

HR Planning, recruitment and deployment (Challenges related to recruitment policies, HR policies and practices)

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1 Background

During the past one decade or so microfinance has caught the fancy of development practitioners worldwide. In India, microfinance² gained momentum in early and mid 1990's with emergence of Basix, SHARE and SNF as major players in microfinance. Between 2000 and 2003, a number of new players (primarily Spandana and SKS) with innovative business models emerged on the microfinance radar of India. Their spectacular returns and scaleable business model attracted the attention of commercial banks like ICICI Bank, HDFC Bank and ABN AMRO Bank. Most of these banks set up dedicated microfinance lending cells and started looking microfinance as a business opportunity rather than part of their priority sector obligation.

Microfinance gained further momentum after 2003 – sector growing for more than 100% from year to year. A number equity funds (national and international) and banks started aggressively looking at Indian microfinance as business opportunity. Riding on this new wave, a number of new MFIs came into existence (eg Ujjivan, Swadhar, Sonata, Bandhan, Arohan and KAS Foundation). Some of older MFIs, who were conservative in their growth plans earlier altered their plans drastically and started planning aggressive expansion. (eg BISWA, Gram-Utthan, and ESAF). The growth momentum is expected to continue for a few more years, given the plans of the commercial banks, equity funds and the MFIs. Total outstanding portfolio of all Indian MFIs taken together along with the expected growth has been presented in **Table 1**. The total outstanding of the MFIs is expected to be to the tune of Rs10,000 crores by March 2009.

Table 1: Growth in Microfinance Outstanding³

Year	Outstanding (Rs Crores)	Year	Outstanding (Rs Crores)
Mar-02	200	Mar-06	2,300
Mar-03	300	Mar-07	4,000
Mar-04	400	Mar-08	7,000
Mar-05	1,100	Mar-09	10,000

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² Indian Microfinance has two major strands – the SHG Bank linkage model and the intermediary model sometimes also referred to as the commercial microfinance model. This paper deals with HR issues specific to the intermediary model unless specifically referred to.

³ Author's estimate, based on his interaction with over 70 MFIs and leading commercial banks in India between 2002 and 2006. Numbers for March 2007 onwards are estimates.

As shown in **Table 2**, the number of employees presently working in the microfinance sector is over 18,000 and this number is expected to increase to over 45,000 by the March 2009⁴. Although, the microfinance sector still covers only a fraction of the estimated total demand of over Rs60,000 crores in India; in terms of human resource requirement, this is still a significant figure.

Table 2: HR Requirements in Microfinance

Year	HR Requirement	Year	HR Requirement
Mar-02	3,430	Mar-06	18,400
Mar-03	4,252	Mar-07	26,446
Mar-04	4,685	Mar-08	38,250
Mar-05	10,648	Mar-09	45,158

2 Profiles of two typical MFIs

In order to better understand the challenges relating to HR planning, recruitment and deployment, it would be appropriate to take the case studies of two typical MFIs. Most of the Indian MFIs would find similarity in one of these typical MFIs.

2.1 MFI-A

MFI-A was started as a conscious attempt to provide financial services to the under-privileged segments of the society. The promoter of this MFI was a social entrepreneur who, after experimenting with many alternatives in the field of development intervention, was fascinated by the role of microfinance in poverty alleviation. The promoter was well-educated, had about 10 years of experience of working in an NGO, was informed of the risks and complications involved in the microfinance business and was committed to build a professional organization. The promoter took up the challenge, designed a good operating methodology, designed its products well, set up good accounting system and MIS and built strong internal controls. MFI-A started somewhere in mid-nineties, now has a portfolio outstanding of Rs100 crores with a client base of 200,000 and staff strength of about 800. Most of this portfolio growth has come during the past three years. MFI-A is planning to grow aggressively during the next three to four years and is targeting a portfolio outstanding of over Rs500 crores and a client base of 1 million by March 2010.

⁴ Assuming average loan outstanding of Rs5,000 per client in March 2006 (assumed to be increasing by 10% per year) and average efficiency of about 250 clients per staff (assumed to be increasing by 10% per year)

HR Challenges of MFI-A

MFI-A has good operating procedures, excellent MIS and accounting system, adequate control systems and good overall management systems but is still facing major HR challenges.

