MICROFINANCE AND BUSINESS DEVELOPMENT SERVICES IN EUROPE

What can we learn from the South?

EUROPEAN MICROFINANCE network

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JUNE 2011

Stefanie Lämmermann
Programme Manager,
European Microfinance Network

Gerrit Ribbink
Senior Consultant,
Triodos Facet

EUROPEAN MICROFINANCE network

Index

01.
Executive Summary

Business Development Services (BDS) are designed to help enterprise owners overcome certain constraints. Besides a lack of funds, micro- and small entrepreneurs are frequently hampered in their business growth by non-financial factors such as inadequate business management skills, lack of information and poor market access. Due to their small size and limited resources, the administrative tasks that all firms have to carry out weigh particularly heavily on micro- and small enterprises (MSEs). Research and experience indicate that access to business development services (BDS) greatly enhances the performance of small business, in an economic as well as in a social and environmental sense.

BDS include a broad array of business services aimed at individual enterprises. These services may range from market information to training and counseling of entrepreneurs. They can be operational, addressing an enterprise's day-to-day operations, or strategic, addressing medium and long-term issues related to the market access or competitiveness of a business. They may be provided directly or indirectly, as stand alone or as so-called embedded services, and free of charge or at a price.

While in developing countries, microfinance services are fairly well developed, access to non-financial services for small entrepreneurs in this part of the world is not available on a large scale. By contrast, in Europe, microfinance services are still young, but microfinance providers generally provide BDS alongside their financial services and there is a broad array of BDS providers. Nevertheless, microfinance providers in Europe face several challenges regarding the provision of Business Development Services.

Firstly, they need to make sure that these services are adapted to the needs of their clients, especially as new types of entrepreneur and new types of business are emerging. Secondly, they need to ascertain, as far as possible, that these services are accessible to their clients, and that

there is a match between financial and non-financial services. Finally, they need to ensure that these services are as cost-effective as possible.

In Europe, many microfinance service providers tend to look for ideas and solutions mainly within European borders. But outside of Europe, there is a wealth of experience ready to be shared. The present good practice guide on Business Development Services for small enterprises aims to contribute to the provision of more sustainable Business Development Services that are more specifically adapted to the needs of microenterprises in European countries by sharing knowledge on BDS between the South and the North. It is published within the framework of the 8th EMN Annual Conference on "Completing microfinance with sustainable non-financial services" on 9-10 June 2011, in Amsterdam, the Netherlands.

The five case studies from the South presented in this guide provide stimulating insights that address the most important challenges microfinance providers in Europe are facing today. In Colombia, ADEMCOL moved from initially providing operational business services in an embedded way to the creation of a separate unit within the organization to deliver strategic training modules. In Bangladesh, the experience of BRAC, one of the largest MFIs in the world, shows not only that entrepreneurs who received BDS performed remarkably better than those who didn't, but also that the additional revenues they earned considerably exceeded the service charges they paid for the BDS. The positive impact of BDS is also demonstrated by the example of the Tanzanian MFI PRIDE. Moreover, what is interesting is that this case study shows a more positive impact of the services on the male than on the female clients, due to the specific situation of women in this country characterized by entrepreneurship out of necessity rather than opportunity.

In Peru, Banco del Crédito/Financiera Solución trained its own staff to provide BDS to their clients. The case study suggests a positive trade-off between training and financial services: the training enabled the clients to increase the investments they made in their enterprises in such a way that the MFI could recover the investment cost of the training in about 2-3 years. The case also shows that the mode of delivery and content of BDS may change over time as the target group and the local circumstances change.

Finally, the example of one of the oldest MFIs in Morocco, Al Amana, illustrates that even illiterate clients in rural areas can benefit considerably from training, provided it is tailored to their needs and possibilities, in this case by using videos. Both in the case of Al Amana and the government sponsored Moukawalati programme, an attempt was made to measure the impact of BDS in a more or less objective way. More research is clearly called for to be able to assess which (categories of) BDS are most effective on which (categories of) clients.

In a context that differs a lot from the European business environment, the case studies provide stimulating examples that can help European microfinance providers to design the content and ways of providing BDS. They highlight the fact that each type of support service is relevant for a particular client group. Acknowledging this peculiar "Service/Client group Mix (SCM)" is the basis for the design, development, financing and implementation of effective service delivery mechanisms. A categorization of services and clients can help MFIs decide, on the basis of their own clientele, which support services they need most. But the decision on *how* to provide these services –in a unified, parallel or partner approach– can only be taken after thorough market research has taken place. The market research should provide information on who to involve in the provision of the support services, where and

when to offer the services, as well as what price to charge its clients for the services.

Ideally, the costs of the services should be fully covered by income generated from direct payments from participants and/or additional revenues from credit operations as a result of the business support services. In practice, this will not always be possible or easy to ascertain, so that some degree of subsidization will be necessary, at least in the start-up phase. There may be many reasons for continuing to subsidize these services even after the start-up phase, such as a way of promoting the financial services or in order to attract clients that may have growth potential and thus "pay back the investment" in the long run. Other reasons may be to motivate staff by providing quality services or to attract funds from donors/sponsors.

Whatever decision the MFI takes with regard to the type of linkage, a number of lessons have been learnt that need to be taken into account:

1. Always start with a thorough market assessment, both on the supply side as well as the demand side.
2. Quality services mean offering the right type of services at the right time to the right clients.
3. Always ensure some kind of commitment from the client, either by charging a price for the services or in a non-monetary way.
4. Take into account the dynamic nature of the market, both of your clients as well as of business service providers.
5. Set up a good monitoring and evaluation system right from the start and make optimum use of information generated from this system.
6. Do not lose focus of your mission and your core competence.

László set up his enterprise in the building industry, Hungary

Metal workshop, Morocco

02. *Introduction*

Worldwide, small entrepreneurs have benefited from improved access to finance. However, notwithstanding the importance of financial services, developing sustainable small enterprises also requires access to non-financial services. Due to their small size and limited resources the administrative tasks, or red tape, which all firms have to carry out, weigh particularly heavily on micro- and small enterprises. Research and experience indicate that access to business development services (BDS) greatly enhances small business' performance, in an economic as well as in a social and environmental sense.[1]

While in developing countries microfinance services are fairly well developed, access to non-financial services for small entrepreneurs in this part of the world is not available on a large scale. By contrast, in Europe, microfinance services are still young, but microfinance providers generally provide BDS alongside their financial services and there is a broad array of BDS providers.

In Europe, Chambers of Commerce providing business support services already became widely established in the early 19th century. Moreover, in the second half of the 20th century, business support became a general feature of economic policy in many European countries, and this led to the widespread establishment of business support agencies. In contrast, experiences in the past with government sponsored BDS have not been very positive in the South and donor agencies that used to support MFIs have moved away from BDS in this part of the world.

Thus it follows that the nature of BDS in Europe is in some ways different from BDS in the South: more oriented towards assisting start-up businesses to comply with all the legal regulations and become "formal enterprises", whereas in the South it is more about simply becoming a sustainable business venture, although legal issues do play a role as well.

1. In this document we will use the terms business development (or support) services and non-financial services as synonyms. In practice, the term "business support services" is probably the most accurate.

2. "Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention", prepared by the Committee of Donor Agencies for Small Enterprise Development, Feb. 2001.

3. Alan Gibson "Principles of Good Practice in Business Development Services" in Levitsky & Mikkelsen "Micro & Small Enterprises in Latin America", IADB, ITDG, London, 2001.

4. TriodosFacet/Inholland, DPRN Phase 2 Report No.12 "Stimulating business development: another role for microfinance?".

2.1. Definition

Business development services have probably existed for as long as private firms have existed, at least if we use the definition of BDS as stated in the Guiding Principles for Donor Intervention drawn up by the Committee of Donor Agencies for Small Enterprise Development (the so-called *blue book*):

"BDS are services that improve the performance of the enterprise, its access to markets, and its ability to compete. (…) This includes a wide array of business services both strategic and operational (…) aimed at individual enterprises"[2] While operational services designate those services needed for day-to-day operations (information and communication, management of accounts and compliance with regulations), strategic services address medium and long-term issues related to a business' market access or competitiveness. These services may range from market information to training and counseling of entrepreneurs. They may be provided directly or indirectly, as stand alone or as so-called embedded services, and free of charge or at a price.

