

NO FOOTSTEPS *to* FOLLOW

*The talent gap in the
development finance sector in India*

.....
FIELD NOTES COMPILED BY:

Peg Ross, *Director*, Human Capital Center, **Grameen Foundation**

Lyndon Rego, *Director*, Innovation Incubator, **Center for Creative Leadership**

Anna Muoio, *Principal*, Social Innovation, **Continuum**

Chris Hosmer, *Managing Director*, Shanghai, **Continuum**

IN COLLABORATION WITH:

Urmi Sengupta, *Vice President*, Knowledge Exchange, **ShoreCap Exchange**
.....

Introduction

Among the most significant challenges facing the booming microfinance sector is a need that is pervasive and invisible. It is the lack of adequate human capital—people who can manage and effectively scale microfinance organizations in an industry that is experiencing meteoric growth.

In 2009, Grameen Foundation and ShoreCap Exchange, along with the Center for Creative Leadership and Continuum, set out to better understand the need to develop greater human capital capacity to support the scaling up of development finance organizations to achieve the goal of poverty alleviation. The team brought together expertise from backgrounds in international development finance, non-profit leadership development, human resources and change management, and innovation and human-centered design.

This report shares insights and learning from an initial field immersion conducted in India with a focus on microfinance institutions (MFIs). India is a leading region for development finance activity and home to many of the largest and fastest growing MFIs. Our visits took us from hotel conference rooms to corporate MFI offices to villages where loan officers interacted with borrowers. We interviewed executives, middle managers and field officers at three prominent microfinance institutions – SKS, BASIX, and Mimo – as well as visited Sa-Dhan, a community finance industry network based in Delhi. This learning was supplemented by facilitated discussions with attendees at a ShoreCap Exchange leadership development program conducted in collaboration with the Center for Creative Leadership and regional banking experts for 30 senior microfinance and small business finance leaders from eight countries, including Afghanistan, Bangladesh, Belarus, Cambodia, India, Mongolia, Pakistan, and Sri Lanka. These conversations surfaced a number of perspectives and issues.

1. Grameen Foundation helps the world's poorest, especially women, improve their lives and escape poverty through access to microfinance and technology. www.grameenfoundation.org
2. ShoreCap Exchange helps banks working to serve small business and microfinance markets overcome the substantial operational challenges they face in dealing with clients not reached by traditional financial markets. www.shorecapexchange.org
3. The Center for Creative Leadership is a nonprofit, educational institution focused on leadership development. www.ccl.org
4. Continuum is a global innovation and design consultancy. www.dcontinuum.com



Top Line Lessons from our Research in India

We see India as an incubator for developing potential solutions that can be adapted elsewhere in the field. Our immersion research uncovered a number of talent and human capital issues that Indian MFIs face as they expand to serve the vast number of people who seek their services. These issues are outlined below and reviewed in greater detail later in this document. Further exploration is planned by the team to confirm, deepen and extend what we have learned from this initial work.



MFI leaders are challenged to balance multiple agendas: profit, growth and social mission.

The weight of profit, growth, and mission weigh heavily on MFIs. With an agenda of serving the poor, MFI practice is closely scrutinized by the media and political actors, especially given the fact that interest rates can be higher than in standard financial services. There is both political pressure to keep interest rates low as well as competitive pressures to capture market share as multiple MFIs and mainstream banks enter the market. MFI leaders are tasked to deliver on multiple fronts and balance these (sometimes conflicting) agendas.

[/pg.08/](#)



The growth of the microfinance sector is outpacing its human capital capacity.

The sector is growing dramatically—roughly at 100% per year. This growth has outpaced the ability of organizations to attract and retain qualified staff (especially in the face of stiff competition), as well as adequately equip them for the leadership challenges they face. This challenge is often aggravated by the sourcing issue – higher education institutions may or may not provide graduates that are adequately trained to become effective entry-level officers. At the same time, with the entry of mainstream financial institutions in the social sector, players are finding it difficult to retain trained staff. [/pg.09/](#)

OVERVIEW



The talent challenges are most acute at the middle manager level.