Promoter of MFI-A has been its CEO since the beginning. He now has extensive experience in microfinance and has attended most of the national and international trainings available for microfinance and has been to almost all the major microfinance destinations in the world (Bangladesh, Peru, Bolivia and Indonesia). His main responsibility now is to interact with the funders and oversee the functioning of the organisation. He also takes most of the strategic and policy decisions but finds very little time for this and this has led to very little innovation in the field.

Head of Operations was once a field staff, became a Branch Manager after two years of his recruitment, became an Area Manager in next two years, became a Divisional Manager in the next three years and is now the Head of Operations for the past couple of years. Before he became the Head of Operations, the CEO used to handle this function.

Head of Finance has been in this position for the past 10 years. He is a Master in Commerce from the local university and has mostly learnt on the job. He does not have great communication skills and the CEO mostly handles communications with the funders and the donors.

Heads of other departments (IT, Internal Audit and HR) have also been with the organization for past a number of years and have mostly learnt on-the-job. All of them are mostly postgraduates from the local universities and do not have any professional qualification.

The volume of operations of MFI-A have increase immensely over the past one year and these heads of operations have been finding it difficult to handle increasing complexities of operations. The CEO is finding himself overburdened with the increasing pressure of work but is not sure what to do.

The second line of leadership of MFI-A is extremely weak. The MFI-A tried to hire a few management graduates (fresh graduates from IRMA and XIMB) at the senior management level but had a bitter experience – they left in just about one year.

Following are the current practices of MFI-A in planning, recruitment and deployment functions.

Planning: The MFI-A has a moderate system of HR planning. Most of its HR planning focuses on the number of field staff and the people in the middle management. This planning is mostly quantitative in nature to determine how many field staff recruitments it will have to do in the next a few years and how many promotions it would require.

There is hardly any planning for the incentive structure, motivational issues and training needs. Developing and organizational structure and a second line of leadership is almost out of the planning radar of MFI-A.

Recruitment: MFI-A has to recruit mostly its field staff, for which it advertises in the local newspapers. It conducts a written test, test of public speaking and group interview for selecting candidates. It has well-laid out criteria for the qualifications and experience for the field staff. Most of the field staffs selected has higher secondary qualifications while some of them may be with graduate degrees. Through, check on the background of the candidate is carried out before appointment letter is handed over to him/her.

As discussed above, there is no policy for selecting staff for the middle and senior management levels. Most of them have been promoted from the ranks and have good understanding of the processes and policies of the organization. The management graduates from IRMA and XIMB were recruited during the campus placements in the institute.

Deployment: The MFI-A has a very structured system of induction for its field staff. All the new recruits are subject to four days of rigorous classroom training where they are told about the mission and vision, organizational structure, processes and procedures and basic concepts in MIS and accounting system. At the end of the training they are handed over a detailed operational manual and job description. After this classroom training they are sent to some branch of the MFI and are attached to one of the experienced field staff for two months. The new recruit assists the experienced field staff in his/her duties and learns on-the-job. After this training period the new recruit is placed in another branch with regular responsibilities of the field staff.

There is no structured training for other category of staff. They occasionally attend trainings sponsored by the lenders and the donors. The IRMA and XIMB graduates were put straight in charge of operations after an exposure stay of one week in a branch.

2.2 MFI-B

MFI-B was an NGO for the past two decades doing many community development activities like health, education and enterprise promotion. It also had a small programme for formation of SHGs and promotion of thrift as well as credit for these SHGs. In early 2000, MFI-B obtained loan funds from RMK and FWFB for on lending to these SHGs. The loan portfolio in March 2001 was about Rs10 lakh. There was no separate staff for its microfinance programme. In 2002, MFI-B obtained loan funds from SIDBI for on-lending to its borrowers. The microfinance programme of MFI-B received major boost in 2004 when it was linked to ICICI Bank and its loan portfolio increased sharply.

MFI-B was promoted by a community leader (CEO of the original NGO) who decided to catch the microfinance bandwagon realizing little what could be complications involved in doing this. Huge un-met demand for financial services in its operational area, coupled with nearly unrestricted supply of funds from the commercial banks, gave rise to

temptation to scale-up fast. Growing acceptance of microfinance as ultimate solution to poverty alleviation among the donor community validated the actions of the community leader.

