Chapter- 5

HUMAN RESOURCE PRACTICES IN MICROFINANCE INDUSTRY IN INDIA

“Progress is impossible without change,
and those who cannot change their minds cannot change anything.”

George Bernard Shaw.

5.1 Introduction
Microfinance (MF) has emerged as a popular and a credible instrument of livelihood promotion and empowerment. At the core of microfinance is the idea of addressing the problem of poverty and deprivation by enabling the poor to access financial capital hitherto denied to them? The goal is sought to be achieved through creating innovative mechanisms or channels whereby poor could easily access savings, credit, insurance and other services for overcoming their vulnerability. The MF intervention in India which started with a few local non-governmental organisation (NGO) initiatives in the mid 1980s has now spread quite significantly with the involvement of both formal and semi-formal agencies. While the formal sector consists of commercial banks, regional rural banks (RRBs) and co-operatives delivering microfinance mainly through the Self-Help Group (SHG)-Bank linkage Programme; the semi-formal sector consists of microfinance institutions (MFIs) in the form of NGOs and non-banking financial companies (NBFCs) using largely the onlending model. In the coming years, MF sector is expected to grow in a big way with a major emphasis placed on scaling up at the policy level (Shylendra 2004).
It is recognised that successful scaling up of MF intervention for a larger impact requires promoting strong network of institutions delivering microfinance with sound practices. However, the MF sector is faced with many problems and challenges. Excluding the formal financial institutions, the sector consists of a large number of unregulated institutions dealing with the poor and other small clients. Except for a few, most NGO-MFIs in the country are still in their nascent stage of development. Much of the MF intervention by the NGO sector is in the form of a project lacking the much needed organisational form and capacity (Shylendra and Harmeet 2004). Moreover, the NGO-MFIs are faced with many managerial and operational problems coming in the way of effective delivery and performance. These managerial and operational problems are of diverse types and touch upon issues like management of groups, establishing linkages with the banks, creating MFIs with right form and adequate capital, designing products and services, delinquency management, developing management information system (MIS), and developing and managing human resources for effective delivery of microfinance.

MFIs in India operate using both Grameen and SHG group methodology. With regard to SHGs which constitute the dominant model in India, one can see a rapid and widespread growth of them in the country. However, there are many problems in terms of ensuring the sound and stable growth of the SHGs. A large number of SHGs are faced with inadequate training and monitoring resulting in deterioration of their organisational and operational quality. Despite promoting the SHG-Bank linkage programme, SHGs are facing a number of problems in getting adequate and proper loan and
savings facilities (Shylendra 2004). There is constriction of lending due to bottlenecks created from the banks. For many older and mature SHGs, the problems also pertain to utilisation and investment of their accumulated savings and identifying livelihood opportunities. Ensuring the sound management of SHGs is crucial for the success of the MF. Various efforts are being made by NGOs to consolidate and strengthen the SHGs through training of SHG members, grading and auditing of SHGs, and formation of federations. Even in the formation of federations, the NGOs have been confronted with many problems like mobilising the SHGs members, identifying suitable legal form for federation and building the capacity of federations to become self-reliant and autonomous. Many NGOs which have been there in microfinance for some time are keen to launch their own MFIs. Such NGOs are confronted with problems like lack of clarity in terms of identifying suitable legal forms and mobilising the necessary equity and other resources (Sen 2003). In terms of mobilising funds for on lending, while initially there were many problems with the apex financial agencies, the entry of commercial banks though has eased the situation but in a way has created confusion for MFIs in deciding about the right and economical source of borrowing.