Another definition sees BDS as all those services, offered formally or informally, which respond to the needs of (small and medium-sized) enterprises, excluding financial services[3]. This may include consulting, training, advising, transporting, linking, information, maintenance, communication, etc.

Three broad categories of BDS can be identified, each with its own relevance for a particular type of enterprise.[4]

- Client development services: raising awareness among clients of their basic business or (personal) financial situation. Generally aimed at preventing harmful situations (e.g. over-indebtedness, unhealthy environments). Clients are in survival mode and generally not willing to pay for these services.
- Entrepreneurship development services: Helping individuals to start their own business and raising awareness on entrepreneurship as a career choice, plus basic business skills training. Clients seek to set up a business as a conscious 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.

2.2. Challenges

Today, microfinance providers face several challenges regarding the provision of Business Development Services. First of all, they need to make sure that these services are adapted to the needs of their clients, especially as new types of entrepreneur and new types of business are emerging. Secondly, they need to ascertain, as far as possible, that these services are accessible to their clients. Thirdly, they need to ensure that there is a match between the financial and the non-financial services while separating the cost between each of them. Finally, they need to ensure that these services are as cost-effective as possible.

a) Ensuring the quality of the services

Experience shows that support providers often neglect to assess the type of services needed by their clients. In theses cases, services are mostly supply-driven and do not reflect the real needs of the entrepreneurs. In order to create a positive impact on the business, support services need to be tailor-made: they should be demand-driven, with a clear focus on the target group and business sector, as well as on the specific

phases of the business life cycle. For example, in some cases the priority may be to provide client development services, whereas in other cases it may be entrepreneurship or business development services.

In most cases this also implies charging for these services, even if it is just a symbolic amount. When services are completely free of charge or highly subsidized, clients may accept services although they may be of little use to them. Requiring clients to pay for BDS is the best way to ensure that they are really demand-driven. On the other hand, ensuring that services are of high quality and address the real issues of clients is crucial in order to convince clients to pay for the support services.

b) Ensuring maximum outreach

Entrepreneurs need to know about the existence of business development services and need to be motivated to use them. MFIs and business providers therefore need to have in place effective promotional activities and linkages, making their support services known to the small enterprises and convincing them of their usefulness. Ensuring outreach also implies accessibility of the services and thus a pricing policy that is adapted to the financial capacity of different types of clients: incentivizing but not excluding. Related to this, MFIs and BDS providers need to take into account that new types of entrepreneurs are emerging:[5]

- The socially excluded wishing to initiate economic activities (often of a temporary nature) that can generate additional income for the household.
- The self-employed, considering this as an option at a certain point in their career or as a way to generate additional income.
- Microentrepreneurs who wish to generate full income with this activity.

The present institutional network focuses on assisting small or medium enterprises, but not so much the entrepreneur or the self-employed. Servicing the enterprising self-employed is still a relatively new area.

c) Ensuring a match between financial and non-financial services

While there are different views on whether the same organization should provide both BDS and financial services, it is generally agreed that both types of support are essential. One approach to achieving this is for the same organization to provide both services, although the unit in charge of financial services will usually operate independently from the one providing BDS. Another option is for the MFI to work in co-ordination with an external BDS provider. In this case establishing effective linkages between the two is crucial to developing a good understanding of the clients' needs and to being able to provide relevant services.

In any case, there is general consensus that the cost of providing financial services should be clearly separated from that of providing business support services. Thus, many MFIs have begun to separate the cost accounting of their financial services from non-financial services, although this is not easy when both services are provided by the same organization under supervision of the same management. In some cases, this problem may be solved by creating a separate management structure, or by "delegating" the role of BDS provider to a third party.

d) Ensuring the cost-effectiveness and sustainability of the services

Cost-efficiency can be achieved in a number of ways. There may be improvements in working procedures and staff may be motivated through performance-based bonuses; some

services may be sub-contracted. However, experience shows that even cost-efficient business support services will rarely be fully sustainable. On the other hand, when services are demand-driven, they may increase the sustainability of both the MFI and the BDS provider by generating income (fees, interest), as well as by increasing client discipline (debt and interest payment), by securing client loyalty (repeat business) and by attracting new clients.

Experience shows that services that are heavily subsidized and offered free of charge or at a very low cost tend to be supply-driven and often not fully appreciated.

Chiosea runs his own farm in Romania

2.3. Aims of the Good Practice Guide

The present Good practice guide on Business Development Services for small enterprises is published within the framework of the 8th EMN Annual Conference on "Completing microfinance with sustainable non-financial services" on 9-10 June 2011, in Amsterdam, the Netherlands. It aims to contribute to the provision of more sustainable Business Development Services that are more specifically adapted to the needs of microenterprises in European countries and to initiate a circular process of sharing knowledge on BDS between the South and the North. In Europe, many microfinance services providers tend to look for ideas and solutions mainly within European borders. But outside of Europe, there is a wealth of experience ready to be shared.

The good practices presented in the guide are embedded in different local contexts in different parts of the world and show different types of linkages between financial and non-financial services. They are all innovative in some way and illustrate important lessons learnt and caveats that should be taken into account when designing BDS strategies. The study includes a description of the methodology employed, a contextual and technical description of each good practice, as well as a series of recommendations for their duplication. In addition, a bibliography as well as a list of the sources used will be provided.

5. ibid

03.
State of Affairs in the South and North

3.1. Microfinance and BDS provision in the South

Business development services existed in the South long before microfinance came up. In many cases, these services were either provided by government (-sponsored) agencies or by private companies in the form of "embedded services", e.g. a company selling fertilizer that provides information and advice on how to apply the fertilizer. Later on, as the development industry came onto the scene, after the Second World War and the independence of former colonies in Africa, donor agencies took over part of the funding of these activities. Many microfinance institutions, in particular in Latin America and Africa, actually started out with a more general focus and in some cases only started providing financial services at a later stage.

The explicit exclusion of financial services from the definition mentioned in section 2.1 is relevant to this short review of the history of BDS –in relation to microfinance– and it explains why these services used to be referred to as non-financial services. The term BDS, when applied to micro-enterprises, only really came into common use in the 90s. Before that it was generally accepted that financial service providers also provided non-financial services to their clients. In the 70s and the 80s, most development projects had an integrated approach, in which these services were not clearly distinguished, let alone separated.

The minimalist approach

However, in the 80s this approach was more and more questioned as issues of sustainability and market development started to become more important. Gradually a growing consensus was reached among MFIs that their core activity was providing financial services and thus providing non-financial services was not their responsibility. Consequently, in the late 80s and early 90s

many microcredit programmes began to scale back their BDS activities. BDS was no longer a prerequisite to obtaining credit, and more and more MFIs began to narrow their focus to financial services and to leave BDS to other actors.[6]

Although this was a logical response from the microcredit sector to the growing pressure to achieve financial sustainability –for many reasons which we will not go into at this stage– it made it virtually impossible to continue providing BDS to micro-enterprises without external funding, either from the government (e.g. for agricultural extension services) or from foreign donors. And it should come as no surprise that -just as in the case of financial services– a debate soon arose on how to increase the financial sustainability of BDS. And just as in the case of micro-finance, guidelines were drawn up with this in mind.

As cross-subsidization of BDS by MFIs from their financial services was no longer approved of, government spending had to be curbed to achieve financial stability and donor programs did not last for ever, there was a clear need to find ways to increase the financial sustainability of BDS or else stop providing these services altogether. Many BDS programmes disappeared as a result. But others sprang up as new approaches were introduced and different stakeholders began to realize that full cost coverage was not a realistic goal for BDS aimed at micro-enterprises.[7]

As financial and non-financial services became separated, the practitioners in both fields tended to become more specialized in one or the other. This also led to a growing realization that in order for BDS to have a significant impact on micro and small enterprises (MSEs), they should meet certain criteria. After all, if BDS are no longer required to obtain finance, then why should MSEs be interested in BDS if they do not see the (immediate) benefits?

Thus, practically at the same time that MFIs were moving towards a 'minimalist approach' –focusing exclusively on financial services– a debate was going on among BDS practitioners on what kind of BDS were needed and how these BDS should be provided to the target group. This led to the creation of a working group, commissioned by the Donor Committee for Small Enterprise Development (DCSED) in the mid 90s, which, in 2001, came up with Guidelines for Donor Intervention, later known as the "Blue Book".