In our conversations, we heard that middle management leadership development is a critical need. Within each organization, this level of management has significant responsibility for field operations. /pg.11/



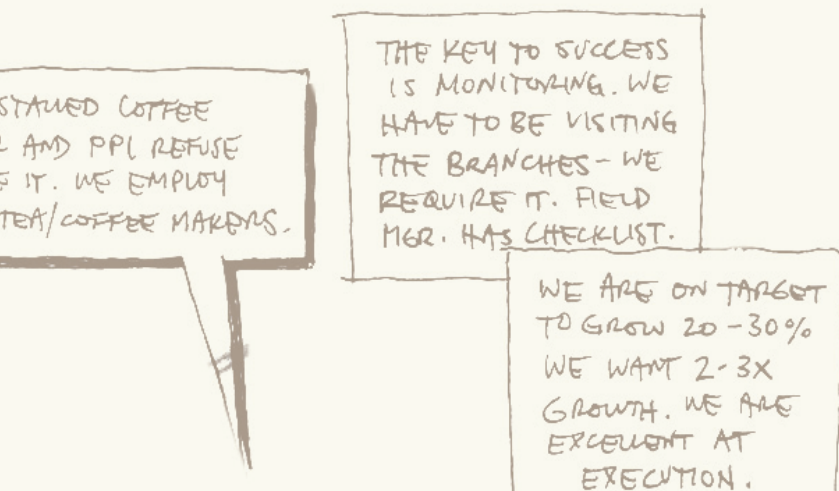
Standardization and personalization are twin challenges.

There are dual demands for MFIs to standardize operations as they scale, yet maintain a high degree of flexibility at the local level. The rural and decentralized nature of this work demands adaptability and a degree of autonomy in decision making at the grassroots. /pg.12/



Training and development is hindered by the lack of resources.

The sheer numbers of those needing development is compounded by the lack of appropriate and accessible resources for development. The absence of development impacts performance, customer service, and employee retention. /pg.13/



While we do not review the larger context of microfinance in this report, we note the emergence of microfinance as one of the most important means for fighting poverty on a large scale. Microfinance provides very small loans, or micro loans, to poor people, mostly women, to start or expand very small, self sufficient businesses. Through their own ingenuity and drive, and the support of the lending microfinance institution (MFI), poor women are able start their journey out of poverty. MFIs operate a client-intensive operation. Some MFIs go directly to the borrower's place of business to issue loans and collect payments. Other MFIs host weekly borrowers' meetings at the local center where the transactions and other social services take place. During these center meetings, borrowers empower each other to stay on the path out of poverty by sharing successes and discussing ideas for solving business and personal problems⁵.

5. Information sourced from Grameen Foundation

The Talent Gap in Context

*“MFIs are at the leading edge.
Nobody has left footprints for us to follow.”*

~ P. Chandrasekhar, BASIX

Microfinance has emerged as one of the most promising solutions for alleviating poverty in the developing world. As the number of development finance institutions has grown and as they have scaled up to extend services to more of the poor, the talent gap within the sector has emerged as a leading area of concern.

A recent Wall Street Journal article⁶ on the microfinance sector highlights this rapid growth: “In the middle of last year, we thought for a while the meltdown would strike this sector, but we’ve seen that it’s been largely unscathed,” says Vipin Sharma, chief executive of Access Development Services. “Growth is as frenetic as it was before.” The article continues: “At the current growth rate and with larger loan sizes, microlenders might outstrip the formal banking sector in lending volumes within a few years.”

