



# Using incentives to reach development goals.

**How iDE's experiment with financial incentives enabled the success of the largest scale improved rural sanitation marketing development program to date**

**G**rounded in the belief that businesses are some of the most important drivers of innovation and scale, iDE's market-based approach focuses on building the capacity of the private sector to generate demand for a product or service and supplying that demand. Nonetheless, it is no longer enough to prove that businesses can play a role in development; now the task is to prove that business best practices themselves can drive development outcomes at scale. This expanded vision has forced market development practitioners to mature and become more effective, efficient, and business-savvy. A growing number of development organizations are recruiting staff from the private sector, professionalizing sales efforts, and adopting increasingly sophisticated business practices to achieve development goals with more rigor and effectiveness.

iDE is an international NGO with 32 years of experience in market-based development. From treadle pumps to water filters to farm advisory services, iDE develops markets that provide poor, rural households with access to the products and services they need to increase their income and improve their livelihoods. The lives of 23 million people have been dramatically changed through our work, and by innovating for scale from day one we plan to reach 20 million more by 2020.



## Background on the Sanitation Marketing Scale Up (SMSU 1.0) Project

SMSU 1.0 used a market-based approach to increase the adoption and use of hygienic latrines by rural households in 7 provinces of Cambodia. The project catalyzed local supply and demand for the Easy Latrine—an accessible, affordable and aspirational pour-flush latrine. iDE Cambodia's role includes: conducting market analysis to identify bottlenecks, designing innovative products, improving manufacturing capacity and business skills in local entrepreneurs, recruiting and training commission-based sales agents, connecting sales agents with local businesses, collaborating with microfinance institutions, and engaging the government.

### Setting the stage

In 2011, iDE Cambodia completed the Sanitation Marketing Pilot Project<sup>1</sup> that sold 10,621 latrines in 16 months, representing a 300 percent increase above the baseline rate of latrine sales. The success of the pilot demonstrated the viability of the market as a means to rapidly improve sanitation, and iDE was committed to taking this approach to scale. In order to build a thriving market, iDE needed to embrace new strategies and more advanced business practices. During the pilot project, iDE standardized product quality by introducing pre-cast concrete molds for the more complex latrine components and designed a customer-friendly buying process that removed numerous purchase barriers.

Inspired by the pilot project's success, iDE wondered how to achieve greater impact:

- How might we instill a sense of urgency in customers and staff to buy and sell significantly more hygienic latrines?
- How might we take our market-based approach to sanitation to the next level?
- How might we make selling toilets a dream job?
- How might we leverage the entrepreneurial nature of iDE staff to achieve even greater impact?

In the subsequent Sanitation Marketing Scale Up (SMSU 1.0) project<sup>2</sup>, the team engaged Whitten & Roy Partnership<sup>3</sup> to help build the capacity of the sales agents and formalize iDE's sales management efforts. The SMSU project had large sales targets—140,000 latrines sold without subsidy—and

<sup>1</sup> The 16-month Sanitation Marketing Pilot Project, funded by the World Bank's Water and Sanitation Program and USAID, was implemented between 2009 and 2011.

<sup>2</sup> The Sanitation Marketing Scale Up (SMSU 1.0) project was implemented from 2011-2014 and funded by the Bill & Melinda Gates Foundation, The Stone Family Foundation, and the Water and Sanitation Program of the World Bank.

<sup>3</sup> Whitten and Roy Partnership (WRP) is a sales and management consultancy - <http://wrpartnership.com/>.



management knew maintaining staff motivation would be essential. In order to achieve this target, iDE drew on best practices in the private sector and implemented a staff incentives system to increase the program's impact. Over the next three years of SMSU 1.0, iDE designed, introduced, and refined this incentive system to align the motivations of staff with the independent entrepreneurs they supported and the larger goals of the project.

It was time-consuming, risky, and at times frustrating, but in the end, highly effective. The project became the largest-scale improved rural sanitation program to date, facilitating the sale and delivery of 141,000 hygienic latrines through 256 latrine businesses and 180 independent sales agents in 3 years. In fact, the incentive structure became such a powerful motivational tool that iDE continues to use it under the current sanitation marketing program.

