Linkages between Finance & Business Development Services

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Structure of the presentation

1. Why linkages between BDS & Finance?
2. What is being discussed?
3. Examples of linkages
4. Typology of linkages BDS & Finance
5. Evidence of impact of linking BDS & Finance
6. Conclusions
7. Recommendations
1. Why linkages between BDS & finance?

Possible benefits for MFIs/Banks:

- MFIs commonly have a social (poverty alleviation) and as well as an economic (profit-oriented) mission - does BDS support these objectives?

- Many low income clients of MFIs operate microenterprises that need finance as well as BDS.

- Some MFIs maintain that business training can help in mitigating credit risks.

- Other MFIs offer BDS to maintain client loyalty or for social development reasons.
1. Why linkages between BDS & finance?

Possible benefits for BDS providers and market development facilitators:

- Scale and outreach of financial institutions is large: what if 5-10% of MFI clients could be reached with BDS?
- Link to finance can facilitate the entry of first-time BDS users
1. Why linkages between BDS & finance?

However:

- An MFI’s very survival depends on loan recovery. Should credit officers provide business advice and training with the clients’ best interests in mind? Could there be a conflict of interests?
- Many programmes abandoned BDS during the 1990s in favour of a minimalist credit only approach as BDS was (and is) felt not to be viable financially
- For BDS providers and for financial institutions alike, developing a core competence is essential for financial sustainability
2. What is being discussed?

- **Microfinance plus**: Microfinance plus “micro” training on a wide range of issues, including health, child care and business services (Freedom From Hunger, Plan Internacional)

- **Financial Education**: training on managing personal and enterprise finances (Microfinance Opportunities, USAID)

- **Value Chains and roles of MFIs**: How can value chains better be linked up to financial services and what roles can MFIs play in value chains? (SEEP, USAID, 2006 Reader)

- **BDS-FS linkage typology and impact**: what are the benefits and risks for the different players when linking finance and BDS? Looking at costs and benefits of involved players (ILO)
3. Examples of linkages

- **SEEDS Sri Lanka** is a large Development Organization (400,000 savers and 200,000 borrowers) with separate departments delivering financial and enterprise development services.

**Products:**
- Micro clients: service package (compulsory saving, training and group loan package)
- Small clients: individual loan and voluntary training with “cost-plus” fee (also open to other clients)

**Financial viability:**
- Finance: 120% operational sustainability,
- BDS: 70-80% operational sustainability
3. Examples of linkages

- **Al Amana**, large MFI in Morocco (320.000 clients), provides training and non-formal education
- Al Amanas aim is to reach 5% of their MF clients with BDS by the end of 2009: 30.000

Non-financial products:
- Tkwin Jdid microtraining using videos, for MF clients during credit repayment sessions (marketing, costing, client relationship etc...)
- Training is delivered by credit officers

Financial sustainability:
- Service is sold (1 dollar per session)
- Few credit officers active (incentives?)
3. Examples of linkages

- **BRAC Bangladesh**, large NGO serving 3.5 million clients. Provides microfinance and a wide range of other social services and BDS.

Non financial Products:
- Vocational training and skills training in sub-sectors such as poultry rearing, market gardening and fish farming.
- Market linkages

Financial viability:
- 47% cost recovery for non-financial services
- Impact study shows clients could easily pay 100% because of additional profit.
3. Examples of linkages

- Banco de Crédito Perú is largest Peruvian bank (>30% of financial market in savings & loans, 50,000+ MSE clients). In 2005 BCP bought the MF bank. Financiera Solución
- New clients, growth, client retention

Products:
- Management training for best clients by Universidad del Pacificio
- MSE fair with “business exchange”
- “Formalization” service in alliance with NGO and Labour Ministry

Financial sustainability:
- Cost of implementing SIYB training: $75,000
- Additional profit through new credits: $50,000
4. Typology of linkages between BDS & Finance

How is the service delivered?

- **Unified** – the same people from the same institution deliver both financial and business services
- **Parallel** – an institution has two different organisational units, with separate staff and accounts
- **Partner** – two distinct institutions operate in partnership, one providing financial services and the other BDS to the same clients
## 4. Typology of linkages between BDS & Finance

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<tr>
<th>Unified</th>
<th>Voluntary (client decides)</th>
<th>Compulsory (service package)</th>
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<tr>
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<td>Financiera Solucion</td>
<td>Microfinance plus</td>
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<td>Parallel</td>
<td>SEEDS (SEs)</td>
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5. Evidence of impact by linking BDS & Microfinance

✓ In **Bolivia**, a study of 140 micro-entrepreneurs showed that clients accessing both achieved better business performance and tended to have access to loans in better conditions.

✓ A study of BRAC in **Bangladesh** covering more than 500 clients, found that skills training strongly improved business profits.

✓ Clients paid 47% of costs, additional income (8-66 times the cost) generated for BRAC would have allowed clients to pay full price and still make considerable profit.
5. Evidence of impact by linking BDS & Microfinance

✓ Recent evaluation in Perú analyzing the business training part of a Microfinance plus approach shows
  ✓ profitable outcomes for the MFI (6-9% of total costs, 16% more client retention)
  ✓ And impact on business practices in MSEs but little evidence for business growth and job creation.
6. Conclusions

- Most linkages driven by financial institutions
- MFIs support linkages to BDS for the following reasons:
  - Risk mitigation
  - Social development goals
  - Promotion and client retention
- Possible roles for MFIs in business service market development:
  - Facilitate BDS market expansion by linking to BDS providers
  - MFIs can promote simple and low cost business services for clients in sub-sectors or value chains
  - MFIs themselves make use of business services in areas such as ICT, and management training
6. Conclusions

- Little has been done to develop BDS products that match the rigor applied by MFIs in designing financial products.
- Most BDS tend to be less “tangible” than credit. Service providers still need to: (i) establish exact pay-off (ii) “cultivate” demand.
- Simple and operational services might have the advantage of: (i) easy implementation for the provider (ii) willingness to pay is higher.
7. Recommendations

- Clients should be given the choice over what type of service they want to receive
  - Choice and payment give clear signals on which services are in demand
  - Parallel or partner delivery models are preferred to the unitary one.
  - Link up after only developing a core competency
  - Assess costs and benefits of linkage for your institution/company and assess the service market
  - Use credit as a first (or entry) service
Thank You

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BDS:
• www.bdsknowledge.org
• www.ilo.org/seed
• www.itcilo.org/bdsseminar

Business environment:
• www.businessenvironment.org
• www.doingbusiness.org

Microfinance
• www.itcilo.org/microfinance
• www.ilo.org/socialfinance