Or will it? Could this growth be hobbled by the acknowledged deficit of adequately trained staff to manage these rapidly growing organizations? The 2008 Microfinance Banana Skins report⁷ published by the Centre for the Study of Financial Innovation remarks that out of 305 industry respondents from 74 countries, management quality ranked as the top risk to MFI operations. Staffing is listed as the fifth biggest risk—and rising fast. In 2009, with 430 respondents from 82 countries, concerns about the global economic crisis understandably eclipsed all previous concerns; and yet “management quality” still ranked as an imperative (the fourth biggest risk out of 25). Respondents noted: “Many of the challenges behind management quality persist: difficulties in attracting and retaining talent, poaching, lack of

6. Gokhale, Ketaki. “Microlending in India Continues Macro Growth,” Wall Street Journal, October 26, 2009.
7. 2008; Centre for the Study of Financial Innovation (CSFI).

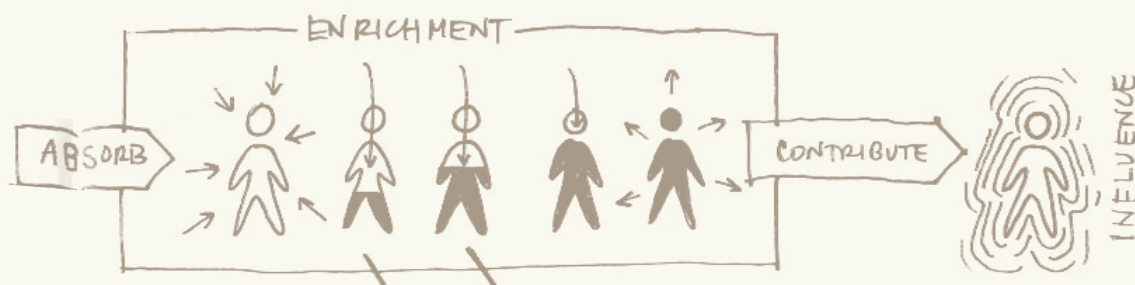
BACKBONE
UNIT HEAD
* MOST IMPORTANT *

training facilities.” It is the absence of this human capacity that also “increases operational and credit risk” in these organizations. According to the Microfinance India State of the Sector Report 2008⁸, “the shortage of human resources is undoubtedly the major problem that will impact the sector during the next two years.” The report states that producing the next generation of leaders who can manage the expansion and transformation of this sector is critical to the future of microfinance. The numbers needed to fuel this growth are staggering: an estimated 250,000 field officers are needed to serve the 80 million clients currently served by microfinance in India alone. Meanwhile, some large microfinance institutions recruit between 500 and 1,000 loan officers and branch managers each year to meet the expanding demand for microfinance services.

Sa-Dhan’s report Building Human Resource for the Micro-finance Sector⁹ points out that MFIs in India have identified human resources issues as their biggest challenge and the need for strong professional middle management is becoming a crisis as organizations grow. The demand-supply gap exists they explain because the microfinance sector has scaled up only recently and there are not many people with relevant experience or even professional management backgrounds within the sector. Junior management is drawn from local universities and field staff. The need is compounded by the lack of resources for development. Few educational institutions offer programs to help build human capacity for the sector and that most MFIs rely on “ad hoc in-house training methods which do not yield the professionalism and competencies needed to build strong and effective financial institutions.” Coupled with the fact that compensation levels in the industry are typically lower than many corporate areas, this has, in the past, discouraged premier management institutions from quickly aligning their programs to sectoral needs.

The scope and urgency of this human capacity challenge suggests that potential solutions involve innovation rather than the extension or adaptation on existing methods. We used the immersion in India to start to get under the surface of the talent issues identified in the literature in order to understand the context of work, the skills needed, critical and high impact points of intervention, and, the constraints and challenges.

8. Srinivasan, N., *Microfinance India: State of the Sector Report*, SAGE Publications India Pvt. Ltd., 2009
9. A Report on Academic Confluence – Building Human Resources for the Micro-finance Sector, Sa-Dhan, 2009



Managing Mission and Money



MFI leaders are challenged to balance multiple agendas: profit, growth and social mission.

