

Stimulating business development: another role for microfinance?

*Seminar 1: Microfinance
Institutions and Business
Development Services in
developing countries*

Triodos  Facet

INHOLLAND

Colophon

This document reports on the seminar 'Micro Financing Institutions and Business Development Services' organised as part of the process entitled 'Stimulating Business Development: Another side of microfinance?'. This process is being carried out within the framework of the Development Policy Review Network (DPRN) and organised by Triodos Facet and Hogeschool INHolland. With a view to stimulating informed debate and discussion of issues related to the formulation and implementation of (Dutch) development policies, DPRN creates opportunities to promote an open exchange and dialogue between scientists, policymakers, development practitioners and the business sector in the Netherlands. For more information see www.DPRN.nl and www.global-connections.nl .

Contents

| | Page |
|---------------------------------------|------|
| Introduction | 4 |
| Background to the theme | 4 |
| Activities | 5 |
| Results | 7 |
| Contribution to the DPRN objectives | 10 |
| Reactions and evaluation | 11 |
| Plan for follow-up | 12 |
| Appendix 1 – List of participants | 13 |
| Appendix 2 – Programme | 18 |
| Appendix 3 – Relevant literature | 19 |
| Appendix 4 – Quotes by participants | 22 |
| Appendix 5 – Stakeholder consultation | 27 |

Report on ‘Microfinance institutions and business development services in developing countries’

Compiled by: Joep Vonk and Alberic Pater

Period: August 2008 – June 2009

Responsible organisations: Triodos Facet and INHolland

Introduction

On 5 November 2008, Triodos Facet and INHolland organised a kick-off seminar within the framework of the Development Policy Review Network (DPRN). In line with the DPRN objective to stimulate informed debate and discussion of issues related to the formulation and implementation of (Dutch) development policies, this seminar was the starting point of a one-year process whose objectives are:

- To enhance the understanding of the role of microfinance institutions (MFIs) in providing non-financial services or business development services (BDS) to small entrepreneurs;
- To share information, perceptions and experiences between interested researchers, policymakers and development practitioners concerning (i) the needs of small entrepreneurs for non-financial business services and (ii) the potential role (micro)finance institutions can play in providing these non-financial business services; and
- To use the practical experiences in drafting inputs for the Dutch development policy.

Following the intentions of the DPRN Vision Plan 2008–2010, the seminar was not an event on its own, but was embedded in a process which includes a relay (‘estafette’) system encompassing a series of three seminars and an ongoing web-based discussion. The discussion on the integration of microfinance with business development services was initiated in August 2008 and is going to continue until June 2009.

This report documents the results of the kick-off seminar, the theme addressed, the activities realised, the target groups reached, and the output and outcome realised, particularly in relation to the DPRN objectives.

Background to the theme

Traditionally, MFIs have targeted the poorest of the poor. In promoting social uplifting through providing microfinance services, MFIs have achieved tremendous results,

unprecedented in development cooperation. Access to financial services has empowered and improved the lives of millions of MFI clients.

Worldwide, entrepreneurs have benefited greatly from the improved access to finance. However, notwithstanding the importance of financial services, developing sustainable small enterprises also requires access to non-financial services. For small enterprises to grow and flourish, they need entrepreneurial competencies and access to markets. Research and experience indicate that access to business development services greatly enhances small businesses' performance in an economic as well as a social and environmental sense. Compared to financial services, small enterprises' access to non-financial services is still limited.

We should therefore ask ourselves whether MFIs, with their extensive outreach, can become even more important. If MFIs are to be vehicles for integrated business development, the 'traditional perspective' will not do. Instead, the role of microfinance has to be seen from another side. The function must go beyond empowering the poorest of the poor. MFIs should position themselves as facilitators of sustainable economic development and also focus on small enterprises. Furthermore, the traditional service delivery of MFIs may be broadened to include both financial services and business advice.

The question as to the role that MFIs can play in improving the access of entrepreneurs to non-financial services will be dealt with in three consecutive and interlinked seminars. The first and the second seminar will primarily focus on the current state of affairs in developing countries and the Netherlands respectively. Experiences from these seminars will form the building blocks for the development of concrete policy recommendations and avenues for further academic research in seminar 3. The structure of the process is depicted in Figure 1.