Today, the loan portfolio of MFI-B stands at about Rs10 crores with about 25,000 clients and 150 staff. MFI-B is planning to rapidly increase its portfolio size aiming at a loan portfolio outstanding of Rs100 crores by March 2009. At this level the organisation will have over 1,000 employees.

MFI-B has weak accounting system, MIS and internal control systems. It struggles to get its financial statements prepared in time for the annual audits; no periodic financial statements are prepared. The MIS of MFI-B consistently reports a repayment rate of over 98%, but the recent rating report of the organization indicates suspect portfolio quality citing problems in lending policies and MIS. MFI-B does not have any internal audit systems or an operational and financial analysis systems. There have already been unconfirmed reports of misappropriation of funds as well as ghost clients.

HR Challenges of MFI-B

MFI-B has been struggling to find right people for its microfinance programme.

The community leader is still the CEO of MFI-B. He has master's degree in sociology and does not have much understanding of finance and business. Over the past three-four years he has attended all major national as well as international microfinance trainings. He also had exposure visits to most of the prominent MFIs in India and Bangladesh. As MFI-B has been involved in many other development activities, the CEO devotes only about 40-50% of his time in microfinance.

Head of Operations is a postgraduate in social work from one of the reputed universities in India. He has been with MFI-B for the past over 10 years. Earlier he was head of the education programme. When the microfinance programme of the organization started, he was given additional responsibility of the microfinance programme. When the volume of operations in the microfinance programme increased, he was made the sole in-charge of the microfinance programme. He has attended several training programmes conducted by the national level training institutions. He has also visited couple of reputed MFIs for exposure visits.

The Head of Finance looks after all the programmes of the MFI-B. He is a postgraduate in commerce and has over 10 years' experience in handling accounts and finance of large-sized NGOs in India. His main responsibility is to maintain repayment schedules of the lenders and to send them periodic reports. He is also responsible for the external audit of the financial statements of the organization.

There are no other functional heads. The Head of Administration looks after general administration and HR issues.

Senior field staff of MFI-B have mostly been with the organization for a long time. They were hired for other development projects but as and when the projects ended they were absorbed by the microfinance programme of the organization. The organization has recently recruited a number of field staff due to significant increase in the scale of operations.

Workload has been increasing and recent ratings as well as assessments have pointed out weak HR as the major area of concern. CEO is afraid of hiring management graduates as his friends in other MFIs did not have good experience with them. He is not sure what course of action he should be taking now.

Most of the energy and time of MFI-B goes in managing complications of the MIS and accounting system as well as audits due to ever-increasing demand of reporting requirements for audit, rating and funds mobilization. HR has been a neglected function and today it virtually consists of only payroll accounting and transfers.

Following are the current practices of MFI-B in planning, recruitment and deployment functions.

Planning: There is virtually no planning for HR. Planning is restricted to ascertaining the requirements of field-staff for the next two-three months. No planning is carried out for the organizational structure, second line of leadership, motivational issues, compensation structure, training and development of staff.

Recruitments: Most of the recruitments are carried out for the field staff. Advertisement in the local newspapers (60%) and the references from the existing staff (40%) are the major sources of manpower in MFI-B. Preference is given to the staff who has previously worked with the MFI-B on one or more development projects. Recruitments are based on a written test and an interview. The organization does not have clear criteria for recruitment. There is hardly any background check carried out of field staff to check their employment history.

Supervisory staff of MFI-B are mostly drawn from the other development projects of the organization. They have mostly been absorbed in the microfinance programme as and when the other projects got over.

Training and deployment: There is systematic training for the staff at any level. Staff who are new to the organization are given two-day orientation where the history, origin as well as mission and vision of the organization is explained. For staff taken from the other programmes, there is hardly any training or orientation given before deploying them on to the microfinance programme of the organization. Staffs are occasionally sent to the microfinance trainings sponsored by the funders and donors.

3. State of the sector regarding HR planning, recruitment and deployment

In Indian microfinance sector, HR is the most neglected function even among best MFIs. The following lists out the current practices with respect to planning, recruitment and deployment.

Planning: In most of the Indian MFIs planning for HR is mostly ad-hoc. There is hardly any MFI where formal planning for HR is carried out. Even the highly efficient MFIs, (like MFI-A whom the sector looks up to for the best practices), do not have formal and systematic planning for its human resources. HR planning in the MFIs like MFI-A is mostly quantitative in nature and used mostly to determine how much new recruitments and promotions they will have to make in the next one year or so. More often than not this planning is done to estimate the salary expenses which would feed into the financial projections required to be submitted to the financial institutions for their loans proposals.