The Indian microfinance sector is undergoing significant change. Many institutions are transforming from non-governmental organizations (NGOs) into non-bank financial corporations (NBFC) in order to increase the organizations' lending capital, but potentially risk distancing themselves from their social missions. And as commercial capital becomes increasingly available, there is pressure to deliver financial results. Leaders at each MFI spoke of trying to find the "appropriate" balance between profit motive and social change commitment. From a human capital perspective, does this require a different leadership approach, mentality or caliber of individual?

Ambitious growth plans can come at a cost. Increasingly, there is pressure from local authorities as well as the federal government to increase financial inclusion and social benefit through reducing loan interest rates. Politicians campaigning for office in some regions such as Karnataka have encouraged non-repayment, which has caused major concerns for MFIs in some states and

contributed to the complexity of lending to the poor. What are the implications of this on developing effective middle managers? We heard that there is "political risk tied to the quality of the human capital"—as issues with local government have not been well managed by local staff. Middle managers need to be able to shift out of day-to-day tasks to understand the bigger picture perspective of their institution, its vision, mission and objectives.

As the profit versus mission tension continues, Achla Savyasaachi, Associate VP and Team Leader, Policy Team at Sa-Dhan, believes the industry could be compromised "by staff who don't take the time to really understand the process and do it right." She goes on to stress that: "Focusing on the social mission is critical to the survival of the microfinance sector."

*"We are growing so much;
but where are we going?"*

~ Achla Savyasaachi, Sa-Dhan

The Contours of the Talent Gap



The growth of the microfinance sector is outpacing its human capital capacity.

Any “hot” industry faces huge challenges in attracting and retaining top talent—especially the right kind of talent. Qualified talent is scarce and hotly contended for by competitors in the MFI space. And with such a diverse field of MFIs, there is no “one size fits all” talent development panacea.

The 2009 Microfinance Banana Skins Report establishes management quality as one of the key risks faced by the microfinance sector. This human resource bottleneck threatens to constrain growth, innovation, and access to capital. The problem manifests itself in multiple ways: senior managers are commonly in the ‘wrong position’ relative to their strengths. Senior management positions remain vacant. There is little middle management talent. High turnover occurs at all levels. Brilliant social enterprise founders are sometimes unable to transition to the level of leadership required for larger scaling institutions. Weak management and human capacity challenges can be compounded in these institutions by a weak or dysfunctional board.

Recruiting the right people in the numbers needed is the first challenge. Retaining them through effective leadership development and career development comes next. And leadership development needs at the middle manager level are vast. Leaders at BASIX stressed that “freedom” and “autonomy” are key attributes in high potential managers. “Creativity is required” and opportunities to develop new products or programs are available. Yet underscoring the diversity of needs, Manjusha Raulkar, VP of Human Resources at SKS states: “This is a simple business. And very process driven. We don’t need creativity around the process. We need people with better people management and PR skills.”

“Human capital is the biggest challenge. If we can address that, the rest will follow.”

~ Executive, BRAC Bank

The Talent Gap is Greatest at the Middle



3 The talent challenges are most acute in the field.

As MFIs mature and their charismatic founders age, succession planning at the very top is an issue that is being acknowledged and addressed through coaching and leadership programs for senior teams. The leadership issues that extend from the middle on down, however, are far reaching and less targeted.

Although there is some variation in the field operations structure at each of the three MFIs we met, they report similar challenges among the first and second-line field management team. Often these individuals, who are managing five to six loan officers, are “kids”—just out of university with no work experience. They lack the maturity and life experience to appreciate the personal challenges many of the loan officers face, and haven’t developed the coaching skills necessary to guide their subordinates.

These first few field management ranks need to be able to deal with crises, whether it’s a local politician preaching non-repayment or a loan officer who gets severely injured on the job. Being able to effectively deal with the wide range of challenges requires

an ability to deal with ambiguity, to think on your feet, to have the passion and commitment to succeed.