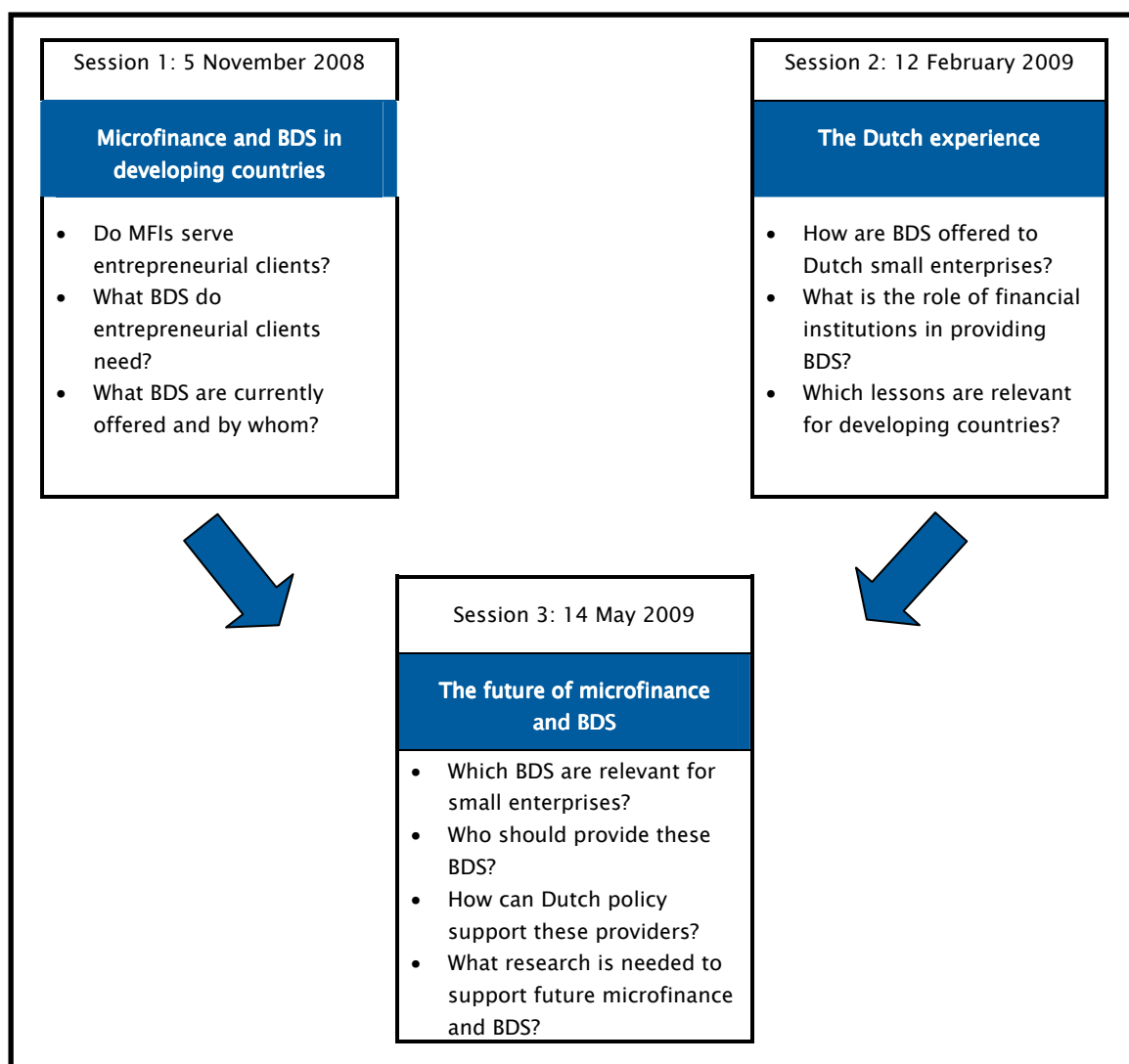
Activities

In order to achieve informed debate, policy review, common agenda setting and inter-sectoral cooperation, the seminar was embedded in a process that was targeted at bringing together the various sectors and identifying opportunities for cooperation. To this end the following activities have been included thus far:

1. *Getting the issue on the agenda (preparation)*

A stakeholder consultation revealed that policymakers, academics, practitioners and the private sector hold a strong interest in exploring the opportunities of microfinance. All the stakeholders consulted consider the role MFIs play in providing non-financial services to be very relevant. All agree that financial services are not sufficient for sustainable small enterprise development. However, interesting debate and dialogue is expected on (1) what type of non-financial services should be provided to small business and (2) how the service provision should be organised. In addition, participants were required to state their core question or opinion regarding BDS and microfinance on the online application form. As a result of this, about 60 quotes/opinions of participants have been collected (see Appendix 4)

Figure 1 overview of the process



2. Seminar 1

The first seminar, which took place on 5 November 2008, was explorative by nature. Firstly, the current policy of the Ministry of Foreign Affairs on financial sector development was discussed with the sector specialist, Mr Hans van der Veen.

Secondly, an interactive World Café setting was chosen to foster a dialogue among the representatives of the various DPRN target groups. The World Café focused on the following three questions:

- Who are the clients of MFIs? Should MFIs specifically target entrepreneurial clients?
- What financial and non-financial services do entrepreneurial clients need?
- Could MFIs play a role in providing BDS to their entrepreneurs? If so, how?

After the World Café session, a panel consisting of Mr Hans van der Veen (Ministry of Foreign affairs), Mr Frank Nagel (Rabo Development), Ms Hedwig Siewertsen (Triodos Facet), and

Prof. Dr Ruerd Ruben (Radboud Universiteit Nijmegen CIDIN), discussed the following three statements:

- MFIs should be stopped from providing non-financial services to their clients; they are financial institutions!
- To ensure financial sustainability of BDS, MFIs should charge entrepreneurs for BDS through a mark-up on the interest rate.
- BDS providers do not know what entrepreneurs really need.

Towards the end of the afternoon, Mr Merten Sievers (International Labour Organisation) revealed his insights during a keynote speech denoted '*Who benefits from linking finance and BDS?*'.

During the breaks and the drink afterwards, participants were interviewed on their opinion of the topics discussed during the official programme.

3. *Follow-up*

The topics of the first seminar will be further elaborated upon during seminars 2 and 3 in 2009. All attendees of seminar 1 will be given the opportunity to participate in the upcoming seminars.

Results

The general result of the first seminar was the establishment of common ground, that is a point for departure for seminars 2 and 3. Given that 60 participants were given the opportunity to contribute to this explorative debate, the first seminar has, as was expected, not led to clear-cut unambiguous answers.

In more specific terms we report on the outcomes of interview with the Ministry, the World Café, the Panel discussion and the keynote speech.

Interview with the Ministry

Mr Hans van der Veen, microfinance sector specialist of the Ministry of Foreign Affairs, informed the audience about the recent policy brief on financial sector development.

As far as the Ministry is concerned, microfinance has to do with poor people. It is about creating access to finance for poor people. It is about facilitating the progress of enterprises. The policy paper suggests that the Ministry thinks that enhancing access to finance will eventually lead to poverty reduction and economic growth. However, to stimulate economic growth effectively, access to knowledge and skills are also important. Without these, development is not very likely. In a direct sense, however, the Ministry is not equipped to work on knowledge and skills. The fact that it is based in The Hague means it uses intermediaries to carry out such tasks.

World café:

1. *Who are the clients of MFIs?*

Participants agreed that MFIs cater for a wide spectrum of clients including entrepreneurs with high-growth potential, micro-enterprises and the poorest of the poor. Deciding which type of clients to target depends very much on the mission of the individual MFI. There are a lot of different types of MFIs which have different goals and target different people. Some target the very poor with income-generating activities. Other MFIs indeed want their clients to expand their businesses. In general terms, however, the clients of MFIs are simply people in need of financial services. Some of those people merely have consumptive needs, while others may indeed want to start or expand a business.