The market development approach

One of the first and most important conclusions that were reached by the DCSED was that the traditional approach to BDS was flawed as it was basically supply-driven instead of demand-driven. Instead of facilitating the development of a BDS market, donors and governments often acted as direct providers of services and in some cases crowded out private service providers.[8] T'Thus the focus switched from direct provision of services to development of the market for BDS. This became known as the *market development approach* (MDA).

The main tenets of the MDA are described in the Blue Book. These are the so-called *guiding principles for donor intervention*. They are based on the following three major assumptions:

6. See for instance: Sievers and Vandenberg "Synergies through Linkages: Who Benefits from Linking Micro-Finance and Business Development Services?" World Development, Vol.35, No.8, 2007.

7. For instance, the Asian Development Bank stated that "it should be accepted that for non-financial services, cost-effectiveness and net social benefits are more appropriate immediate goals than full cost recovery or sustainability" (in ADB "Micro-Enterprise Development: Not by Credit Alone", 1997).

8. See: Waltring & Tomecko "From Idea into Action: the Implementation and Metamorphosis of the BDS Concept", GTZ, Eschborn, February 2006.

1. A fundamental belief in the principles of a market economy, where the State is responsible for creating an enabling environment and should only intervene to correct or compensate for market failures;
2. The majority of BDS are private goods and are thus similar to any service, thus market rules should apply;
3. With appropriate product design, delivery and payment mechanisms, BDS can be provided on a commercial basis even for the lowest income segment of the small enterprise sector.

These assumptions are important to bear in mind as they may not always apply in practice, in particular in weak or distorted markets.

The whole process of discussing the role of BDS in supporting small enterprises, which led eventually to the formulation of the guiding principles in the Blue Book (see Annex 2), took place during a period of heated debate on the strengths and weaknesses of the traditional approach and the identification of lessons learned from the past. There was a general realization that the supply-driven, standardized approach which had been followed by most donors till then had not led to significant results in terms of client impact, quality and sustainability of services.

Following the publication of the Blue Book, the focus shifted to the support of private providers, matching of supply and demand and, in general, a rigorous interpretation of the guidelines. It soon became clear that it is not always possible, in practice, to limit the support to (existing) providers, especially in very weak markets. In recent years this has led to a new concept, which has become known as "Making Markets Work for the Poor" (MM4P), which includes elements of private sector promotion, value chain analysis and support, as well as creating an enabling environment.[9]

Thus, after a period of fairly strict application of the guidelines, or at least the intention to do so, donors (and other development agents) have become more flexible and have returned to more supply-driven, less market-oriented interventions. This shift was driven both by the will to reach underserved clients in weak markets, as well as simply by the need to spend allocated budgets in a pre-determined time-frame.

Thus, many projects that are currently being implemented in developing countries aimed at promoting self-employment and business creation, as well as supporting existing small enterprises, provide heavily subsidized, free or extremely low-cost services with little or no regard for market development.

Linking financial and non-financial services

What is more, after a period of strict separation between financial and non-financial services, there is an increasing realization that there is (or should be) an intrinsic link between the two. On the one hand, micro-enterprises that receive loans from MFIs often lack entrepreneurial or business skills to make the most of these funds. On the other hand, entrepreneurs that receive BDS support often lack resources to invest in their companies and make the most of their enhanced skills and market potential.

An interesting case in this respect is IDEPRO in Bolivia, that started out as an NGO to support microenterprises and income-generating activities. After a few years it also started offering financial services to its clients. As a result of the debate on the separation of financial from non-financial services, they decided to set up a MF bank, called Ecofuturo, but recently they decided to withdraw from Ecofuturo and have once again

started to offer MF services to their clients on their own terms, combined with BDS.

Large MFIs like BRAC in Bangladesh, BASIX in India, ADEMCOL in Colombia and MiBanco in Peru, have all set up their own BDS operations, albeit with a strict separation in financial terms. All these institutions have their own approach to BDS, in some cases adhering closely to the guidelines, in other cases ignoring them to serve their own purposes. In the literature, a distinction is made on two axes:

1. Between **voluntary** and **compulsory** BDS for MFI clients (obviously, the former is more demand-driven than the latter);
2. Between **unified**, **parallel** and **partner** linkages, which refers to the degree to which financial and BD services are integrated in the same institution. Unified services are provided by the same people of one institution; parallel services by different organizational units in the same institution; and partner services by separate, but linked institutions.

By combining these two dimensions, we can identify six categories of BDS: three types of linkages, with either voluntary or compulsory services. Obviously, these categories can be further refined and will in practice often depend on the type of BDS that are provided. Basic bookkeeping skills are more likely to be provided by the MFI itself –be it in a unified or a parallel way– and to be compulsory, more so than marketing skills. Also, the type of client, his/her education level and business skills at the outset may play a role.

Sievers and Vandenberg, in their excellent overview article on the subject, present a list of some 30 MFIs that have established linkages with BDS, most of them voluntary and through partner institutions.[10] The distinction is not always so clear-cut. Some MFIs offer both compulsory and voluntary BDS to their clients, e.g. ADEMCOL in Colombia or SEEDS in Sri Lanka. In many cases, compulsory BDS are "embedded" in financial services. For instance, MF clients may be trained on how to keep their accounts during information or repayment meetings. The costs of these "training sessions" are normally included in the cost of the MF loans, through higher interest rates. MFIs see this as a necessary process to avoid high default or delinquency rates.

At the other extreme there are voluntary BDS offered by the MFI or a partner institution, which may or may not require some form of payment from the beneficiary. These BDS tend to be of a more advanced nature, not directly linked to the financial services, e.g. assistance in writing a business plan or management training. Which of these is better will always depend on who the clients are, what alternatives exist in the market and what the purpose of the BDS is for the MFI. This will be illustrated by some specific examples in section 5 below. However, it should be pointed out that relatively little research has been done so far on the actual impact of BDS both on MFIs as well as on their clients. Thus, it is too early to draw definitive conclusions on the desirability of establishing linkages between MF and BDS and which type should be preferred.

9. Waltring & Tomecko "From Idea into Action: the Implementation and Metamorphosis of the BDS Concept", GTZ, Eschborn, February 2006.

10. Sievers & Vandenberg "Synergies through Linkages", World Development, 2007

3.2. Microfinance and BDS in Europe

Since their establishment most microcredit organizations[11] in Europe have been providing non-financial services in addition to their financial services. This is especially the case in Western Europe, where microcredit has a strong focus on (re-) integrating excluded people who do not necessarily have the entrepreneurial and management skills needed to successfully run a business. Moreover, besides finding the finance to get a new business going, or to grow an existing one, the challenging administrative tasks, or red tape, which all firms have to carry out in Europe, weigh particularly heavily on microenterprises, due to their small size and limited resources. The importance of regulative and administrative formalities related to business start-ups in Europe make business support services crucial. However, to be able to provide BDS, microfinance organizations rely heavily on public subsidies and count on the help of volunteers who act as mentors or coachers.

EU initiatives supporting small business

Small and medium-sized enterprises make up over 99% of all enterprises in Europe and 90% of them are microenterprises, with fewer than ten employees (see detailed definition in Annex 3). The importance of microenterprises to the European economy is enormous: they account for 53% of all jobs.[12] Moreover, as the industrial sector in Europe is in decline and as services and innovative (IT-related) enterprises are steadily growing, micro- and small enterprises have become more important.

Acknowledging the importance of micro- and small enterprises for the economy, the European Commission has adopted the "Think Small First" principle. It has introduced measures aimed at supporting small enterprises, through establishing a more favorable business environment for small business as well as enabling business support systems. The "Small Business Act" adopted in June 2008 comprises a set of actions to alleviate administrative burdens, facilitate SMEs' access to finance and support their access to new markets.

More specifically related to microenterprises, the EU JASMINE initiative (Joint Actions to Support Microcredit in Europe) launched in 2007, which seeks to encourage the development of microcredit in Europe, makes explicit reference to business development services. It highlights not only the need to improve the institutional framework for self-employment and micro-enterprises, but also stresses the importance of training, mentoring and business development services to increase the chances of success of new microenterprises.[13] Moreover, acknowledging the fact that such support services are hardly sustainable and most often rely on public and volunteer support, the European Structural funds such as ESF and ERDF are presented as possible resources to be made available for this purpose.