At BASIX, P. Chandrasekhar, Head-Recruitment, Induction & Training, believes that in order to meet their middle management challenges, “creativity must be (built) into the DNA” of the organization, something they have yet to address. “It’s easy to find people at the implementation level. It’s hard to find people at the idea level.” One of their unit heads we interviewed in the field reported finding it tough to make decisions on “non-textbook” issues, with “no formula to follow.” “Here,” he said, “we have to be able to think in real-life.” He wished for more “real-life,” practical training to help him face non-standard situations. This made his reliance on and appreciation of his boss’s ability to guide and mentor indispensable. A unit head, he told us, “must be—socially, emotionally, and physically fit.”

At SKS—one of the fastest growing MFIs in the world serving 5.3 million people through 1,676 branches as of 2009—each area

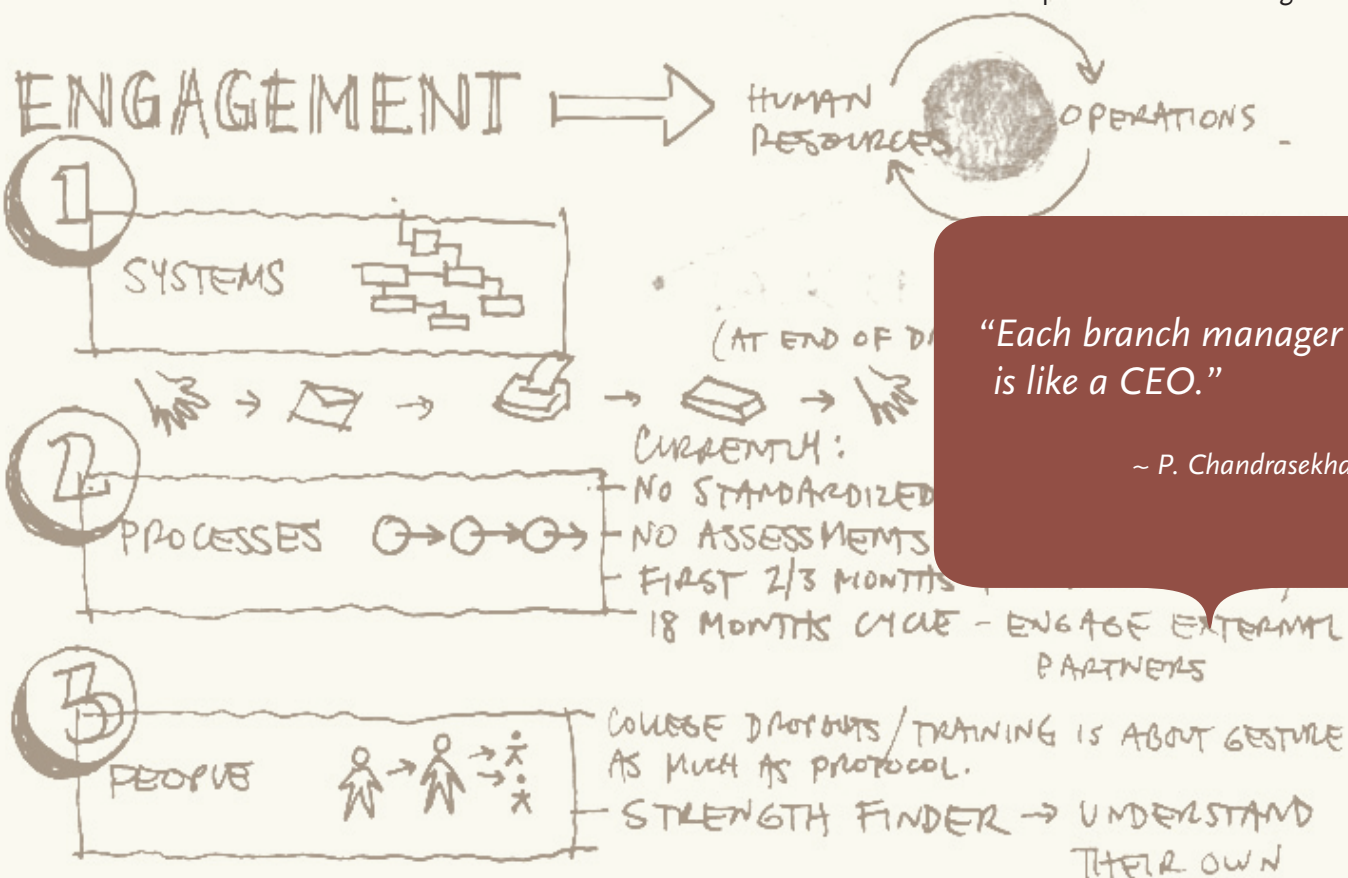
WHAT WE HEARD

manager directly or indirectly manages 600 employees and has responsibility for a significant portfolio of loans. Yet to fill this critical position, management hires new university graduates with no experience from rural management institutions. These employees then receive three months of training before being deployed in leadership roles.

Manjusha Raulkar stated that this middle manager typically has responsibilities comparable to a regional manager at ICICI Bank (one of India's largest corporate financial service providers), who has five to seven years' experience. But SKS's hyper-growth demands that they continually churn out area managers. To be effective, Raulkar says, these employees need to have strong execution, people management and crisis

management skills. While these skills are hard to come by in newly-minted graduates, they are typically gained through experience over time, albeit in an ad hoc manner with constant hand holding by their supervisors, i.e. Regional Managers.

Similar challenges at the middle management level were aired by individuals at BASIX, an organization with 5,400 employees serving over 1.5 million customers. BASIX's unit heads typically move into the role after three years' experience as field executives supervising LSAs (field officers). This position provides the opportunity to learn the business and to gain supervisory experience. P. Chandrasekhar says it's still "the toughest level in BASIX; it really polishes your leadership skills." Either that or it leaves you feeling totally inadequate. Manab Chakraborty, CEO of Mimo, a smaller micro-finance company based in the Indian Himalayan state of Uttarakhand, echoed these sentiments and stressed the need to "scale leadership" at the mid-management level.



