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Catalysing Capacity Development: Micro-Finance in India - Training Needs Assessment

Graham A.N. Wright, Ramesh S Arunachalam, S. Mishra and S. Narayanan

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1. Background

Worldwide training and capacity development remains the single biggest challenge for micro-finance. This challenge is also central to the performance of micro-finance in India too. Recognising this, and in preparation for a major investment in curriculum design and capacity development in India, ICICI Bank commissioned *MicroSave* to conduct a comprehensive Training Needs Assessment during the period from October 2004-February 2005.

The Training Needs Assessment had four objectives:

i) To identify the priority training and capacity building needs in the Indian low income financial services sector;
ii) To examine and assess potential capacity development institutions/centres;
iii) To identify existing training courses/toolkits and other resources available in the Indian market; and
iv) To outline pragmatic strategies by which gaps identified can be addressed.

The study was focused on the core skills necessary to run an effective, sustainable, market-responsive financial institution, without reference to the model (SHG bank-linkage, Grameen replication, cooperative etc.) and not on the community development skills to recruit and nurture groups.

The level of enthusiasm, commitment and openness demonstrated for the study by micro-finance institutions (MFIs) and their staff was exemplary – this despite its probing and invasive nature. Major wholesale financing institutions, especially SIDBI[1], provided extensive support to the study. Similarly, busy experts, donors, bankers and capacity building institutions gave generously and freely of their time. This overwhelmingly positive response to the Training Needs Assessment confirmed the Indian micro-finance sector's recognition of the importance of capacity development as it moves into the future that is uncertain but holds much promise.

A point that needs emphasis here – while this report primarily focuses on MFIs, *MicroSave* believes that to reach significant scale in delivering financial services for low income people, the formal financial sector must be involved. The report therefore contains a section devoted to the capacity development needs of commercial bankers, who also responded very positively to the study. As the rural branch manager of a large public sector bank in Tamilnadu notes, *"The fact that I am spending time and responding to this (TNA) questionnaire itself confirms the fact that we are seeing financing for the poor not merely as a call of duty but also as an economic opportunity for the bank. Going by the track record, I would say that poor people pay back well given certain conditions and it is up to us to create that environment which would include trust, sensitivity, flexibility backed by a professional approach. The point to note is that their needs are also*

[1] **Special thanks are due to Mr Vikraman, CGM, SIDBI/SFMC, Lucknow who ensured institutional support for the study.**

changing in this growing era of economic liberalisation and if we are able to have products and systems that can satisfy these newer needs in a flexible manner and without conditions/norms that enhance their transactions cost, then, we surely have a great market for the commercial banking sector".

2. Methods

The study used a variety of methods to understand and analyse the need for training/capacity development, optimal contents and structure of training courses, the organisations/institutes best placed to deliver training in the different regions of the country, including North, South, East, West and North – East India.

The team identified and analysed secondary data sources from previous studies, the records of MFIs, wholesalers and training institutions, and also employed extensive searches on the World Wide Web for a range of aspects related to training and capacity building in micro-finance, with specific reference to India.

A significant primary data collection exercise was undertaken from October 2004 to February 2005 involving:

- Focus Group Discussions[2] (using Participatory Rapid Appraisal tools);
- Individual In-Depth Interviews;
- Individual Participant Feedback on Existing Courses including its content, methods and range of other aspects; and
- A Quantitative Survey Questionnaire.

These instruments were used to get the views of:

- Twenty-five (nascent, emerging, expanding and mature[3]) MFIs were carefully chosen from amongst the partners of SIDBI, ICICI Bank, NABARD, other commercial banks, CASHE and FWWB;
- Donors, wholesalers and experts;
- Bankers;
- Individual consultants and capacity builders;
- Regulators, auditors and credit rating agencies; as well as
- Service providers[4] (including insurance companies) and institutions.

For more details of the Methods used, please refer to *Annex2*.

3. Key Findings

3.1. Overview

There is a clear recognition of the need for capacity development. As **Table 1**. (next page) suggests, this perception of need is particularly pronounced amongst donors, wholesalers and experts, individual consultants and capacity builders and regulators, auditors and credit rating agencies, who often attached a higher importance to the capacity building issues than the MFIs themselves.

In fact, together these support service organisations rank the importance of capacity building for MFIs at 0.38 points (15.93%) higher than the MFIs themselves. This trend is even more pronounced amongst wholesalers and donors, who rank the importance[5] of capacity building for MFIs higher than the MFIs themselves by a significant 0.73 points (30.19%). Regulators, auditors and credit rating agencies see the importance of capacity building for MFIs at 0.29 points (11.89%) higher than the MFIs themselves.

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[2] At some MFIs, these exercises lasted for as long as between 12 – 20 hours (1 –2 days)
[3] Please refer to *Annex1* for details on categorisation of MFIs as Nascent, Emerging, Expanding and Mature and *Annex2* for list of completed MFIs
[4] Consultants/companies providing various services (including MIS, insurance, evaluation, monitoring, insurance agents and other services etc) to MFIs and the micro-finance sector were included in this category
[5] A 5 point ranking scale was used with 1 – most important, 2 – quite important, 3 – important, 4 – valuable but not that important and 5 – unimportant

Another interesting finding is that nascent MFIs see the importance for their capacity building 0.25 points (nearly 10.32%) lower than the all MFI average. Being relatively new entrants into the micro-finance sector, these nascent MFIs seem to have lesser knowledge of the complexity and challenges of the systems and procedures required for scaled-up and sustainable micro-finance.

Table 1. Average Importance Scores for Training and Capacity Building Across All Focus Areas

MFIs and Support Service Organisations	Average importance Scores ranging from 1 - Most Important to 5 – Unimportant	Average Importance, Relative to All MFI average importance level	Average Importance Level, Relative to All MFIs (%)
Nascent MFIs	2.66	0.25	-10.32%
Emerging MFIs	2.34	-0.06	2.66%
Expanding MFIs	2.31	-0.10	4.12%
Mature MFIs	2.32	-0.09	3.54%
All Types of MFIs	**2.41**	**0.00**	**0.00%**
Wholesalers and Donors	**1.68**	**-0.73**	**30.19%**
Bankers	2.18	-0.23	9.41%
Individual Consultants and Capacity Builders	**2.01**	**-0.39**	**16.32%**
Regulators, Auditors and Credit Raters	**2.12**	**-0.29**	**11.87%**
Service Providers and Institutions	2.32	-0.08	3.48%
All Support Service Organisations	2.02	-0.38	15.93%
MFIs and Support Service Organisations	**2.24**	**-0.16**	**6.81%**

Nonetheless, in absolute terms, as evident from **Table 1**. above, it must be noted that MFIs and other stakeholders have indeed accorded a significant level of importance to the need for training and capacity building:

- ☑ Average importance score for MFIs and other stakeholders taken together is **2.24 on the 5** point scale, which translates to training and capacity building being significantly closer to “quite important”;
- ☑ Average importance score for MFIs alone is **2.41 on the 5** point scale, which translates to training and capacity building being closer to “quite important”; and
- ☑ Average importance score for wholesalers and donors[6] is **1.68 on the 5** point scale, which translates to training and capacity building being closer to “most important”.

The comments of senior professionals and experts endorse the above views and as **Mr. Brij Mohan**, a very respected expert[7] in micro-finance notes, *“The Micro-finance sector in India is indeed at cross-roads. As an industry, it is experiencing burgeoning growth and is really poised to take off and provide larger numbers of poor people with access to a wide range of financial services but a key question still remains - how can the various financial service providers address the aspect of refining and re-engineering their systems and procedures to meet the needs of large scale operations. Without question, the Indian micro-finance sector really needs to address the aspect of (lack of) sufficient capacity sooner than later as MFIs (and other delivery channels) clearly and urgently require significant assistance in building up their systems and procedures so that these can efficiently and safely handle ever increasing larger number of clients, larger portfolios and larger volumes of money. Only a sustained approach to*

[6] It is interesting to note that the other stakeholders who see a very urgent need for sustained capacity building do possess a good understanding of the relative development levels of various MFIs as they commission capacity assessment ratings, capacity building needs assessment exercises and also review MFI performance on a periodic basis through formal/informal off-site and on-site supervision

[7] Mr. Brij Mohan is Former Executive Director, SIDBI and National Advisor SIDBI Foundation for Micro-Credit (SFMC)

capacity enhancement at all levels would contribute to building a vibrant, healthy and competitive micro-finance sector with sufficient choices for the poor and appropriate safe guards against potential systemic failures".

Likewise, a former regulator and managing director of NABARD, India's largest development finance institution (DFI)[8], **Mr. Y.S.P. Thorat**, adds, *"There are several factors that necessitate the urgent need for a systematic and holistic approach to large-scale capacity building in the Indian micro-finance sector. The multiplicity of legal forms for incorporation of MFIs, their attempts to transform to regulated MFIs, the impact and use of technology to reduce transactions cost, as well as efficiently undertake scaled-up operations and increasing commercialisation of the micro-finance sector clearly make capacity building a critical issue and imperative need. Even from a regulatory perspective, as things stand, with the burgeoning growth of the sector and the above mentioned aspects, there is an urgent need to create appropriate and sufficient capacity at all levels so as to facilitate development of appropriate systems and procedures and thereby safeguard against market and organisational failures".*

Adds **Mr Vijay Mahajan**, Managing Director of Basix, one of India's leading and mature MFIs, *"The burgeoning growth of the micro-finance industry in India calls for certain competencies and skills to manage that growth. As MFIs transform towards becoming regulated and formal type institutions, they would need to acquire competencies in the specialised areas so that they effectively manage and sustain the growth, which is the only way in which we can enhance micro-finance access (emphasis added) for millions of poor people in India. Capacity building is very vital and necessary to help the Indian micro-finance sector to scale up and ensure greater access to large numbers of poor people"*

Similarly, **Ms K.C. Ranjani**, a senior official of a large wholesaler[9] in India, argues, *"The increasing profit orientation of the micro-finance industry has even attracted private investors and overall, the suppliers of finance to the industry have grown significantly, both in terms of volume of money available as well as the diverse stakeholders doing it (from DFIs like SIDBI and NABARD, to private and public sector commercial banks, private investors, semi wholesalers and many others). Now, with increasing flow of funds to the sector, and with all of them targeting the available 20-30 larger/medium MFIs and facilitating them to grow at a rapid pace, there are serious risks - of burgeoning growth fuelled by the supply (wholesaler) side and not backed by appropriate growth in MFI systems and administrative capacity to manage that growth – of portfolio quality, internal control and other problems within the industry, which can only be mitigated by delivery of focussed, high quality and intensive capacity development services".*

Notes **Professor M.S. Sriram** from Indian Institute of Management (Ahmedabad), India's premier management institute, *"Growth, competition and transformation are getting to be three dominant characteristics in the Indian micro-finance sector and this, in turn, necessitates capacity building in three key areas with utmost priority - governance, MIS and Cash Management. As MFIs transform and grow, acquiring skills and best practices in these areas become very critical for having profitable operations and there is no question that developing the capacity of MFIs in these areas is also very vital for ensuring the success of the sector as a whole".*

Mr Srinivas, a senior M-F Professional at ABN AMRO Bank concurs and notes that, *"Governance and MIS are priority areas for capacity building in India and the next stage of the development of the micro-finance sector in India will hinge on the ability to provide quality training and technical assistance in these areas. Without question, such training and technical assistance should be field based and practical to be effective and have long-term impact".*

[8] Mr. Yashwant Thorat is Managing Director, NABARD and Regional Director, RBI and former Executive Director, RBI.
[9] SIDBI Official

Adds, **Mr Vipin Sharma,** Director of CARE India's CASHE project, *"There is a critical need for a national curriculum (i.e., a core curriculum capable of being adapted to different strategic contexts) for micro-finance in India and that can really facilitate large scale and high quality capacity building – both of which are absolutely necessary for scaling up of micro-finance services in India today. Such a national curricula, based on Indian and global best practices, should certainly serve to enable service providers in different parts of the country to offer high quality, adaptable and cost effective capacity building services to MFIs and enable them to expand their operations significantly and thereby enhance access of micro-finance services to the unreached poor"*.