2. *What are the needs of entrepreneurs?*

Interestingly, very few groups commented on ways of establishing clients' needs. A lot of participants stated that these needs may be dependent on the size of the enterprise and a range of contextual factors. A number of participants argued that new entrepreneurs do not even need start-up capital nor any unsolicited advice. The added value for many of the non-financial services is unknown.

Besides the services listed below, various groups also recognised the merits of financial literacy training as a means for MFIs to advertise themselves. In addition, mission-driven MFIs often offer services that are not directly related to entrepreneurship like literacy and family planning.

The general listings of the services enterprises need included:

| Financial services | Non-financial services |
|--|---|
| Start-up credit at low interest rates | Access to markets (especially in rural areas) |
| Flexible loan agreements | Market studies (sector-wide) |
| Insurance | Information on how to write a business plan |
| Leasing | Advice on innovation and business ideas |
| Savings | Value chain possibilities |
| Advice on setting up Rotating Savings and Credit Associations (ROSCAS) | Business skills training |
| | Technical training (on machinery) |
| | Legal issues |
| | Compliance with hygiene regulations |
| | Bookkeeping |
| | Management |
| | Networking |
| | Office space facilities |
| | Packaging |

3. *What role can MFIs play in providing BDS?*

Most, if not all groups, were very clear on this issue from the outset: MFIs and BDS providers should stick to what they are good at. However, as discussions progressed, participants started to build bridges: loan officers should be aware of what the clients need and may operate as brokers between MFI clients and BDS providers. There are various linking possibilities. Indeed, given their substantial outreach, MFIs can be an interesting distribution channel through which BDS providers can market their services. Especially in isolated rural areas, providing BDS through an MFI may be the only viable way. For MFIs with more capacity it was agreed that offering financial literacy trainings – or even BDS – may be an option. Even so, the larger MFIs that offer BDS should do so through a separate organisation. Finally, a number of groups argued in favour of the integration of financial services with BDS through a value chain approach plus funding.

Panel discussion

Prof. Dr Ruerd Ruben (CIDIN) was very clear about the distinction between financial and non-financial services. They are different products which should not be mixed. Banks should refrain from offering non-financial services and BDS providers should not get involved in financial services. This implies that banks will not have to charge anyone for BDS. Of course, charging a premium for insurance services is a notable exception. Prof. Dr Ruben acknowledged that some entrepreneurs may have a certain need for BDS. However, one can only really observe this need if BDS services are offered at market prices. If, in contrast, BDS are financed in some obscure way (through subsidies) one cannot determine this demand. Finally, Prof. Dr Ruben argued that we are overestimating the impact of microfinance on poverty reduction.

Mr Frank Nagel (Rabo Development) started his response by stating that there is nothing wrong with delivering all kind of services. The Rabobank, for instance, has a number of non-financial services. Offering computer lessons for the elderly is one example. However, in essence, BDS and finance are two different lines of business which fulfil different needs and which should be separated. For example, an MFI should never write a business plan. That remains the responsibility of the entrepreneur. A good BDS provider, in turn, will be aware of the needs of entrepreneurs. As a pricing mechanism, Mr Nagel launched the idea that clients taking BDS could be offered a discount instead of a mark-up on the interest rates. This may be interesting to banks since BDS might result in better entrepreneurs and hence, less default.

Mr Hans van der Veen (Ministry of Foreign Affairs) tended to agree with the first statement. Financial and non-financial services should not be mixed. Regarding the pricing of non-financial services Mr van der Veen does not consider putting a mark-up on the interest rate to be a useful mechanism. Finally, and here Van der Veen reminded the audience of the Ministry's policy paper, he believes that microfinance is one of the essential instruments to secure an impact in terms of poverty reduction.

Ms Hedwig Siewertsen (Triodos Facet) argued that the question of service provision is related to the origin of the institution. In her opinion, if an MFI was originally established with a

certain mission – for example to stimulate entrepreneurship amongst women – it makes sense for this MFI to offer specific training: *‘Who are we to say that this institution should stop to deliver certain services?’* Ms Siewertsen also made a case for BDS providers to offer financial services. In this context it is worthwhile to take successful models such as value chain finance into account. In rice cultivation, for instance, companies selling seeds may be willing to pre-finance the farmers who need these seeds. In general, however, Ms Siewertsen was of the opinion that it may be smarter for specialised institutions to stick to their core competence: *‘Schoenmaker blijf bij je leest!’* In relation to the issue of determining the real need for BDS Ms Siewertsen agreed that subsidising the supply of such services is wrong. One could, however, very well subsidise the demand for BDS services instead. This has, for example, been done through the use of voucher schemes. Finally, Ms Siewertsen argued that the microfinancing sector will eventually disappear. MFIs are merely filling a gap in cases in which the banking sector has not yet fully developed. Then, if the financial sector and the economy develop, regular banks will offer all types of services to all types of clients.

Keynote speech by Mr Merten Sievers

Mr Sievers (ILO) made a case for linking Microfinance and BDS. Mr Sievers argued that access to both financial and business development services (BDS) can enhance the growth of micro and small enterprises. However, early efforts to combine or ‘link’ these two types of services proved unsuccessful. BDS was supply-driven, of poor quality and often confined to management training. A renewed interest in linking services is driven both by a concern that ‘credit is not enough’ to generate bottom-up poverty reduction and by a new approach to BDS. Business services must be demand-driven, managed in a sustainable manner and diversified beyond management training. For success, linkages must provide benefits to the three key actors involved: enterprises, BDS providers and microfinance institutions.

Contribution to the DPRN objectives

Stimulating informed debate

The DPRN mission is to ‘stimulate informed debate between scientists, policymakers and development practitioners’. The seminar series, which is a continuous process, contributes to the DPRN objectives as it actually brings together representatives from the various sectors. During the first seminar, and especially during the world cafe, informed debate was stimulated greatly.

