

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?

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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

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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

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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)

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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



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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?)



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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



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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 Pacifico

➤ 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



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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

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4. Typology of linkages between BDS & Finance

**Voluntary
(client
decides)**

**Compulsory
(service
package)**

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Unified

Financiera Solucion

Microfinance plus

Parallel

SEEDS (SEs)
BRAC
Al Amana

SEEDS (MEs)

Linked

SIYB-Barclays
BCP- Univ. Pacifico

VanCity Credit Union



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

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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.

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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

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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

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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

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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