Mr Harish Khare, senior M-F Professional at HDFC, one of India's largest housing finance companies, argues that, *"Our experience in the micro-finance sector suggests that availability of qualified professional staff is very critical to achieving sustainability and expanding outreach of financial services to people at the bottom of the pyramid. This requires combining context/sector specific capacity building with professional management training and the synergistic benefits from such combination training would really go a long way in enhancing the availability of qualified professionals and thereby drive a natural growth process whereby large numbers of poor can access financial services in a sustainable manner"*.

Adds, **Ms Kalpana Iyer** of Citi Bank, *"Capacity building is required for various stakeholders including banks that would like to go retail to the low income people. Whether banks use MFIs as direct financial intermediaries or facilitators, models and needs are constantly evolving and require fresher approaches for which consistent capacity building in line with changing needs is a must. Also, when we talk of scaling up and reaching large numbers of people, systems and procedures will also undergo changes and this would require capacity assessment and building on a regular basis"*.

In fact, in keeping with the above analysis and comments, as evident from **Table 2**. below, two major themes dominate the rationale for intensive capacity building, which, in turn, is seen as very vital for the enhanced growth, effectiveness, performance and survival of the micro-finance sector in India.

- ☑ **Enhancing outreach and scaling up** – reaching large numbers of clients, especially in the un-reached areas[10] and deepening delivery of a wide range of need based financial services to them through a variety of innovative, eclectic and efficient delivery mechanisms.
- ☑ **Operating in a sustainable/efficient manner** – ensuring that not only the costs of delivering financial services are met, but also there is a surplus for facilitating growth[11]. A key component here is the efficiency of delivery channels with special emphasis on lowering transaction, operating and financial costs for clients, with a view to be a cost leader in delivery of micro-finance services[12].

As a senior official[13] of India's leading association of micro-finance practitioners, notes, *"High quality and context specific capacity building is the key for enabling MFIs to expand outreach and enhance their financial/organisational sustainability. Especially, for promoting organisational sustainability, capacity building is very crucial as it concerns transfer of core skills to staff, succession planning and building of appropriate systems to ensure continued functioning of MFI or micro-finance programmess"*.

[10] Remote rural areas in several states of India are still un-reached as are many of the poor people living in the urban slums. Informal but somewhat reasonably estimates suggest that at least 60% of India's low income people are yet to be reached by either the formal financial sector and/or the micro-finance sector .

[11] The real notion of financial sustainability is what is being emphasized here – i.e., income from micro-finance should leave behind a surplus for growth after covering operating costs, loan loss provisions, financial costs, subsidies on borrowings, grant/in-kind subsidies and also opportunity cost of equity capital invested. This implies that micro-finance programmes and institutions will be able to carry on their activities and serve the poor, even if all the subsidies are withdrawn. This is analogous to concept of financial sustainability espoused by the Subsidy Dependence Index (Yaron, 1992).

[12] MFIs can be sustainable at various levels of operating efficiency – higher operating and other costs can be covered by charging higher interest rates. Likewise, lower operating and other costs can be covered by charging the appropriate and required level of interest rates. Thus, the key emphasis here is on the latter whereby MFIs and M-F programmes constantly refine their processes and delivery mechanisms and become more efficient and financial sustainable at that level of efficiency.

[13] The official preferred not to be quoted by name.

Table 2. Reasons for Capacity Building as Evident from the Study	
Stakeholder	**Reasons for Capacity Building**
Nascent MFIs	☑ Establish basic systems and policies; and ☑ Improve micro-finance programme performance so that they can attract attention of various stakeholders in micro-finance and begin to grow and become serious players in micro-finance.
Emerging MFIs	☑ Improve governance (essentially legal compliance and vision-mission development); ☑ Streamline and stabilise management practices and systems including internal controls, internal audits and MIS; and ☑ Enhance micro-finance programme performance and resource base sustainability with a view to scaling-up micro-finance operations and reach large numbers of poor people in a sustainable manner.
Expanding MFIs	☑ Enhance governance including functioning of boards, tailoring of vision and mission and addressing regulatory requirements related to transformation and legal compliance; ☑ Tailor micro-finance programme design so as to deliver products better suited to client needs through appropriate and low transaction-cost delivery channels; ☑ Enhance organisational and resource base sustainability; and ☑ Better manage growth, expansion and transformation through: o System re-design/re-engineering, o Competitor analysis/intelligence, o Enhanced risk management, o Use of a stable MIS capable of handling the growth requirements, and o Higher staff productivity/accountability (through performance based appraisals and reward systems).
Mature MFIs	☑ Significantly improve governance including functioning of boards, addressing regulatory requirements related to transformation and legal compliance; ☑ Improved micro-finance programme design by testing and rollout appropriate products better suited to client needs through efficient and low cost delivery channels, especially using technological solutions; ☑ Enhance organisational and resource base sustainability; and ☑ Better manage growth and expansion through: o System re-design/re-engineering, o Competitor analysis/intelligence, o Efficient management of transformation process through enhanced management of various risks (including credit, political and other risks), o Use of a stable MIS capable of handling the growth requirements, and o Reducing transactions cost and enhancing staff productivity and accountability (through an appropriate reward/incentive system).
Wholesalers/ Donors	☑ Facilitate better development of governance and MFI systems and enable them to become professional organisations (with capable and accountable staff) that can reach larger numbers of poor in a sustainable and efficient manner; ☑ Help MFIs better manage the challenges of scaling up and process of transforming to regulated institutions; and ☑ Ensure that MFIs are transparent and accountable to their various stakeholders.
Bankers	☑ Improved micro-finance programme design by testing and rollout appropriate products better suited to client needs through efficient and low cost delivery channels, especially using technological solutions; ☑ Reach larger numbers of poor in a sustainable and efficient manner, and ensure that micro-finance is a profitable business opportunity; and ☑ Adopt tried and tested out best practices systems and procedures.
Individual Consultants and Capacity Builders	☑ Facilitate MFIs to become professional institutions (with capable and accountable staff) that can reach larger numbers of poor in a sustainable and efficient manner with appropriate products and services and through low cost and efficient delivery mechanisms; ☑ Help MFIs better manage the challenges and problems associated with scaling up their micro-finance operations and transforming to regulated institutions; ☑ Enable MFIs to be transparent and accountable to their various stakeholders; and ☑ Facilitate MFIs to adopt tested out best practices systems and procedures.
Regulators, Auditors, Capacity Builders	☑ Prevent market and systemic failures; ☑ Ensure that MFIs are transparent and accountable to their various stakeholders; and ☑ Ensure that MFIs adopt tried and tested out systems and procedures and related best practices.

Table 2. Reasons for Capacity Building as Evident from the Study	
Stakeholder	**Reasons for Capacity Building**
Service Providers and Institutions	☑ Facilitate MFIs to become professional institutions (with capable and accountable staff) that can reach larger numbers of poor in a sustainable and efficient manner with appropriate products and services and through low cost and efficient delivery mechanisms; and ☑ Help MFIs better manage the challenges and problems associated with scaling up their micro-finance operations and transforming to regulated institutions.

In fact, there is also clear recognition among some MFIs, especially the expanding and mature ones, that to address ever growing client preferences and changing needs, and to stay in the reckoning, they would need to deliver a wide range of "newer" financial services through efficient delivery mechanisms, for which capacity building and systems support is very critical. As **Ms. Padmaja Reddy**[14], CEO of one of India's largest and fastest growing MFIs notes, *"It is very important that all MFIs regularly go through a process of self-appraisal and themselves come to an understanding of their own changing capacity building needs. To overcome competition and keep clients loyal, it is imperative that MFIs build up their capacity in required and newer areas on a sustained and regular basis. This will help them to keep on refining their products and delivery mechanisms and serve their clients in a more efficient and profitable manner".*

Adds **Mr. Sitaram Rao**[15], CEO of another fast growing, large and professional MFI, "*Managing growth and transition is very critical and MFIs will have to honestly assess themselves and seek to build their capacity through a variety of means. While the 'means' may vary with different MFIs have different routes/choices with regard to capacity building, the key is the 'end', which is having appropriate and better capacity to manage change at all levels, without which there is a serious risk of MFIs becoming redundant".*

However, as **Ms Girija Srinivasan**, a senior and reputed independent consultant notes, *"It cannot be generalised that all MFIs require capacity building in the same areas. Clearly, different MFIs are at different stages in their life cycle and would require different kinds of support. For capacity building to be effective, two aspects must be kept in mind: (1) it must be appropriate – i.e. tailored to an individual MFI's needs, which, in turn, is dependent on the MFI's development stage in its life cycle; and (2) it must be practice-focussed and oriented towards building, internalising and applying learned skills, on the job. Otherwise, the impact of capacity building would be negligible".*

Others concur with this view of having practice-focussed training for MFIs. Says **Ms Egammai**[16], Secretary, ICNW, a large and mature MFI in India, *"The key is to have training that is simple and practical and can be used on the job. Refreshers are also very important. When training is practical, the participants not only learn the concepts but also how to apply these in a real life situation and with refreshers, doubts can be cleared as well as new concepts/skills/applications can be fostered. Hence, it is imperative that MFI training be practical, simple and tailored to ensure application on the job".*

Reinforcing the above aspects, **Mr Udaia Kumar**[17]**,** Managing Director of SHARE MicroFin (SML), one of India's largest and fastest growing MFIs, sums up, *"While capacity building is very critical to the growth of the micro-finance sector, it must be tailored to issues at hand and currently, transformation of the sector is a very critical issue. Also, there are many institutions involved in capacity building and the challenge would be work with all of them to promote a common practical approach that can help MFIs transform themselves into sustainable institutions capable of satisfying the diverse, growing and changing needs of poor clients, whose composition is itself changing".*

[14] Ms. Padmaja Reddy is CEO of SPANDANA, Guntur, AP
[15] Mr. Sitaram Rao is CEO of SKS, Hyderabad, AP
[16] Ms. Egammai is Secretary of ICNW, Chennai, TN
[17] Mr Udaia Kumar is CEO of SML, Hyderabad, AP and is quoted from a preliminary discussion with Graham A. N. Wright and Ramesh S Arunachalam

Table 3. Level of Importance of Training/Capacity Building Focus Area Across Stakeholders for MFIs in India Summary Table
Marking is Average[18] Importance Level
(1 – Most Important, 2 – Quite Important, 3 – Important, 4 – Valuable but not that important and 5 – Unimportant)

S No.	Training Focus Areas	MFIs (Focus Group Discussions[19] and CEO/Senior Management Markings on same aspects through an interview)				Experts, Wholesalers and Donors	Bankers[20]	Individual Consultants and Capacity Builders	Regulators, Auditors and Credit Rating Agencies	Service Providers and Institutions
		Nascent	**Emerging**	**Expanding**	**Mature**					
1.	**Governance[21]**	2.40	2.11	1.91	2.08	1.61	NA[22]	2.05	NA	2.03
2.	**Management Practices**	2.14	2.20	2.40	2.70	1.80	NA	1.89	NA	2.30
3.	**Human Resources Management**	2.54	2.58	2.40	2.71	1.55	NA	1.76	2.38	2.42
4.	**Financial Resources Management**	3.15	2.61	2.83	3.04	1.96	NA	2.20	2.03	2.42
5.	**Micro-Finance Programme Design**	3.39	2.54	2.25	1.98	2.18	2.61	2.05	NA	2.73
6.	**Micro-Finance Programme Performance[23]**	1.29	1.86	2.93	3.43	1.50	NA	1.93	2.07	2.36
7.	**Sustainability**	3.25	2.25	2.00	1.25	1.25	1.75	2.00	2.25	2.00
8.	**Other Areas**	3.08	2.59	1.74	1.38	1.59	NA	2.23	NA	NA

[18] As is consistent with statistical norms, the values are simple averages rounded off after normalisation and/or adjustment for missing data, unclear and inconsistent data and/or multiple responses. Some of the FGDs produced continuous responses like 2.40 or 2.55 as the concerned participants preferred to rank them this way.
[19] In some MFIs, there was more than 1 FGD as participants were 20 – 45 and they were broken into similar groups composed of different staff and same task was assigned to them and this was further re-checked for consistency and used to create MFI averages. Also, unclear responses were omitted as also multiple responses for the same aspect as the choice of importance has to be mutually exclusive. Any striking off or re-writing which made the data unclear has also been omitted as per rules of statistical analysis.
[20] Bankers responded keeping in mind their delivery channels including SHGs, MFIs and their own requirements.
[21] Arrived at as averages of the responses below in each major component – i.e., rolling up the data as per statistics which includes totalling values and dividing by number of sub-components. In governance, this would be totalling up values under each column for the 5 sub-components and dividing by 5. For example, for nascent, this would be 3+1.25+1.00+3.00+3.75 divided by 5 = 12/5 = 2.40. This is the ranking importance score for the whole of Governance for nascent MFIs.
[22] Many of these categories are largely irrelevant to bankers who focused above all on micro-finance programme/product design and sustainability in their responses.
[23] This would include conceptual definitions, measurement aspects, data retrieval issues and empirical aspects. Answers to this set of area were mostly answered together and hence, similar responses.