One good thing about the MFIs like MFI-A is that they have standardized field procedures and they are aware of the skill levels of the staff who would suit the stated job descriptions. Most of the required manpower at the field level is available locally and with a systematic training these recruits are able to pick up the assigned tasks well.

Planning for the middle management and the senior management positions is more difficult for the MFIs like MFI-A, even though the promoters/senior management is conscious of the need to plan. The most difficult issue with respect to this planning is to find right people at this level. Although, promoters have clear idea what kind of people they would need for different functions and they are willing to compensate adequately, they cannot find such people with relevant experience. One of the main reasons for this is that the microfinance sector has scaled up only recently and there are not many people with relevant experience within the sector, and the promoters are reluctant to experiment with people who are outside the sector. Also, there are no training institutes/business schools that have been able to churn out people with required attitude and training. Supply of graduates from management schools like IRMA, IIFM and XIMB is limited and they cater to the entire rural sector rather than only microfinance sector. Even within the microfinance sector, graduates prefer to move to 'safer' alternatives like banks rather than to the MFIs.

One of other reasons why MFIs are reluctant to employ fresh management graduates is the fact that as soon as they gain some experience the commercial banks dealing in microfinance or rural lending start approaching them with lucrative offers which the MFIs would not be able to match. The bitter experience of MFI-A emanates from one such 'poaching' by a leading commercial bank in India.

This leaves MFIs with no other option but to look within their own cadre for people at the middle and the senior management level. Such managers would stick to the organization for a long time, more because they would find it difficult to obtain better employment elsewhere on account of their lack of a professional qualification. At the same time, on

account of lack of professional education of its middles and senior management cadre, the organization would not be able to deal effectively with the growth challenges.

The MFIs which are closer to MFI-B, planning is limited to estimating the number of employees in the next two-three months. The promoters themselves are not educated so much and are not aware of need to plan. As processes and the procedures are not standardized, they find it difficult to assess what kind of people they would require even at the field staff level. This leads to the MFI-B recruiting people not suited for the job which triggers a vicious cycle leading further to unsuitable people occupying key management positions at every level. This can prove to be disastrous for the MFI in the future. The MFIs like MFI-B has been growing consistently over the past two-three years and this growth trend would continue for over the next a few years. Most of the performance indicators would suggest a rosy picture and the banks would continue to lend to these MFIs, realizing little the underlying weaknesses of the organization. Problems are likely to surface only when the growth stabilizes on account of factors external and internal to the microfinance sector.

Recruitment: There are wide-ranging practices for recruitment for staff at different levels in the microfinance sector. Most of the field staffs are recruited locally through advertisements in the local newspapers. While the MFIs like MFI-A have a standard criteria and practices for the recruitment of these staff, the MFIs like MFI-B do not have standard criteria and practices even though there are mass recruitments due to the planned expansion in operations. This results in MFI-B recruiting people who are inherently not suitable for its operations. They also often recruit staffs who have been involved in other development activities of the organization that may not always be suitable for a microfinance programme.

For recruitment of personnel at the middle and the senior management level, MFIs like MFI-A have also been using the services of the Jobs section of the microfinance gateway website (www.microfinancegateway.org). Increasing scale of the microfinance is expected to further fuel growth of job portals and placement agencies specializing in the sector (eg www.microfinancejobs.com). These channels would increasingly prove to be more effective for the senior and middle level positions in the microfinance particularly for the MFIs like MFI-A.

The recruitment policies for the middle and senior management level in MFIs like MFI-B are cause for a bigger concern. These MFIs are not sure of the kind of personnel required for different functions. These positions are usually filled up by transferring senior staff from other development activities. They usually neither have relevant experience nor attitude for managing a microfinance programme, and the quality of programme further deteriorates.

Training and deployment: MFIs like MFI-A have highly structured induction and training system for their staff. They also have very clear job description. This is made possible because of the highly standardized process and procedures. This ensures that

personnel can be recruited and trained in batches and put on the job as early as possible. This also minimizes cost of operations and improves productivity of the staff.