"Each branch manager is like a CEO."

~ P. Chandrasekhar, BASIX

Standardization, Scale, and “the Grace of Small Gestures”



Standardization and personalization are twin challenges.

There's an inherent tension between the push for standardization, execution and efficiency in business processes and a real dependency on the high human touch necessary for success. This tension is manifest in the loan officer on the ground who needs to exhibit the “grace of small gestures” with clients (the appropriate body language to communicate respect, sitting on ground not perched on a chair during group meetings, the discipline of not accepting “gifts,”); to the unit head who deeply depends on the coherence of information from the field, transported up the chain by people who need to be able to communicate clearly; to the senior manager who needs the empathy to understand the hardships managed by those in the field.

In fact, SKS pegs 11% of its total cost structure to this “high touch” aspect:

“Our business is one of customer relationships. Which other business engages with their customers once every week?”

~ Manjusha Raulkar, SKS

performing village surveys before entering an area, interviewing potential customers, training customers on credit discipline, traveling once a week to each village to collect payments, and so on. It leads to an interesting challenge: How do you develop people who can be optimal in an efficient and standardized system full of processes and rules, but who can still embody the essential leadership skills of flexibility, adaptability, ability to deal with ambiguity and manage crises which often have little precedence?

At SKS, the critical position requiring focused development is the area manager, who has a handful of branch managers reporting to him or her. Manjusha Raulkar mentions that their biggest challenge is to “help the area manager have more powerful ears” to really hear and understand the issues the loan officers and branch managers face. She believes that working to help this level of manager develop more self-awareness will enable them to better understand others. In fact, she identified empathy as the single most important quality for a successful area manager.