Thus, as the summary results given in **Table 3**. indicate, while those supporting/financing the MFIs perceive an additional urgency for capacity building, this capacity building must be adapted to meet the differing needs of the nascent/emerging MFIs and of the expanding/mature MFIs. However, it is the detailed training focus areas where the real differences in needs appear. These will be important for prioritising the development of training courses/toolkits for use in India, and are dealt with in the next section.

3.2. *Detailed Training Focus Areas - All Categories of MFIs* (Full detailed analysis of these areas are available in *Annex3*)

Several training focus areas were identified by <u>all</u> categories of MFIs. These included:

a. **Vision/Mission** – its development and percolation within the organisation;
b. **Legal aspects**[24] – appropriate legal form, legal compliances, laws and regulatory requirements;
c. **Management Information Systems** - design and implementation including technology choices, MIS for scaling up and related issues;
d. Use of **MIS for Decision Making;** and
e. **Political insulation** of MFIs/M-F programmes.

That the above areas have indeed been chosen as a priority by all MFIs is not at all surprising except perhaps for the focus area of political insulation of MFIs. Legal aspects (coupled with Governance issues) still continue to dominate the Indian micro-finance sector, which is still grappling with various issues in creating and sustaining an enabling environment for micro-finance. Further, as the sector is growing rapidly and there are several new entrants providing wholesale supply of funds it, transformation to the 'correct' legal forms has become a preoccupation, as is good corporate governance. Likewise, as the sector continues to grow, the challenge of an effective and flexible MIS still remains, and thus all types of MFIs are seeing this area as a priority. With regard to vision and mission, the growing emphasis on commercialisation of micro-finance and the increasing focus on profitability seem to be driving this aspect. All types of MFIs appear keen to inculcate these attitudes and orientation among all levels of their staff. Finally, with regard to the political insulation of MFIs, the overall growth of the sector, coupled with its increasing visibility, has undoubtedly attracted significant attention from a variety of stakeholders, including 'political' forces at the local level, which MFIs and other stakeholders are indeed keen to 'neutralise'.

There are several micro-finance focused courses already available or under development on vision/mission development and percolation within the organisation and the design use of MIS. These can be relatively quickly tailored and tested for use in the Indian context. However, the scope and complexity of this tailoring should not be under estimated – it will require considerable time and care. It will be necessary to develop a brand new course/toolkit on legal aspects, and it will be important that this course/toolkit be developed and disseminated in such away to keep up with the evolving legal environment – and its changes from state to state. Much of this course can be developed building on existing work by Sa-Dhan and other stakeholders who are working on this. There are important challenges around the best way to communicate the complex and sensitive issues around political insulation of micro-finance. Not only is this likely to vary from state to state, but it is also likely to be intimately linked to the legal environment and to be a rapidly changing issue. It may be that this is best discussed in the context of strategic planning and political, social, environmental and technological (PEST) analyses – or in regional CEOs' meetings.

3.3. *Detailed Training Focus Areas – Nascent and Emerging MFIs* (Full detailed analysis of these areas – ranked by category of MFI - are available in *Annex3*)

Unsurprisingly, however, the training focus areas identified by nascent and emerging MFIs differed significantly from those of the expanding and mature MFIs – they are at different stages of their lifecycle and thus have different needs. The needs revolve primarily around establishing basic systems to manage, account for and control the business.

[24] This topic coupled with roles for Board and related issues can be addressed through Governance of Financial Institutions

The nascent and emerging MFIs attached particular importance to:

a. **Organisational structure** including lines of authority and responsibility;
b. Design, testing and implementation of various **general systems and policies**[25]**;**
c. **Strategic and business planning** – formulation and implementation of plan;
d. **Personnel administration and management** – recruitment and employment systems[26];
e. **Administrative procedures and operational manuals;**
f. **General records** and their maintenance, reporting;
g. Use of **MIS for decision making**;
h. Basic **financial and accounting systems**[27];
i. **Budgeting** – preparing budgets;
j. **Construction of key financial statements** – Balance Sheet, P&L, Cash Flow, Portfolio Report;
k. Micro-finance **indicators and ratios**;
l. **Self-sufficiency analysis**[28];
m. **Efficiency and cost structure analysis**[29];
n. **Portfolio quality and management**[30];
o. **Profitability analysis**[31]; and
p. **Liquidity and leverage**[32].

Once again, there are several micro-finance focused courses already available on several of these issues – for example strategic planning, personnel administration and management, financial ratio analysis, efficiency and cost structure analysis as well as portfolio quality and management. These can be relatively quickly tailored and tested for use in the Indian context. Some of the other needs can probably be met by tailoring generic, basic management courses for micro-finance.

3.4. Detailed Training Focus Areas – Expanding and Mature MFIs (Full detailed analysis of these areas – ranked by category of MFI - are available in *Annex3*)

The needs of the expanding and mature MFIs focus on more sophisticated components of running a micro-finance institution from its governance, strategic and risk management, providing incentives to optimise staff performance, product development and delivery, sustainability and (of course) managing growth.

The expanding and mature MFIs attached particular importance to:

a. **Board** – its roles, responsibilities and functioning;
b. Control and management of **strategic and business plan**;
c. **Risk management** systems[33];
d. **Promotions and rewards** - staff incentive schemes;
e. **Workflow organisation** – design and implementation of processes using process mapping;
f. **Internal audit** systems and procedures;
g. Use of **marketing research** and related tools[34];
h. **Product design** and prototype (service) development;
i. **Pilot testing** of new products;
j. **Rolling out** new products[35];

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[25] Examples of systems and policies include: finance and accounting system, delinquency management system, loan portfolio management system and the like. Examples of policies include: credit management policy, delinquency policy, internal control policy and the like. The rankings varied across systems and policies and it was decided to approach this generally and capture the differences in the qualitative analysis.
[26] Would include related aspects like service rules, recourse procedures etc.
[27] Including maintenance of key records like receipts, vouchers, books and related systems.
[28] Operational and financial, including determination of subsidy dependence and drivers of sustainability and managing and sustaining these.
[29] Using value engineering and process mapping with a focus on drivers of efficiency and costs.
[30] Including construction and interpretation of portfolio reports, loan loss provisioning, delinquency management, control and prevention and the like.
[31] Including drivers of profitability and how to create and sustain them.
[32] Including cash flow management and physical transfer of cash and ability to leverage equity.
[33] Organisational failure and abuses handling and several other associated risks
[34] *MicroSave*, AIMS/SEEP and CGAP tools related to client drop out analysis, delinquency client analysis and related issues.

k. **Sustainable pricing** of micro-finance services[36];
l. **Micro-finance standards** and benchmarking[37];
m. **Organisational sustainability**[38];
n. **Resource base sustainability**[39];
o. **Managing growth** and expansion;
p. **System redesign/re-engineering** to suit scaling up;
q. **Microinsurance**;
r. **Competitor analysis** and competitive intelligence;
s. **Technology** for micro-finance; and
t. **Transformation** to regulated MFIs[40].

Once again, there are several micro-finance focused courses already available on several of these issues – for example control and management of strategic and business plan, risk management systems, staff incentive schemes, internal audit, market research, product design, pilot testing and rollout of new products, pricing and competition analysis. These can be relatively quickly tailored and tested for use in the Indian context. Other courses for organisational and resource based sustainability, board and governance, system redesign/re-engineering for scale-up and transformation etc. will have to be developed from scratch and are, in many cases, very specific to the Indian context.

3.5. Detailed Training Focus Areas – Support Service Organisations[41]

For the purposes of simplicity, we refer to the experts/wholesalers/donors, consultants/capacity builders, regulators/auditors/credit rating agencies and service providers/institutions as "support service organisations". The feedback received from these various categories of service providers was largely consistent and focused primarily on institutional development – legal framework/governance, record-keeping and MIS, human resource management and managing for sustainability. The one area of variation within the service providers arose around internal control and audits, where the consultants/ capacity builders and regulators/auditors/credit rating agencies in particular noted the critical importance of these aspects.

The service providers stressed the importance of courses/toolkits on:
a. **Board** – Its roles, responsibilities and functioning;
b. **Legal aspects** – appropriate legal form, legal compliances, laws and regulatory requirements;
c. Control and management of **strategic and business plan**;
d. **Risk management** systems;
e. **General records** and their maintenance, reporting;
f. **Management Information Systems** - design and implementation including technology choices, MIS for scaling up and related issues;
g. Use of **MIS for decision making**;
h. **Human resources development** - staffing, job descriptions and positions;
i. **Performance based appraisals**;
j. **Promotions and rewards** (staff incentive schemes);
k. Basic **financial and accounting systems**;
l. **Sustainable pricing** of micro-finance services;

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[35] MFIs were concerned about mistakes in rollout and having to withdraw and two MFIs reported a problem with their products and one claimed to withdraw the product for a legal reason while the other redesigned it. Hence, MFIs were concerned about pilot testing and rollout.
[36] Including pricing strategy, methods, analysis of competitor pricing and the like. Regulation and ceiling on interest rates seemed to have smoothed the ranking and overall, all stakeholders were concerned with higher interest rates, a major preoccupation in the Indian micro-finance sector.
[37] In terms of standard definitions, benchmark values and related aspects.
[38] Aspects related to long term continuity, skills transfer for self management and institution building.
[39] The extent to which MFI is able to tap and use multiple sources of funds for various purposes.
[40] Including process and effectiveness of transformation, challenges and best practices lessons and transparency and accountability aspects apart from legal issues.
[41] The aspects of Governance, MIS and Internal Controls with a Risk Management focus were very strongly mentioned by several stakeholders here

m. **Micro-finance standards** and benchmarking;
n. **Self-sufficiency analysis**;
o. **Efficiency and cost structure analysis**;
p. **Portfolio quality and management**;
q. **Profitability analysis**;
r. **Liquidity and leverage**;
s. **Organisational sustainability**;
t. **Resource base sustainability**;
u. **Managing growth** and expansion; and
v. **System redesign/re-engineering** to suit scaling up

Most of these courses/toolkits have been discussed above and will be largely addressed through the work to tailor/develop the courses/toolkits for the Indian micro-finance sector.

A comprehensive analysis and assessment of existing courses/toolkits available in India is provided in *Annex4.* This Annex also highlights participant opinions with regard to these courses/toolkits and suggests practical ways forward with regard to addressing the training and capacity building gaps in the respective courses/areas.

3.6. Detailed Training Focus Areas – Bankers

The feedback received from bankers focused primarily on the enhancement and stabilisation of systems including finance and accounting, risk management and MIS with possible up-gradation of technology through e-banking solutions. A second aspect that was of importance to them relates to profitability - through concerns for efficiency in workflow organisation and cost allocation for various activities/tasks, as well as appropriate pricing of micro-finance products. A third major area was better management of the growth of the micro-finance portfolio along with market research, product design, and pilot testing of new products.