### Key learnings on using incentives

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- Align the incentive system with the Key Performance Indicator (KPI) of greatest interest to the donor or program to maximize the efforts the team is already making on achieving this metric.
- Wherever possible, structure incentives around something the program is already measuring to reduce additional M&E efforts.
- Keep incentives simple – complicated incentives structures are hard for staff to understand and difficult for management to oversee.
- Communicate, communicate, communicate. Ensure staff understand definitions of targets, requirements to receive incentives, and payment structures.
- Look for unintended effects of the incentive program or notably undesirable behaviors that may emerge with the introduction of incentives, and adjust the approach accordingly.

### The initial iDE Cambodia Incentive System

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Since iDE field staff were responsible for recruiting, training, and supporting businesses and sales agents, their performance evaluations were based on latrine sales and deliveries from the businesses and agents they supported. However, not every sale results in a latrine delivery. For various reasons, some customers will cancel their latrine order before it is delivered. Therefore, the team decided to base incentives on latrine deliveries, rather than sales. Latrine deliveries were also the key metric for reporting project

success to donors. The key elements of the SMSU 1.0 project that informed the design of the incentive system were:

- iDE acted as a facilitator between supply and demand. iDE trained and coached businesses to manufacture high quality, affordable latrines and independent sales agents to effectively and consistently sell. The assumption was that the more effective iDE staff were at recruiting, training, and supporting these local private sector actors, the higher sales would be. Thus, incentives for iDE staff were directly tied to the sales of the latrine business and sales agents they supported.
- iDE had an agreement with its donors for a minimum target (70,000 latrines delivered) and a stretch target (140,000 latrines delivered). iDE received its own financial incentive for each latrine delivered over the minimum target. The organizational incentives added an interesting element to the project, as good performance would not only lead to strong results on the ground but would also generate unrestricted revenue for the organization as a whole.

#### Incentive Structure

100% of Target = 100% of Incentive

90% of Target = 75% of Incentive

80% of Target = 50% of Incentive

70% of Target = 25% of Incentive

Under the first incentive design, each iDE Cambodia employee could earn a fixed amount quarterly based on his/her achievement against latrine delivery targets. The text box to the right shows the payment structure. This motivated managers to aggressively pursue sales targets and led to the first revision to the incentive structure.

### Improvement 1—Avoid incentivizing the wrong behavior

*Challenge:* The initial design incentivized sales and delivery in general, leading some iDE staff to focus on helping latrine businesses sell bulk orders to NGOs (who were often giving the latrines away for free), instead of helping businesses sell latrines to individual households through sales agents. Thus, the incentive structure was encouraging the undesired behavior of focusing on NGO sales, at the expense of sales to households.

*Solution:* iDE refined the system to incentivize sales by sales agents (who only sell to households) versus sales made directly by the businesses, which often included large procurements from other NGOs. As a result,



**Incentivizing the right behavior: A sales agent presents the features of iDE's latrine during a village sales meeting.**



iDE Cambodia staff shifted their focus to sales teams and building the capacity of sales agents—the exact behavior management was hoping for. This was proof that the management team could use the incentive system to align staff behavior with project objectives. As the project continued, management continued to identify ways to refine the incentive system.

### Improvement 2—Tailor incentives to the context

*Challenge:* The incentive system was producing good, but inconsistent, results. Some iDE staff excelled and earned significant bonuses while others struggled. Weak performers aside, there were also numerous staff who had

strong sales skills and dedicated significant effort to their job, but were unable to hit sale and delivery targets. Management realized that things like differences in baseline latrine coverage and the presence of other subsidized sanitation programs impacted the number of sales in each region.

*Solution:* Managers adjusted the incentive structure so that each individual had a target that was tailored to the context of

his/her territory and past performance. The new incentive was based on deliveries that exceeded the quarterly target. Those who set and exceeded a higher target, received a larger reward and those who set and exceeded a lower target, received a smaller reward. The table above shows the payment structure.