Prior to the first seminar, Triodos Facet and INHolland launched a seminar website with a substantial number of background articles to put participants on a par with the current line of academic thinking in the field. Furthermore, participants were briefed during the seminar on the latest academic and practical insights by means of the aforementioned keynote speech of Mr Merten Sievers.

The debate also linked well with the development of policy at the Dutch Ministry of Foreign Affairs. In order to ensure this linkage, a representative from the Ministry (Mr Hans van der

Veen) was given the opportunity to present the policy brief *‘Notitie financiële sector ontwikkeling – toegang tot financiële diensten voor effectieve armoedebestrijding’*.

Involvement of relevant partners

A stakeholder consultation round was organised to acquire inputs from representatives of the various sectors. Furthermore, key experts of relevant institutions were approached in order to collect relevant academic articles and policy documents.

The objective of the seminar was to bring together academics, policymakers and development practitioners, including the private sector, with a view to initiating discussions and to setting the agenda for the years to come. Appendix 1 lists the seminar participants and their respective backgrounds. This overview shows that the conference was attended by 62 people, 21 percent of whom were researchers, 6 percent were policymakers and embassy staff, 47 percent were practitioners, 24 percent represented the business sector and 2 percent belonged to other groups. So far, the level of participation in the web-based discussion is still lower.

Relevance for policy and practice

As mentioned above, the seminar opened with the presentation of the policy brief *‘Notitie financiële sector ontwikkeling – toegang tot financiële diensten voor effectieve armoedebestrijding’* by Mr Hans van der Veen. The paper covers three main clusters. The first cluster concerns a set of activities intended to improve the regulatory environment in which financial organisations are operating. The second cluster is related to an increased supply of financial services to enhance people’s access to finance. The last cluster is related to the deepening of the financial sector. Here, attention is paid to issues like risk management. During the seminar Mr Van der Veen indicated that only the second cluster contains elements which apply to the fields of microfinance and mesofinance. The seminar series may assist the Ministry in deepening its policies on these issues.

The overwhelming number of applications from development practitioners clearly illustrates this sector’s need for an informed debate on the possible integration of financial and non-financial services.

Enhancing cooperation and synergy

The first seminar should be seen as the kick-off to a year-long event. The participants have been given the opportunity to network, and were briefed on the latest developments in linking financial and non-financial services. During seminars 2 and 3, the relations between the various sectors are to be developed in more detail.

Reactions and evaluation

92 people registered for the kick-off meeting using the on-line registration form, of whom only 62 could participate due to the limited space available at the seminar venue. An online evaluation form was published on the seminar website after the seminar had taken place but,

unfortunately, none of the participants filled it out. Nevertheless some of the participants made informal comments during the day. The main outcomes of these comments are listed below.

Aspects appreciated by the participants ('tops'):

- The interactive setting of the World Cafe.
- The participation of people representing different sectors.
- The quick posting of seminar materials on the seminar website.

Suggestions for improvement ('tips'):

- The second seminar should cover the topics in more detail.

Plan for follow-up

At this point in time it is rather early to define the outcome of this process in terms of plans for follow-up. In other words, the process itself is far from finalised. In the first half of 2009, two consecutive seminars are planned and we aim to foster participants' use of the discussion forum on the seminar website. In preparation of the second seminar, a larger number of key experts will be contacted in order to ensure an even more informed debate. Specifically, eight roundtables are to be organised, each of which will deal with a particular theme in microfinance and BDS. Each table will be hosted by an expert with experience in developing countries. S/he will present his/her viewpoints and experiences with regard to the particular theme. Participants will be stimulated to apply these to the Dutch microfinance market.

In the remaining sessions the topics which were discussed during seminar 1 will be elaborated upon. The overall process will eventually lead to:

1. A final report with policy recommendations;
2. Enhanced networking;
3. Identification of new avenues in research on microfinance;
4. A well-documented website.

Appendix 1 – List of participants

| | Name | Surname | Email | Organisation | Sector |
|----|-------------|----------------|-----------------------------------|--------------------------------|--------------------------|
| 1 | Birgitt | Aalders-Toet | birgitt.aalders-toet@INHolland.nl | INHolland | Academic |
| 2 | John | Akowuah | | Cedecom Ghana | Development Organisation |
| 3 | SAMUEL | ARYEE | sammy.aryee@gmail.com | Samandy Business Solutions Ltd | Corporate |
| 4 | Johan | Bastiaensen | johan.bastiaensen@ua.ac.be | Universiteit Antwerpen | Academic |
| 5 | Tom | Baur | t.baur@triodosfacet.nl | Triodos Facet | Corporate |
| 6 | Niels | Beerepoot | n.p.c.beerepoot@uva.nl | University of Amsterdam | Academic |
| 7 | John | Bliek | nancy.jaspers@triasngo.be | TRIAS vzw | Development Organisation |
| 8 | Andre | Brasser | abrasser@wwf.nl | WWF Netherlands | Development Organisation |
| 9 | Barbara | Brouwer | blbrouwer@yahoo.com | Pekerti Foundation | Development Organisation |
| 10 | Evelijne | Bruning | evelijnebruning@yahoo.co.uk | Vice Versa | Other |
| 11 | Sonke | Buschmann | s.buschmann@triodosfacet.nl | Triodos Facet | Corporate |
| 12 | Harry | Clemens | h.clemens@hivos.nl | HIVOS | Development Organisation |
| 13 | Diederik | Conijn | diederikconijn@planet.nl | IDEA – 1–CimicBat (Defensie) | Development Organisation |