Building Capacity for Capacity Building



Training and development is hindered by the lack of resources.

A tension exists between operating the business and spending time on training at MFIs. The challenge says Raulkar is twofold: “How do we make people available for training?” And, “What’s the most appropriate “delivery mechanism?” Any program needs a smart delivery mechanism that respects different languages, and can be effective in a decentralized business environment. There are 3,150 MFIs in India. Ninety percent of those have less than ten thousand customers, making the case that there is no “one size fits all” training solution. How to allow for variability of leadership development with organizations of varying degrees of scale, mission, and focus?

As Maneb Chakraborty at Mimo said, “There are prime movers in this space, the commercial MFIs, and these need to be treated separately [from the rest of the industry].” In examining the potential of regional and local resource partners to fill in training needs, we heard from BASIX and Sa-Dhan that academic institutions aren’t addressing these needs. One MFI representative stated pointedly: “These institutions are not dealing with leading-edge ideas; rather they’re synthesizing methodologies and thought from 20 year old information and theories.” On the other hand, another representative was equally dissatisfied by some of the big consulting firms who often had “good ideas” but little experience or understanding of the microfinance industry.

“Hiring is difficult. We don’t have ready-made resources in the market. We have to recruit people from rural agriculture and management backgrounds. Training becomes very essential.”

~ P. Chandrasekhar, BASIX

Matthew Titus, Executive Director of Sa-Dhan, pointed out the challenge of finding funding for training. Funders, he said, don’t appreciate the importance of developing talent. They believe the market will deliver. “No one sees the public good aspect of this part of the business—as it’s hard to quantify the impact. So people are cutting back on development training because of the real and difficult issues of retention. They say, ‘Why should I invest in this person when they’ll move on.’”

Voices of Leadership

This learning was supplemented by facilitated discussions with attendees at a ShoreCap Exchange leadership development program conducted in collaboration with the Center for Creative Leadership and regional banking experts for 30 senior microfinance and small business finance leaders from eight countries, including Afghanistan, Bangladesh, Belarus, Cambodia, India, Mongolia, Pakistan, and Sri Lanka.

LEVEL

PEOPLE/LEADERSHIP SKILLS NEEDED

Senior

“Very few people can see the big picture.”
 “There is a tendency to be deferential to the top guy.”
 “If you can create top-level change in thinking, then change will happen at the ground level.”
 “People don’t join organizations, they follow individuals.”

- Empowerment/delegation
- Create environment for allowing mistakes to improve decisiveness
- Decision Making
- Leading and building teams
- Confronting non-performers
- Vision
- Problem Solving
- Communication skills

Middle

“We are not getting communication coaching.”
 “I want my managers to be human. To appreciate the hardships that the loan officers go through every day.”
 “An army should have few generals. Looking for lots of captains and lieutenants.”
 “You don’t need amazing strategy when you can execute.”

- Establishing effective relationships
- Translating strategic mission and plans into implementation
- Time management
- Effective teamwork
- Performance management
- Coaching
- Team building
- Motivating
- Work environment
- Decision making
- Communication skills
- Leading a team towards a common goal

Field

“At lower levels we need more technical skills. As we go up, we need more general skills.”

- Communication skills
- Customer service and retention
- Integrity / honesty
- Work in teams
- Setting objectives / goals in-line with organizational goals

Takeaways and Next Steps

It is clear that leadership and management capacity in the development finance sector has a direct impact on the ability to serve a large number of poor clients and deliver services that are cost effective, efficient, and available at scale. Our immersion suggests the following initial directions for talent development that we will further explore and validate in the work ahead:

1. Talent development is not just training.

The scale and depth of need in the sector suggests that an effective talent development program extend beyond occasional training for a few leaders. An approach is needed that allows organizations to build leadership and management capacity in a structured and deliberate way, rather than simply extend the existing executive education model. Learning opportunities must be fused with the context of work to increase organizational effectiveness along with personal growth and development.