Within EU member states, a wide range of formal BDS for small enterprises exists. Most contact points of support services are decentralized; i.e. most services can be accessed either at regional or even local level. This includes the Chambers of Commerce as well as public and semi-public business support agencies. A tendency towards outsourcing support services into semi-public and private organizations is seen, but private, self-sustaining agencies for support services to micro- and small enterprises are not common.

Demand for business support in Europe

Despite the widespread existence of business support providers, studies show that the existing services are underutilized by microenterprises in Europe[14]. In general, micro-enterprises and sole proprietor businesses are less inclined to seek support services than small enterprises. This may be due to the fact that particularly smaller enterprises find it difficult to identify or express their actual needs for external support. A second reason is that entrepreneurs simply are not aware of the existence and availability of support services: Seventy-six percent of European micro-, small and sole proprietor businesses lack information on the availability of support services for their enterprise.[15] On the supply side this means a "lack of visibility" of support services and thus a mismatch between how enterprises want to be informed and how providers actually promote and organize the services they offer.

There is also evidence that the manner in which external support services are provided does not necessarily match the needs of microenterprises. Microenterprises tend to prefer a personalized approach and appreciate information provided by means of direct contacts (mailing, telephone) or personal visits by service providers. Moreover, the majority of small and sole proprietor businesses (70%) ask for support services that are specifically targeted at enterprises of their respective size class. However, the majority of support services have no target group orientation as far as size class, sector, or phase of development of the enterprise are concerned. Almost all support services offered address all SMEs in general without differentiating between subgroups.[16]

Linking financial and non-financial services

Microcredit providers in Europe have established different ways of linking their financial services to BDS. The EMN Survey « Overview of the Microcredit Sector in the European Union 2008-2009" shows that most microfinance providers in Europe either provide BDS services such as mentoring or coaching to their clients themselves (on an obligatory or voluntary basis), often with the help of volunteers such as retired businessmen and -women, or they refer their clients to external BDS providers, either public or private.

Out of the 170 responding microcredit providers, 20% deliver BDS services to their clients on an obligatory basis; another 20% require their clients to take up BDS in some cases only. Fourteen percent provide BDS only if the client asks for it. Finally, 27% of the organizations do not provide BDS themselves but do refer clients to other organizations. Only 19% of the organizations do not provide any BDS at all.[17]

11. Microcredit in the EU is defined as "the extension of very small loans (usually below € 25,000) to entrepreneurs, to social economy enterprises, to employees who wish to become self-employed, to people working in the informal economy and to unemployed and others living in poverty who are not considered bankable" (COM(2007) 708 final, A European Initiative for the development of micro-credit in support of growth and employment, November 2007).

12. http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/crafts-micro-enterprises/#h2-4

13. COM (2007) 708 final, A European Initiative for the development of microcredit in support of growth and employment, November 2007.

14. Support Services for Micro, Small and Sole Proprietor's Businesses of the EC, DG Enterprise (April 2002).

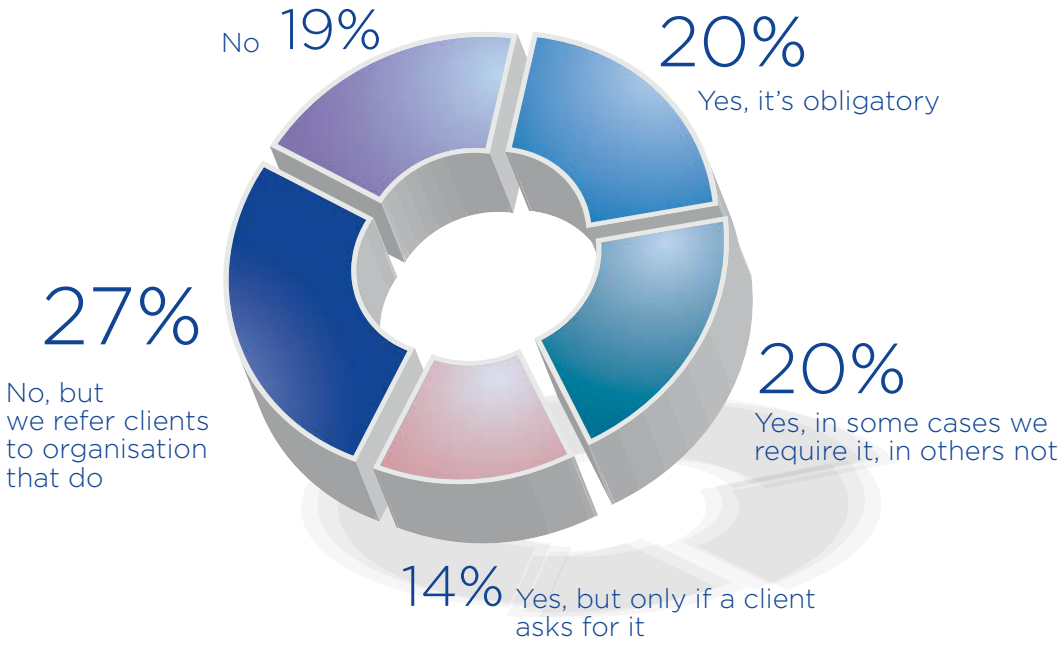
15. ibid

16. ibid

17. However the 19% is probably an overestimation as the question was not applicable for several organizations that did not provide BDS as they exclusively provide personal microloans (especially in Italy).

Figure 1. Percentage of microfinance organizations providing BDS

Source: EMN, Overview of the Microcredit Sector in the EU 2008–2009

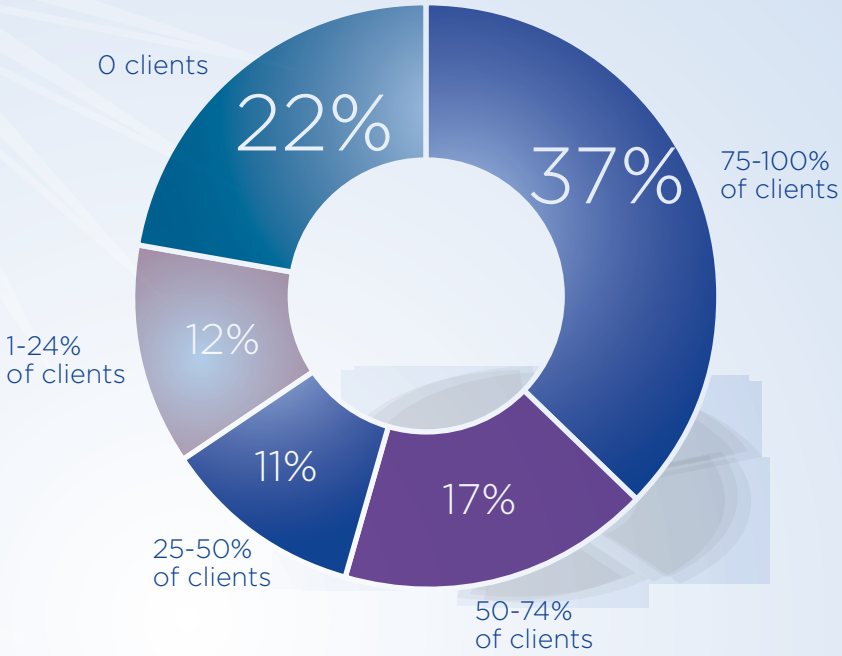


Among organizations that provide BDS to their clients on an obligatory basis, Western European microfinance institutions in the field of social inclusion and job creation are clearly overrepresented; they are above all NGOs, but also non-bank financial institutions (NBFIs). Western European organizations are also overrepresented when it comes to referring clients to external providers; such referrals are especially common with banks and savings banks as well as NBFIs. In contrast, more often than their Western counterparts, Central and Eastern European microcredit providers, and here especially NBFIs, do not provide any BDS at all.

Fifty-four percent of all microfinance providers state that in 2009 over half of their clients took part in BDS programmes. Amongst these organizations, 69% are located in Western Europe. Twenty-two percent of all microcredit providers indicate that none of their clients benefited from BDS in 2009.