This tiered incentive system simultaneously pushed top performing staff to work even harder toward aggressive targets and ensured that incentives did not de-motivate staff having a more difficult time. iDE also introduced incentives for managers who had a certain number of staff exceed their delivery targets. Feedback from iDE staff was overwhelmingly positive, with many individuals hitting targets and earning impressive bonuses. The new tiered incentive system improved results on the ground, but still required significant management oversight.

### Improvement 3—Minimize financial management challenges

*Challenge:* Significant time and energy was spent each month ensuring the system incentivized the right behavior, was fair, and did not have loopholes. Additionally, there was a limited amount of funds budgeted for incentives, and in theory staff incentives could exceed that limit if too many staff

Over Target Bonus Structure		
Group 1	Group 2	Group 3
\$0.50	\$1.00	\$2.50
per latrine over target	per latrine over target	per latrine over target

achieved deliveries over their targets. Thus, management had to ensure it delivered on its promise to reward staff while working within the allocated budget.

*Solution:* iDE refined the incentive system further to minimize these management challenges. Incentives were exclusively reserved for latrine deliveries sold through sales agents, as this is the long-term behavior iDE wants to encourage. The over-target bonus continued, as it was an effective motivator for staff. Its structure, however, became slightly different. iDE budgeted a set amount of incentive funding for each district sales leader, which was aggregated into a combined bonus pool each quarter. At the end of the quarter, each district sales leader who has achieved deliveries greater than his/her target is eligible to receive funds from the bonus pool. The size of the reward for each district sales leader is directly tied to the percentage of the total over the target deliveries he/she is responsible for. The fixed bonus pool system ensured iDE would stay within budget, while still motivating staff to exceed their targets. The table above illustrates this structure in practice.

**Over-Target Bonus Pool for District Sales Leaders (DSLs)**  
(\$1000 bonus pool divided proportionally)

District Sales Leaders	Number of Over-Target Deliveries	Percentage of Total Over-Target Deliveries	Bonus
DSL 1	100	36%	\$360
DSL 2	125	45%	\$450
DSL 3	0	0%	\$0
DSL 4	50	19%	\$190
DSL 5	0	0%	\$0
Total	275	100%	\$1000

### Ongoing innovations

Under the current project, SMSU 2.0, the incentive structure has once again been revised. With the launch of SMSU 2.0, the program created a dedicated team to train and support latrine suppliers, leaving the existing sales team to work with independent sales agents. In order to incentivize both teams to work towards the same goal, incentives are still based on latrine deliveries. Initially, the newly created supply team was wary of having their incentives tied to deliveries, since the number of deliveries is contingent on the number of latrines the sales team sells. The potential for team conflict if targets are not reached was high. However, the management team reinforced that the supply team works to support the sales team, and a dedicated communications training from WRP facilitated open dialogue between the teams to air potential issues. Now, the teams work closely together to ensure targets are met and address any obstacles as they arise.



**The installation team of an independent latrine producer delivers a latrine to the customer's home.**



Anecdotal evidence indicates that the incentive structure motivates sales agents to work harder to overcome household objections to purchasing a latrine. Additionally, staff report feeling more motivated and having a greater sense of ownership over their work, since their income is tied to how hard they work toward the incentive goals.

### Ensuring incentives are paid for real results

Not every sale results in a latrine delivery. For various reasons, some customers will cancel their latrine order before it is delivered. Therefore, iDE bases incentives on latrine deliveries, rather than sales.



A sales agent reviews a latrine sales order form.

Since incentives are based on deliveries, they are not paid until delivery figures have been confirmed by the M&E team, which is essential in preventing fraud. The M&E team spot checks 10 percent of deliveries in the business record books and verifies these deliveries at the household level. Since the M&E team reports directly to program management (and not the sales or supply team), they are able to provide independent verification of sales and supply work. After verification of deliveries, the Deputy Program Manager inputs the delivery information into the incentive tracking system, the

Program Manager reviews and approves the incentives payments, and the Finance Team executes incentive payments.