5.2 Key Managerial Challenges of MFIs

Microfinance sector in India is characterised by a huge market that has around 350 million potential clients. However, the present outreach is just around 20 millions (largely done through SHGs). The estimated credit demand is around 15 billions US dollars but the demand met so far is only to the tune of 700 millions US dollars. Within the MF sector in India, the
commercial banks are the dominant suppliers of credit. Commercial banks have a wide outreach with 64,000 branches. Along with the commercial banks, cooperative credit system also has wide outreach with 90,000 retail outlets and regional rural banks (RRBs) have 14,500 retail outlets. However, in spite of this outreach, the sector faces many structural limitations and rigidity in actually reaching out to the poor. Over the years, MFIs are emerging as supplementary delivery channels in India. There are various types of MFIs operating in India. For example, there are MFIs that are regulated by RBI and work for profit like urban cooperative banks, Non-Banking Finance Companies (NBFCs) and Local Area Banks (LABs), There are non-regulated MFIs like the Societies, Trusts and Section 25 companies. The third category is the mutual benefit organisations like the Mutually Aided Co-operative Societies (MACS) and the multi state co-operative societies. Among these, the Section 25 Company under companies act is a very enabling organisation for Indian MFIs. At present there are around 20 such organisations. This is especially very useful in retaining developmental focus and MF activity together effectively. It allows the transforming NGO to carry out microfinance and retain its developmental identity as a not-for-profit civil society organisation. The MF sector is set for higher trajectory of growth. The mainstream financial institutions are trying to forge strong linkages with MFIs for supply of wholesale credit. MFIs are emerging as powerful intermediaries of low end financial market. MFIs are becoming almost indispensable part of the financial system of the country. The current scenario of growth points out that there will be parallel streams of client or member owned MFIs and privately owned MFIs. Further, the sector is moving steadily towards highly competitive environment where clients
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would have a larger say in pricing of the services. MFIs face wide range of challenges. The major managerial and operational challenges faced by MFIs in India broadly relate to five issues: (i) Client Outreach and Growth, (ii) Financial Management, (iii) Portfolio Management, (iv) Systems and Procedures in MFIs, and (v) Human Resources Management.

(i) Client Outreach and Growth: One of the important challenges associated with the MFIs is the outreach and growth achieved with the clients. For MFIs their outreach is more important than their volumes. In this regard managing the geographical spread is a challenging task. Prior social mobilisation of the clients becomes essential as the ground becomes favourable for MF intervention. Adverse selection would be reduced as the MFIs attempt to know more about their clients. In increasing the outreach, an MFI has to deal with the issue of captive clients versus bringing in newer clients. It has to set up foolproof processes for ensuring quality of client selection. Clear focus on the target clients becomes essential to avoid any mission drift. With the increasing competition with other MFIs, an MFI may find it difficult to retain its clients. Some co-ordination between MFIs may help in avoiding ills of competition like multiple financing of same clients as is the case in Bangladesh. Above all, the extent of outreach will have implications on costing and pricing of products by the MFI.

(ii) Financial Management: Under this an MFI has to tackle various challenges. It has to identify suitable sources of financial resources. It has to choose between equity capitals, borrowings, and grant. Who are the right type of investors for the MFI among clients, donors, financial institutions
and retail investors? An MFI has to carefully undertake financial costing along with considering operational and administrative costs. Right pricing is another issue to be sorted out by carefully looking at the spread, various service charges and above all by taking into account the affordability factor for the clients. Apart from this, financial management would require effective liquidity management by the MFIs including good re-cycling of funds. The MFI has to learn about matching the maturities of its borrowings and lending to clients and dealing with issues concerning investment of surplus funds. Finally, the challenge boils down to one of attaining operational self-sufficiency (OSS) and financial self-sufficiency (FSS).

(iii) **Portfolio Management:** The third important challenge MFIs face is related to their portfolio management. For MFIs, loan is their main credit portfolio. Hence they have to arrive at effective credit policies to help in loan appraisal and sanction by the managers. MFIs have to design suitable products taking risk profile into account based on the sectoral distribution of the demand. Normally MFIs adopt credit graduation method in deciding the size of loan. Differential pricing with regard to products and maintaining a fine balance of maturity mix also becomes important in portfolio management. Quality of portfolio is related to the cost of operations. Tracking over dues for proper delinquency management can help in maintaining the portfolio quality. Loan repayment needs to be properly scheduled or rephased to help in recovery. In attaining larger portfolio growth, an MFI also has to find a balance between group based lending and individual loans as individual lending is a costly method. Applying suitable prudential norms like income recognition, asset classification, and
provisioning is another aspect having bearing on the soundness of MFI operations.

(iv) Systems and Procedures in MFIs: MFIs need standardised lending procedures for larger operations. This would involve evolving simple forms and recording formats and development of operational manuals to help the staff. The accounting system has to be simple to help take care of all their transactions. MFIs have to build strong internal control systems and monitoring mechanisms. A strong internal audit system is necessary for fraud prevention. Creation of systems and procedures would involve computerisation and putting in place suitable management information system (MIS). Simultaneously, there is also need for developing a good reporting system, mechanism of vigilance against fictitious loans which seem to be on the raise and ensuring effective system of compliances. Putting in place cost and income audits is also important. Further, MFIs have to guard against ponzi credit culture of borrowers indulging in borrowings from different sources to repay the earlier loan balance.

(v) Human Resources Management (HRM): MFIs have to develop and put in place a good recruitment policy. The Human Resource Policies should ensure that there is charting of career growth within MFIs helped by support for capacity building. MFIs have to offer appropriate salary and incentives. They can develop a productivity based incentive structure based on accounts/clients load per credit officer and loan recoveries. A system of job rotation to enrich learning and defining job responsibilities with the help of
job charts are other important requirements under HRM. Finally, an MFI has to adopt a regular and well defined performance appraisal system.

