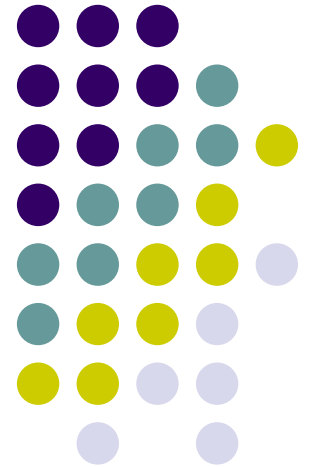


Study on Staff Incentives

Center of Micro Finance, Chennai
August 2006



Project Description



- The goal of this project is:
 - To identify different incentive schemes and compensation arrangements used by Indian MFIs and
 - To measure their effectiveness in achieving long-term and/or short-term goals

The Survey Instrument



- A questionnaire for the CEO and/or the HR Manager regarding the incentive scheme in place and how effective this is
- A questionnaire for the Field Officers regarding the incentive scheme in place and how motivated they feel by the current compensation structure















The Sample

- We ranked 27 MFIs according to the # of Active Borrowers
- We picked randomly 15 MFIs as follow:
 - 1,2,3,4,5,6,7,9,11,12,15,20,25,27 from the ranking list
 - and 3 more randomly from IFMR's list with all the Indian MFIs

The Sample



● #2 Spandana	643,691	
● #3 MCFI	513,168	
● #5 KAS Foundation	142,142	
● #6 BASIX	134,712	
● #7 SKS	134,346	
● #11 Mahasemam Trust	68,664	
● #15 LEAD	37,264	
● #20 IASC	10,545	
● #25 Pragathi Sewa Samithi	4,168	
● #27 PWMACS	2,369	
● Adhikar		
● Swamshree Micro Credit Services		



Findings: Incentive Payments

- 3 main categories of Incentives
 - Foster Growth
 - Client Base
 - Loan Volume
 - Ensure Portfolio Quality
 - Repayment Rates
 - Delinquency Rates
 - Enhance Overall Good Performance
 - Salary Increase
 - Non-monetary Incentives



Findings: Incentive Schemes

- There is no one Best Incentive Structure
- Incentive Schemes vary according to the targets/goals of the MFI
- Usually Incentive Schemes combine growth objectives with control of portfolio quality
- Different Incentive Structures:
 - Aggressive Growth: Increase Client Outreach
 - Increase Client Base & Control Portfolio Quality
 - Increase Client Base, Portfolio Volume & Control Portfolio Quality

Findings: Incentive Schemes



Model 1: Aggressive Growth - Increase Client Outreach

Fixed Salary +

New Branch Incentive

New Group Formation

Individual Client

Client Management

Replacement

Disincentive - Dropouts

**Salary
Increase**

**Promotion
Opportunities**

**Achievement
Awards**



Findings: Examples of Incentive Schemes

- MFI 1
 - Fixed Salary: Rs 2,000
 - Client Acquisition in New Branches
 - Rs 1,000 per loan officer up to 2,000 loan clients per branch
 - Rs 500 for the next 1,000 loan clients per branch
 - New Clients
 - Up to 3,000 clients per branch Rs 75 per group
 - > 3,000 clients per branch Rs 100 per group
 - Rs 50 for each new individual client
 - Client Maintenance
 - Rs 5 per client & Rs 10 per individual client managed
 - Rs 50/- for dropouts
 - Rs 25 for replacement of a dropout