The team also explicitly defines what types of sales are eligible for incentive payments. For example, for a latrine delivery to count against the bonus pool, it has to include the box, slab, and pan; those that do not have all of these components are ineligible. iDE's M&E team is a crucial part of the success of the incentive system, ensuring all targets have clear definitions, validating delivery figures submitted from field staff, and providing the data that reveal which staff are excelling and which are struggling.

### The return on investment of incentives

Implementing an incentive system is often perceived as risky.

- For program managers, the idea of tying a portion of staff compensation to performance can create anxiety. International development projects are challenging, and great results are never guaranteed. If the project encounters challenges during implementation, managers may worry



that staff will leave the project for a position with a more regularized compensation system.

- For donors, especially those tied with government budgets, incentives are an undesirable variable. If targets are not hit, then the project might not spend its full allocated budget, which could affect how funds get allocated the following year.
- Many employees may not have experienced a system in which part of compensation is tied to performance, and could have concerns about their ability to earn sufficient income.

In iDE's experience, however, the benefits of a well-structured and managed incentive program outweigh the perceived risks. Under SMSU 1.0, incentives accounted for 2.3 percent of the overall program budget. Given their ability to accelerate progress and motivate staff to achieve large targets, reserving a small portion of the project budget for staff incentives is a worthwhile risk for both donors and program managers.

- **FOR DONORS:** Incentives are an effective means to drive quantifiable progress towards a specific agenda.
- **FOR THE ORGANIZATION:** Incentives create a culture focused on tangible achievements.
- **FOR LEADERSHIP:** Incentives that require teams to work together towards a common goal build cohesion within and between departments. In the current program, incentives for the sales and supply teams are both tied to latrine deliveries, encouraging them to communicate and quickly address issues that might impact sales agents or latrine producers.
- **FOR MANAGEMENT:** Incentives are an effective and malleable management tool to accomplish objectives. Since incentives can be modified over time, managers are able to promote different behaviors as the program evolves. For example, in one quarter, managers may tie a portion of incentives to the number of sales agents recruited, motivating their teams to build the sales force. In another quarter, teams may need to focus on increasing the number of sales meetings, and incentives could be structured accordingly.
- **FOR EMPLOYEES:** Incentives allow staff to be creative in working towards the program goals and motivate them to achieve results above and beyond their job descriptions.



## What were the keys to success?

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### Great questions to ask staff when setting targets

Is this target realistic?

What will it take for you to achieve this goal?

Do you feel confident you will hit this target?  
Why or why not?

Will anything prevent you from reaching this target?

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- **CLEAR GOALS:** Design the incentive system to achieve specific goals. Incentives help guide staff behavior and encourage top standards of performance, but it is critical staff are incentivized to spend their limited time and energy on the correct activities, lest the incentives actually encourage the wrong behavior.
- **EXPERIENCED MANAGEMENT TEAM:** A multi-disciplinary, highly committed Incentive Management Team is essential to design, deliver, and iterate upon the incentive system. In iDE's experience, the first design will not be the last. It provides a starting point and reveals additional challenges and opportunities to improve. Additionally, be sure the Incentive Management Team includes a good mix of skill sets and insights. iDE's initial team included:
  - The project manager, who brought strong relationships with the team and detailed understanding of the field operations.
  - The Co-Directors of iDE's Global WASH Initiative, who understood iDE Cambodia's short- and long-term vision and brought private sector experience that lent to instituting business best practices.
  - Two sales consultants from Whitten & Roy Partnership, who brought experience designing incentive systems and in-depth knowledge of iDE Cambodia's sales management process.
- **THE RIGHT DONOR:** Work with a committed donor who supports the use of incentives and understands their evolving nature. iDE was fortunate to work with the Bill & Melinda Gates Foundation and the Stone Family Foundation in this project, both of whom were big supporters of using incentives to achieve targets.
- **ENSURE PROPER SUPPORT:** Incentives are inherently meant to drive excellent behavior and outstanding achievements; however, even the best incentive system will fail if staff are not set up to succeed. Be sure that each staff has the skills, tools, support, and confidence he/she needs to be successful. Otherwise you are simply throwing money at a problem that should be solved with improved recruitment, training, coaching, and/or management.
- **M&E:** iDE's incentive system was largely based on achieving latrine delivery targets. Despite the numerous benefits of incentives, keep in mind that someone will always try to 'beat the system.' Therefore, it is essential that an incentive system is supported by a strong M&E team that is operating effectively before the incentive system itself is introduced. iDE's M&E team ensured all targets had clear definitions, validated sales and delivery figures, and provided the data that demonstrated which