Thus, bankers stressed the importance of courses/toolkits on:

a. **General records** and their maintenance, reporting;
b. **Risk management** systems including appraisal of these at MFIs/Intermediaries;
c. Use of **MIS for decision making**;
d. **Administrative procedures and operational manuals**;
e. **Management Information Systems** - design and implementation including technology choices, MIS for scaling up and related issues;
f. Basic **financial and accounting systems**;
g. **Sustainable pricing** of micro-finance services;
h. **Resource base sustainability**;
i. **Competitor analysis** and competitive intelligence;
j. **Technology** for micro-finance;
k. **Cost allocation** - activity based and allocation based costing (products and branches);
l. **Self-sufficiency analysis**;
m. **Efficiency and cost structure analysis**;
n. **Portfolio quality and management**;
o. **Profitability analysis**;
p. **Liquidity and leverage**;
q. **Organizational sustainability**;
r. **Managing growth** and expansion;
s. **E-banking solutions**;
t. **Workflow organization** – design and implementation of processes using process mapping techniques;
u. Use of **market research** and related tools; and
v. **Pilot testing** of new products.

Most of these courses/toolkits have been discussed above and will be largely addressed through the work to tailor/develop the courses/toolkits for the Indian micro-finance sector.

Two aspects related to the response of bankers need emphasis here. One, despite being busy and relatively less involved in the traditional micro-finance sector, many of them gave sufficient time to the study and this shows the natural interest of bankers, as well as their recognition of the fact that micro-finance could indeed be a profitable business opportunity.

Second, as a retired banker involved with the erstwhile IFAD[42] programme of financing low-income people notes, *"With increasing competition, banks will now really have to go down market and tap the hitherto untapped segments in growing 'low income' segment. For example, serving the 'urban poor' or clusters of rural working poor such as low-income factory workers[43] have suddenly become attractive options and bankers are beginning to take advantage of such options. The sudden advent of private sector banks and their flexibility in dealing with customers is another aspect, which mandates bankers to look beyond their traditional markets and to the economically active poor. To help bankers achieve all of this and manage change, undoubtedly their attitudes and behaviours and more importantly skills need significant capacity enhancement".*

3.7. Selection of Participants

As with many other countries around the world, India sometimes suffers from inappropriate selection of participants for training courses. Thus when training courses are offered, MFIs often select participants to send on the basis of who in the organisation needs rewarding, whose turn it is to go to a training or "an opportunity to network", rather than as a result of their skill set or responsibility within the MFI. This, clearly, significantly reduces the chances of substantive changes being effected within the MFI as a result of the training. Effective capacity building within Indian MFIs will be dependent on eradicating this practice and assisting MFIs to identify and send participants with the skills sets and functional responsibilities necessary to implement the training and institutionalise the systems/lessons within the MFI.

Talking about their own experience, **Mr. Neelaiah**, CEO of ASP notes, *"We are often guilty of sending wrong type of participants for various trainings – what I mean by 'wrong' is that those sent are not necessarily the best suited to apply the training skills learned, on the job. This essentially has to do with ensuring that there is match between the training and skills to be learned and job descriptions and position of the trainee. This is very critical as mismatch between these aspects will surely result in the concepts and skills not being applied in practice subsequently".*

Adds **Ms Viji Dass, CEO of FWWB,** "*A second related problem is that MFIs do not make their staff accountable in terms of sharing what they learned with others within the organisation and as a result, the skill becomes individual specific. While these individuals may apply the skills as long as they are there, the moment they leave the organisation or are absent, the skills are not applied. Clearly, it is mandatory that senior management insist that every person within an MFI who attends a training indeed files a report on what was learned and what can be used within the organisation and also in turn, trains others to use the skills on the job. An alternative would be to ensure that at least two people become conversant with the skills so that even if one person leaves or is absent, the application on the job is ensured".*

Ms Jaishree Vyas, managing director of SEWA Bank suggests, *"One way to ensure that the 'right' type of participants are sent is to make the sponsoring organisations accountable. In other words, MFIs must be able to justify as to why they sent person 'y' and what the additionality for the institution was. When wholesalers, donors and others start to request justification for sponsored candidates from MFIs concerned, then automatically, one will increasingly start to see the 'right'*

[42] The erstwhile IFAD programme in Tamilnadu (1989 onwards) was one of the pioneering and innovative efforts to involve commercial banks in financing low-income people in India.

[43] Specific reference made to such workers in the textile industry in Vedasandur in Tamilnadu, where a sudden explosion in the number of spinning mills has indeed made many of the rural landless poor bankable as there (temporary) jobs available for most of the year

persons being sent to the various workshops. This, in turn, should more likely ensure that the skills and concepts are applied on the job".

Mr Srinivasan, official with a wholesaler[44], concurs with this view and adds, *"In many workshops, one sees the CEO landing up for the training and for example, where is the justification for a CEO to attend an accounts training? Agreed, a CEO's desire to build up his/her own capacity is a very positive aspect and sign of eagerness to become multi-skilled but this aspect notwithstanding, MFIs must begin to specialise and send people appropriate for the training to such forums. Otherwise, application of concepts and skills learned will, at best, be minimal".*

Mr L. B Prakash, VP, APMAS argues a bit differently, *"It is very important for the CEO to understand the need for a specific training and appreciate the fact that it could make an important difference to the functioning of the organisation. Only when this happens, will real change take place within an organisation after the training and so, it would be better to have participation by at least two people from an MFI, one of whom is the CEO and the other person being the actual implementer."*

Ms Viji Dass, CEO of FWWB, proposes a solution, *"A potential strategy to tackle this aspect of inappropriate participants lies in asking MFIs to prepare and bring their organisation information/data for the workshop. This will automatically alert all within the MFI that only people with the relevant experience to compile and understand the requested information/data must be sent and hence, ensure the same".*

Finally, many participants expressed the need for intra-organisational training confined to one MFI at a time – particularly for those courses addressing sensitive issues such as strategic planning, product/ branch costing, risk analysis, portfolio performance etc. This intra-organisational training also facilitates better on the job application. As **Mr. Vivekanandan**, CEO of SIFFS, one of India's largest MFIs operating in the fisheries sector notes, *"Organisational training would ensure that multiple people are trained and the 'right' type of people are trained but it is indeed costly in terms of time and capacity available for resource persons. At our organisation, we have always tried to go in for organisation training and also use our own data for the training and this has helped in many ways. Participants become aware of their own contexts and their problems as they work through the data that also disciplines them to do it regularly on the job (as other peers are aware and are doing it too). Most importantly, it really helps in solving real time problems as at least 20 different minds with a common understanding and slightly different contexts are together looking at the organisational data, applying the skills and trying to formulate practical solutions".*

The above discussion has significant implications for the financing of training and capacity building for MFIs. As **Mr Sanjay Sinha,** Managing Director of M-CRIL and EDA Rural System Notes, *"To ensure maximum impact, wholesalers/donors must ensure that they get a concise written report (post training) on what tangible changes the training has created within the organisation rather than merely looking at the number of people trained. This report should also:*

- *Specify the people (names and positions) who attended the training,*
- *The reasons for nominating these people and*
- *The benefits for them <u>and</u> the organisation in attending the training.*

This should ensure greater accountability of the financing for training and capacity building of MFI staff and other stakeholders."

3.8. Sequencing Training

From the analysis of detailed training focus areas there is a clear differentiation, and indeed progression, in the needs of nascent/emerging and expanding/mature MFIs. This reflects a need to carefully sequence training inputs into MFIs – not only to reflect their institutional needs but also ensure that they have the foundations on which other training programmes can build. For example, one participant noted, "*Training on financial ratios should compulsorily be preceded by training on financial statements as these are data sources for calculating financial ratios."* Likewise, as another

[44] SIDBI Official

respondent noted, *"Basic training in accounts and debit and credit are required before, undertaking training in financial transactions, constructing the trial balance and preparing/interpreting financial statements".* **Mr. Ramachandran,** Associate Vice President, BASIX, concurs, *"Basic training and systems building in certain functional areas must precede advanced capacity building and unless the foundation is made strong with this preparatory training,* [the] *ability to use more advanced training on the job would become almost impossible and difficult".*

While there is a natural progression in terms of sequencing of training and capacity building across types of MFI, this should be carefully understood and interpreted. The relative importance of an area may decrease or sometimes, even increase across different types of MFIs while the absolute importance levels still remain high. This means that apart from sequencing the training in terms of which areas are to be emphasised first and so on (for which types of MFIs), it would also become important to have different 'levels' of courses in the same areas to meet the differing and graduated training needs within a specific area. In this way, as MFIs move along the nascent to mature continuum, their graduated needs within a specific area will also be met. This has tremendous implications for the design of the curriculum and also selection of participants. In other words, just because all types of MFIs regard a training area as equally important, having a single course or curriculum may not be appropriate. This is because the relative emphasis on sub-topics within a training area differs by MFI type. This also has significant implications for deciding on the mix of participants for training in a given training focus area as their needs and expectations will vary according to the life cycle stage of the MFI to which they belong[45].

For example, as evident from the TNA tables given in *Annex3*, nascent MFIs need basic and foundation level training and capacity building with respect to areas such as the following:

1. Establishing the legal form and legal compliances;
2. Determining their vision and mission;
3. Formalising their organisational structure and systems;
4. Formulating and implementing a strategic and business plan;
5. Setting up personnel and HR systems;
6. Creating administrative and operational manuals;
7. Establishing a simple MIS (including record keeping);
8. Use of MIS for decision making; and
9. Preparing budgets/key financial statements and analysing/interpreting them.

The key point to be noted from the TNA is that as nascent MFIs move towards becoming an emerging MFI, they attach greater importance and hence, require more intensive training in, a couple of areas already identified as important by nascent MFIs – design and implementation of MIS and Use of MIS for decision making. This is, of course, entirely consistent with their growing needs.

Likewise, emerging and nascent MFIs attach the same level of importance to legal aspects and compliance. However, an analysis of the TNA discussion protocol reveals that the emphasis is different. Nascent MFIs are primarily concerned with establishing the appropriate legal form - hence their resultant interest in legal aspects and compliance. On the other hand, emerging MFIs are more concerned with aspects like stabilising systems for conforming to legal requirements as they grow, as well as future impact of legal environment on their operations. Further, a newer area of emphasis for emerging MFIs is board roles and responsibilities, which is not typically very important for nascent MFIs.

As MFIs mature and change from nascent to emerging and from emerging to expanding etc. their needs change. However, in many cases, the additional needs for capacity building are simply in addition to, rather than to the exclusion of, the capacity development needs the MFIs had earlier.

[45] A often mentioned aspect at the TNA is at what level to pitch the training in a focus area as some participants may already have some understanding while others could be relatively new to the topic. This is said to have 2 impacts on the training: (1) either the facilitator will have slow down the pace of learning and/or reduce the scope of the training; or (2) leave some participants behind in terms of their not being able to fully understand the concepts and skills being espoused through the training. The net impact is that participant expectations are not met in either case.

What is unclear whether this reflects that the initial training needs were not, or were poorly, met or whether the staff trained have moved on. The majority of the evidence suggests the former (see for example *3.9. Training Methods/Materials*)

Thus, as is clear from the above discussion, specialised but easy to use systems will be required to:
- ☑ Help design appropriate levels of courses in various training areas to meet needs of nascent, emerging, expanding and mature MFIs;
- ☑ Assist MFIs understand the content of these training courses; and
- ☑ Help them identify the preparatory courses that they should have taken beforehand, the staff who should attend (in terms of participants' skills sets and functional roles) and the expected outcomes and results of the capacity building effort.