2. Middle managers need leadership development. The complex array of challenges faced by middle managers indicates that this is a layer of leadership that should be prioritized for development. People leadership, decision-making ability, creativity and crisis skills are needed to complement core hard competencies, such as financial analysis, project and process management, and strategy development.

3. Building organizational culture is essential. The balance MFIs must create between mission and money, scale and personalization, suggests that we must work at the very DNA of organizations.

“Alleviating poverty is all about relationships. I’d like to meet the person who has been able to scale relationships. Nonetheless, there is a need for scalability of management and leadership development.”

~ Prinny Anderson, Consultant

There is need to create greater alignment around organizational culture and values, along with increasing individual effectiveness relative to job responsibilities. Another related element of this process is enabling organizations to create internal systems that can support implementation and incorporating development programs into existing HR systems.

We plan to extend the initial learning we have gained with a deeper immersion and extended site visits that will be conducted in India in early 2010. Our objective is to use the learning to develop a scaleable intervention to address the critical talent needs in the development finance sector.

We welcome feedback on the findings shared in this report and additional data that can enhance the understanding of need, approaches, and impact. Comments can be sent to: Peg Ross at pross@grameenfoundation.org.

MICROFINANCE
ORGANIZATIONS VISITED



Mimo, Dehradun, Uttarakhand

Mimo Finance, founded in 2006, works to provide sustainable access to microfinance, particularly to women. Mimo helps individuals generate income, create jobs, obtain health care, and make choices that best serve their needs. It operates in urban and peri-urban areas along the major highways and towns in seven districts of northern India.

Sa-Dhan, Delhi

Sa-Dhan is a national association of development finance institutions in India. Its mission is to build the field of community development finance in to help its members and associate institutions better serve low-income households, particularly women, in both rural and urban India.

SKS, Hyderabad, Andhra Pradesh

SKS Microfinance, founded in 1997, is India's largest and the world's second largest MFI. The organization, which uses the Grameen group-lending approach, envisions serving 50 million households across India (and other parts of the world) by 2015. SKS has created a commercial model of microfinance which allows them to access more capital, scale and leverage technology. This approach has helped SKS become India's largest (and the world's fastest growing) microfinance institution.

BASIX, Hyderabad, Andhra Pradesh

BASIX is a livelihood promotion institution established in 1996, working with over 1.5 million customers through a group of company organizations. Of its customers, more than 90% are from poor rural households and about 10% are urban slum dwellers. BASIX works in 15 states in India and over 22,400 villages. It has a staff of more than 5,400, with 80 percent based in small towns and villages. The BASIX mission is to promote a large number of sustainable livelihoods, including for women and the rural poor, through the provision of financial services and technical assistance in an integrated manner. BASIX aims to provide a comprehensive set of livelihood promotion services to rural poor households under one umbrella.

ShoreCap Exchange Partner Banks and Microfinance Institutions

The organizations that we tapped via ShoreCap Exchange (as they attended a peer learning workshop in India) included BRAC Afghanistan Bank, BRAC Bank Limited (Bangladesh), Belarusian Bank for Small Business, BASIX (India), LOLC Micro Credit (Sri Lanka), and XacBank (Mongolia).

Thank you

This work was made possible through the generous support of the Citi Foundation, The Capital Group Companies Charitable Foundation, and the Clifford Chance Foundation.

We would like to extend our deep appreciation to those within the microfinance community who shared both their invaluable time and insights with us:

Manab Chakraborty, CEO, Mimo

*P. Chandrasekhar, Head Recruitment,
Induction and Training, BASIX*

Manjusha Raulkar, VP of Human Resources, SKS

*Achla Savyasaachi, VP and Team Leader,
Policy Team, Sa-Dhan*

Mathew Titus, Executive Director, Sa-Dhan

as well as the many individuals who are not directly quoted or identified in this report.