| | | | | | |
|----|------------|--------------|------------------------------------|-------------------------------|--------------------------|
| 14 | Rosemarijn | de Jong | rose_jong@fastmail.fm | Cordaid | Development Organisation |
| 15 | Kim | de Vries | | DPRN | Academic |
| 16 | Andre | Engelbertink | Andre.Engelbertink@INHOLLAND.nl | INHolland | Academic |
| 17 | Ronald | Goldberg | ronald.goldberg@minbuza.nl | Ministry of Foreign Affairs | Policy maker |
| 18 | Frans | Goossens | frans.goossens@cordaid.nl | CORDAID | Development Organisation |
| 19 | Wim | Goris | wgoris@agri-profocus.nl | Agri-ProFocus | Development Organisation |
| 20 | Resi | Janssen | resi.janssen@micro-ned.nl | MicroNed | Development Organisation |
| 21 | Peter | Knorringa | Knorringa@iss.nl | ISS | Academic |
| 22 | Annemarije | Kooijman | a.l.kooijman@utwente.nl | TSD-CSTM Universiteit Twente | Academic |
| 23 | Maurice | Koppes | mkoppes@@catalyst-microfinance.com | CMI (Catalyst Microfinance) | Development Organisation |
| 24 | Roos | Kowalec | Roos.Kowalec@INHOLLAND.nl | INHolland | Academic |
| 25 | Robert | Lensink | b.w.lensink@rug.nl | University of Groningen | Academic |
| 26 | John | Lindhout | j.lindhout@woordendaad.nl | Woord en Daad | Development Organisation |
| 27 | Margot | Lobbezoo | m.lobbezoo@360responsibility.com | 360 Responsibility | Corporate |
| 28 | Jacco | Minnaar | jacco.minnaar@triodos.nl | Triodos Investment Management | Corporate |

| | | | | | |
|----|---------|-----------|----------------------------------|---------------------------------|--------------------------|
| 29 | Klaas | Molenaar | k.molenaar@triodosfacet.nl | Triodos Facet / INHolland | Academic |
| 30 | Frank | Nagel | f.p.nagel@rn.rabobank.nl | Rabo development | Corporate |
| 31 | Sanne | Nagelhout | sanne@dirnet.nl | stichting Dir | Development Organisation |
| 32 | Hans | Nijhoff | hans.nijhoff@wur.nl | Wageningen International | Academic |
| 33 | Ben | Nijkamp | ben.nijkamp@iccoenkerkinactie.nl | ICCO | Development Organisation |
| 34 | Suzanne | Olivier | suzanne@socialtrade.org | Social Trade Organisation (STR) | Development Organisation |
| 35 | Steef | Pad Bosch | spa@annexum.nl | Annexum | Corporate |
| 36 | Alberic | Pater | a.pater@triodosfacet.nl | Triodos Facet | Corporate |
| 37 | Fedde | Potjer | fedde.potjer@terrafina.nl | Terrafina Microfinance | Development Organisation |
| 38 | Megan | Price | megan.price@gmail.com | Spark | Development Organisation |
| 39 | Dorine | Putman | dorine.putman-devilee@asnbank.nl | ASN Bank | Corporate |
| 40 | Thies | Reemer | thies.reemer@oxfamnovib.nl | Oxfam Novib | Development Organisation |
| 41 | Ruerd | Ruben | R.Ruben@socsci.ru.nl | CIDIN Radboud University | Academic |
| 42 | Charles | Ruys | C.T.Ruys@eachbv.nl | Each B.V. | Development Organisation |
| 43 | Merten | Sievers | m.sievers@itcilo.org | ILO | Development Organisation |

| | | | | | |
|----|-----------|----------------|--------------------------------|--------------------------------|--------------------------|
| 44 | Hedwig | Siewertsen | h.siewertsen@triodosfacet.nl | Triodos Facet | Corporate |
| 45 | Liesbeth | Sijtsma | l.sijtsma@oikocredit.org | Oikocredit | Development Organisation |
| 46 | Taylor | Spencer | | Cedecom Ghana | Development Organisation |
| 47 | Nienke | Stam | n.stam@triodosfacet.nl | Triodos Facet | Corporate |
| 48 | Gerrie | Tuitert | tuitert@nwo.nl | NWO-WOTRO | Policy maker |
| 49 | Sunday | Uahomo | endtimelbc@yahoo.com | African Christian Care Trust O | Development Organisation |
| 50 | Mariëtte | van der Beek | mvdbeek@microfin.nl | MicroFin | Corporate |
| 51 | Chris | van der Plasse | chris.van.der.plasse@planet.nl | VNO NCW & CIMIC bataljon | Development Organisation |
| 52 | Theodore | van der Pluijm | t.vanderpluijm@planet.nl | European League for Econ.Coop. | Development Organisation |
| 53 | Hans | van der Veen | hw-vander.veen@minbuza.nl | Ministry of Foreign Affairs | Policy maker |
| 54 | Priscilla | van der Vegte | p.vandervegte@minez.nl | Ministry of Economic Affairs | Policy maker |
| 55 | Ab | van Ittersum | a.van.ittersum@planet.nl | Foundation Oasebos | Development Organisation |
| 56 | Bert | van Manen | Xp124315@tiscali.nl | EDF | Corporate |
| 57 | Koenraad | Verhagen | k.verhagen@telfort.nl | Argidius Foundation | Development Organisation |
| 58 | Hebe | Verrest | verrest@kitlv.nl | KITLV | Academic |

| | | | | | |
|----|---------|--------|----------------------------------|------------------------------|--------------------------|
| 59 | Camilo | Villa | camilo@kreativesynapses.com | Kreative Synapses | Corporate |
| 60 | Joep | Vonk | j.vonk@triodosfacet.nl | Triodos Facet | Corporate |
| 61 | Martine | Weve | martineweve@yahoo.co.uk | Terre des Hommes–Netherlands | Development Organisation |
| 62 | Iwan | Zunder | izunder@ondernemenoverdegrens.nl | IntEnt | Development Organisation |

Appendix 2 – Programme of seminar 1

12:00 – 13:00 Lunch

13:00 – 13:15 Opening

- Mrs Evelijne Bruning (Vice Versa)
- Mr Klaas Molenaar (Triodos Facet / INHolland)

13:15 – 13:30 Microfinance and the Dutch Ministry of Foreign Affairs

- Mr Hans van der Veen (Ministry of Foreign Affairs)

13:30 – 15:15 World Café: MFIs and BDS in the South

- Interactive discussion by participants

15:15 – 16:00 Panel discussion

- Mr Hans van der Veen (Ministry of Foreign Affairs)
- Prof. Dr Ruerd Ruben (Radboud Universiteit Nijmegen)
- Ms Hedwig Siewertsen (Triodos Facet)
- Mr Frank Nagel (Rabobank Development)

16:00 – 16:45 Keynote speech on integration of microfinance and BDS

- Mr Merten Sievers (ILO)

16:45 – 17:00 Closure and preview of seminar 2

- Mrs Evelijne Bruning (Vice Versa)
- Mr Klaas Molenaar (Triodos Facet / INHolland)

17:00 – 17:30 Reception

Appendix 3 – Relevant literature

Triodos Facet and INHolland compiled a substantial number of background articles on topics related to microfinance and Business Development Services. The list below was drawn up in cooperation with experts from the academic and the development sector.

