. Thus, staff members working in more difficult areas receive additional allowances as well. In effect, the balance is such that the system sets neutral parameters so that concentrating on poorer/remoter areas does not negatively affect the cash incentive of a loan officer.

On the other hand, PRIZMA's staff incentive system is built around both a short- and a long-term focus. On the one hand, loan officers are rewarded monthly for performance on key social and institutional performance indicators, including those in four of its six core areas (depth, breadth, drop-out, administrative efficiency, productivity and write-off). On the other hand, each member of each branch team receives a percentage of Prizma's annual surplus as a flat profit share based on their team's aggregate score across all six core performance areas.

Would be great to hear your thoughts and reactions to this...

Cheers,
Katherine

Katherine E Knotts
Learning and Communications Manager
Imp-Act Consortium

CLOSING MESSAGE

Post By: Mattias Grammling

Dear all,

Many thanks for all your valuable contributions. It was a great pleasure to share ideas on staff incentives with you, and I hope you have enjoyed the discussions. I have learned quite a bit during the last three days, and think the forum was not only a great platform to share experiences and best practices, but also to identify relevant questions that are still not answered.

As part of the team of moderators, I would like to thank Anna Van der Heijden, Natalie Greenberg, Lisa Laegreid and their team who assured that the forum was technically working so well around the clock. Finally, we are indebted to our hosts, including Nhu-An Tran (USAID), Masami Hayashi (MFN) and CGAP.

We will prepare a small summary document that includes everyone's contribution.

Thanks again!

Best regards,
Mattias

RE: CLOSING MESSAGE

Post By: Dale Lampe

Dear Mattias,

Thank you and your colleagues for a valuable and informative forum.

Excellent job!

Best regards,
Dale

DAY 3 SUMMARY

Post By: Mattias Grammling

During our third day, we discussed the role of staff incentive schemes in balancing financial and social goals. One line of discussion focused on whether incentive schemes that are designed to improve organizational efficiency can undermine social goals. Long discussions about the feasibility of including social performance measurement techniques into incentive schemes led to no consensus, and there is demand to explore this topic further.

Artur Bala expressed that incentive schemes can undermine social goals as employees cannot be expected to forego parts of their rewards in order to achieve social goals. Animesh Anand mentioned that staff incentives can undermine social goals to a certain extend, but also highlighted that incentives that encourage outreach can benefit both, social and financial goals. He also suggested to supplement field officer's short-term incentives with semi-annual or annual rewards that are based on the achievement of social goals; Or to separate microfinance operations from social programs. Animesh Anand stressed that it is important to align the incentive schemes of managers and field staff to avoid conflicts of interest.

Anita Campion emphasized that loan officers who are rewarded for achieving financial and outreach goals may provide a poorer customer service quality. Animesh Anand contested that there is a certain level of customer service quality needed to achieve financial goals (e.g. to attract customers to undergo a 3-4 days training).
Motaz Tabaa suggested that certain loans in arrears (e.g. of customers who died or in periods of crisis) should not be considered in the incentive scheme to avoid that field officers follow up on these loans too aggressively.

Roderick Ayeh said that incentives for senior management should be as comprehensive as possible and include both, financial and social goals. Fethi Cherni noted that incentive schemes as well as the commer! cialization of microfinance can have detrimental effects on the achiev ement of social goals, and asks whether it is feasible to measure social performance adequately.

Adil Sadoq said that loan officers cannot significantly influence the degree to which social performance is achieved. Considering the complexity of social performance measurement, he doubts that the inclusion of social performance indicators into incentive schemes is a pragmatic solution. Likewise, Fabiana Pastor stressed that it is of no use to incentivize staff for social achievements that are out of their control.

Franz Gomez, Adam Sorensen and Getaneh Gobezie stressed that performance measurement techniques should be kept simple and should not be changed too frequently to assure that staff receive a straightforward message. Adam Sorensen raised the question of how frequently staff incentives should be adjusted.

Masami Hayashi and Nhu-An Tran highlighted that social achievements go far beyond reaching the poor. Masami Hayashi and Dale Lampe conclude! d that non-monetary incentives may work better because social performance cannot be measured adequately and over the short term.

Motaz Tabaa explained that ABA does not include the loan portfolio volume in its incentive scheme to avoid that loan officers seek to disburse larger loan sizes. He reported that loan officers then tend to disburse smaller loan sizes (to poorer customers) in order to minimize their risk. Animesh Anand and others stressed that incentive schemes should not neglect the loan portfolio size because clients demand larger loan sizes as their businesses grow and because the achievement of financial goals is also important.

Franz Gomez and Nhu-An Tran suggested that different operational circumstances should be taken into account when incentive schemes are designed. For instance, it might be necessary to calibrate the scheme differently for employees working in rural or urban areas.

Anton Simanowitz explained that the connections between social and financial goals could be used in incentive schem es. For instance, if clients were carefully selected, they would grow their business, stay with the MFI and would not fall into arrears. He also provided a well structured list of social performance measurement indicators that could be used in various types of staff incentive schemes. Another list of suggested indicators was posted by Getaneh Gobezie, and Ana Dragic asked if the average loan balance per GNI per capita was an adequate indicator to measure social performance.

All of these indicators were criticized by many participants (e.g. Michael Fiebig, just to mention one). Although the critique concentrated on details, there were heavy doubts on whether social performance measurement indicators can be included in the types of incentive schemes that are widely used in the microfinance sector at present. Katherine Knot noted that AMK in Cambodia and PRIZMA in Bosnia & Herzegovina utilize social performance indicators in their incentive system.

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Post By: Anna Van der Heijden

Everyone:
Thank you for such a rich discussion. We had 108 participants from 37 countries, and you all together created a wonderful dialogue. I hope you found new information, new ways to think about things, or perhaps new contacts for future collaborations.

If you are interested in staying informed about future events like this one or other microLINKS related activities, please take a moment to sign up for the microLINKS Newsletter at www.microlinks.org/connections.

Please do contact me at speakerscorner@microlinks.org with your feedback on this forum, or perhaps with topic ideas for future events.

Have a great weekend,

Best,
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