5.3 Professionalizing MFIs: Some Challenges:
There are two challenges to MFIs in India: i) the absence of suitable legal and regulatory framework which has constrained NGO-MFIs in maturing into full-fledged institutions capable of scaling up to impact on the members’ livelihood significantly (Sa-Dhan 2001), and ii) the prevailing inadequate capacity and professionalism required for handling specialised and large scale operations (Fisher and Sriram 2002, Mahajan 2001). While the first reason is external to MFIs and relates to policy area, the second one is more internal to their functioning. He elaborated on the aspect of professionalising the MFIs for their capacity building which could help address their managerial and other problems on the following lines. Professional management has been defined as an act and process of performing various management and other functions by managers who have acquired specialised knowledge, skills and expertise in management through formal training or long work experience whose expertise is recognised as valuable to society at large (Singh 1996). Going by the above definition, professionalisation of MFIs would basically involve either enhancing the skills and abilities of the existing personnel or bring in trained professionals who can handle various specialised functions with ease so that MFIs can attain their goals through better performance.

It has been identified that most MFIs lack skilled and trained people to handle their managerial and other responsibilities and functions. The skill
levels of the existing staff in MFIs are found to be very low. This lack of professionally trained personnel is identified as one of the major reasons for many of the problems faced by the MFIs. Professionalising MFIs is considered to be a solution for many of those problems. However, professionalising development organisations like MFIs is beset with many constraints and challenges (Shylendra 2003). The following constraints could be identified with regard to MFIs in professionalising them. Many MFIs being small both in terms of size and business may neither be able to appreciate the role of skilled professionals nor afford higher remuneration demanded by professionals. As a result, MFIs may not be able to attract professionals who could enhance their functional and managerial capabilities. On the other hand, it is argued that working with organisations like MFIs needs different management or professional ethos which the conventional professionals lack in general. MFIs are mission driven organisations and work mainly with poor, women, illiterate and other disadvantaged sections in diverse and challenging areas. Working with such organisations would require that the professionals possess besides their skills, right kind of ethos, concern and commitment. Lack of such values is considered to be one of the main reasons for qualified professionals not opting for career in such organisations. Another argument being put forth in the context of capacity building of MFIs is about the limitations of the nature of professional solutions being offered. Most professional solutions being offered to MFIs are highly technical and financial in nature ignoring the complex nature of MFIs (Search Bulletin 1999, Fisher and Sriram 2002, Mayoux 2003). MFIs also aim at goals like poverty alleviation and empowerment. Professional and technical capacity building tends to ignore
this reality of MFIs. Hence such approaches, it is argued, at best can offer only partial or distorted solutions to the complex developmental and managerial needs and problems of MFIs. Because of the above reasons, the argument that professionalising MFIs alone could help resolve their managerial and other challenges could be misplaced. It is not difficult to see a lot of similarities between the dairy co-operatives and MFIs when it comes to the issue of professionalisation (Shylendra 2003). The dairy co-operatives which were launched in the country in 1970s and 1980s under Operation Flood Programme also had similar need for professionals for their capacity building and success. The lessons that have emerged in dealing with the dairy co-operatives suggest that professionalising developmental organisations is a complex task. Any unipronged and highly technical type of solutions may not bring in the desired solutions. Given such a scenario, a multi-pronged approach towards professionalising and capacity building of MFIs is suggested which takes into account carefully the need as well as the complexity of their purpose and functioning. No doubt, professionalism is an essential condition for the success and sustainability of MFIs. However, given the challenges of professionalising developmental organisation, what is suggested is an approach which could be called Emphathetic Professionalism. This would basically involve two aspects: (i) Addressing empowerment through professionalism, and (ii) Developing a committed cadre of professionals. The broad contours of the above two requirements are detailed below.