The MFIs like MFI-B however cannot have a structured training system more because the process and procedures of the organization have not been standardized. Often a formal training is bypassed and the employees are put straight on their jobs. This results in reduced productivity of staff, high cost of operations and at times lower level of motivation of the staff.

More worrying are the instances where the middles and senior management staff are transferred to the microfinance programme without adequate orientation. This would leads to a confused strategy and overall poor performance of the organization.

4 Ideal/best practices in HR planning

An MFI which has reached a considerable size must follow a systematic approach to HR planning. Some of the recommended practices have been given below.

A good HR planning system of the organization should be able to answer the following questions.

1. What should be the size of workforce required?

This would essentially depend on the planned outreach of the MFI. Assuming an average productivity of the staff the planned size of the workforce can be determined easily.

2. What would be major functional areas for which personnel would be required?

The next stage is to break-down the personnel requirement into different functional areas. (eg field operations, accounts, finance, MIS, IT, Internal Audit, planning, legal). This would require lots of foresight to imagine the complications involved as the scale of operations increase. (For example at a smaller scale of operations one may not require a specialized legal functions, but as the scale of operations would increase, increasing litigations and compliance issues would require that the MFI has a specialized legal functions.). The number of staff required in different functional areas can be determined by using certain assumptions and thumb rules. (for example each set of 10,000 clients, the MFI would require an Internal Auditor).

3. What would be the characteristics of personnel?

This would require further analysis and foresight. The MFI would have to further break-down the functional areas into different levels and will have to identify the skills required on the basis of the anticipated job description. For example, the Internal Audit department would require some Audit Assistants, some Audit Supervisors and one Internal Auditor. Each of these categories of people will have a different job description and skill requirements.

4. Where would we find appropriate people?

For each category of personnel, the MFI should try to find the target pool from which personnel will be selected. For example, the target pool for the field staff could be the fresh graduates in the local area. The target pool for the supervisory staff could be the existing field staff cadre from the same MFI or the supervisory staff from the other MFIs. It is, however, not necessary to target people from the microfinance sector only. For example the finance positions can be filled up by experienced finance professionals from any industry.

5. What kind of training and inductions systems should be there for the staff?

Training and induction system for the staff will have to be customized for each category and level of staff. For example a field staff may require training in processes and procedures but a person joining at the middle management level would require training in operational and financial analysis. Exposure visits could be planned for the personnel who are new to the microfinance sector. A combination of in-house and external trainings as well as exposure visits can also be planned.

6. How would we retain our experienced staff?

Employee retention is increasingly becoming an issue with the MFIs as competition in the market is increasing. MFIs will have to plan and prepare a strategy for retention of its staff. This would be a combination of the reward structure, career progression matrix and other employee development initiatives.

Recruitment, training and deployment will have to be in accordance with the HR plan.

5 Issues relating to attracting professionals in microfinance.

This paper defines professionals as people having specialized education, knowledge as well as experience and who are using these to earn their livelihood. There are several issues relating to attracting professional to the microfinance sector. We will try to address a few issues through the following paragraphs.

5.1 Does microfinance sector need professionals?

Microfinance is a complicated business because of the following reasons.

1. There are large number of very small transactions. One need to keep meticulous records for these transactions.
2. The margins are thin and there is pressure to maintain portfolio quality.
3. One needs to keep track of estimated and actual repayments on a daily basis
4. There is high amount of risk due to cash transactions.

5. There are large numbers of units (field staff, branches, regions) whose performances have to be managed.

As the scale of operations of an MFI increases, the task of managing operations becomes enormous which would make it imperative for the MFI to use the services of professionals. An MFI needs the following categories of professionals

1. General management: General management graduates are required to contribute to the strategy, to manage growth as well as coordinate the functions of different units.
2. Finance: Finance professionals are required to mobilize funds, ensure their proper utilisation, to keep proper books of accounts, to fulfill reporting requirements of different stakeholders, to maintain controls and budgets and to ensure liquidity in the organization.
3. Information Technology (IT): As the scale of operations of an MFI increases, it tries to automate its processes. IT professionals are required to manage hardware, software and communication systems.
4. Legal: Increasing scale of operations increases instances of disputes and litigations as well as compliance with different statutes. Legal professionals are required to manage litigations as well as compliance issues.
6. Human Resource (HR): As has been extensively discussed in this paper, sheer number of personnel involved in a microfinance programme would require, that the human resources of an organization are managed by professionals.
7. Social Work and research: As the basic premise of microfinance is that it can help in reduction of poverty, social work and research professionals are required to test this premise so that strategies can be modified if there are instances of mission drift in the organization. They can also contribute greatly to the microfinance sector.