Figure 2. Percentage of microfinance clients that participated in BDS programmes

Source: EMN, Overview of the Microcredit Sector in the EU 2008–2009



What percentage of clients did participate in your BDS programmes (2009)?

Susana owns a shoe-repair shop in Italy

Manuel set up a hairdresser's shop in Portugal

04.

Good practice cases of BDS provision for small business in the South

In this chapter some examples of MFIs that either provide BDS to their clients themselves or have established linkages with partner institutions for this purpose are reviewed. Strictly speaking, these are not all "best practices" but interesting business cases that can serve as reference for further debate. Unfortunately, there is a lack of well-documented and researched cases that are comparable, so that the cases presented do not cover all options or modalities, but they do provide some insights into the desirability of linking BDS with MF.

As far as possible the cases have been chosen on the basis of a range of criteria as applied in other good practice studies in the field of entrepreneurship in Europe[18]. Some additional criteria have been used that specifically concern the role of BDS in relation to microfinance services. Thus, specific reference is made to:

18. Such as : IMES/Triodos Facet, Entrepreneurial diversity in a unified Europe, Ethnic Minority Entrepreneurship/Migrant Entrepreneurship, March 2008, European Commission DG Enterprise and Industry.

Second-hand clothes stall in West Africa

Self-employed artisan in Peru

1. The mode of delivery of the services:

- Are the services provided to microfinance clients on a voluntary or compulsory basis?
- What is the type of linkage?

- Unified BDS-MF
- Parallel BDS-MF
- Partner BDS-MF

2. The contents

- Are the services adapted to the types of businesses/clients?

- Client development services
- Entrepreneurship development services
- Business Development Services

As far as possible, the following criteria have been applied for identifying case studies:

- **Relevance of the services**: the degree to which the services respond to a specific need or demand of the target group.
- **Innovativeness:** the degree to which the measure/scheme is new or unique, at least in the given context or society.
- **Quality of the services**: effective mechanisms are in place to constantly assess and improve the quality of the services.
- **Effectiveness**: the degree to which the services lead to the achievement of objectives, i.e. lead to the desired outcomes or impact.
- **Accessibility and outreach**: the services are readily available to all interested clients, not only in the urban areas, but also in more remote areas.
- **Cost efficiency:** the more entrepreneurs use the service, the greater the economies of scale and thus the cost-efficiency of the services.
- **Sustainability**: even cost-efficient services will rarely be fully sustainable, thus some kind of a structural funding arrangement will have to be in place.
- **Linkage with financial services:** there is an effective linkage with financial services.

4.1 *ADEMCOL (Colombia)*

The organization

One of the first documented cases is that of ADEMCOL (*Asociación para el Desarrollo Microempresarial Colombiano*), an MFI based in Bogotá, Colombia, that was founded in 1993 and is a member of the Opportunity International Network[19]. By the end of 2001, ADEMCOL had 3,264 active clients (94% women) and planned to reach over 20,000 by 2004. Right from the outset their target group has been poor, mostly female, micro-entrepreneurs, usually operating in the informal sector. Thus they apply a group-based lending scheme, similar to the Grameen model. The mission of ADEMCOL is now defined as "promoting micro-entrepreneurs by providing loans, business training and technical assistance".

The BDS initiative

From 1995, ADEMCOL started to provide basic business training on a compulsory basis. Due to the lack of other service providers that could fill this gap, ADEMCOL decided to provide these services themselves, initially at least. This training was combined with the weekly trust bank meetings, so as to reduce costs for ADEMCOL as well as for the clients. Besides training, other services provided on a case-by-case basis were networking, counseling and referral services.

The next phase in the process was to expand these so-called operational training services with strategic training services, such as business planning, management and personal growth training. This phase started in 1996 and was expanded in 1999 following a client satisfaction survey. These services were still "free of charge" and compulsory, as they were "bundled" with the weekly group meetings. As of 2001, ADEMCOL was also offering optional advanced services to individual clients, for a fee. A separate unit has been created within the institution to implement the BDS ("parallel linkage").

19. Fernando Alvira, Nohra Bernal, Martha Herrera, Susy Cheston, Lisa Kuhn, Suzy Salib "Bundling Microfinance and Business Development Services: a Case Study from ADEMCOL" USAID-DAI, August 2001.

Results

After the training was introduced, staff reported higher client satisfaction and lower delinquency rates, however the data collected in the study is not conclusive. Furthermore, several significant events took place during the study period (1999-2001) which may have affected the outcome, such as a huge increase in the number of clients, a large staff turnover and a sharp decline in the national economy. Thus, initial positive effects –for instance, in drop-out and delinquency rates– may have been offset by these other circumstances. Overall, the study concluded that the sustainability of the organization did increase but that this may have also been influenced by an increase in the number of clients and higher training fees, rather than simply a better performance of the MFI.

Conclusions

How can we assess the experience of ADEMCOL on the basis of the criteria mentioned in section 4? Unfortunately, recent impact studies are not available, but based on the first assessment carried out in 2001, the relevance seems to be positive as shown in the client satisfaction survey, which led to the expansion of the training services. The services can also be considered innovative as they filled a gap which was not being occupied by other business training providers in Bogotá, at least not in an appropriate and accessible way for their target group. It also seems clear that the accessibility and actual use of services was high, as the services were free and compulsory.

As to the quality of the services and the effectiveness, the picture is not so clear. In particular, the shift from operational to strategic business services proved challenging and forced ADEMCOL to invest in R&D of training modules and advanced staff training. Simply using loan officers to deliver the training was no longer possible after 1999. Thus a new unit was created within the organization to design the training modules and train selected loan officers to deliver these modules. This implied additional costs, thus threatening the sustainability of these services. The effectiveness in terms of drop-out rates, delinquency and outreach was also uncertain at the time the study was carried out.

An interesting if unintended side-effect was that the provision of BDS and upgrading of these services over time was well-received by most loan officers, as it enhanced their weekly meetings and helped them to increase their own effectiveness towards clients. There are also some testimonies from clients that indicate that they benefited from the training they received, but this is mostly anecdotal. More research needs to be done to establish the cost-effectiveness of the services, in particular in view of the fact that the client does not perceive that he/she is paying for the services.

4.2 *BRAC (Bangladesh)*

The organization

One of the largest MFIs in the world, which has now expanded its area of operation all over the world, is BRAC (Bangladesh Rural Advancement Committee). BRAC started operating in 1972, offering microcredit, social mobilization, health care and education to poor families, with a strong focus on women. By the end of 2000, BRAC's services reached over two million micro- and small enterprises. BRAC believes that microfinance services are necessary to break the cycle of poverty, but that other support services are essential to maximize the returns on their investments (and thus make the most of the microfinance loans).

The BDS initiative

The Employment and Income Generation Programme (EIGP) is an important component of BRAC's development activities, aimed at increasing the income of the poor by creating new economic opportunities and increasing productivity by effective use of scarce resources and technology. Other than some basic bookkeeping skills, BRAC does not oblige its clients to follow any training. However, within the framework of the EIGP it does offer parallel training services on a voluntary basis. Unlike most BDS programmes, which offer a mix of generic training and counseling services, BRAC has developed an integrated sector-specific approach to enterprise development for poor illiterate women with limited technical know-how. Thus, BRAC provides them with credit, trains them in improved production techniques, and provides them with farm inputs as well as technical assistance when needed.

Results

According to a study carried out in 2003, which compared clients that took only credit with those involved in sub-sector support activities, such as vocational training, access to inputs and ongoing technical advice, the ones that received BDS performed remarkably better[20]. Not only did most BDS recipients increase their income considerably, but these additional revenues considerably exceeded the service charges they paid (which covered about half the cost of these services).

Of course, in this case the services provided are very specific to the needs of the client group, e.g. creating a supply of week-old chicks for poultry farmers in a region where supply was scarce, or vocational skills training on poultry raising or tailoring. It is even debatable whether vocational training can be considered business skills, strictly speaking. As with all BDS, the impact and satisfaction level is highly dependent on the quality and relevance of the services provided, which in this case appears to have been high.