**Emphathetic Professionalism:** The whole thrust of professionalising the MFIs should be to primarily empower the members of these MFIs. The
capacity of a MFI is enhanced so that it in turn enables the members to realise their developmental potential. The professionals while building and managing the organisation would ensure that the members are able to exercise true control and ownership over the MFI (Fernandez 2001). In applying any technical solution, the professionals would ensure that the interest and needs of the members are not compromised or adversely affected. In other words, the professional solutions are geared or oriented towards addressing the developmental cause of poverty alleviation and empowerment. The MFIs are visualised to emerge like an Amul model co-operative wherein the farmer members are empowered through professional support (Kurien 1997). Thus, professionalism becomes only a means for attaining the larger goal of the MFIs. Realising the above goal would require developing a cadre of committed professionals who empathies with the goal of empowerment and poverty alleviation. These are professionals who have the right ethos as well as skills and who look towards rewards more in terms of goal achievement than in pecuniary form. The approach is similar to the one adopted by the Institute of Rural Management Anand (IRMA) in training professionals for the development sector. While professionals need to be remunerated adequately and also given some incentives based on their performance; any such package could be given only when the institution has reached the minimum threshold in terms of its business and breakeven. Based on IRMA’s experience, the following specific strategy for operationalising the approach is suggested. Developing a cadre of committed professionals for MFIs could be attempted through a combination of the following measures:
(i) Training of in-service staff of MFIs: There is need for suitable training programmes to build the capacities of staff working with MFIs. The training programmes could be of short duration ranging from one week to few months. The themes or focus areas of the training have to be identified by training need assessments which could be carried out by the MFIs on their own or with the help of external facilitators. In-service training could be the right approach for building the professional skills and capacities of MFIs especially in the initial phase. Such trainings are likely to attain higher level of targeting and impact on MFIs as much of such trainees would return back to MFIs with their enhanced skill and awareness levels (Shylendra 2003, Shukla and Sharma 2002).

(ii) Injecting Fresh Talent: Professionalising MFIs would also require injecting fresh talents. This would be required especially for those MFIs keen to scale up and spread to newer areas. Such a step is also essential for MFIs to break their excessive local focus and lower scales of operation. Much of the challenges of professionalism identified above would emerge mainly in the context of inducting fresh graduates and other qualified people. Training fresh management graduates who could work with the MFIs would require specially designed programmes / courses which would develop in them both the right kind of understanding and ethos about MFIs as well as the specialised skills needed for managing a growing MFI. For this, there is a need to integrate microfinance as a subject in the curriculum of rural and development management institutions like IRMA, XIMB, XISS, Dhan Academy and IIFM which train professionals for the developmental organisations. Microfinance also could be introduced as a part of university education under streams like commerce, economics and social work. The
Microfinance sector as of now may not be in a position to absorb a large number of graduates specially qualified in microfinance. The current emphasis should be to integrate microfinance into the existing programmes so that the required basic understanding and awareness is created among the interested graduates. Specialised programmes in microfinance could be launched as the sector matures in the future. In making this possible, apex and support agencies like NABARD, SFMC, RMK, FWWB, Sa-Dhan and APMAS have to play a proactive role in supporting initiatives to launch training programmes for the above purpose as well as in mainstreaming microfinance in the curriculum of development management education in the country. Even commercial banks which are seeing business potential in microfinance need to support such training and educational initiatives which would help develop professionals for microfinance sector. The development management institutions should also take note of the emerging professional needs of microfinance sector and carry out training need assessments to design suitable curriculum and programmes. The support agencies as well as academic institutions need to work together in building the training infrastructure for the purpose. To conclude, the microfinance sector is clearly emerging, calling for necessary attention and support from funders, regulators, and capacity building institutions (Dhan Foundation 2003). The sector stands at a crucial stage and needs a proactive support on various fronts to pitchfork itself into a mature stage capable of delivering the expected goals. The sector because of the fast growth and other prevailing constraints is confronted with many challenges and problems. Professionalising the sector is advocated as a solution for some of the challenges like scaling-up. Given the fact that professionalising development
organisations like MFIs is a complex process, what is required is a multi-pronged strategy very much embedded in the developmental ethos and needs of the microfinance sector. What is advocated and needed is Empathetic Professionalism which can help bring the much needed skills and capacity for MFIs so that they can steadfastly work towards empowerment and poverty alleviation. MFIs. It was emphasised that even the needs or concerns of members need to be kept in view when thinking about professionalising MFIs. Can the dairy co-operatives like Amul and MFIs be compared here for the purpose? MFIs are of diverse types. For MFIs which are smaller and not getting any subsidy for capacity building paying salaries of professionals may become difficult. There are regional variations in the environment for MFIs. In states like Bihar where law and order could be a problem, addressing the challenges of MFIs may need different approach. There is also the question about what is professionalism and what is a professional? It was felt that professionalism need not be taken as recruiting only MBAs. Professionalism is needed at all levels in an MFI. There is need to build professionalism and skills of people at all levels. At the top level there is needed to build capacities with regard to governance and systems of MFIs. At the field level, there is need to build operational capacities. In a SHG bank linkage model, the challenge is illiteracy. When we talk about professionalism and empowerment, we should also concentrate on training women members of the SHGs.

