

## The Single Biggest Challenge for Microfinance

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Worldwide (and in India too) training and capacity development remains the single biggest challenge for microfinance. MFI leaders report that there is no regular supply of trained manpower either at the grass root level or at the management level. As a result they are forced to rely on *ad hoc* in-house training methods and infrastructure which does not yield the professionalism and competencies that they need to build strong and effective financial institutions. In common with many countries across the globe, India still needs a cadre of high quality technical service providers to train/service the sector in the future.

### Capacity Development – Supply Side



The current availability of service providers is inadequate in terms of numbers, and (in some cases) in terms of capacities. The microfinance industry will have to look beyond the traditional microfinance training and technical service providers and start to involve accounting firms, management consultants etc. In India, as elsewhere, too many trainers struggle to use adult education techniques fully and many are unable to translate the theory of the classroom into to the practice in the field. Thus training needs to *move from theory into action* and thus drive change within MFIs.

Globally there is a growing consensus that high quality, effective training combines classroom theory and on-site follow-up to drive the learning in to practical action and change in the institutions. This requires a different breed of trainer: one who can do more than present from powerpoint; one who can implement and provide credible on-site technical assistance that provides real value to the MFIs. MFIs responding to *MicroSave* training needs assessment of 2005<sup>2</sup> also put particular emphasis on the need for step-by-step “how to” guides or workbooks to guide the change process. See Appendix 1 for details on this.

Furthermore, capacity building must be adapted to meet the differing needs of the nascent/emerging MFIs and of the expanding/mature MFIs. There is a pressing need to develop comprehensive, relevant and integrated training modules on a wide range of topics to professionalise microfinance – thus building the much sought-after second tier management in MFIs. The industry continues to grow and thus so does the demand for competent middle management. Currently, in India these are typically sourced by MFIs from the rural institutes of management – not the top tier Indian Institutes of Management that have been supported by the MicroFinance Management Institute. But the in



<sup>1</sup> This article draws extensively on *MicroSave* India Focus Note #11 “Capacity Building – Needs and Challenges in India” by Brij Mohan on [www.MicroSave.net](http://www.MicroSave.net).

<sup>2</sup> See *MicroSave* Briefing Note #46 “Catalysing Capacity Development: Assessing the Need for Training” by Graham A.N. Wright et al. on [www.MicroSave.net](http://www.MicroSave.net).

India rural institutes are using curricula largely based on the one developed by SIDBI nearly a decade ago. It is clearly time to revisit this curriculum, to update it both in terms of content (to reflect the new realities in India microfinance) and in terms of its delivery (to use multi-media/practical examples and thus bring the courses to life with video clips, case studies and field-based exercises that take the students out into the field).



Most front-line staff training in microfinance is done on the basis of a few days in the classroom followed by shadowing a peer credit officer or branch manager as part of “on-the-job” training. This gives huge potential for a “Chinese Whispers” effect, through which errors/non compliance with established policies/procedures are replicated and amplified as they are passed on from person to person. When on-the-job training is used, it is essential to have rigorous internal audit/compliance systems to ensure that these errors/non compliance are identified and eliminated.

Longer-term for training of large numbers of lower/mid levels of staff, it will be important for microfinance to harness the potential of e-learning systems. However, efforts to do this in other industries have highlighted the need for moderated e-learning systems to optimise their impact. Thus the trainees’ MFIs themselves are likely to have to be significantly involved – both to modify content to reflect their systems, policies and procedures and also to moderate interactive sessions, thus adding value to the core e-learning systems.

### Capacity Development – Demand Side

Currently, not enough attention is being paid at present to training for senior and middle management. This probably stems from three constraints:

1. A thinking that senior management does not really require training.
2. A mindset that senior management does not have the time to attend training.
3. Inadequate capacity of senior management to implement the outputs of training within MFIs.

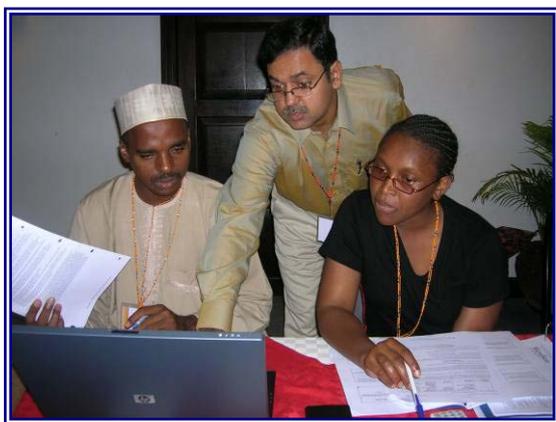
Furthermore, as with many other countries around the world, India sometimes suffers from inappropriate selection of participants for training courses ... with staff attending training as a reward, or because it is “their turn” or because the course is being held in their home town.

Over time training will need to be built into part of the staff retention systems – realistically, all professionals seek challenging environments within which they are learning and growing ... And the professionalisation of the industry will mean that salaries in the sector will have to rise to become more realistic and market related. Indeed, with the churn in staff amongst MFIs in many countries, this is already happening.