A. Literature on Linking Microfinance and Business Development Services

Halder, S. R. (2003). BRAC's Business Development Services – do they pay? *Small Enterprise Development*, 14(2), 26–35.

Hansel, J.E. (2007) Risk-sharing models increase market access and financial and non-financial services to farmers. *Small Enterprise Development*, 18(2), 109–125.

Hospes, O., Musinga, M. & Ong'ayo, M. (2002). *An evaluation of micro-finance programmes in Kenya as supported through the Dutch co-financing programme*. Retrieval from www.gdrc.org/icm/country/Kenya-finalreport.pdf

Nelson, J. (2007). *Building linkages for competitive and responsible entrepreneurship*. UNIDO. Retrieval from http://www.unido.org/fileadmin/import/69447_CSRI_08.pdf

Ruijter de Wildt, M. (2004). *Linking business development services to financial services: The case of Financiera Solución in Peru*. ILO. Retrieval from <http://www.bdsknowledge.org/dyn/bds/docs/422/MdRdW-Peru.pdf>

Salib, S., Kimball, M., Nelson, C. & Villeda, L. (2001). *Bundling microfinance and business development services: A case study from Ademcol in Colombia*. USAID. Retrieval from http://www.microfinancegateway.org/files/3393_03393.pdf

Sievers, M. & Vandenberg, P. (2007) Synergies through linkages who benefits from linking micro-finance and business development services? *World Development*, 35(8), 1341–1398. Retrieval from <http://www.bdsknowledge.org/dyn/bds/docs/183/SieversVandenbergWD.pdf>

Valdiva, M. & Karlan, D.S. (2006). *Teaching entrepreneurship: Impact of business training on microfinance clients and institutions*. Retrieval from http://www.econ.yale.edu/growth_pdf/cdp941.pdf

B. Literature on Microfinance

Athmer, G. & Vletter, F. de. (2006) *The microfinance market in Maputo, Mozambique: Supply, demand and impact*. NPM. Retrieval from http://www.gdrc.org/icm/country/mozambique/full_report-en.pdf

Chen, G. & Weiss, K. (2007) Lessons from South Asian MFIs moving up market. *Enterprise Development and Microfinance*, 18(4), 328–341.

Cull, R., Demirguc-Kunt, A. & Morduch, J. (2008). *Microfinance meets the market*. World Bank Policy Review Working Papers 4630. Retrieval from http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/05/27/000158349_20080527095250/Rendered/PDF/wps4630.pdf

Deutsche Bank. (2007). *Microfinance: An emerging investment opportunity*. Retrieval from http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000219174.pdf

Eversole, R. (2003) Help, risk and deceit microentrepreneurs talk about microfinance. *Journal of International Development*, (15)2, 179 – 188.

Ferranti, D. de. & Ody, A.J. (2007) *Beyond microfinance: Getting capital to small and medium enterprises to fuel faster development*. The Brookings Institution Policy Brief # 159. Retrieval from http://www.brookings.edu/~media/Files/rc/papers/2007/03development_ferranti/pb159.pdf

Gibson, T. & Sousa-Shields, M. de. (2007). Crossfire: SME lending vs. microfinance. *Enterprise Development and Microfinance*, 18(4), 295–302.

Hardy, D.C., Holden, P. & Prokopenko, V. (2002). *Microfinance institutions and public policy*. IMF Working Papers 02/159. Retrieval from <http://www.imf.org/external/pubs/ft/wp/2002/wp02159.pdf>

Hermes, N., Lensink, R. & Meesters, A. (2008). *Outreach and efficiency of microfinance institutions*. Working Paper. Retrieval from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1143925

Maanen, G. van. (2004). *Microcredit. Sound business or development instrument*. Zeist, the Netherlands: Oikocredit. Retrieval from http://www.microfinancegateway.org/files/21279_MICROCREDIT.pdf

Mersland, R. (2005). *The agenda and relevance of recent research in microfinance*. MPRA Paper No. 2433. Retrieval from http://mpra.ub.uni-muenchen.de/2433/1/MPRA_paper_2433.pdf

Rhyne, E. & Otero, M. (2006). *Microfinance through the next decade visioning the who, what, where, when and how*. Boston: ACCION International. Retrieval from http://www.microfinancegateway.com/files/36423_file_Microfinance_through_the_Next_Decade.pdf.

Seibel, H.D. (2007). *The role of microfinance in rural microenterprise development*. Syngenta foundation. Retrieval from http://www.syngentafoundation.com/pdf/Seibel_Report_e.pdf.

C. Literature on Business Development Services

Altenburg, T. & Drachenfels, C. von. (2006). The New Minimalist Approach to Private-Sector Development: A Critical Assessment. *Development Policy Review*, 24(4), 387–411. Retrievable from <http://bds-forum.net/bds-reader/theory/minimalist-approach.pdf>

Chebair, E.R. (2005). *Practical skills for microentrepreneurs: ACCION's experiences with its ABCs of business training program*. ACCION International Insight No. 14. Retrievable from http://www.microfinancegateway.com/files/26815_file_IS14EN.pdf

Hallberg, K. (2006). A retrospective assessment of the Kenya Voucher Training Programme. *Small Enterprise Development*, 17(2), 56–67.

Hitchins, R., Elliot, D. & Gibson, A. (2004). *Making business service markets work for the poor in rural areas: A review of experience*. London: Springfield Centre. Retrievable from <http://www.springfieldcentre.com/publications/sp0402.pdf>

Lepenes, P.H. (2004). Exit, voice, and vouchers: using vouchers to train microentrepreneurs—observations from the Paraguayan voucher scheme. *World Development*, 32(4), 713–724.

McKee, K. (2007). Ten forces affecting the future of enterprise development and pro-poor growth initiatives. *Enterprise Development and Microfinance*, 18(2), 261–278.

Suzuki, A. (2002). *Business training markets for small enterprises in developing countries: What do we know so far about the potential?* ILO SEED Working Paper No. 32. Retrievable from <http://www.ilo.org/dyn/empent/docs/F297552005/WP32-2002.pdf>

Tanburn, J. (2008). *The 2008 reader on private sector development*. Turin: ITC-ILO. Retrievable from <http://www.bdsknowledge.org/dyn/bds/docs/649/PSDReader08E.pdf>

Appendix 4 – Quotes by participants

Participants filling out the online application form, were asked to submit a question they would like to see discussed in the seminar. This resulted in the following list of questions:

- Is it possible to deliver BDS on a sustainable base?
- How should one deal with the notion that if people follow a course they are not actively participating but just joining in for the microcredit rather than joining in to make improvements?
- How do we really link to the banking industry?
- Are development organisations also ready to finance actors other than their traditional target groups and can/will they do it in a businesslike manner?
- In my opinion you cannot ‘help’ entrepreneurs. By definition they have to go their own way. You can show them the different ways to achieve their goals, but the final choice is always theirs. BP service providers are usually convinced they know what the entrepreneur needs to do. They cannot know for sure so entrepreneurs are pointed in the wrong direction. BP services are extremely costly and hardly effective. There are better ways to stimulate entrepreneurship.
- To what extent will the commercialization of microfinance conflict with the traditional outreach aim of microfinance?
- I would like to understand the point of view of governing entities of the relevance for BDS that MFIs are providing.
- What are the most important differences when you want to deliver BDS via (or with) cooperative rural MFIs?
- How should environmental services be financed so as to protect natural forests?
- Who is served by MFIs and who is not? What are the limits of MFIs?
- What is the role of business development services in efforts to go beyond reaching women to really empower poor and vulnerable women in microfinance. What can MFIs do by themselves and where do they need links with BDS providers?
- What can microfinance institutes do to make the business successful and provide the entrepreneurs with support and guidance?
- Many MFIs focus both on survival-oriented micro businesses as well as growth oriented businesses. Can these market segments be combined into one approach and how can a model be successfully built to allow clients to expand to become a small business?
- How should one go beyond mere questions of viable (entrepreneurial) articulation of financial and non-financial services and tackle the key question on how to link them up with pathways of change for the excluded sectors, i.e. those producers/enterprises that

are not currently and immediately linked to on-going market-technological dynamics and need to be 'brought in' and/or 'find alternative pathways' ?

- What are the roles and responsibilities of MFIs? Additional tasks necessary to support business development (in our case we were able to see how to integrate these either with our MFIs or with our HIV partners).
- Are MFIs able to develop high quality BDS services in house and/or should they facilitate links with specialised professional BDS-providers? Who needs to pay the bill for BDS Services to MFI clients?
- Is there a trade-off between sustainability and outreach?
- How can a market be created in which the costs for business development services are no longer covered through external grants and donations but by the market players themselves?
- What can be done about the (lack of) financial) sustainability of BDS providers.? A holistic approach to economic development which takes all factors into account: Finance / Skills and Knowledge / Market linkages/ Business Enabling Environment / Supply chain issues, etc.
- How can public, private and civil society actors work together complementarily to help develop the SME sector in developing nations? Is there a broad framework, a template which could be developed in order to help clarify various actors prospective roles in developing SME sectors?
- Should the MFIs become a new business advisory actor?
- Should microfinance Institutions provide refinancing for banks within the framework of the financing of small farmers investments in developing countries.
- To what extent can MF be complementary to BDS? Can it be combined within the same organisation, or is it better to separate it? Which criteria could be used to define this?
- Should a discussion be held about the use of microcredit as an incentive to voluntary work?
- How do we address the need for non-financial services, and how do we ensure the quality of services, financial sustainability, and access to these services? What is the role of MFIs in this? What are advantages and disadvantages of the management of BDS by a MFI and by separate service providers?
- For me it is interesting to know if TdH-NL should adopt the same strategy used in South Asia for the other regions as well. Therefore I would like to discuss the following: In which sectors/industries/trades/locations (urban/rural) are BDS most needed? For which sectors have BDS proved to be effective? Is providing BDS sustainable for MFIs? Should MFI clients expect to pay a fee for BDS? In rural areas in Sri Lanka I have found that access to markets is the biggest problem and BDS is requested.

- I would like to know whether microfinance organisations really focus on entrepreneurial clients and have specific products for them, or whether they target all poor people with the same products. In my opinion entrepreneurs are the people that are important for the economic development of a country and they need differentiated products. Furthermore how are the 'entrepreneurs' detected among all the poor people in a country?
- Is BDS the way to proceed as far as development is concerned? Are there positive and negative effects?
- How should one more clearly delineate between growth-oriented and survival entrepreneurs in policy and projects?
- Are we going 15 years back in time? Years ago a lot of projects and organisations provided both microfinance and BDS. Lessons learned showed that it complicated the sustainability of the microfinance activities. Separate MFIs were established which focused on microfinance. I agree that microfinance alone is not enough to help people out of poverty, but what is the best way for MFIs to do more? Indeed, the question is “what role should they play”?
- How does a group save and borrow? How should leaders be trained in savings and loans management?
- Are business development services at the core of the Ministry of Foreign Affairs action plans and if not, why not? How can such schemes be scaled up and what is their sustainability? How important are BDS?
- What is the most effective role of a donor organisation in the field of Business Development Services, if there is such a role? What product, service or any other type of support would best meet the needs of the entrepreneurs in developing countries, both in relation to access to markets and financial services and in overall relation to poverty reduction.
- As the first seminar is on the current state of affairs, I would to find out about lessons learned and mistakes made, especially with regard to bringing financial services to the rural areas. My question is how we can upscale the successful examples of providing microfinancial services to rural entrepreneurs.
- There is a gap between microfinance (small funds) and donor-driven guarantee funds (large funds). How can producer organizations or processors or traders get easier access to funds ranging from 20,000 – 200,000 \$.
- To specialise or to integrate: that's the question.
- How can we help bridge the gap between the academic world and the people in the field?
- Should microfinance institutions themselves provide non-financial services to clients? Do current BDS differentiate sufficiently between different levels of entrepreneurship (meso, small, micro) in order to be relevant at micro level.

- How can gaps in knowledge and questions be identified that could be addressed through scientific research?
- How can the target group be identified and how can loans be made more easily accessible?
- How can we stimulate small business development?
- Should microfinance only to be initiated by developed countries? Can developing countries manage their own microfinance facilities through the use of investments?
- The latest BDS paradigm should be revealed and an explanation provide on how not to adhere to them as if they were the bible.
- What evidence supported the decisions by the EU and the Netherlands to spend 50 million and 15 million respectively in this sector?
- How can BDS be made available to young starting entrepreneurs that have little resources? NGOs offer services (partly) for free or below market rates, whereas experts say that they should be provided at market rates.
- How far should MFIs go as regards providing BDS to their clients? Should non-financial services (for example health care, education programs etc) not be separated from microfinance services?
- There should be access to cheaper credit under macro planning so that MFIs become the extended arm of the formal credit delivery and banking institutions. No good will come out of this do-good-feel-good MFI which charges 28-36 % and gives us the idea that we are doing enough for the poor. The question is whether it is possible or whether we can walk the talk?
- Why would we want to combine microfinance with BDS as a service to clients? Is it true that combining the two services can affect the asset quality of the portfolio of the MFI? What would the benefits of combining the two services to the clients vis-à-vis the service/institutional providers?
- How can one ensure that the costs of such non-financial services to entrepreneurs is kept to a minimum and that these services are efficient?
- Do MFIs offer BDSs to small entrepreneurs and how?
- How should one assess the impact of microfinance on livelihood, in particular of the poorest? How should the Institutional framework of microfinance and organisational processes (expansion of the outreach of Microfinance institutions to non-traditional markets like water and sanitation services) be designed?
- What performance measures should be put in place to asses a BDS/microfinance programme? Is microfinance such good business for companies like Banco Compromiso in Mexico that charges approximately 100% interest and how is this practice regarded by

the experts? Given the current situation of banks in America and Europe, what does the future hold for microcredit?

- How can microfinance institutes be engaged in BDS services and, in particular, what role should they play?
- How can microfinance/business development services reach the small enterprises in rural areas?
- In order to complement the microcredits in developing countries, microfinance organisations should also offer possibilities of reliable saving and checking accounts to their target groups. Savings is the most simple and least costly way of insuring oneself against future setbacks.

Appendix 5 – Stakeholder consultation

When preparing the seminar series, we contacted 12 stakeholders (see list below) that represented the four DPRN target groups. Each of the stakeholders was given the opportunity to give his or her reaction to our proposition that MFIs need to target micro-entrepreneurs with a broader range of non-financial services. These consultations with stakeholders were used to assess the relevance of the proposed theme as such and to distil a number of key issues that should be addressed in the process.

The following is a brief overview of the responses per sector.

Academia: The question of whether MFIs should rethink their strategies and focus more on entrepreneurial clients fits the current academic debate. Indeed, MFIs are already paying more attention to entrepreneurship development. By broadening their scope of services, MFIs will become a more interesting investment vehicle for external parties. What remains unclear, however, is whether MFIs should focus on potential entrepreneurs, on existing entrepreneurs, or only on those entrepreneurs with growth potential. In spite of the current hype regarding microfinance, the body of empirical research on the matter is not yet substantial. There is a need for more empirical research on the current state of affairs in the micro-finance sector.

Development organisations: The Dutch co-financing associations (MFOs) confirm the relevance of the theme. Although the topic itself is not new, the MFOs argue that there is still substantial scope for improvement in current practice. Indeed, MFIs could pay more attention to the needs of entrepreneurs. Past experiences with MFIs offering business development services were not, however, successful. Therefore, the MFOs would welcome a practical debate on the role MFIs could play and what kind of support they would need.

Corporate sector: Stakeholders from the corporate sector underline the importance of offering business development services to entrepreneurial clients. Doing so would eventually result in more bankable clients and an increased outreach. However, most stakeholders argue that MFIs in developing countries should not develop such services in-house and that capacity to do so is often lacking or inefficient. Rather than directly using the MFIs to deliver business development services one could copy their business model and make use of their distribution channels. Interestingly, the corporate sector agrees in favour of making use of the lessons learned in the Netherlands. I.e. how are financial and non-financial services structured in the Netherlands? Which developments or business models on the Dutch market can be valuable in less developed countries? Finally, with regard to the target group stakeholders argue that one should not strive to foster entrepreneurship for all. Instead one should focus on those entrepreneurs with real potential only.

Policymakers: In concordance with the other sectors, policymakers underline the relevance of the topic but also stress that MFIs are already considering offering non-financial services. However, given the growing interest of investors in the double/triple bottom line of MFIs a further exploration of the theme is justifiable. The Ministry of Foreign Affairs would be interested in practical field experiences to shape its policy.

List of consulted stakeholders:

- B. Molijn – Oxfam Novib
- B. Nijkamp – ICCO
- E. Heinen – OikocreditH. Maas – HIVOS
- S. Platteau – Triodos Facet
- F. Nagel – Rabo Development
- G. Voorrips – ING Microfinance
- N. Feenstra – Triodos Investment Management
- N.D. de Witte – Business in Development network
- H. Van der Veen – Ministry of Foreign Affairs
- A. Szirmai – Maastricht Graduate School of Governance
- N. Hermes – Rijksuniversiteit Groningen