There is a need to move away from the paradigm that professionals mean those who have professional degrees. It is necessary to understand that professionalism goes with the organisational culture and as the organisation
evolves, the level of professionalism also varies. We need to understand and define what we mean by professionalism. It differs from organisation to organisation. However, as a good practice it is very important that all the staff in the organisation is aware of the mission of the organisation and the implementation processes. Is more professionalism the solution for the problems of MFIs? Or is it better to develop self-sufficiency among MFIs? Dependency on trained professionals may not be good always as they may not remain with the sector for a longer period. Moreover, they are also costly as they need higher salaries. In that context, it was felt; it would be better to train and develop the skills of the local staff and members. Technology also should be brought in to help the poor. It was emphasised that professionalism should also help in reducing the cost of intermediation for MFIs. Currently MFIs are charging higher interest rate. Professionals should help bring down the cost for MFIs and the poor. They also should help MFIs to address their other problems. Further, there is also the question of who can best train the professionals? Can academic institutions have the skill and ability to train professionals to obtain the right practical skill?

5.4 Human Resource Management (HRM) Issues in MFIs:
HRM in an organisation is invoked when the organisation faces a challenge with regard to human resources. The need for HRM arises when it is possible to point out human capital problems that limit the ability of the organisation to achieve important organisational priorities. A good HRM can provide solutions to those problems. MFIs basically are organisations characterised by legacy of the parent NGO culture and values. They face several cultural issues while scaling up and are also financially dependent as
they largely follow on-lending approach. The HRM issues can be seen from two perspectives. From a system and policies view, the main HR issues faced in the MFIs are lack of manpower planning, employee turnover, lack of second line leadership, lower remuneration and other facilities to employees, lack of a system of rewards and recognition, and inadequate organisational system for capacity building. The HR issues of MFIs also can be seen from a perspective of culture and competencies. The employees may lack competencies in terms of knowledge or skills in the areas of planning and goal setting, technical skills, decision making and problem solving, and communication. There are also conflicts of orientation and values and difficulties faced in combining professionalism with developmental orientation for ensuring dedication and commitment among staff. The presentation adopted a life cycle approach in explaining the HR processes in an MFI. In a start up MFI, the focus is towards entrepreneurship development, creativity, informality combined with limited products. In the beginning the HRM needs are also not really perceived. It is restricted to identification of key competencies and exploring different sources for recruitment. The issues high on the agenda are basic compensation and setting up administration systems. Employee turnover could also be an HR issue affecting the organisation at this stage. With the growth, various HR issues start surfacing in MFIs. Growth also means more formalisation and standardisation in the organisation and decentralisation through increasing branch level autonomy. The HR issues at this stage of life cycle in the organisation are characterised by employee turnover, drive towards advanced recruiting capability, need for induction and socialisation of the staff and focus on training and management development. In terms of
adopting effective HR practices, at the systems level the HR policies need to focus on providing financial incentives for better performance; placing high emphasis on training and skill development; following rigorous selection in recruiting, adopting job rotation and enrichment; following compressed distribution of salaries across and within levels; and giving promotion to employees within the organisation. At the level of organisational culture, the effective HR policies should focus on developing organisational practices that motivate the employees and capture the benefits of know-how and skills; adopting extensive information sharing system; following decentralised decision making for empowerment, and attempt to eliminate status symbols.

In the case of some of the well established MFIs, the current HR policies are focused on building recruitment and selection systems and introducing suitable compensation and reward system based on performance linked incentives. What needs to be seen now is the impact of these performance linked incentives on intrinsic motivations of the staff. The research evidence on the relationship between performance and incentives is still not clear. The need in this regard is to focus on job contents and context, and looking more at justice related factors. Microfinance being a sunrise sector, the way forward for MFIs would be to network and learn from each other rather than competing. The competitive environment is leading to both staff and members turnover for MFIs. Replicating blindly any model is dangerous as there are variations in MFI contexts. Even with growth it is difficult for an NGO-MFI to compromise with its values. HRM has the potential of building the capacity of MFIs. Developing a suitable HRM strategy is a challenge.
MFIs need to use incentives suitably both for growth as well as to avoid staff turnover. The need for spotting new talent as well as training local staff was emphasised as is the case with some MFIs (Bandhan) which are using HRM strategically to train and promote own staff.