3.9. Training Methods/Materials

The assessment of training methods yielded some predictable and some surprising findings. Those that were predictable largely indicate a demand that training courses/toolkits demonstrate basic good practice adult education norms. These basic norms include provide a session plan and handouts, use group exercises with plenary sessions and summary discussions and use a variety of visual media, mixing PowerPoint presentations with flipcharts (which were viewed as particularly useful/important tools) as well as short films/audio visual materials. Criticism of the use of PowerPoint presentations typically focused on "death by PowerPoint" – with the presenter using an endless procession of cluttered slides without a pause. There is a clear need to break up presentations with exercises to allow participants to discuss, apply and internalise the ideas being presented. As one participant noted, "*Training presentations can be lighter and slides can also be less crowded. They contain too much detail*". Another criticism here was that facilitator's tended to read from the slides rather than use it as a background to 'talk' to the participants and engage them in a meaningful dialogue that related the concepts to the participants' own strategic and organisational contexts.

However some of the responses provided important new ideas on how best to communicate ideas and generate change, moving from knowledge through attitude to practice. These included recommendations to focus on practical, real life (in preference to case study) examples, to provide a participant's manual/workbook or procedures manual as well as "DOs" and "DON'Ts" summary sheets for each session and to offer practical follow-up for application of concepts after the in-class training. There seems to be particular emphasis on the need for a step-by-step "how to" guide or workbook. As participants remarked, "*Development of a workbook/toolkit that provides a step by step orientation is key*" and "*What we need is a clear work book with examples tailored to the Indian models*". For some courses/toolkits participants were keen that these contain *pro forma* forms, questionnaires etc. that could then be tailored for the needs of the MFIs.

One other extremely important issue arose in the detailed focus group discussions of training method/materials, namely the timing and length of training courses. It will be important to ensure that training courses are run when key members staff have time to attend (for example finance/ accounting/ MIS staff and senior management are unlikely to be available until the year-end closing has been completed and the accounts have been finalised). Similarly, the adoption of some key planning systems and skills will depend on the timing of the training course to introduce them. As one participant stressed, "*Timing of courses should be annual (i.e. two months before the end of the financial year – say in January) so that the training becomes in useful in building an actual and realistic plan for the subsequent year*". Furthermore, there is a limited time that management and operations staff can be away from their work at a stretch – it is therefore important to ensure that classroom-based training courses are limited in length in so far as possible.

There was a consistent demand for practice focused training that leads to outputs (at whatever stage of draft/completion) that would facilitate and drive subsequent implementation in the MFI. So for example, one participant noted, "*A key output from the training should be a draft plan for subsequent implementation*". Achieving this will greatly facilitate generating action and change within the MFIs. All courses should, whenever possible, contain practical exercises that allow participants to (i) work on their own data/issues and (ii) complete as much actionable output as possible during, and as part of, the classroom-based workshop.

Many of the practitioners expressed the desire and need for on-site follow-up and technical assistance to assist them implement and institutionalise the learning and ideas from the training. In the words of one participant, *"There should be a practical follow-up immediately after the course to facilitate better application of concepts learned"*. Another added, "*In class lectures with Indian cases and practical follow-up along with on-the-job training and technical assistance regarded as most appropriate for building skills*". Another felt that post-training follow-up was "… *a must to clear doubts and firm up internalisation of techniques*". This approach was apparently mooted when CGAP first began to offer its tools in India, but was rejected due to cost considerations. There is clearly a need to revisit this since the lack of follow-up seems to significantly reduce the effectiveness of training programmes in effecting real change within the MFIs and their systems. This lack of implementation makes capacity development highly cost ineffective. At the extreme, one participant remarked, "*On the job technical assistance and training is the best…*".

Ms Jaishree Vyas, Managing Director of SEWA Bank, one of India's largest and oldest MFIs, summarises the need for practical training, *"To be effective, micro-finance training should be practiced focussed in terms of having either exposure visits or actual working on the field. This is absolutely necessary not only for better internalisation of the concepts but also for facilitating subsequent application on the job and inducing change within the concerned MFIs. Hence, 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".*

It will also be essential for the courses in a National Curriculum for Micro-finance in India[46] to be maintained up-to-date and refined as the micro-finance industry in India develops and evolves. The on-going refinement of the courses/toolkits and the development of additional ones will be based on the lessons learned from the *MicroSave*-India Action Research Partner programme. This programme will provide an invaluable mechanism to allow the project to keep its finger on the pulse of the development of and changes within the industry. This will allow *MicroSave*-India to focus on the courses/toolkits most needed by the industry and to ensure that their contents remain practice-focused and address the challenges and issues faced by the MFIs.

To summarise, 10 critical aspects of effective training methodology, as espoused by the participants, are:

1. Relate objectives and session plan to participant expectations and clearly specify outputs for participants (deliverables) from training;
2. Use a clear presentation style with simple language and relevant real life examples;
3. Use successive examples for better understanding, internalisation and reinforcement of concepts;
4. Link concepts and presentation to exercises and vice versa and outline implications for decision making within MFIs;
5. Ensure 'practice focus' and 'skill building' in training materials and organise them in step by step easy to comprehend manner;
6. Shorten duration of class-room training (3 days maximum) and facilitate application of concepts (under guidance and supervision) on the field for better internalisation and application;
7. Break training into manageable modules[47] with reduced scope so as to provide in-depth coverage of topic[48] and mitigate possible information overload;
8. Use real time organisational data for group exercises, especially in skill building courses to facilitate participants to understand the concepts from their own situation;
9. Allow sufficient time for group exercises, always discuss results of group exercises and concisely summarise the key implications based on the exercise; and
10. Make classroom-based training a completely residential programme.

[46] An idea first proposed by CARE's CASHE project

[47] This requires careful evaluation, as the economic aspects also need to be considered. It must also be noted that these comments were largely made in relation to the 6 or 7 days 'skill building' courses, covering a wide range of topics at a cursory level.

[48] Here, it must also be mentioned that sufficient practical follow-up can help overcome the limitation of lower perceived exposure.

3.10. Tailoring Existing Training Courses/Toolkits for India and the Sub-Regions

Tailoring courses for the needs of the Indian micro-finance sector is essential – only if this is done effectively will the training courses deliver true value to the MFIs. This was recurring theme across all categories of MFIs as well as service providers. Many participants stressed four inter-related issues:

1. To use practical examples from India (and ideally from the region within the country where the training is being run). In the words of one participant, "*... training should be oriented to micro-finance and use appropriate field examples – specifically, examples using Indian m-f models than simplistic theoretical models*". Another added, *"Case studies should be tailored to local contexts. There was clearly a lack of ownership with non-Indian cases and there was a tendency to dismiss the learning as not applicable to the Indian context"*. It will be important that all training design/tailoring is cognisant and clear about this pervasive issue.
2. To tailor some of the courses for different institutional types and organisational culture – in particular in the areas of governance, internal systems of control and financial accounting. One participant noted, "*The need to tailor governance mechanisms to legal form and organisational culture was mentioned as an additional reason for having intra organisational training"*. Another added, "*Indian examples using local models need to be used as the financial statements tend to vary with the legal requirement of different models and the associated legal forms"*.
3. To tailor courses for local needs/realities (for example legal or physical environments). This will require the training programmes to focus on/ensure that regional (or in some cases state-specific) realities are appropriately recognised and discussed within the course. As one respondent noted, *"Any course on legal aspects and compliances must take cognisance of the usury interest ceiling laws operating in different states. Likewise, while many states have progressive cooperative legislations, there are several which do not and these critical differences must be addressed in the training"*.
4. To recognise the need for translation into local languages. As a participant noted, "*Excessive use of English is a severe limitation – the need for training to mix local language words during delivery was seen as critical. Suggestion for a glossary of key terms from English to local language was mentioned as a key input"*. Other participants went further noting that entire training courses/toolkits will need translation if they are to be used effectively – particularly by the nascent and emerging MFIs. As an industry expert noted, *"This is an aspect that clearly and surely justifies the need for establishing and capacitating regional as opposed to national trainer centres for micro-finance so that appropriate training (as dictated by the physical and legal environment) can be delivered through a local (vernacular) language"*.

3.11. Trainers' Skills

A common criticism of existing training programmes is that they are often delivered by trainers who are either very proficient in the training topic but have a limited grasp of/experience in microfinance. As one participant remarked, "*Facilitators are usually unable to link up concepts and interpretation to MFIs operational environment and decision making, mainly because they have less practical working experience in micro-finance*". Others noted courses delivered by microfinance experts with limited knowledge of the details of the topics being trained and/or with limited training skills: "*Facilitators must involve trainees rather merely lecture … he/she should integrate participant experiences to the concepts*". "*Technical practitioners tend to be technically good at what they do and tend to embrace the technicalities of what they do. But, good trainers must have a well honed skill for separating what is a need to know, from what is nice to know. Technical practitioners believe everything is important. Since the trainees are new, they can't make the differentiation between either need-to-know or nice-to-know, resulting in information overload for the trainees"*. Another issue raised was that of trainers who can only deliver the theoretical training, but are unable to provide practical advice/examples, and still less deliver post-training, on-site technical assistance to help participating MFIs implement the learning and ideas from the courses. In fact, desirable characteristics of trainers, as indicated by the study are again overwhelmingly related to the issue of practice focus. The box (next page) gives participants' suggestions regarding trainers' facilitation skills.

As per respondent feedback, good micro-finance trainers/facilitators are those who:

- ☑ Have a good knowledge of operational aspects with regard to micro-finance and also relevant technical issues;
- ☑ The ability to relate technical concepts and skills to micro-finance operations and decision-making;
- ☑ Can present concepts in a simple and clear manner backed by practical real life examples;
- ☑ Have near flawless presentation skills and are able to laugh at themselves and be comfortable saying, "I don't know," when they don't know;
- ☑ Possess *extreme* patience and are able to handle dissention well;
- ☑ Can explain micro-finance concepts in more than one way;
- ☑ Give the trainee the room to work independently and at the same time keeps an eye on the trainee and an overall picture of what the trainee is doing; and
- ☑ Are calm trainers with good analytical and introspective abilities and can relate concepts to real world micro-finance operations and offer well-structured programmes to discuss these.

3.12. Results from the Quantitative Survey

The quantitative questionnaire was sent to 93 people including CEOs/Staff of MFIs, consultants, bankers, regulators, donors, capacity building experts and other stakeholders of MFIs. Of these 52 responded[49] to the questionnaire, thus providing the training needs assessment team with a good volume of quantitative data with which to validate the qualitative rankings conducted with the MFIs and other industry stakeholders.

The response to the quantitative questionnaires broadly reflected the results from the qualitative analysis (see *Annex12*). Legal aspects, transformation to regulated MFIs, MIS for scaling up and decision-making, vision/mission development and percolation, control and management of strategic/business plans, micro-insurance, the board and its role/responsibilities, human resource management, risk management systems and managing growth are all consistently represented at the very top of both quantitative and qualitative respondents' lists. This is reassuring and demonstrates that the qualitative instrument fulfilled its role as an approach not just to assessing the priorities of differing stakeholders but also to understanding the reasons that underlie these priorities.

There are, however, some minor differences. Accounting standards, design/implementation of systems and policies and the political insulation of MFIs were markedly higher up the priority list resulting from the quantitative survey than the qualitative sessions. Conversely, microfinance standards/bench-marking, competitor analysis and client monitoring/feedback systems were much lower down the quantitative survey priority list than they appeared in the qualitative sessions list. In the case of the accounting standards and microfinance standards may well have been inverted as a result of differing interpretations by those responding to the two methodologies. However, the rationale for the relatively higher ranking of the design/implementation of systems and policies and the lower ranking of the competitor analysis and client monitoring/feedback systems in the quantitative survey might suggest that the respondents[50] perhaps had less sophisticated MFIs in mind when completing the questionnaires.

The results from the quantitative survey demonstrate the demand for and significant importance attached to almost all the capacity building and training focus areas covered in the questionnaire. The vast majority of respondents ranked almost every focus area as "most important" or "important". Rarely were focus areas ranked as "unimportant" by respondents. Only staff meetings/input to decision-making and intra-organisation decision communication had more than a third of respondents ranking them as "unimportant". *MicroSave*'s own assessment of the various MFIs, based on observations and data from the study, are given in *Annex11.*

[49] 4 questionnaires were improperly filled out and hence, were not included in the analysis. Hence, the number of responses considered for the quantitative analysis is 48.