Findings: Incentive Schemes

Model 2: Increase Client Outreach & Control Portfolio Quality

Fixed Salary +/-

New Member/New Group

Group Maintenance

Repayment Rate

Portfolio at Risk

Disincentive - Dropouts

Promotion Opportunities

Achievement Awards

Employment Security



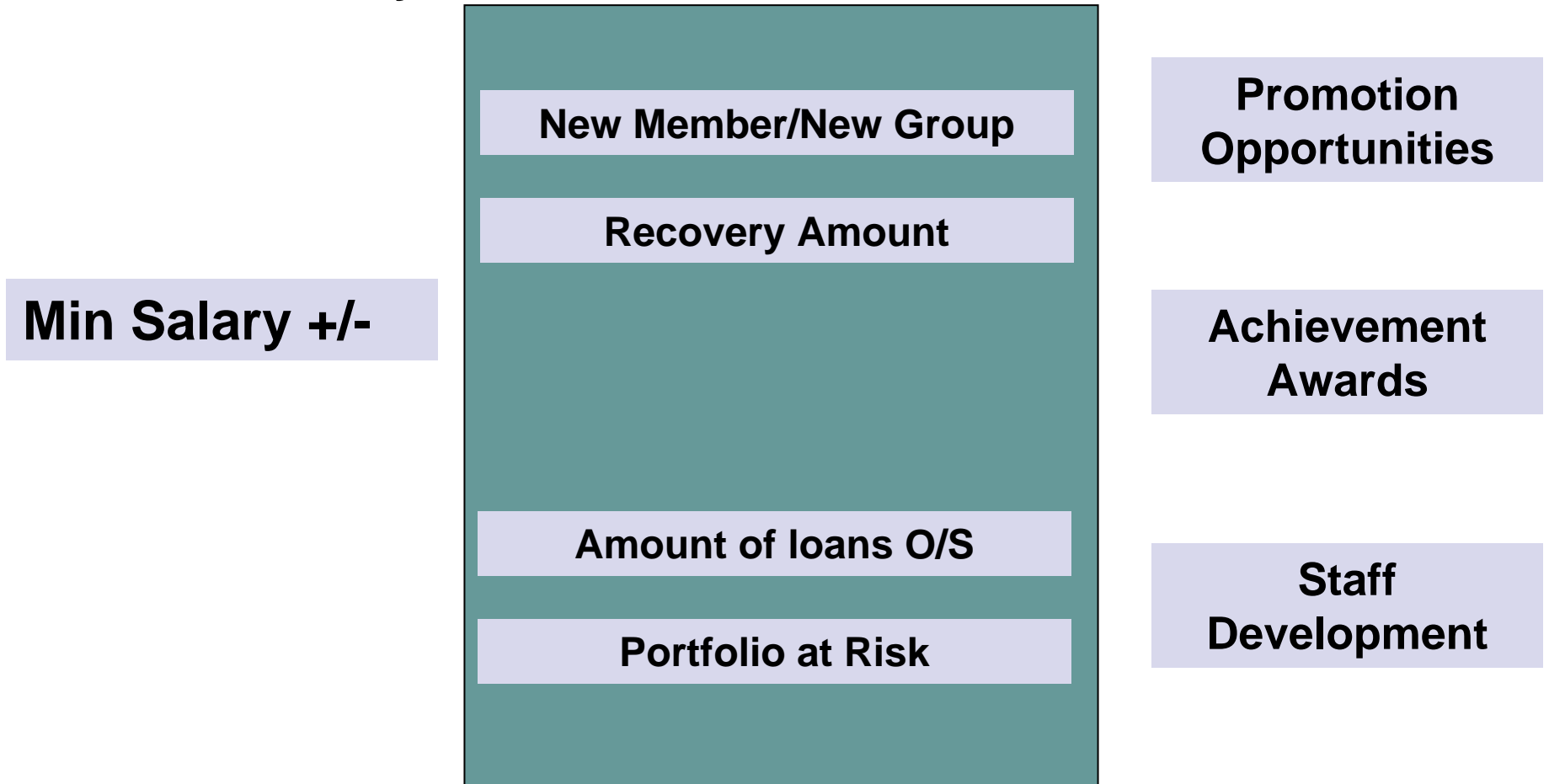
Findings: Examples of Incentive Schemes

- MFI 2
 - Fixed Salary: Rs 3,500
 - New Clients
 - Rs 5 for each new member up to 400 members
 - Rs 4 for each extra member above 400 members
 - Penalty –Rs 5 for a dropout
 - Repayment
 - Rs 500/per month for each F.O with 100% R.R
 - Branch Manager 20% of the incentive paid to the F. O
 - Branch Performance
 - Cash Award to the Branch with the Best Performance



Findings: Incentive Schemes

Model 3: Increase Client Outreach, Portfolio Volume & Control Portfolio Quality





Findings: Examples of Incentive Schemes

- MFI 3
 - Min Salary: Rs 4,500; Max Salary: Rs 9,500
 - New Clients
 - Rs 12.5 for each new member
 - Rs 2 for each new member for the Branch Manager
 - Repayment
 - Rs 4 if the repayment amount is up to Rs 800
 - Rs 5 if the repayment amount is Rs 800 – 900
 - Rs 6 if the repayment amount is Rs 900 – 1000
 - Rs 7 if the repayment amount is up to Rs 1,000
 - Annual Bonus
 - Rs 5,000 per F.O