Coming to the issue of microfinance products and services, while some MFIs have launched new and diverse products and services, many are faced with the constraints in designing suitable products or services. Not only these MFIs lack financial and technical capacity needed for launching new loan products demanded by the poor; many do not have the required legal form and status to offer savings and insurance services. Hence the functioning of MFIs in most cases has become fragmented with most providing only partial or limited services. The challenge for MFIs is to become innovative in designing suitable products and delivery mechanisms. Only through appropriate products and services, MFIs would be able to achieve their larger goal of attaining poverty alleviation (Vasimalai et al. 2001). As regards managing loan recoveries though the overall recovery performance in MF sector has been quite impressive, but many MFIs are faced with delinquency problems of both chronic and transitory nature (Sharma 2003). As a result not only there is an increase in the non-performing assets of MFIs but many are unable to fully recycle their funds adversely affecting their liquidity, returns and expansion of the business. Delinquency management is one of the crucial factors which can ensure MFIs success. Delinquency management requires the MFIs to identify causes for non-repayment, strengthen their monitoring functions and also put in place appropriate systems to prevent delinquency.
Scaling-up is another issue where MFIs are facing many strategic as well as operational problems (Sen 2003). There are only a few successful cases of MFIs which have been able to scale-up in the Indian context. For scaling up, the MFIs need to explore newer institutional forms as well develop systems conducive for large scale operations. Many NGO-MFIs are unable to take a clear decision with regard to expansion confining their operations only to a limited project area. Apart from the issue of identifying suitable legal form, many are constrained with difficulties in mobilising the required equity and other resources. A large scale operation also requires a good monitoring system. Lack of good and standard data base is a problem of both the MFIs and the sector. The MFIs have to develop an appropriate management information system (MIS) for the purpose. Given their peculiarities, many MFIs are not able to adopt standard and suitable MIS systems for monitoring. Simultaneously, the 4 MFIs have to strike a balance between the goals outreach and viability. MFIs are expected to attain viability without compromising on the issue of targeting the poor. For this, a major challenge for MFIs is evolving mechanisms and innovations to reduce their costs. What are the kinds of systems that are needed to be developed by MFIs so that they strike a clear balance between the above two goals? Building professional management is another important challenge faced by the MFIs. Professional management can go a long way in enabling the MFIs to address many of their managerial and operational problems and become sustainable. Professionalisation which can bring in well trained people into MFIs requires appropriate human resource management (HRM) policies for addressing issues such as staff incentives for increased productivity and staff
training for handling increased responsibilities. Suitable norms for assessing the performance of the staff also may have to be evolved. Moreover, there is also the general constraint of getting well trained people to work with MFIs.

5.5 Human Resource Development in Microfinance Institution

Microfinance (MF) industry, which began in 1970 with pilot micro credit programs, providing small loans to poor and low income household, has seen a remarkable growth in Asia and pacific region in the last three decades. In Pakistan, over a period 1999-2008, it has witnessed an unprecedented expansion from a client base of just 60,000 to a 1.5 Million borrowers. This is an outcome of a focused strategy and investment on the part of government of Pakistan and a proactive response by all stakeholders including donors, regulator, wholesalers, retailers, network and clients. The government target to reach 3 million active borrowers by 2010 and 10 million in long term gives a clear view to external and internal stakeholders. MF industry, which has evolved primarily out of the non-profit development community, is gradually adding bits of expertise from the commercial world. Because of this gradual formalization, microfinance institutions (MFIs) are yet not fully structured, and therefore following the most current principles from corporate experience. For microfinance to fully establish itself as a pioneering industry, it has to unite the successful practices and behaviors of the business community with the social mission of the development world.

According to survey report on “HR challenges and solutions in Microfinance” April 2008, issued by Microfinance Insights India, people matters are most challenging, in comparison to financial and technology
matters. After recruitment, the training & capacity building figure out as a predominant factor in preventing turnover in an MFI.

Hiring and retaining good quality human resources is also one of the targets given to microfinance industry by the government of Pakistan. Asian Development Bank in its April 2008 report on top 100 Asian MFIs highlights nine performance metrics, which include outreach-borrowers, outreach depositors, market penetration, scale, growth, profitability, efficiency, productivity and portfolio quality. Human development in an MFI depends upon its chosen area of performance. Human resource development challenges in an MFI are not all that different from those of other companies; however, working with populations at the bottom of the pyramid, particularly in country with varying political and economic climates is bound to generate challenges unique to MFI. Human development relies mainly on training & developmental activities. Regardless of industry, training as a subject is prone to certain criticism, like being reactive to present needs, rather than building capabilities for the future; transferring large amounts of information rather than increasing the knowledge of participants; remaining detached from the context in which work is produced; and lacking the supporting processes needed to put new ideas into practice. In this article, human resource development in MFI has been viewed holistically. Some of the concepts are equally applicable to every organization including MFI. Significant among those are movement from training to learning concept, its linkage with business strategy of the organization. The aspects specific to MFI include treatment on induction,
promotion, ongoing professional development, including development of senior managers.