[50] This again could be related to the somewhat wide ranging perception that Indian MFIs are growing too fast and their systems and procedures are not geared up to meet the demands of the burgeoning growth being currently experienced.

3.13. Supervisory Implications[51]

The TNA study has also provided valuable but basic information on what specific areas need to be focussed on in order to minimize the occurrence of system failures. While further research on the exact nature of these system failures will be focussed on as part of the ***MicroSave India*** policy research centre work, it is critical that attempts to supervise micro-finance (in the interim) must try to address possible system failures identified here[52].

The TNA reveals that system failures can occur in several ways in each of the training and capacity building focus areas. For example, in the area of portfolio quality and management, system failures can occur because of procedural defects in ageing of past due loans, such loans may not be detected (and therefore go unnoticed) and thus, remain uncollected/unpaid and thereby impact/camouflage portfolio quality. What needs to be done here is to outline the specific method by which past due loans are to be aged and also ensure periodic 3rd party system audits as part of the supervisory function – this will help prevent system failures. Likewise, the design of a loan disbursement process could be such that the loan disbursed never reaches the actual client but is rather used by an intermediary (such as staff) while being listed as an asset in the MFI books in the name of the actual client, who is supposed to have received the loan (but has not in reality). Such system failures can be mitigated by ensuring that appropriate and specific methods are used to identify and track the ultimate clients (as part of KYC norms) and this will strengthen internal controls as well. Thus, as the TNA suggests, there are numerous ways in which system failures can occur in the several areas of micro-finance and it is the duty of supervisory authorities to address these in a comprehensive fashion across all types of MFIs.

Specifically, this TNA study suggests that system failures could occur in several areas and this is applicable to all MFIs irrespective of whether they are nascent, merging, expanding or mature. This is a way constitutes the minimum areas that would need to be focussed upon, in the attempt to mitigate the occurrence of potential system failures:

- Implementation of various general systems and policies
- Basic financial and accounting systems
- General records and their maintenance, reporting
- Internal audit systems and procedures
- Internal accounting control mechanisms and related aspects
- Budgeting – Preparing budgets
- Variance analysis of Budgets - use of budgets as a management (control) tool
- Workflow organization
- Administrative procedures and operational manuals
- Client preparation and training
- Micro-finance indicators and ratios
- Portfolio quality and management
- Liquidity and cash management
- Political insulation of MFIs

Additionally, for Emerging, Expanding and Mature MFIs, one must address possible system failures in the following areas:

- Legal Aspects - Appropriate legal form, legal compliances, laws and regulatory requirements
- Distribution of power and decision making authority among senior management
- Organizational structure including lines of authority and responsibility
- Strategic and business planning – formulation and implementation of plan
- Control and management of strategic and business plan

[51] One is not talking of a centralised or highhanded regulatory mechanism – rather, the supervisory process including third party audits and private sector monitoring must be strengthened with a development focus
[52] The exact mechanism for supervision would depend on the specific system failure

- Personnel administration and management –recruitment and employment systems
- MIS (Management Information Systems)
- Human resources development - staffing, job descriptions and positions
- Construction of key financial statements – Balance Sheet, Profit/Loss, Cash Flow and Portfolio Report
- External audits and their administration
- Sustainable pricing of micro-finance services
- Self-sufficiency analysis
- Efficiency and cost structure analysis
- Profitability analysis

Lastly, for Expanding and Mature MFIs, one must address possible system failures in the following areas:

- Board – Its roles, responsibilities and functioning
- Risk management systems
- Performance based appraisals
- Promotions and rewards (incentive schemes)
- Accounting standards
- Product design and prototype (service) development
- Pilot testing of new products
- Rolling out new products
- Design of delivery mechanisms and their subsequent piloting and rollout
- Micro-finance standards and benchmarking
- Organizational sustainability
- Resource base sustainability
- Managing growth and expansion
- System redesign to suit scaling up

Annex 13 provides a comprehensive listing of the various areas that need to be addressed with regard to each type of MFI and the exact nature of system failures would need to be specified[53] so that supervision[54] can address potential causes of system failure across MFIs in a comprehensive manner.

4. Recommendations

4.1. Select Priority Areas Carefully

Given the overwhelming requirements for training, those involved in curriculum and capacity development will need to select the priority areas with great care. Initially, efforts should focus on the priority courses/ toolkits that were identified by all categories of MFIs. Thereafter, work should concentrate on the priority courses/ toolkits for the expanding/mature MFIs and banks, since these are the ones that are already serving large numbers of low-income clients, often using wholesaler money, under the scrutiny of regulators and credit rating agencies. In addition, many of these courses/toolkits, focused on micro-finance, are already available in the international market – thus making the tailoring of them for the Indian context relatively straight-forward by comparison to some of the courses that will require development from scratch or tailoring from basic, generic management courses/toolkits.

4.2. Look for Synergistic Training Focus Areas

Many of the training focus areas are closely related and/or synergistic – for example “Basic Accounting” and “Construction of Key Financial Statements” and indeed “Preparing Budgets” and “Using Budgets as a Management Tool” could/should be run together. It will be important to look for

[53] This aspects would be addressed in greater detail through specific regulation focussed research as part of the ***MicroSave India*** policy research centre work as it requires the mapping of likelihood/frequency of occurrence of system failures and their resultant impact using probabilistic attributes and related aspects.
[54] One is not talking of a centralised or highhanded regulatory mechanism – rather, the supervisory process including third party audits and private sector monitoring must be strengthened with a development focus

opportunities to build the courses/toolkits to pull closely related and synergistic elements together. On the other hand it will also be vital not try to cram too much into one course, thus confusing participants – a common criticism of several of the existing courses in India. Follow-up on-site practice and implementation of the concepts discussed in the classroom (see *4.5 Use Classroom plus On-Site Follow-up Technical Assistance* below) will greatly assist in addressing this latter problem. This approach should allow extensive practice and this imbed the skills thus leading to institutionalised change within the MFIs attending the courses.

4.3. 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. Some of the tools used in the study can play a significant role in this (indeed many of the MFIs immediately grasped the potential of the tools to fulfil this role). However, these tools will require further refinement to ensure ease of use and MFIs' full comprehension of exactly what is on offer. Using a 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 implement the skills they have learned through the training. In addition, it will be important to look at methods for sequencing the courses – so that MFIs have taken and implemented 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. In designing a National Curriculum for Micro-finance in India and the tools/ interface to assist MFIs in selecting in which courses to invest, it will be essential to ensure that these issues are addressed.

4.4. 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/problem-solving/planning, and thus leaving the classroom with a significant part of the work completed ready for implementation, is extremely effective for driving change within organisations. In addition, the study showed that participants want to leave the classroom with a study guide/workbook or procedures manual as well as "DOs" and "DON'Ts" summary sheets for each session. To optimise the impact of training and capacity development in India, it will be important to invest in developing first-class training materials and trainers/consultants (see *4.5 Use Classroom plus On-Site Follow-up Technical Assistance* below).

4.5. Use Classroom plus On-Site Follow-up Technical Assistance

Worldwide in the micro-finance industry there has been a move toward training that combines classroom based training 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 familiar with the training to work on institutionalising portfolio management systems and skills within their MFI. This need was reflected in respondents' discussions on training materials/methods conducted as part of the study.

This approach is much more resource and labour intensive, and requires a special quality of trainer (one that can put the classroom theory into practice in a variety of institutions). However, this approach has 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[55]. This approach also offers a better business model for trainers/consultants in that the revenue steam generated is for 3 days training plus week-long 6-10 follow-up on-site assignments rather than simply a 3 day classroom based training. There has been some discussion as to whether donors/MFI s will

[55] The classroom plus TA approach has certainly yielded these results where *MicroSave* is implementing it in East Africa.

pay for such an approach within India. However, it is anticipated that the significantly enhanced results and improvements within the MFIs that should result as a consequence of this classroom plus technical assistance method will make the market for it. Has certainly been the experience of *MicroSave* and its Certified Service Providers[56] worldwide.

Another advantage of this approach is that it will allow participants to spend less time away from their organisations in remote classrooms, and more time working with their teams on the job as they seek to institutionalise the learning within the institution. This on-site focused approach will also address another concern repeatedly raised by participants in the study – that of the need to maintain confidentiality of information on the MFI, its plans, cost structures and activities.

4.6. 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 the National Curriculum for Micro-finance in India. 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. A typical training package toolkit should comprise of the following to facilitate adoption and use by a wide variety of stakeholders from MFIs to support service providers:

Training Package Component	Description
1. A Participants' Manual and Workbook	Typically, with illustrative examples and step-by-step description of what to do, when, where, how and by whom - **incidentally, this is most requested item by participants in this TNA study**.
2. Handouts	Supplementary materials, usually best practices and DO's and DON'T's with regard to specific sessions – **again an aspect specifically requested by many MFI respondents.**
3. Exercises	Practical skill building exercises relevant to the various sessions and used for experiential learning.
4. PowerPoint slides	Well designed trainer's power point slides capable of being adapted to the local strategic and MFI context – suggested sequence of slides to use also included
5. A clear and comprehensive Trainer's Manual	This offers very clear direction to the trainer on how to use the toolkit and administer a training using the toolkit. It includes explanations on slides, detailed explanations of the exercises used in the workshop, ideas for how best to moderate the workshop and also FAQs on key aspects of the toolkit.

4.7. Work with Stakeholders to Develop a National Curriculum for Micro-Finance 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 and to secure adequate buy-in to make it the industry standard. This National Curriculum for Micro-finance in India would be designed and produced to the highest possible standard using industry norms and (as outlined above in *4.6 Develop Comprehensive, Easy-To-Use Training Packages*) would typically contain a Participant's Manual/Workbook and a Trainer's Kit (manual, slide show, handouts and exercises). The curriculum[57] would then be available in the public domain for customisation and use by MFIs, training institutions, individual consultants and capacity builders.

[56] See box on "*MicroSave*'s Practice-Based Training Philosophy and Strategy" below for a discussion of Certified Service Providers.
[57] Sample curricula for two focus areas are given in *Annex5*.

4.8. Develop Six Regional Training Centres to Deliver Training for Local Needs

There is a clear need for regional training centres that tailor training programmes to local needs – in terms of language, regional variations in the operating environment (geographical, social, legal, technological etc.) In addition, it was clear that the training centres selected to spearhead the capacity development efforts within India should not be associated with any particular methodology, but rather should focus on, and be seen to focus on, the development of core skills and capacity to deliver financial services – irrespective of whether the delivery mechanism is through SHGs, guarantee groups or individuals. The study's review of the training/capacity development centres available strongly suggested that the following training centres[58] be used for this:

1. Southern Region: CMFR and IFMR, Chennai;
2. AP and Some Parts of Eastern Region: APMAS and BASIX IT/ID Team, Hyderabad;
3. Western Region: Indian School of Micro-finance for Women (ISMW), Ahmedabad;
4. Northern Region: Bankers Institute for Rural Development (BIRD), Lucknow;
5. Central Region: Micro-Finance Resource Centre, Bhopal (MFRC-B) of CARE CASHE and
6. Eastern and Northeastern Region: Freedom from Hunger Training Centre, Kolkatta[59].

All these regional training centres afford the following advantages[60]:

- ☑ They are already recognised as a major training institution with regard to rural and micro-finance and have sufficient infrastructure in terms of staff, facilities etc.;
- ☑ If required, they can train in vernacular as well;
- ☑ In terms of access, they are centrally located for region and hence, travel to their city/town, would not be very costly for the participants (within the region);
- ☑ They have already conducted/coordinated several workshops in rural/micro-finance and have the capacity to serve the region; and
- ☑ They have a strong practice focus and will be able to provide practical learning to trainees and also, they have strong linkages with practitioner MFIs and other institutions delivering sustainable and need based financial services to the poor.

These regional training centres should be provided intensive and comprehensive training backed by regular technical assistance and quality control missions to optimise their role as lead disseminators of the National Curriculum for Micro-finance in India in each of the regions. These regional training centres should seek to offer the training and on-site technical assistance packages on a full cost recovery basis to create sustainable service provider institutions.