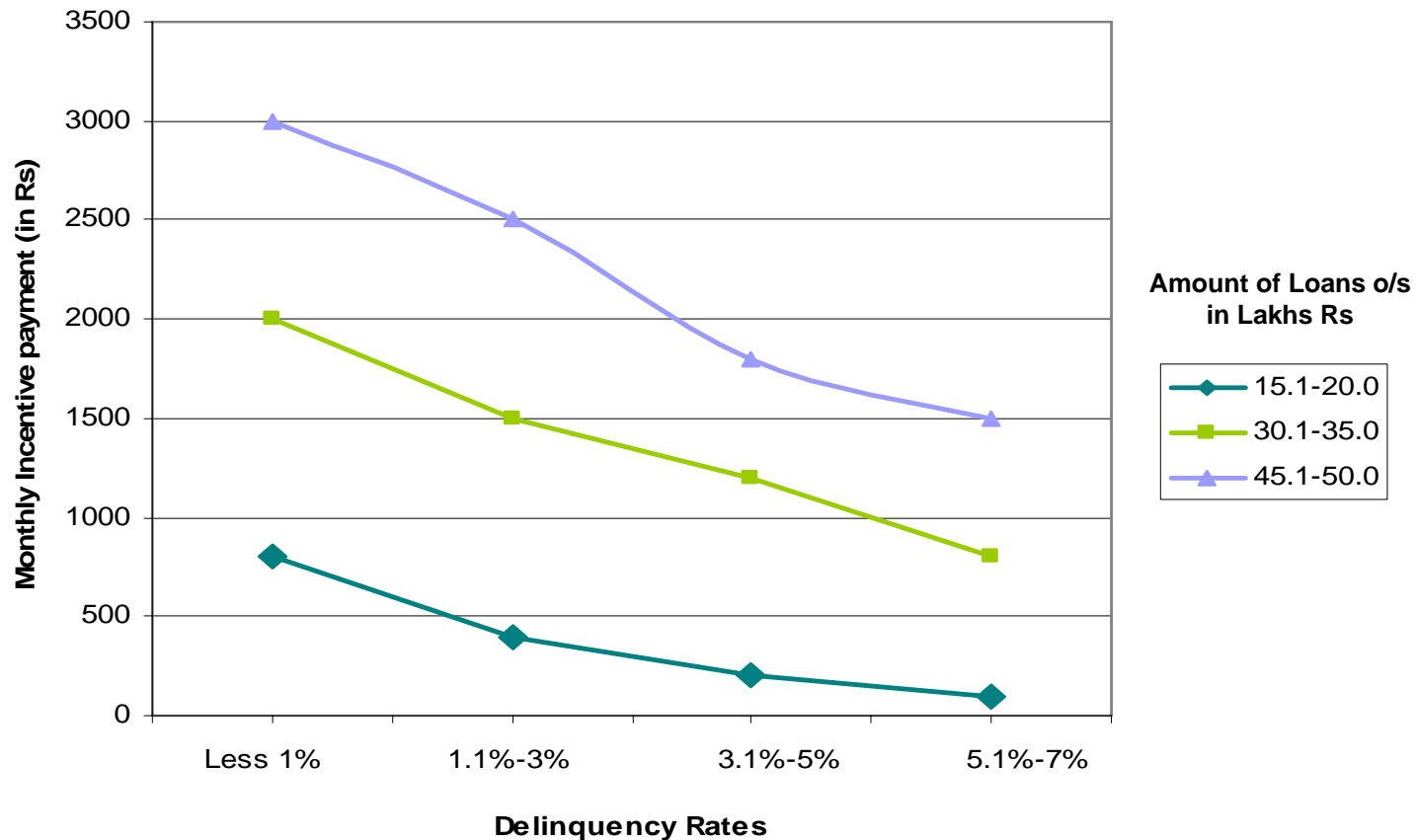
Findings: Examples of Incentive Schemes

- MFI 4
 - New Clients
 - Rs 1 for every new client
 - Rs 300 for every new center (25-50 members)
 - Loan Volume & Delinquency Rate
 - Monthly Incentive Payment based on the amount of loans o/s and bi-monthly delinquency rate



Findings: Examples of Incentive Schemes

**Incentive Payments to the Field Officers based on:
Amount of Loans O/S and Bi-monthly Delinquency Rates**





Findings: Common Problems related to the Incentive Schemes

- Monitoring
 - Proper Systems in place to monitor F.Os' performance and changes in the desired outcomes
- Fraud
 - Too high incentive payments
 - Improper Monitoring Systems
- Personal Motivation
 - F.O is driven mainly by the incentive payment
- Myopia
 - Short-Term vs Long-Term goals



Thank You