**Change in Training Concept**

In an era of change and opportunity, approaches to training have grown in importance, broadened in scope, and more sophisticated in method. Once the object of training would have been the individual employee, and the training method would involve teaching. Now, the picture is much more complex. Training may think of organizations as well as individuals being capable of ‘learning to learn’; based on the belief that “endless learning opportunities exist at the workplace”. The Chartered Institute of Personnel Development (CIPD) UK promotes a concept of paradigm shift from ‘Training to Learning’. Under this new model, the line manager is charged with additional responsibility for development of subordinates. This calls for a climate at workplace where the people search for the knowledge every moment; through routine exchange of information, peer group learning, coaching, mentoring, on the job training, reading functional manuals, consulting professional magazines/ websites and other resources. This is a notion of environmental scanning giving opportunities for intentional as well as accidental learning. For training department to facilitate learning, this is a departure from PUSH to PULL strategy.

**HRD alignment with Business Strategy**

According to Wilson (2005), Training & Development is traditionally a function of human resource department. It follows a classic training cycle, identifying training & development needs, planning and designing training,
implementing training and evaluating it. Using above cycle, organizations may fall under three categories:

1) Those who undertake piece meal training which is typically course based and not explicitly linked to the overall vision and goals of the organization.

2) Organizations, where training and development provision is derived from the business plans and objectives, and is very much downstream of strategy.

3) Those who have a strategic human resource development (SHRD), which is more.

**Training**
An instructor led, content based intervention, leading to desired changes in Behavior.

**Learning**
A self directed, work based process, leading to increased adaptive potential holistic. The belief that processes of organizational change occur through planned learning to ensure that individuals and organizations are equipped with the skills and knowledge needed to deal with the present and to create the future. SHRD is about developing organizational structures, processes and styles, which enable managers and employees to allow time to draw on their experience, question existing approaches in terms of their efficacy, debate, challenge, air conflicting ideas and experiment without reproach. No one disagrees with the view that a strong link should exist between the human development and business strategy of the organization. The problem
can only arise, where HRD specialists are not involved at strategic level of decision making, consequently the business strategy is not clearly be apparent to them, and therefore, logical deductions about appropriate training and development interventions are difficult to make. Another important aspect is that, financial resources available for the training and development of employees are never unlimited, necessitating decisions about where to deploy resources to maximum effect. Such decisions can only be made if those responsible for HRD are clear about the organization’s strategy and priorities.

**Induction Training**

Churchill (1997) report on Managing growth: The Organizational Architecture of Microfinance Institutions signifies that the foundation of any MFI lies at the locus of interaction between the institution and its customers. The role of front line staff assumes critical importance. Orientation training plays a vital role in ensuring that new loan officers understand the MFI and buys into it psychologically. They embrace to MFI’s values, identifying core elements of its culture and given a new sense of identification with MFI. During the orientation training, an explicit message should be given to new comers by communicating MFI’s mission, strategy, and objectives; particularly the behavior expected from them to achieve those goals. A successful MFI needs to indoctrinate employees into its core ideology, and a sense of elitism so that new employees feel they are joining something that is special and superior. After initial orientation phase, an MFI should never rush new entrants to create large portfolio. A good strategy can be to put them on mentorship program, followed by on the job training. Duration of
this program may vary depending upon the complexity of business. This allows new staff to learn the technical aspects of the job and the tricks of the business from experienced personnel. In microfinance, many of the skills of field staff, such as client selection and delinquency management, can be learned best through experience; however mentorship and on job training play a fundamental role in this regard.

**Training on Promotion**

An MFI needs to see that, when staff is promoted, they are well trained for their new responsibilities before assumption of responsibilities. This may comprise of three stage development. In their preparational development for new role, they need to learn new skills for higher responsibilities. Transitional development may include timely and focused coaching or mentoring support. Finally in their role development again they need facilitation by superiors while adjusting to new demands. MFIs that promote from within make the transition easier. MFI also needs to be aware of the pitfalls of promoting people into positions that are above their heads and consider the advantages of bringing new perspectives into the company. A fresh injection of people at all levels can avoid people becoming in-bred.

**Continuous Professional Development**

Staff learning is an ongoing process throughout the entire relationship between the employee and the MFI. Ongoing learning is required to help employees grow as business grows. This involves planning to identify the new skills that employees need to fulfill personal and corporate objectives. Learning may also involve cross-learning so people can perform a variety of
jobs. This can reduce the business’ vulnerability to absenteeism and attrition, thus creating flexibility. Cross-learning can also enhance the ability of staff to participate meaningfully in redesigning work procedures to accommodate growth because employees can see the work environment from various perspectives. Staff rotation is another instrument which can facilitate the transfer of innovations between branches and assist in preventing fraud. This is despite the fact that building long-term relationships with the clients improves the quality of business and has a positive effect on delinquency management.