Another study which focused on clients from three MFIs in Bangladesh, including BRAC and the Grameen Bank, distinguishes between the impact of financial and non-financial services for MF clients[21]. In this case the BDS provided included social development workshops and specialized skills training. Also, in this case there was a clearly positive impact of the non-financial services for the clients, ranging from 80 to 170% increase in profits over a three-year period. Once again, this refers to very specific training for a relatively poorly educated target group with a very low initial income.

Conclusions

Both studies leave a lot of questions unanswered, for instance with regard to who actually provides the training, how the training is provided and whether the target group that was included in the survey is representative of the whole of the clientele of the MFIs involved. In particular, in the case of the first study the fact that the participants did so of their own free will and paid a significant part of the cost suggests that they would want to make the most of the training. At the same time this highlights a clear lesson learned from numerous BDS projects: "If you want the beneficiaries of BDS to really benefit from the services they receive, then they should pay at least part of the cost." Thus, it is better to talk about BDS clients, which suggests a transactional relationship.

20. Halder, S.R. "BRAC's business development services – do they pay?" Small Enterprise Development 14, 2003.

21. McKernan, S. M. "The impact of micro-credit programs on self-employment profits: Do non-credit aspects matter?" Review of Economics and Statistics, No. 84, 2002.

4.3 *PRIDE (Tanzania)*[22]

22. Oppedal, Lars, Kjetil Bjortvan, Bertil Tungodden "On the role of human and financial capital for micro-enterprise development: Evidence from a field experiment in Tanzania", October 2010.

The organization

PRIDE (*Promotion of Rural Initiatives and Development Enterprises*) is a major MFI in Tanzania with currently over 100,000 clients, mainly women, in 38 branches all over the country. They apply the Grameen model of group lending, with small loans to a target group with a relatively low level of education, running small enterprises, mainly in commerce. Their initial funding came from NORAD (Norway). Later funds were obtained from SIDA (Sweden), the HIVOS-Triodos Fund (Netherlands) and USAID.

The BDS initiative

In 2008-2009, a field experiment was carried out by the Norwegian School of Economics and Business Administration (NHH) together with the University of Dar es Salaam Entrepreneurship Centre (UDEC) to assess the impact of business training on a randomly selected group of PRIDE-clients. These results were then compared to a control group that did not receive this support. Both the treatment and the control group were clients from PRIDE branches in Dar es Salaam. The training was free of charge and took place after the weekly loan meetings for reasons of efficiency.

The course consisted of 21 sessions of 45 minutes each and covered a range of topics relevant to micro-entrepreneurs, including entrepreneurship, customer service, costing and pricing, and marketing. The course was developed by UDEC. Participation was not mandatory, nor were clients that did not take part penalised, but attendance was closely monitored and around 80% actually completed the course. Six weeks after the course, a sub-sample of both trained and non-trained clients was given a small grant (USD 80) and they were asked to keep records of how this money was spent.

Results

The results on business performance were quite impressive, but only for male clients who increased their sales and profits by about 26% on average. The positive impact was mainly due to better performance in the "bad months" (with lower than average sales), which stands to reason and suggests a causal relationship with the training.

By contrast, no statistically significant effect was found for female clients, neither in bad months, nor in good months. Likewise, the effect of the business grant on business performance was insignificant as well. Thus, both for males and females, the injection of a business grant does not seem to improve profit or sales.

Conclusions

The researchers conclude that:

1. The training tended to benefit the larger enterprises more than the smaller ones, the former are mainly male-owned, whereas female entrepreneurs tend to have very small "income generating activities";
2. Poorer opportunities for women in the labour market are a strong motivation for females to become entrepreneurs, out of necessity rather than desire. Therefore, their ambition level (willingness to compete) tends to be lower;
3. Thus, there is a fundamental difference in the mind-set between male and female entrepreneurs, at least among clients of PRIDE in Dar es Salaam.

This is quite a far-reaching conclusion on the basis of one study with a sample of only about 300 trained clients (both men and women). Nevertheless, the policy implication that the researchers derived from this analysis does seem worth thinking over: "It could well be that improving the opportunity of females on the job market could be a (more) effective way to stimulate entrepreneurship." This could also "lead to a more favourable selection of females in microfinance, and thus to a larger effect on business development of both financial and human capital."

In terms of our criteria for good practices, it seems that the PRIDE case is relevant and to a certain extent innovative. However, the sustainability of the BDS is by no means clear as the researchers do not address this issue in their article. The way the results are presented, it would seem that this was a one-off experiment, which was not continued on a structured basis let alone integrated into PRIDE's normal services. There is also no mention of other complementary support services, such as mentoring or counselling, which could contribute to a more sustainable impact on the entrepreneurs.

4.4 *Banco del Crédito / Financiera Solución (Peru)*

The organization

The Peruvian MFI Financiera Solución (FS) was founded in 1996 by Banco del Crédito del Perú (BCP) and a Chilean Bank. FS focused on low-income clients and started out with consumer credit, but changed its focus to micro- and small enterprises (MSE) in 1999. Within three years, microcredit (to microenterprises) increased its share in the FS credit portfolio from 36% to 80% in 2002, thus becoming the main focus of the MFI.

In 2004, FS was one of the three main MFIs in the country in terms of number of clients and size of portfolio, together with MiBanco and Banco de Trabajo. At the time, BCP was the largest bank in Peru, providing 33% of all credit, including microcredit. FS has 32 branches, 10 of which are in Lima, and as part of BCP it has access to the infrastructure of its "mother bank" with over 200 branches and many more ATMs.

The BDS initiative

At the end of 2000, FS organized focus group discussions with some of its better clients, in terms of debt repayment. One of the ideas that came up was to offer business training as a reward for clients with a good repayment record. After assessing different options they chose the IYB (Improve Your Business) package developed by the ILO and implemented in Peru by COPEME. IYB is a basic training package, aimed at assisting small entrepreneurs to improve their business performance. The approach is practical and interactive, with simulation games and role plays. The package consists of six modules of six hours each covering topics such as marketing, stock control, costing and planning.

After a pilot project implemented by COPEME, FS decided to train its own staff in order to reduce costs and to strengthen the relationship of their credit agents with their clients. Thus, they chose a unified/parallel approach. However, at a later stage the mother bank (BCP) decided to switch to a partner linkage, as we shall discuss below.

Results

Between 2001 and 2004, FS trained 81 of its own staff, who in turn trained some 2,600 FS clients from about 120 different branches. Altogether 443 investment projects were presented by the participants over this period, of which 159 were approved with an average investment of about USD 2,900 per project. Thus, as a more or less direct result of the training, FS was able to increase its credit portfolio and some of its clients were able to realize investments in their enterprises, which they might not have been able to do without the training.

As to the sustainability of the training, an investigation carried out in 2004 estimated that the investment cost of the training was USD 78,000, excluding the salaries and travel expenses of their credit agents, which was hard to determine as the training was often combined with regular visits[23]. Based on an average return on investment of 9% the study concludes that the additional investment as a result of the training had led to additional revenues of about USD 42,000, which suggests that about half of the investment cost of the training may have been recovered in about 2-3 years. Of course, it is by no means sure that these investments would not have taken place without the training, but the training may have enabled the entrepreneurs to plan their investment better and, at the same time, enabled the credit agents to assess the feasibility of the investment more thoroughly.

Conclusions

There seems to be a positive trade-off between training and financial services. Other side-effects seem to be increased staff motivation and client satisfaction, which may in turn contribute to a lower drop-out rate of credit clients. However, at the time that the study took place only about 6% of the total clientele of FS had been trained. Thus, there was still a lot of scope for expansion. According to the study, the clients who attended the training could be characterised as slightly higher educated, predominantly women and in general more growth-oriented. Unfortunately, the study does not go into the possible impact of the training on the business performance of the entrepreneurs in terms of turnover or profit.

23. M. de Riujter de Wildt "Linking BDS to Financial Services", ILO, March 2004.

Follow-up

Apparently no further research was done at a later stage by FS or other researchers to assess the validity of the conclusions on a longer term, which is a pity. However, it is interesting to note that BCP –which has now taken over the microcredit operations [24]– has embarked on a new training programme for its clients, which is now being implemented together with Universidad del Pacifico (UdP) and consists of three modules of 27-33 hours each.