staff were excelling and which were struggling. It is safe to say that a poor M&E team could easily sink a great incentive system. Notably, the M&E team were not incentivized by sales figures, but rather, accuracy of verified data.

- **TOO MUCH OF A GOOD THING:** An incentive system can lead to jealousy and/or competition among staff within the organization, particularly if the incentive payments are different for different types of staff (i.e. M&E staff and sales staff). Staff may also develop a sense of entitlement and not realize that incentives are only intended to reward excellent behavior and results, and not just for completion of activities. iDE found a commitment to transparency, open communication, and ensuring everyone feels heard to be the most effective means for managing expectations.
- **EXPLAIN THE RULES OF THE GAME:** A new approach is only effective if it is well understood and accepted by staff. Be sure to dedicate time to explaining the incentive system to all staff. Be clear about the short- and long-term goals, and explain how it will affect their day-to-day work. Throughout this process, listen to staff and remain open to discussing the potential benefits and challenges the incentive system will bring.
- **ONGOING COMMUNICATION:** Financial incentives are best when they work in partnership with other good management tactics. In iDE's experience, a clear financial incentive + authentic positive reinforcement + adequate support + team recognition provided the right mix. As a reminder to staff of what they were working towards, management made a point to frequently mention the incentives staff could earn and ask them what they plan to do with the money. iDE also used incentives to openly discuss if targets are realistic and to inspire hard work to achieve new levels of performance.
- **TAILOR INCENTIVES TO THE INDIVIDUAL:** The incentive system used by iDE was complex because every member of the team did not perform at the same level. To ensure the incentive system was fair, we used a tiered approach whereby each individual's incentive target was based on the territory where he/she worked and his/her past performance. This approach ensured that high performers still had stretch targets to keep them challenged and that lower performers were still motivated to strive for excellence as their targets were realistic.
- **TIMELY PAYOUTS:** Timely disbursement of incentive payments to staff is important. Incentives are most powerful when they come immediately after the rewarded behaviors have been performed. iDE struggled with this throughout the project. As incentives were based on deliveries, they were not paid until delivery figures had been confirmed by the monitoring and evaluation team. This was essential for preventing fraud, but did often delay incentive payments and frustrate staff.



## Conclusion

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In iDE's experience, incentives are a powerful and malleable management tool to accelerate development impact. They lead to honest conversations around staff performance, are a mechanism for increasing accountability, improve staff retention, and enable management to align staff behavior with project goals. Furthermore, the incentive system is a mechanism for influencing and driving team culture. Incentives clearly communicate to staff what kind of behavior and outputs are rewarded by the organization. They are a constant demonstration that iDE Cambodia is committed to achieving project targets, encouraging results, and investing in people.

Despite their numerous benefits, using incentives did not come without a price. The most significant cost was the amount of time they required from senior management. The Management Team monitors and regularly updates the incentive system to ensure it encourages the right behavior and remains fair for all staff involved. Additionally, it is important to recognize that incentives can create 'blinders' for staff, where people become so motivated by their incentive target that they overlook the big picture. This 'blinder effect' can be solved with proper design and management, but this just reaffirms the importance of having a highly committed management team willing to invest the time and brainpower into developing a proper incentive system.

Incentives are a powerful tool to gather momentum and inspire action. When used correctly, they can drive great accomplishments. When used incorrectly, they can take a project off course. Despite the potential challenges of using incentives, a properly structured and well managed incentives plan can leverage the motivations of individuals and steer them towards a collective good, accelerating a team's progress toward ambitious goals.