**Senior Managers Development**

CIPD UK is of the view that development of senior managers is crucially important for promoting a learning culture in the organization. Indeed any idea of creating a learning organization or getting senior management support for learning at lower level can be irrelevant without senior managers themselves seriously and systematically addressing their own learning needs. Senior managers are often sensitive to their status and see their development needs as different; and therefore may reject any standardized approach for training. They see training as an activity for more junior people and are likely to resent the idea that they can be subject to generalized training courses. The neutrality of the term 'development' usually appeals to them. When senior managers are not themselves committed to their own development, they may act as a stumbling block in creating a learning climate in an organization. Hence there is a definite requirement of taking care of their constant development. Senior managers often need highly refined leadership and corporate politician skills. HRD can assume the
brokerage role - advising on their development opportunities, and fixing it so that they can avail such opportunities. A simple model for on the job development is to pair up two senior managers. One spends a reasonable time following round the other and then there is a de-briefing where the shadowed can give feedback to colleague what he/she observed. The roles can be reversed subsequently and both parties can learn from the process. This is a highly cost effective learning mode but it does need careful organizing.

**Criticality of Training Function**

Training activity is a sandwich, between recruitment and performance management function. Training can act as force multiplier, if the recruitment section hires people with specific traits and abilities that are compatible with the MFI culture. Similarly incentives also play an important aspect of staff development. Economic democracy (a share in prosperity or otherwise of organization) helps in the growth of MFI. If trained people are frequently leaving the MFI, then probably the MFI is subsidizing the training cost of other firms. Another consideration in this regard is that people are not motivated by their paychecks only; as money is never a substitute for esteem, pride, and dignity. MFI needs to look for right balance of monetary and non-monetary incentives, including base salary, individual/ group-based rewards, staff development opportunities, challenging work, recognition, and opportunity to manage themselves, participation in corporate decision making, promotional opportunities, and most importantly professional and personal growth.
Role of Line Managers

There is something rare than ability, it is the ability to recognize ability (Elbert Hubbard). This highlights the role of line managers, because they are intimately involved in skill gap identification of subordinates. Since the performance appraisal is one of the bases of training need assessment, line managers can effectively use this tool for development of staff. Wilson (2005) is of the view that during the appraisal process, the appraiser need to concentrate on the future instead of past, provide feedback on behavior rather than personality, focus on improvement rather than punishment, base comment on information instead of belief, secure commitment instead of compliance, extend active support instead of being directive, and make the appraisal person centered rather than form centered, with a philosophy of “how can we benefit” instead of “what I get from this” process.

Management and Communication Style

Management and communication style is another factor in the growth of employees in an MFI. This aspect reinforces the earlier theme of strengthening the role of line manager as an institution. Line manager is expected to act as a facilitator rather than boss, seen as a “servant leader” helping subordinates in achieving results and devoted to their personal development. This is doable by focusing on guiding; energizing, motivating, mentoring, facilitating, problem solving, and empowering employees to reach their potential. When an MFI increasingly expects line managers to undertake learning and development activities, it should also make the rewards for doing so readily available. Their commitment and buy-in is a pre-requisite to learning and development at the workplace. Chief
executive’s visibility in training sessions has very positive implications, sharing with employees, the vision for the business, how employees role fits into the bigger picture, and what benefit they would draw if they are committed to making that vision a reality.

**Critical Success Factors**

MFI, like any other organization, does not have unlimited financial resources for developmental activities. Likewise, not all of the gaps in knowledge, skills and attitudes are urgent, to be filled in a short-term timescale. Debate with senior management can give guidance on which gaps are most critical. HRD can then prioritize the learning needs and decide where to deploy these resources for maximum effect. The process needs to take a holistic view of developmental requirement by conducting learning need assessment at individual, departmental and organizational level.

**Conclusion**

In a rapidly changing and increasingly knowledge-based economy, competitive advantage is built where individuals actively seek to acquire the knowledge and skills that promote the organization’s objectives. MFIs that have the capacity—including a proven lending methodology, a well-managed staff learning program, an effective information system, access to large volume of loan capital, and the administrative capacity to process volumes of applications efficiently; are probably ready to achieve economies of scale in operation. HRD interventions that are explicitly linked to MFI business requirements evidently stand the best prospect of gaining acceptance. Change in training concept, carefully crafted training on
induction, promotion, ongoing professional development of all staff including senior member, efficient utilization of training resources and sound interfacing of training with recruitment and performance management can pay a great dividend in this regard.