The support to these regional training centres should not been seen as precluding a role for national level capacity development organisations[61], but rather as a recognition of the importance of regional needs[62], and also MFIs' expressed desire for regional based (vernacular) training that will also reduce their travel time and costs. Other existing national training organisations will, no doubt, continue to play a very important role – and recognising this *MicroSave* hopes that these institutions will play a significant part in the development of the National Curriculum. For example, BIRD's role will be central to efforts to offer training in Hindi and also to assist Public Sector Banks, Regional Rural Banks and Cooperatives use the training courses developed.

Likewise, it is hoped that other national level trainers like M-TRIL Division (of EDA Rural Systems), NIRD (National Institute of Rural Development), Hyderabad and others will play a significant role in the curriculum development and dissemination process as would MFI networks such as SA-DHAN, New Delhi and INAFI India, Madurai.

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[58] As part of the TNA, during the discussions, all of the above institutions have expressed a desire to work together with ***MicroSave*** and the discussions can be carried forward subsequently.

[59] Using their innovative training elsewhere in the world, Freedom from Hunger is establishing a training centre in Kolkatta to work, using the franchisee method with MFIs, in the eastern and northeastern region. They already are familiar with several of *MicroSave* toolkits and also have a strong practitioner focus

[60] Please refer to *Annex9* for brief description of the regional training centres and also the rationale for their choice.

[61] Please refer to *Annex10* for a review of National Level Capacity Development Organisations offering courses in Rural/Micro-Finance. This annex provides a listing, description and assessment of institutions involved in micro-finance training in India.

[62] Respondents to the TNA very strongly stressed the need for practice focussed training and hence, every regional training centre proposed has either very strong linkages with practitioners and/or has a partnership with practitioner MFIs/Institutions

Further, IFMR, Chennai should also play an important role in facilitating curriculum development for 'higher end' financial management courses related to micro-finance[63] and also continuously inform curriculum development through the work of The Centre for Micro-Finance Research (CMFR), Chennai (co-located with IFMR). This should especially be useful and enable the "cream" MFIs navigate issues related to investments, securities and the like as help them obtain best practices and state-of-the-art knowledge with regard to newer areas.

Lastly, the premier management institutes such as IIM(A), IIM(B), IRMA and other major management institutes like IIFM (Bhopal) are showing a greater interest in micro-finance. However, their focus and strengths lie more in developing higher (student) education oriented courses rather than skill building micro-finance practitioner courses. Several of them (IIM(A), IIM(B) and IRMA) are already part of the CGAP initiative on integrating micro-finance in their MBA programme. While they have excellent faculty, infrastructure and resources, they are not likely to be able to offer field-based, practice-focussed, skill-building training, especially using vernacular languages. It is however hoped that they would participate in developing the national curriculum for micro-finance and using the materials subsequently and that their students might work with the regional training centres (RTCs) and/or MFIs to apply their skills in a practical environment.

Prof M S Sriram (IIM, A) concurs, *" Premier management institutes like ours can really help in developing a best practices curriculum, especially cases, in some areas. We can also play a role in training 2nd and 3rd line management institutes offer micro-finance courses as part of the curriculum. Further, we can place our students for field training with MFIs/M-F projects and thereby help to provide them a practical flavour. Where we can really offer short-term courses for MFI managers are in areas where perspective building is needed and this we normally do by putting CEOs of MFIs in mainstream management courses so that they can interact with professionals from other core sectors and widen their perspective".*

In fact, as **Mr. Neelaiah**, CEO of ASP notes, *"Having students of mainstream management institutes work with us for a short while is really beneficial for the students as well as the organisation. For the students, it gives them practical hands-on knowledge and for the MFI, work gets done in professional manner. On several occasions, we have had MBA and rural management students working with us and the experience has been very positive and this is yet another way of enhancing the capacity of the micro-finance sector."*

Prof H S Shailendra (IRMA), sums up*, "Mainstream institutions can certainly play several roles in fostering capacity building of the micro-finance sector in India. Apart from providing professionals (PGDM students with micro-finance elective) to the sector, we can help in curriculum development, best practices research that would need to be integrated into the curriculum and also run specialised management development modules for practicing MFI managers".*

4.9. Target Inputs Carefully

There are around 1,000 NGO-MFIs in India, plus nearly 300 Regional Rural Banks, plus 100,000 cooperatives. Choosing the institutions in which to invest scarce training and technical assistance resources will be a key challenge. The wholesalers/donors, national level capacity building institutions and the regional training centres will need to define and implement a transparent, easy-to-assess and market-responsive system for selecting and screening which financial institutions to work. Selection criteria are likely to be based on:

a. # of clients served (with financial services);
b. Size of the portfolio/deposits mobilised (Rs.);
c. Strategic plan of the institution and long term vision with regard to delivering financial services for 'low income people'; and

[63] Ms Bindu Ananth, Director, CMFR and Professor Chandrasekar, Director, IFMR suggested that some of IFMR's traditional financial courses could be tailored to meet the needs of larger and more mature MFIs and *MicroSave* India also feels that this should be done to help the "cream" MFIs navigate issues related to investments, securities and the like. In addition, CMFR/IFMR have expressed an interest in offering other training to MFIs and banks involved in micro-finance

d. Financial statements (balance sheet, profit and loss, cash flow and portfolio report).

The **Key Findings** and **Recommendations** outlined above reflect some of the lessons learned by *MicroSave* during its work over the last seven years in East and Southern Africa. As a result of these lessons, *MicroSave* has moved to a very structured approach to training curriculum design and to offer capacity development programmes almost exclusively on the basis of classroom plus on-site TA. The success of this approach has lead to significant changes occurring within institutions participating in *MicroSave* courses. The *MicroSave* curricula and approach is now becoming a world standard within the micro-finance industry and increasingly used by many other premium capacity development providers.

MicroSave's Practice-Based Training Philosophy and Strategy

MicroSave is committed to building capacity for training delivery and use of its toolkits among microfinance institutions (MFIs) pursuing a market-led, client-responsive approach to developing and delivering financial services. ***MicroSave***'s approach is distinguished by its **practice-based** training philosophy and strategy:

- ☑ ***MicroSave***'s toolkits are developed on the basis of rigorous, **field-based research and testing** of the approaches and tools with a diverse range of MFIs operating in a variety of markets.
- ☑ ***MicroSave*** training then focuses on transferring the knowledge, skills and attitudes necessary for effective use of each toolkit through hands-on, **practical application of the tools** as part of the training process.

To ensure the training is translated into relevant change in institutional performance ***MicroSave*** employs four complementary training strategies:

1. *Classroom training is always followed by practical fieldwork:* Although the courses offered in each toolkit begin with 2-3 days of classroom theory, exercises and discussion, they are quickly grounded in at least two to four weeks of practical on-site application of the tool with MFIs. Drawing on key adult learning principles of relevance, dialogue and participation, ***MicroSave*** trainings are designed to develop the competencies needed to implement each toolkit, including working with MFI staff to apply the tool in their institution. The complete training process - classroom and practical - involves interactive discussions and debates, hands-on exercises, exchange of experiences by participants and coaching by others certified in the skill area.
2. *Training materials are developed as a complete package of resources:* When ***MicroSave*** designs training materials for a toolkit, it seeks to provide a full complement of resources for MFIs to draw on. Each toolkit includes **PowerPoint slide presentations** to guide the training, along with the **handouts and exercises** needed, and a complete **Trainer's Guide** that assists the facilitator in running the training. **A Participant's Manual/Work Book** (the Toolkit itself) is the core reference document and outlines the topic area in detail. Finally, ***MicroSave*** provides **relevant papers** and **short 2-page briefing notes** related to the toolkit, which are the product of its action research agenda and provide helpful information on the topic. Participants in ***MicroSave*** training workshops are supplied with this wealth of resources to assist them in implementing the toolkit.
3. *Training is designed for specific skill sets, not particular microfinance models:* Regardless of the institutional type, or the savings and lending models adopted, the principles of ***MicroSave's*** toolkits are relevant to all financial service providers. The toolkits are designed to transfer the skills needed for product development/refinement and strategic marketing, not to promote a specific service delivery methodology. Participants in ***MicroSave*** trainings come with a wide background of experiences and take away practical tools that help them design, re-tool and improve products, systems and services.
4. *Certified Service Providers extend the capacity for high-quality training and use of the toolkits:* To maintain quality and ensure the best provision of training and consulting services in a given skill set, ***MicroSave*** certifies a select number of professionals in specific toolkits. Known as **Certified Service Providers** (CSPs), these individuals have demonstrated an ability to succeed in both classroom and practice-based follow-on consulting with MFIs. Once certified, CSPs can train others and recommend them to ***MicroSave*** for certification. CSPs can also offer consulting services and technical assistance follow-up in the ***MicroSave*** toolkits. The screening process for becoming a CSP is stringent. It involves meeting performance standards regarding knowledge, skills and attitudes, along with the ability to transfer skills to others, using the toolkit in the field and preparing quality reports and recommendations. After both classroom and field follow-on assignments that certify them in the toolkit, CSPs must demonstrate use of the toolkit on an annual basis to maintain their certification at the highest level.

The *MicroSave*-India project proposal offers to establish a Financial Services Learning Centre (FSLC) to coordinate and drive the development and dissemination of the National Curriculum for Micro-finance in India. In addition, the FSLC will provide training and support to the regional training centres (RTCs) and participating national capacity building institutions. The FSLC will play the lead role in preparation, testing and on-going maintenance[64] of the National Curriculum for Micro-finance in India. *MicroSave*-India will be uniquely positioned to do this work as it develops and tests new products with Action Research Partners and conducts its on-going research, dissemination and policy activities. The action research programme will allow it to keep the project fully involved with MFIs and banks and to further develop an understanding of their evolving needs. The research, dissemination and policy work will allow the project to keep up with changes and trends within the industry and the clients it serves. Finally *MicroSave*'s international network and contacts will allow it to bring in the best from capacity development around the world.

5. Conclusions

The above recommendations call for a significant re-engineering of the training courses, and indeed the methods, used to deliver capacity development in India. Such a change will not come easily and will require a carefully managed and coordinated process involving many stakeholders. The next section outlines how this might best be accomplished in the shortest possible time.

5.1. *Next Steps …*

This section outlines *MicroSave*'s suggestions on how to move forward with the recommendations outlined above – to ensure that the study is translated into action. It is developed on the bold assumption that an adequate proportion of the financing for the *MicroSave*-India programme is made available within 20 days of the submission of the final report on May 23rd 2005. Delays in securing the financing will necessary result in slippage of the schedule outlined below.

5.1.1. Final Delivery of Training Needs Assessment Report

May 2005: The training needs assessment report will be formally submitted to ICICI Bank (draft submitted on March 7th, 2005) on May 23rd. The report will be supported by a short video[65] comprising clips from leading figures in the industry discussing some of the key issues in the report.

5.1.2. Dissemination of Report and Data Collection to Support Course Development

March - June 2005: This period will be used to disseminate the report using physical and electronic channels. *MicroSave* will use email to distribute the report to all those who participated in the study. In addition, *MicroSave* will use the ICICI, MitraBharati and *MicroSave* websites to offer the report in the public domain. *MicroSave* will also seek to place it on the forthcoming CGAP Training Resource Centre linked to the Microfinance Gateway[66]. In addition, *MicroSave* will give a copy of the video on VCD to key participants in the study at the June 29th workshop.

5.1.3. Special Meeting to Present Training Needs Assessment Report and Video

June29th: ICICI will hold a special meeting of its partners[67] at IFMR, Chennai to present the training needs assessment report/video and discuss findings (on the 29th); and

1. Optimising the speed and effectiveness of the implementation of key recommendations
2. Future-gazing to assess the likely changing needs of the industry, especially in view of the burgeoning growth of the industry
3. Maximising the dissemination of the National Curriculum for Micro-finance in India through analysis of options for delivery methods

[64] *MicroSave* will be constantly updating the curriculum in line with the changing environment and also best practices.
[65] A first video was prepared and this is now being edited as more footage has become available and it will be presented at the TNA dissemination workshop to be held in June 2005
[66] *MicroSave* is playing a lead role in the development of this international Training Resource Centre.
[67] Subject to planning and financing constraints because of which, these workshops could be deferred, if required.