### Conclusions

In line with private sector business, MFIs need to start seeing *training as an investment rather than expense*. As part of this they need to pay more attention to training and capacity development as a part of an integrated HR management that includes HR retention. Those financing/ supporting training need to re-assess what they finance and how they evaluate it – to move away from counting “number of attendees” at a training to the “impact of that training” – in terms of changes that occur within MFIs.



Given the sheer scale of the requirement means that *approaches to training must be re-evaluated* – and become more creative. It will not be adequate to just combine classroom training with technical assistance. India must use its technology to develop new methods such as distance or e-learning to massify capacity building commensurate with the growth and maturation of the industry. Equity and debt investors as well as the regulators/supervisors are going to demand that MFIs are better trained so that they can meet the growing demands for professional Governance, Management, Systems and Transparency. Only through changing our current mode of capacity building can we meet the challenges outlined

above and continue the worldwide growth of microfinance.

## Appendix 1

### Key Findings and Recommendations

#### *Selecting Training Courses*

The large-scale and diversity of courses required by the MFIs will necessitate the development of a system to assist MFI to diagnose their key issues and thus to assess and prioritise their needs. Using participatory methods to identify training needs will increase buy-in and understanding of the role that capacity building can play in the overall development of the organisation. This should reduce the number of participants sent to courses as a reward, and increase the expectations of the MFI for those trained to apply the skills they have learned. In addition, it will be important to look at methods for sequencing the courses – so that MFIs first take and implement the more basic courses that necessarily underpin subsequent (more sophisticated) ones. This will also relate closely to the state of evolution of the MFIs seeking the courses.

*“... those sent are not necessarily the best suited to apply the training skills learned, on the job”.*

#### *Follow Adult Learning Best Practice PLUS*

Respondents clearly articulated the need for training courses to follow basic adult learning best practices in terms of using group exercises with plenary sessions and summary discussions and practical examples. *MicroSave’s* experience shows that having participants conduct much of the classroom work on their own institution’s data/issues, thus leaving the classroom with a significant part of the work completed and ready for implementation, is extremely effective for driving change within the organisations.

*“Facilitators must involve trainees rather than merely lecture. He/she should integrate participant experiences to the concepts”.*

#### *Use Classroom plus On-Site Follow-up Technical Assistance*

The study highlighted the need for post-training assistance to implement what has been learnt in the classroom. Worldwide there has been a move toward training that combines classroom-based learning with on-site, follow-up technical assistance, under which the participants work with the trainers/consultants to implement and institutionalise the training/changes within their MFIs. Thus, for example, after three days working on portfolio management (ideally using their own data), participants return to their MFIs with a trainer or a consultant to work on institutionalising portfolio management systems and skills within their MFI.

*“There should be a practical follow-up immediately after the course to facilitate better application of concepts learned”.*

*“A key output from the training should be a draft plan for subsequent implementation”.*

This approach is much more resource and labour intensive, and requires a special quality of trainer (one that can put the

*“... practical and practiced focussed trainings are the critical need today - so that people can go back and use the skills and concepts learned within their MFIs”.*

classroom theory into practice in a variety of institutions). However, this approach has been demonstrated to lead to far more effective change and improvement within MFIs participating in the training programmes. The approach also means that the use of training courses as a reward system for staff members will probably be reduced since the MFIs will know that the participants will be expected to work with the trainers/consultants to implement the training. This approach also offers a better business model for trainers/consultants in that the revenue stream generated is for 3 days training, plus 5-8 follow-up, on-site assignments of a week or more - rather than simply a 3 day classroom based training.

### ***Develop an Integrated Curriculum for Microfinance in India***

Many of the participants in interviews and focus groups emphasised the need for an integrated, broadly standardised, India-specific, national curriculum for key core competencies necessary for the design, delivery, management and governance of financial services. Several of the participants (from the MFIs, experts, capacity builders, service providers and training institutions) offered to assist in the collaborative effort to develop such a curriculum. Such a collective effort would be necessary and desirable to complete the massive task that such curriculum development would entail. This Integrated Curriculum would be designed and produced to the highest possible standard using industry norms and would typically contain a Participant's Manual/Workbook and a Trainer's Kit (manual, slide show, handouts and exercises). The curriculum would then be available in the public domain for use by MFIs, training institutions, individual consultants and capacity builders.

*“There is a critical need for a national curriculum (i.e., a core curriculum capable of being adapted to different strategic contexts) for microfinance in India and that can really facilitate large scale and high quality capacity building – both of which are absolutely necessary for scaling up of microfinance services in India today.*”

### ***Develop Comprehensive, Easy-To-Use Training Packages***

Given the huge market in India, it will be essential to engage and empower as many trainers as possible to use the courses in an Integrated Curriculum for Microfinance in India setup. Several training institutions and independent consultants expressed the need for training materials they could adapt and offer to the industry. Some of the expanding and mature MFIs expressed the desire to conduct some of the training “in-house” tailored for their specific institutional systems and needs. It will be important to develop and disseminate training materials that can be adapted and translated for local needs and delivery through as many channels as possible.

*“Development of a workbook/ toolkit that provides a step by step orientation is key”.*