

Building Human Resources for micro-Finance Industry: Issues and Concerns

With the recognition that financial services making capital available for the poor is an essential, though not sufficient, condition for alleviating poverty, micro-finance has emerged as a growing area of development intervention across the world. As capital will continue to be required for any economic activity it is likely to remain an important area of intervention for years to come. Thus, the growth that this sector has witnessed is likely to sustain for quite some time.

As quality of services in the micro-finance industry depends on person-to-person contact, it is human resource intensive. Therefore with this rapid growth of the sector, availability of human resources will play a critical role for sustaining the growth of this industry.

This note attempts to examine some of the concerns that need to be addressed for meet the challenges of human resources for the sector. It looks into some of the features of the sector and the nature of the task. It looks into the attitude-skills-knowledge (ASK) necessary for taking up the task and examines their availability.

Nature of the Micro-Finance Industry

The breakthrough in micro-finance came from the recognition that financial services can be made available to the disadvantaged people, if

- Banking is made easy for them, with simplified procedures;
- Attention is paid to reducing transaction cost for both the borrower and the lender;
- Collateral requirements are replaced with collateral-substitutes, recognising that intangible social assets may have a higher value for a poor than physical assets which s/he rarely has;
- The person is financed and not the project;
- Peers in the community are involved in appraisal and follow-up;
- Repayments are designed to fit the cash-flow of the borrower and
- Borrower is made to pay small sums at regular interval than paying a large sum at any one point in time, either for savings or for repayment of loans.

These therefore, define the contour of the industry that makes financial services, especially savings and credit, available to the disadvantaged sections of the society, also commonly referred to as the poor.

Micro-Finance services by definition are financial services. **Finance** as a science has evolved over time. Many tools and techniques have been developed in this area. Though a large majority of them are not applicable in the context of micro-finance, it does use some of the very concepts of time-value-of-money.

As methodologies deployed in micro-finance uses regular small payments, it involves **large number** of small sized **transaction**.

As large majority of the poor is not organised, their economic activities are dispersed requiring serving also at **dispersed** locations.

As it involves using **collateral substitutes** and involving peers, ability to build and maintain rapport with the poor community, assess their needs (which are often not articulated) and assess their non-physical assets. Often the involvement of peers is in groups. Therefore, this work often requires group work. People with little exposure to financial systems are often involved in the credit decisions. Often, these interventions involve training people to take up financial management functions on behalf of the group.

Most agencies involved in micro-finance have or plan to have a fairly **large size operation**. On one hand this becomes necessary for them to meet their expenses from the spread, which in the competitive world of finance is coming down. A minimum scale of operation also becomes imperative from the viewpoint of risk diversification.

One significant area of contribution of micro-finance to reach out the disadvantaged has come from simplification of the lending process. Very **simple procedures** have been adopted by these institutions which are easy for the people to follow. Usually these simple procedures reduce attempts to reduce transaction costs for the borrowers.

Most micro-finance Institutions has developed **standard operating procedures** for extending their services. This helps them address two issues. On one hand, it enables them to achieve the scale that is required to attract mainstream resources. On the other hand, given the manpower intensity in its operations, it helps in reducing transaction cost for the lender.

It has also been recognised by many Micro-Finance Institutions that the poor, who did not have an opportunity to use their own capital before, often needs to supported with a variety of support services for effective use of the funds. There are many Micro-Finance Institutions who provide a wide variety of services, including identifying opportunities, business design, backward and forward linkage, capacity building and so on, popularly known as **Credit Plus**, as an integral part of their services.

Micro-Finance is an emerging industry. Though it has been established that financial services can be made available to the disadvantaged people, it has also been argued that 'poor- people' is not a monolithic mass. Different products are required for servicing the needs of different segments of the population. Though some of the methodologies of extending financial services have been developed in the recent past, many more need to be developed for catering to the needs of other segments. Though methodologies for savings and credit services have been simplified and standardised in many places, most micro-finance Institutions are struggling with other financial services, such as insurance and retirement fund for the poor. Thus, the industry will still have to make conscious efforts to **innovate and standardise new products** for some more years to come.