5.1.4. Special Meeting to Plan Curriculum Development Process

June 30th: *MicroSave* will conduct a smaller more select workshop with capacity building service providers interested in tendering to be involved in the curriculum development process. During the meeting, we propose to run working groups to:

1. Conduct initial discussions with institutions that may be involved in the development of the National Curriculum for Micro-finance in India.
2. Optimise the quality of the curriculum development process through examining the proposed structure and topics of the curricula as well as principles for methodology/contents.
3. Optimise the speed and effectiveness of curriculum development process including assessing who might be involved in the curriculum development team[68].
4. Outline the requirements for tendering and criteria for assessing tenders submitted.

5.1.5. Data Collection to Support Course Development, Research and Action Research

June – July: The period will also see the development of two large databases (through contracting consultants):

1. On existing curricula from India and around the world. *MicroSave* will seek to ensure that this is integrated with the forthcoming CGAP Training Resource Centre. This will then create a resource that will be invaluable in the development of the National Curriculum for Micro-finance in India.
2. On the official/published and grey material on the Indian financial industry. *MicroSave* will collect, review, abstract and categorise papers in order to develop the database/keyword search etc. structure and then the on-going maintenance of the database for the duration of the project. The database will then be available on-line on the *MicroSave* website for use by all interested in the development of financial services for low-income people in India. This is expected to inform both the curriculum development process as well as the agenda of the growing industry seeking to offer financial services for the low-income and to ensure that duplication of research is avoided. Thus the database will be essential to guide and provide secondary data/case studies for:
   - ❖ The development of the National Curriculum for Micro-finance in India;
   - ❖ Future research efforts to inform and develop the micro-finance sector;
   - ❖ On-going efforts to inform policy and the regulatory environment; and
   - ❖ Wholesale organisations seeking to fund micro-finance institutions.

   In this period, in order to further extend the reach of the dissemination effort, *MicroSave* will develop two Briefing Notes: one on the content and one on the methodology of the study and commence the development of the public domain database on existing research papers relating to microfinance in India. This will be essential to guide and provide secondary data/case studies for:
   1. The development of the National Curriculum for Micro-finance in India;
   2. Future research efforts to inform and develop the micro-finance sector;
   3. On-going efforts to inform policy and the regulatory environment; and
   4. Wholesale organisations seeking to fund micro-finance institutions.

   Additional research under *MicroSave*-India's Research, Policy and Dissemination Centre (which will work in close collaboration with the new ICICI Bank-sponsored Centre for Micro-Finance Research) will also be used to play a role in understanding key issues for the development of practice-focused courses/toolkits.

   In addition, *MicroSave* will prepare the job descriptions for the staff and initiate advertising for these positions.

[68] Subject to their interest and commitment, *MicroSave* hopes to make the development of the National Curriculum for Micro-finance in India a participatory process and to draw on trainers from 6 Regional Centres, IIM-A/B/L, IRMA, EDA Rural Systems/M-CRIL/M-TRIL, CARE CASHE, SADHAN, INAFI, and selected larger MFIs.

5.1.6. Preparation for Financial Services Learning Centre

July/August 2005: In this period, *MicroSave* should initiate recruitment for the Financial Services Learning Centre. *MicroSave* will also review the tenders from the potential curriculum development team and finalise the selection of team members, including securing their participation in the development and dissemination of the National Curriculum for Micro-finance in India. *MicroSave* will also complete the finalisation of the preparation curriculum development process, including prioritising courses/toolkits for development, detailing the methods and a proposed timetable for the curriculum development, and the testing and finalisation of key modules. *MicroSave* will also let the contracts for the development of the curricula and the provision of consulting support at this stage.

This period will also see the development/tailoring of the preparatory workshops and courses for the curriculum development team, as well as the identification and hiring of support consultants to work alongside the team. At the same time, *MicroSave* will complete the planning and logistics for three training workshops:

1. A 3 day plus TA follow-up workshop on Loan Portfolio Audit Toolkit for selected bank investing in microfinance institutions in India and the curriculum development team. This workshop is expected to demonstrate the proposed training methodology that will be at the heart of the National Curriculum for Micro-finance in India, so that the curriculum development team have a good understanding of the “look and feel” of the training modules in the National Curriculum.
2. A 5 day Preparatory Workshop (with the assistance of international experts on training programme design and development) on:
    - Adult learning methods;
    - Developing training curricula;
    - Finalisation of contents;
    - Identification of additional research/information gathering needs;
    - Division of labour;
    - Initial discussions on standardisation of terminology/integration of training curricula; and
    - Schedule/timelines and quality control procedures for the development of the National Curriculum for Micro-finance in India.

Finally, August will also see the establishment of the *MicroSave* office at IFMR and CMFR, Chennai and the procurement of some of the fixed assets necessary to run the project.

5.1.7. Preparatory Training Workshops

August 2005: *MicroSave* will run the 3-Day workshop on Loan Portfolio Audit Toolkit together and the follow-up technical assistance on-site with participating MFIs.

5.1.8. Data Collection to Support Research and Action Research

August-September 2005: The work on the secondary data database will be finalised and completed. During this period, *MicroSave* will also complete the background analysis on the two action research areas including the assessment of the kind of organisations (banks, MFIs and support organisations) operating in these areas.

5.1.9. Preparatory Training Workshops

September 2005: Initiate training activities and conduct:

1. The 5-day preparatory workshop outlined above for the curriculum development team.
2. On-site follow-up with banks/curriculum development team on the Loan Portfolio Audit Toolkit.

5.1.10. Fast Tracking Training

September 2005: Continue training activities to develop the core *MicroSave* team, extend training/curricula into the Indian market and conduct:

1. Training of the Senior Financial Systems Specialist and Training Specialists at the School of Applied Microfinance
2. A 3-day workshop on the Process Mapping Toolkit for MFIs and trainers from the Regional Training Centres.

5.1.11. Preparing for Expansion of the Programme

October 2005: Develop the *MicroSave*-India component of the *MicroSave* website, ensuring quality interface and clarity of search to maximise the accessibility of data/information. Prepare and issue the request for proposals for Action Research Partners for the Tamil Nadu/Andhra Pradesh pilot-test area.

October 2005: Continue training activities and conduct:

1. Conduct the follow-up technical assistance to MFIs on implementation of Process Mapping training.
2. Conduct a 3 day workshop on Portfolio and Delinquency Management for trainers of the six regional training centres and selected financial institutions.

5.1.12. Initiating Development of the National Curriculum for Micro-finance in India

October/November 2005: Conduct extensive work on the National Curriculum and visits by *MicroSave* staff/support consultants to the training curriculum development team to provide assistance and to review progress.

The *MicroSave* team will work on the refinement of existing *MicroSave* courses and toolkits for the Indian market. **See *Annex14* "Toolkit Development Planning" for an outline of this work.**

MicroSave will also initiate the development of tools to assist MFI assess their training needs and select the most appropriate training courses using a mixture of:

1. TNA PRA tool (a modified version of part of the core method used in the Training Needs Assessment study[69]);
2. Decision trees to guide people to the relevant course; and
3. Creating a front-end for the DVD that will be used to disseminate the National Curriculum for Micro-finance in India. This will comprise video clips of experts from India discussing different aspect of training needs and the design of the National Curriculum to assist MFIs think about their train needs.

November 2005: Continue training activities and conduct:

1. 3-day workshop on Institutional and New Product Development Risk Analysis for trainers of the six regional training centres and selected financial institutions.
2. Conduct the follow-up technical assistance to MFIs on implementation of Portfolio and Delinquency Management.

5.1.13. Assess the Response to the Request for Proposals:

December[70] 2005: Collect and assess the response to the request for proposal from financial institutions wishing to become Action Research Partners in Tamil Nadu/Andhra Pradesh.

[69] This approach to the assessment of training needs was found be extremely useful by participants and many suggest including it in their annual planning process.
[70] *MicroSave* will complete the second round of recruitment for the project

5.1.14. Continue Training Activities

December 2005: Continue training activities and conduct:

1. Conduct the follow-up technical assistance on Institutional and New Product Development Risk Analysis
2. Conduct 3 day training on Governance for MFIs

5.1.15. Initiation of Work with Action Research Partners in Tamil Nadu/Andhra Pradesh

January – February 2006: will see the initiation of the Action Research Programme. This will involve:

1. Finalisation of selection of the Action Research Partners in Tamil Nadu/Andhra Pradesh on the basis of the response to the request for proposals.
2. Preliminary identification of needs and initiation of training/technical assistance to around 10 selected financial institutions.

5.1.16. Finalisation of the Beta Version of the National Curriculum for Micro-finance in India

January 2006 – April 2006[71]: These four months will see a series of peer-to-peer review of curricula workshops (facilitated by *MicroSave*) – focusing on integration of curricula and ensuring that they form a coherent whole. Work will also continue of the refinement of existing *MicroSave* toolkits for India. Any outstanding follow-up on the implementation of the process mapping will be completed and follow-up on Governance will continue.

MicroSave will offer another three/four training (3 day plus TA follow-up) courses for the regional centre trainers and participating financial institutions. These will focus on:

1. Activity based costing;
2. Pilot-testing of new products;
3. Portfolio management; and
4. Financial ratio analysis.

Each of these workshops will be followed-up with on-site technical assistance for participating financial institutions. At the same time, the refinement of new toolkits and the integration of the National Curriculum will continue.

In the latter part of the period, *MicroSave* will finalise the DVD front-end. It will also initiate the planning/ logistics for the wrap-up and launch workshops.

5.1.17. Continuation of Work with Action Research Partners in Tamil Nadu/Andhra Pradesh

March – June 2006: This period will see the continuation of work with the Action Research Partners in Tamil Nadu/Andhra Pradesh. This will involve:

1. Delivery of training according to the institution specific training needs assessment
2. Conducting follow-up on-site technical assistance
3. Providing strategic advice
4. Identification, recruitment and deployment of consultants to advise on specific issues

5.1.18. Wrap-up and Launch of the National Curriculum for Micro-finance in India

May 2006: will see four workshops:

1. Wrap-Up workshop to present the courses/toolkits that will comprise the version 1.0 of the National Curriculum and to plan the intensive efforts to train trainers in them.
2. Three workshops to launch the National Curriculum in Delhi, Hyderabad and Mumbai.

It is also hoped that the regional training centres will run workshops to launch the National Curriculum.

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[71] This period will see the initiation of work on a variety of research activities, *subject to funding*

May-June 2006[72]: *MicroSave* will offer another three/four training (3 day plus TA follow-up) courses for the regional centre trainers and participating financial institutions. These will focus on:

1. Strategic Planning with Balance Score Card Monitoring;
2. Human Resource Management in Financial Institutions;
3. Process Mapping;
4. Loan Portfolio Audit; and
5. Market Research for MicroFinance.

Thereafter, a process of on-going test and refinement of the courses/toolkits developed will be necessary. At the same time additional courses/toolkits will be developed as the needs are appraised (primarily through the Action Research Partner programme) and opportunities arise.

5.2. Final Comments

As we conducted this research, we received extraordinary levels of commitment and time from the stakeholders in the industry. This reflects their recognition of the central and core role that capacity development must play in the development of micro-finance in India. We hope that this report, and the recommendations it makes, will be put into action so that *MicroSave* can contribute to the micro-finance industry in India. Through this *MicroSave* hopes to complement and develop (but not displace) Indian capacity development institutions and technical service providers and help build a vibrant, competitive and market/client led 'low income' finance sector in India.

[72] *MicroSave* will complete the third round of recruitment for the project's Action Research Area in the north. These recruited officers will spend the first six months working on research activities and in the southern Action Research Area in order to gain a good understanding of *MicroSave*'s operational approaches and ethos before being finally deployed to the northern Action Research Area in January 1st 2007: