



Stimulating business development: Another side of microfinance?

Microfinance institutions and business development services

Microfinance institutions (MFIs) have achieved considerable success as regards empowering people through the provision of credit. However, for poor people to become successful entrepreneurs, they not only need access to credit, but also certain entrepreneurial competencies.

Research and experience indicate that providing business development services (BDS) can enhance entrepreneurial performance considerably. Nevertheless, entrepreneurs' access to these services – ranging from advice on innovation and business ideas to financial literacy training – is still limited.

While microfinance institutions provided business development services during the late 1970s and early 1980s, from the late 1980s onwards they scaled back their activities by focusing on credit provision only. This change was motivated by a perceived lack of demand among MFIs for such services from their borrowers, which in turn was prompted by the often poor quality of the services. At the same time there was a general push for MFIs to become 'sustainable' and BDS were seen as



Source: www.triodos.com.

Process organisation

The 'Stimulating business development: another side of microfinance?' process was carried out within the framework of the Development Policy Review Network (DPRN) by:

- Triodos Facet
- Hogeschool InHolland



adding to the operating costs. In the new millennium, MFIs again started looking beyond finance. This 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.

What role for microfinance institutions?

In 2008, Triodos Facet and InHolland University of Applied Sciences initiated a one-year process to explore the role that microfinance institutions can play in improving the access of entrepreneurs to non-financial services.

They organised three consecutive and inter-linked seminars. The first seminar focused on the state of affairs with regard to microfinance and BDS in developing countries. The second seminar addressed the situation in the Netherlands, based on the idea that microfinance programmes in the Netherlands and in developing countries can learn from each



World Café during microfinance seminar.

other’s experiences. For this meeting, Klaas Molenaar (Inholland) wrote an issue paper. The results from both meetings formed the building blocks for the development of concrete policy recommendations and avenues for further academic research during the third and final seminar. In all seminars, the process organisers employed the World Café method to stimulate interactive discussion. This meant that participants discussed key questions in small groups, visualising the answers on blank paper in real time.

🌐 **Tempered expectations, needs and bottlenecks**

The main insights of this DPRN process are summarised in a synthesis report that shows, among other things, that the potential role of microfinance institutions to deliver non-

financial services should not be overestimated. The five main conclusions of the synthesis report are:

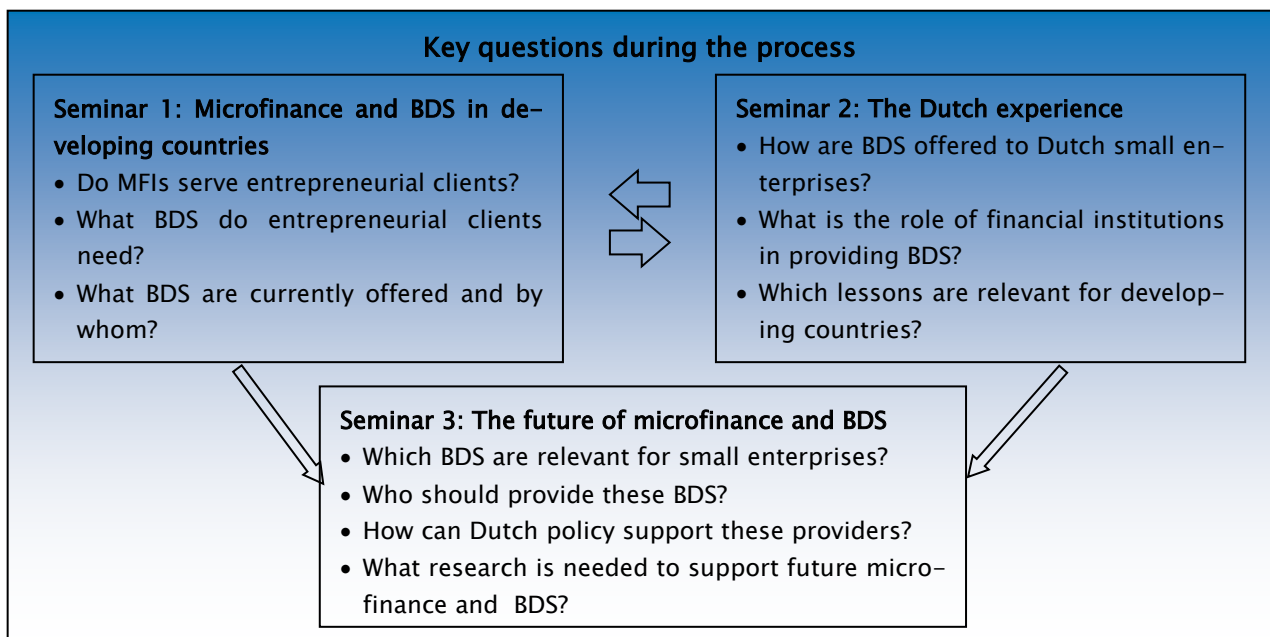
I. Let’s be realistic about microfinance

Microfinance institutions (MFIs) offer financial services to a wide variety of clients, with their own particular needs. Not all microfinance clients will develop into successful businesses. In most developing countries the majority of micro-enterprises do not move beyond the survival mode and only a small group of MFI clients (estimated to be about 5 –10%) have the potential to develop their business into a small or medium-sized enterprise.

II. Linking microfinance institutions to non-financial services

MFIs could provide an interesting distribution channel for non-financial services. Nevertheless, MFIs should not deliver all these services themselves. Attempts to link MFIs to non-financial services should take the following into account:

- Financial institutions generally do not have the capacity to provide non-financial services.
- MFIs should focus on the services for which they are held morally responsible (e.g. financial literacy).



Microfinance in the Netherlands: Do we learn from the South?

This was the question raised by Mr Klaas Molenaar – General director of Triodos Facet and Professor in Microfinance and Small Enterprise Development at the University of Applied Sciences Inholland, the Netherlands.



Mr Molenaar is convinced that the Dutch microfinance practitioners can and should learn from past experiences elsewhere. However, doing so seems to be more difficult than expected. For instance, while in developing countries there is a logical interrelationship between awareness, policy, institutional development and product/service development such is not the case in Europe and the Netherlands. Mr Molenaar states, in the Netherlands policymakers and practitioners are not fully aware of the real problem they try to tackle. To improve microfinance in the Netherlands drawing upon past experience and adapting that to our conditions is much needed. More can be read in the issue paper that was written by Mr. Molenaar for this seminar.

- The preferred approach is for financial institutions to establish cooperation networks with BDS providers and refer clients to such service providers when deemed necessary.
- The design of non-financial services should be based on client needs, rather than donor log frames.
- The costs of providing non-financial services should not be included in the costs of financial services.

III. Different types of BDS for different types of clients

The following three broad categories of BDS can be identified, each with their own relevance for a particular type of enterprise:

Bottlenecks relating to BDS providers	Interventions
BDS providers are limited in number.	Train existing entrepreneurs to deliver BDS: entrepreneurs train entrepreneurs.
BDS providers often lack quality and do not always understand client needs.	Set quality standards and create industry organisations.
BDS may not be cost effective; clients may not be willing to pay.	Set up a system in which entrepreneurs pay BDS through vouchers.
Bottlenecks relating to MFIs	Interventions
MFIs do not have capacity to deliver services other than financial services.	Create a referring model in which loan officers link high potential clients to BDS providers.
MFIs can be blamed if BDS leads to business failure; need to avoid conflicts of interest.	Create an institution that assists MFIs with delivering non-financial services.
MFIs are constrained by rules and regulations.	Provide additional funding to MFIs engaged in non-financial services.
MFIs have difficulties selecting the high potential clients who might need BDS.	Support MFIs with obtaining a client-focus and help them measure and manage non-financial performance.

- Client development services: raising awareness among clients of their basic business or personal (financial) situations with the general aim being to prevent harmful situations (e.g. over-indebtedness, unhealthy environments). Clients are in survival mode and may not be willing to pay for these services.
- Entrepreneurship development services: helping individuals to start their own business and raising awareness of entrepreneurship as a career choice, plus basic

business skills training. Clients are aspiring to set up a business as a positive choice, not so much out of necessity.

- Business development services: supporting existing small businesses to improve their operations, with the services ranging from business advice to technical skills training and linking entrepreneurs to markets.

IV. Build capacity for MFIs and BDS providers

Linking financial and non-financial services to enhance the growth of the small enterprise sector requires interventions at the level of both MFI and BDS providers. The tables below describes the bottlenecks that these institutions may face and possible interventions.

V. Conduct applied research on microfinance and BDS

There are many basic questions that still need to be answered. Some research avenues for the future are:

- The impact of BDS on the performance (success rate) of small businesses.
- The identification of the most successful type of BDS (e.g. basic skills trainings targeting large numbers versus more sophisticated tailor-made business advice).
- The systematisation of best practices in mixing BDS and microfinance.
- The design of a BDS client pre-selection tool with proven selection variables.
- The identification of which type of MFI clients really need BDS.
- The cost-effectiveness of BDS.
- The cost-effective implementation of BDS provision in fragile environments.

Follow-up

After finalisation of the process, the discussion continued within the Netherlands Platform for Microfinance. The Netherlands Platform for Microfinance (www.microfinance.nl) consists of 15 Dutch organisations that work together to improve the effectiveness of their microfinance activities. The platform organised a debate about the social and environ-

mental aspects of microfinance, in which the linkages between the provision of financial and non-financial services were discussed. The research questions formulated during the process have also been taken up by the research group on Microfinance & Small Enterprise Development of Inholland University of Applied Sciences.

Process output

The 'Stimulating business development: Another side of microfinance?' process included three interlinked seminars, an online discussion forum, the preparation of an issue paper, and the collection of background literature in an online library.

This resulted in the following publications:

- Synthesis report: 'Stimulating business development: another role for microfinance?'
- Report on seminar 1: 'MFIs and BDS in developing countries'.
- Issue paper: 'Microfinance in the Netherlands: Do we learn from each other?'
- Report on seminar 2: 'Microfinance in the Netherlands, what can we learn from the South?'
- Report of seminar 3: 'The future of microfinance and business development services in developing countries'.
- Online library with academic articles and policy papers on microfinance and the linkages with business development services.

All publications are available on the website: <http://microfinance.global-connections.nl>

This infosheet was made by DPRN. With a view to stimulating informed debate and discussion of issues related to the formulation and implementation of development policies, DPRN created opportunities to promote an open exchange and dialogue between scientists, policymakers, development practitioners and the business sector in the Netherlands and Flanders from 2003–2011.