5.2 Is microfinance suitable for professionals?

The way microfinance sector has shaped up in the recent years is making the sector increasingly more and more suitable for professionals. This is because of the following reasons.

1. Revenues model: Microfinance is based on an intrinsic revenue model where the expenses of the organization are expected to be met from the incomes that the programme is earning. This makes the programme independent of the grants as well as donations and increases the capacity of the programme to reward professionals financially.

2. Potential to scale-up: The MFIs across the globe have demonstrated their capacity to scale up fast, which enhances growth opportunities for professionals within the organization.
3. Can objectively measure performance: Microfinance essentially deals with numbers, money and profits. Performance of the professionals can be measured in terms of achievement of targets and profitability. This can keep them motivated and increases their efficiency.
4. Gives scope to use learning: Microfinance gives scope to the professionals in various fields to use their professional learnings in the day-to-day operations of the organization. This increases their professional worth.

5.3 Why is adequate number of professionals not coming to the microfinance sector?

There could be several reasons for this but some of the possible reasons are being presented here.

Confusion in the microfinance sector

Despite its spectacular growth during the past a few years, confusion still persists in the sector. This confusion results from the following

1. SHG Bank Linkage Vs Commercial microfinance model: The NABARD promoted SHG Bank linkage model competes fiercely with the commercial microfinance model for attention from the government and the other stakeholders. The SHG Bank linkage model is the official version of the government and it has been promoting this official version through its livelihood programmes in different states (eg Velugu in Andhra Pradesh, Kudumbasree in Kerala and DPIIP in MP). The commercial microfinance model, however, is more popular with the international community. People not too familiar with the sector may not be familiar with the differences and the issues involved as there have been no concerted effort to do this.
2. Different operating methodologies: The Indian microfinance has several operating methodologies. Primary among these are the Grameen and SHG model, Individual lending model and MACS-Federation model. Not all stakeholders in the sector are very clear about the exact differences in the models and their applicability in different situations.
3. Standards of disclosure and reporting: There are no standards for disclosure and reporting acceptable by all MFIs in the sector. Add to this the absence of regulation for the microfinance sector. This makes most of the information coming out of the microfinance sector un-authentic and unreliable.

4. Legal form: There are varieties of legal forms under which the MFIs have been registered. The MFIs could be Trusts, Societies, Cooperatives, Section 25 Companies, Cooperative Banks, NBFCs, Local Area Banks (LABs) or even proper Banks. All these legal forms have different regulations, reporting requirements and different levels of accountability which further adds to the confusion.
5. Virtue and vice: Microfinance, on one hand, is hailed for its role in poverty alleviation, on the other hand this is being criticized for charging exorbitant rates of interests and other practices. On one hand there is euphoria at Prof Yunus and the Grameen Bank being awarded the Nobel Prize for peace and on the other hand, there is concern at the local administration cracking down the MFIs for seemingly unfair practices.

In the environment of such confusion, the training institutes and management schools find it difficult to design a curriculum which is suited for the microfinance sector. The risk perception of the professionals who are willing to come to the sector also increases in light of this confusion.

Professionals have not proved their worth

There are very few MFIs who have had good experience with the 'professionals'. While it may be true that the MFIs were not able to identify right professional or that they were not given right motivations, unless professionals prove their worth in substantial number of MFIs, the microfinance sector would not be in a position to accept the professionals. Having said that, the onus of attracting professionals will be on the MFIs and they would need to identify right kind of professionals and give them sufficient space as well as time so that they are able to prove their worth.

6 Conclusion

It has been widely accepted that the Human Resource is the most important and critical resource an MFI has. In private and public discussions MFIs have always raised the issue of inadequate and untrained manpower. At the same time, it has been one of the most neglected managerial functions in the MFIs. At current growth rates, the MFIs would find it difficult to manage performance unless a systematic approach to HR management is adopted. MFIs can use some of the insights and issues highlighted in this paper to improve their HR practices.