The first module (Basic Business Skills Development) focuses on basic marketing, client orientation, basic accounting and cost control, and staff recruitment and motivation. The second module (Strengthening Business Management Skills) focuses on strategic planning, information systems, strategic marketing, financial planning and HRD. The third module (Advanced Courses) covers a number of optional topics, which are basically the same as in the previous module, but on a higher, personalized level. This module also includes three hours of individual business counselling.

Contrary to the case of FS, the training is provided by teachers from UdP and it is not only provided to BCP clients, although they do get a discount on the price. This is another new feature: the services are no longer free of charge, with participants in the capital Lima having to pay € 144 for modules 1 or 2 and € 208 for module 3, and € 92 and € 138 respectively for BCP clients. Rates are 20-30% higher outside of Lima, which is due to transportation costs of UdP teachers who live in Lima. Nevertheless, considering the distances and weak infrastructure of the country, the rates for training courses in the provinces are probably subsidized.

No information was available on the number of participants at these courses, let alone the impact of the training on both the participants and BCP. It is interesting though that the FS approach of providing training by their own staff, free of charge, on the basis that these costs would be (partially) recovered through better performance of their clients leading to increased revenues for the MFI, was not continued by BCP. Instead they opted for a "partner linkage" with UdP, offering training –plus a small amount of counselling– for a reduced fee, on a strictly voluntary basis. It seems that the FS experience was not sustainable in the long run and thus the mother company opted for another approach, which reduces their financial risk, without depriving their motivated clients of having access to high quality training. The pricing of the training modules suggests that the purchasing power of the clients was taken into account.

4.5 *Al Amana / Moukawalati Programme (Morocco)*

The organisation

Al Amana is one of the oldest MFIs in Morocco, set up in 1997 to provide credit to micro-entrepreneurs and artisans. By the end of 2009 they had over 400,000 active borrowers and a gross loan portfolio of about USD 350 million, distributed through 360 branches. It started operations with financial support from USAID and the Moroccan government, and technical assistance from VITA, an American NGO. Al Amana started with an urban focus, but after 2003 rapidly expanded its rural operations. By the end of 2008, Al Amana had operations in all the sixteen administrative zones in Morocco. Al Amana focuses its services on economically active men and women, from different income levels, who do not have access to formal banking services. Initially all loans were group-based, but since 2004 they have also started individual lending and housing loans.

The BDS initiative

After conducting a market study with Al Amana clients and detecting a high degree of willingness to pay for BDS, Al Amana, with the support of VITA, added training services, mainly in order to strengthen Al Amana's position in the competitive micro-credit market[25]. The training was delivered through short videos –to be able to reach a high percentage of illiterate clients– followed by discussions. The training was voluntary and not a requirement for accessing credit. Costs were very low at only USD 1 per session of 7-10 people.

24. FS has now become the mortgage unit of BCP.

25. Based on Sievers & Vandenberg (2007), Micro-Credit Ratings International Limited, Gurgaon, India (July 2009) and own observations from Triodos Facet activities in Morocco.

Results

In the first two years (2001-02) over 1,500 clients were trained, representing about 7% of the active clients at the time, with very positive results according to an unpublished evaluation[26]. The training team considered the training to have a bigger impact on their clients than the micro-credit. The training also enabled Al-Amana to distinguish itself from other MFIs in an increasingly competitive market.

However, it proved difficult to produce new videos and not all loan officers had the required skills or commitment to provide quality training. This led to a reassessment of the training programme; the hiring of a senior staff member specialized in marketing of training; and more investment in training loan officers. Nevertheless, as the M-CRIL report from 2009 states: "Considering the outreach of Al Amana, these initiatives (i.e. the non-financial services) though vital have a very negligible coverage".

Conclusions

The support services were based on a market survey which was carried out prior to the design and launch of the training programme and thus we may assume that they responded to the needs of the target group. This was reinforced by the decision to use videos to reach mostly illiterate clients, which was an innovative feature of the BDS programme allowing for easy access. The costs for participants were kept low, while still requiring a commitment from the participants and generating some revenues to cover part of the real cost. However, in 2007 the long term sustainability of the training programme was not yet assured.

Follow-up

In 2006, the Moroccan government launched an ambitious business creation scheme, called Moukawalati. The original goal of this programme, involving a wide variety of organisations (including Chambers of Commerce, MFIs –including Al-Amana- and training NGOs), was to assist in the creation of 30,000 formal enterprises. This goal was subsequently reduced to 3,000 in 2008, but even this was too ambitious. The idea was to provide integrated support –both financial and non-financial– starting with training and business plan counselling and ending with post start-up assistance. Foreign experts were recruited to train all the parties involved, but not much attention was given to the post start-up assistance.

In 2010 a new project was started, with US-funding through MCC, to set up a pilot programme to support 400 enterprises from the Moukawalati programme and 200 income-generating activities from the National Initiative for Human Development (INDH), all of which had started in or after 2006. The 600 randomly selected beneficiaries of this project, implemented by Triodos Facet and local partner Attitude

Conseils, will be compared with a control group to assess whether the intensive training and counselling activities have had a significant impact. The results are expected to be known in 2012.

This pilot project goes against most of the guidelines from the BlueBook[27]. For instance, no market research was carried out beforehand to assess the real demand for BDS. Neither do the beneficiaries pay for the services. What is more, they did not ask for the services and some have actually refused them. Thus it seems that we have come full circle and need to reassess the validity of the Market Development Approach.

Sometimes going against commonly accepted principles can shed new light on a situation and in this case ignoring the guidelines may be worth the gaining of new insights into the impact of BDS on the business indicators of beneficiaries as compared to non-beneficiaries.

Despite certain drawbacks in the approach, such as the short time period and the random selection of the participants, it is an interesting experiment which, if successful, will lead to MCC increasing its financial support to provide the same services to a much larger group of as many as 6,000 beneficiaries in the next phase. Furthermore, the project also aims to assess which types of service (training, counselling, coaching, networking) are most effective for which type of enterprise, which can be an important benchmark for future projects.

26. Tkwin Jdid Performance Report (2003), in Sievers and Vandenberg (2007).

27. See page 8

05. *Conclusions*

As mentioned in chapter 2, three broad categories of BDS can be identified, each with their own relevance for a particular type of enterprise. These categories are listed in table 1.

Textile workshop in South East Asia

Cristiana works as a tailor in her own shop (Italy)

Printing press in Ghana

Glenn repairs electronic devises, Belgium

Table 1. Categories of Business Support Services

Type of services	*Details of services/ characteristics*
General information and orientation	Informing clients about conditions linked to the financial products offered. Orientation about pre-loan steps to be taken such as group formation Explanation about repayment conditions
Client development services	Raising awareness among clients on basic personal (financial) situation. Generally aimed at preventing harmful situations (e.g. over-indebtedness, unhealthy environments). Clients are often in survival mode and not in position to pay for these services. When focus on financial literacy also applicable for other segments and (moral) responsibility of Financial Institutions (FIs).
Entrepreneurship development services	Helping individuals to raise awareness on entrepreneurship as a career choice and to prepare for start of their own business. Also basic business skills training. Focus on clients aspiring to set up a business from a positive choice, not so much out of necessity.
Business development services	Supporting existing small business owners to improve their operations, ranging from business advice, technical skills training and linking entrepreneurs to markets.

Each type of support services is relevant for a particular client group. Small entrepreneurs benefit most from comprehensive business advisory services (ranging from management training to support in business plan formulation) while individuals struggling to survive and engaged in additional income generating activities might just need some simple information or orientation.

Acknowledging this peculiar "Service/Client group Mix (SCM)" is the basis for the design, development, financing and implementation of effective service delivery mechanisms. It can help MFIs to decide which services they should offer themselves and which would be better offered by third parties with whom they can then enter into strategic alliances. That allows MFIs to focus on their core activity: rendering financial services (see table 2).

Table 2. Relation support services and MFIs - "Service/ Client group Mix (SCM)"

Source: Author based on work of Sievers/ ILO (2004)

		Support services			
		Information services	*Client development Services*	*Entrepreneurship Development Services*	*Business Development Services*
Microfinance Institution Clients	Small enterprises.	Formal information by means of brochures, leaflets.	Financial education.	Enterprise Education (for instance, at vocational training schools or at polytechnic level). Business Creation programmes.	Management training. Business Advice. Technical skills training. Supply chain / market access. Innovation programmes. Sector / market studies. Business associations. Health, safety and environmental advice.
	Micro enterprises.	Formal information by means of brochures, leaflets.	Financial Literacy programmes. Health, safety and environmental awareness.	Enterprise Education (at vocational training level).	General business skills.
	Self-employed / hybrid entrepreneurs.	General information on lending conditions.	Financial Literacy programmes.		Adjusted advice. Informal training.
	Income Generating for Survival.	General information on lending conditions.	Financial Literacy programmes.		