The micro-finance industry is also witnessing a very rapid change in the policy and regulatory environment. In many countries world over micro-finance has been recognised as an important instrument for poverty alleviation. The policies, which were not at all favourable, even a few years back have started changing their colours. However, this transition has a serious implication on the players in the industry. Different interest groups, the micro-finance service providers, the support institutions and the policy makers need to dialogue with each other at this phase, till **the new policy framework** stabilises.

Implication on Training of Human Resources

The salient features of the micro-finance industry discussed above have serious implications on the nature of human resources. First issue that needs to be recognised is the diversity of functions. This being an emerging sector, there is a need for developing new financial products, need for policy dialogue. Sometimes there is also the need for extending credit plus services. On the other hand there is a need for standardised operating procedures.

The nature of task in developing new financial products/ processes to serve the customer better and delivering a standard service to a large number of customers using the same procedure every day, are so diverse that it is unlikely that the same set of people will be able to take up both. The motivation pattern for both these groups, their backgrounds and their career progress path are like to be very different. Often, it is assumed that the routine finance operations are performed by less qualified, less expensive staff. But that poses a serious constraint on the scale of operations. For effectively managing, even the standard operations of the scale that is required, very highly trained manpower will be necessary for the micro-finance institutions.

Therefore, two very different kinds of training processes need to be designed for both the groups.

However, as micro-finance is about finance, both the groups would need some detailed training in **finance**. This component of the training acquires significance from the fact that large majority of micro-finance institutions have emerged from development background, with most of their staff inadequately trained in this area. As a result, this input needs to become more than just training in financial skills. These inputs should be designed to help people think financially. It should help them in handling large volumes of financial transactions, with large sums of finance.

The second area, where training is going to be critical is ability to work with people from the disadvantaged sections of the society. Most micro-finance institutions have emerged from development background, where their strength has been in the area of **working with the community**. Yet, with the mainstreaming and scaling up of micro-finance, the character of the manpower will have to go through significant changes. These agencies will have to worry about how these skills of working with the community can be transferred to a large number of new entrants, and reasonably quickly.

The third area of training is going to be in understanding **commercial viability**. Micro-finance extends financial services to the producers for a wide variety of reasons. In the very early stages of such a programme, especially in economically weaker areas, these funds are used for meeting deficits in consumption expenditures, or for meeting emergency cash flow needs. But as the programme stabilises, many people complete their second or third lending cycle, they start investing in economic activities. Understanding the commercial viability of these activities proposed to be taken up, both individually and as a portfolio, becomes critical for the micro-finance practitioner at this stage.

The fourth area of training is **training of trainers**. As most micro-finance institutions are involved in building people's institutions, which in the long run will manage their own finances, one of the significant component of their work will always be to build the competencies of the people who manage these institutions. Therefore, they themselves will have to be trained in building their competencies, or what has been popularly known as Training of Trainers.

Last few years of the twentieth century has witnessed phenomenal changes in the information technology, opening the doors of many new feasible options. These will have a significant implication on the micro-finance field. Money, which is the primary commodity that the micro-finance field deals in, can easily be transacted through the new technologies. It also helps capture the multiple and large volumes of transactions. It also has serious implications for the transaction costs, which the micro-finance sector tries to minimise. Therefore, training in **information technology** will be a significant component of training for micro-finance sector.

Micro-finance institutions operate within a legal framework, which is often alien to the context in which they work. The legal environment is also changing substantially in the recent time. Micro-finance has made its new niche in this framework. As micro-finance practitioners often handle the responsibilities of other-people's-money, especially of the vulnerable group of people, it also becomes important for them to understand this **legal environment**. Especially, now that a new collaborating relationship with the state is emerging, it is important for the micro-finance practitioners to understand the legal framework, which is the primary instrument the state works with.

However, designers of such training programmes will have to keep in mind that content of the training in the areas of (i) finance, (ii) community work, (iii) commercial viability, (iv) information technology and (v) the legal environment, will have to be different for the two groups of human resources indicated earlier.