Thus, the categorization of services and clients presented above can help MFIs decide, on the basis of their own clientele, which support services they need most. But the decision on how to provide these services –in a unified, parallel or partner approach– can only be taken after thorough market research has taken place. In this respect, the Market Development Approach mentioned in chapter 3 has not lost any of its relevance (see Annex 2). The market research should provide information on who to involve in the provision of the support services, where and when to offer the services, as well as what price to charge clients for the services.

Ideally, the costs of these services should be fully covered by income generated from direct payments from participants and/or additional revenues from credit operations as a result of the business support services. In practice, this will not always be possible or not easy to ascertain, so that some degree of subsidization will be necessary, at least in the start-up phase. There may be many reasons for continuing to subsidize these services even after the start-up phase, such as a way of promoting the financial services or in order to attract clients that may have growth potential and thus "pay back the investment" in the long run. Other reasons may be to motivate staff by providing quality services or to attract funds from donors/sponsors.

Whatever decision the MFI takes with regard to the type of linkage, there are a number of lessons learnt which need to be taken into account. We will mention some of these lessons below and illustrate them with the cases presented in chapter 4.

1. Always start with a thorough market assessment, both on the supply side as well as the demand side: Even MFIs with a long track record do not automatically have a clear vision of what their clients need in terms of business support services, nor are they fully aware of which services are already provided or can be provided by existing BDS providers. A market assessment can be costly and time-consuming, but can avoid mistakes which are hard to correct at a later stage. It can also serve as a baseline study for measuring the impact of the support services later on.
2. Quality services means offering the right type of services at the right time to the right clients: This means setting up tailor-made support services, where and when possible, and taking into account particular preferences and constraints of your target group at all times. For instance, in the case of BCP in Peru (4.4) training was provided in the evening and there were three levels (modules) which could be followed on a voluntary basis, depending on the needs and capacity of the clients.
3. Always ensure some kind of commitment from the client, either by charging a price for the services or in a non-monetary way. As mentioned above, full cost coverage is rarely possible, but nevertheless some form of cost sharing is highly desirable, if only because clients tend to attach more value to a service which requires a contribution from their side. In the case of the Al Amana programme in Morocco (4.5) the cost per training session was the equivalent of

only one US dollar, but it still proved to be a selection mechanism. The same is true for the case of BRAC in Bangladesh (4.2) where even the extremely poor pay about half of the cost of the training they receive on a voluntary basis.

4. Take into account the dynamic nature of the market, both of your clients as well as of business service providers. Micro-entrepreneurs can become small entrepreneurs and eventually grow into big enterprises. The same applies in an aggregated sense to the client group of an MFI. Over time their financial needs will change and so will their support needs. Likewise BDS providers are constantly changing and the market is developing. An example is the Peruvian case, where FS-BCP (4.4) initially started out providing the service itself, but later opted for a partner arrangement with Univ. del Pacifico. A similar shift took place in the case of ADEMCOL in Colombia (4.1) where the MFI moved from a unified approach to a parallel approach in order to meet a more sophisticated demand from clients.
5. Set up a good monitoring and evaluation system right from the start and make optimum use of information generated from this system. Measuring the effect of the BDS on different levels and with different key indicators is essential to ensure quality services. This need not be an extremely sophisticated system and often some kind of combination can be made with the information that is required for credit provision. In some cases, information generated in this way can also lead to new opportunities for financial services. In the case of PRIDE in Tanzania (4.3) and once again FS-BCP in Peru (4.4), the training provided to their clients made it possible for the MFIs to make a selection of credit-worthy clients, to train them to develop a feasible business idea into a "bankable" business plan and thus to increase their credit portfolio in a reliable way, generating an additional return on the loans provided.
6. Do not lose focus of your mission and your core competence. Whether the institution opts for a unified, parallel or partner approach, it should always bear in mind what it set out to do in the beginning. An example in this sense is ADEMCOL in Colombia (4.1) where, even though the direct involvement of loan officers in training activities was well-received by them, it was decided to create a new training unit separate from the credit department in order to increase the effectiveness of the training. The same is true for BRAC in Bangladesh (4.2) where sector-specific training services are provided on a voluntary basis by a separate team of BDS specialists, following a parallel approach.

ANNEX 1: *Bibliography*

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ANNEX 2:
Guiding Principles for BDS Market Development Approach

The Guiding Principles for the Market Development Approach can be summarized as follows:

1. Start with a market assessment: Any intervention to provide BDS to MSME should always start with an assessment of the market situation at the outset, in order to get a clear picture of the supply of BDS to and demand for BDS from MSME;
2. Demand-side vs. supply-side interventions: Based on the market assessment, a choice should be made between demand-side (facilitating access to existing BDS) or supply-side (developing and/or providing new BDS) interventions, or achieving the right mix of these two options;
3. Delivery and payment mechanisms: The way that the BDS are delivered to and paid for by the prospective clients should take into account the local circumstances and characteristics of these clients;
4. Subsidies: Long-term donor subsidies are likely to distort BDS markets and crowd out commercial provision of services, thus undermining the impact, outreach, cost effectiveness and sustainability of these services;
5. Exit strategy: BDS interventions should have a clear and feasible exit strategy right from the start. This exit strategy should be linked to the achievement of specific goals determined during the market assessment, e.g. creation of sustainable BDS providers or viable BDS products;

6. Focus on TA and incentives: Donor interventions should concentrate on support for facilitation, technical assistance and incentives to encourage competitive performance of new and existing BDS providers, and the development of appropriate service providers;
7. Selecting partner institutions: Successful BDS providers are demand-led, entrepreneurial and act as commercial market players. (...)
   For BDS interventions to be both effective and sustainable, they must build on what is already there rather than importing new visions or models;
8. Role of BDS facilitation: There should be a clear distinction between BDS facilitation and BDS provision. In principle, donors should leave direct provision to the local BDS providers, although at the outset it may be necessary to support existing or new providers, or launch new services. In the long run, even facilitation can be delegated to "the market";
9. Performance measurement and assessment: Systematic performance measurement provides a good basis for improving the design of instruments in response to client demand as well as facilitating decisions by donors on types of interventions to improve the BDS market.

ANNEX 3:
Definition of Micro-, Small and Medium Enterprises

As shown in the graph below, micro- and small enterprises in the EU are defined in relation to their number of employees, turnover and balance sheet.

Definition of Micro- Small and Medium-sized Enterprise in the EU

SME category	Medium-sized	Small	Micro
Headcount	*< 250*	*< 50*	*< 10*
Turnover	*< €50 million*	*< €10 million*	*< €2 million*
Balance Sheet total	*< €43 million*	*< €10 million*	*< €2 million*

Source: EC DG Enterprise and Industry

http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm

However, beside these quantitative aspects, microenterprises are also characterized by more qualitative factors that they have in common with craft enterprises, such as a strong involvement of the owner or head of the enterprise in all steps of the workflow (financial independence, strong personal responsibility), craft, technical and management competences (apprenticeship as one means of passing on those competences), an active contribution to production of products and services (in particular tailor-made and single-size products or in small quantities) and proximity to the client and local activities[28].

28. ibid.

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Without the financial support of the European Commission within the framework of the European Community Programme for Employment and Social Solidarity, the publication of this study would not have been possible. The contents of this publication do not reflect the opinion or position of the European Commission. The sole responsibility lies with the authors and the Commission is not responsible for any use that may be made of the information contained therein.

Paris
103 Rue de Vaugirard
75006 Paris - FRANCE
Tel: +33 (0)1 42 22 01 19
Fax: +33 (0)1 42 22 06 44

Brussels
4 rue de la Presse
1000 Brussels - Belgium
Tel: +32 2 227 27 06
Fax: +32 (0)2 218 31 41

emn@european-microfinance.org

www.european-microfinance.org