



# **Who profits from linking BDS to financial services?**

by

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Turin, September 2003



# 1. Why linking BDS to financial services?

- MSEs need credit as badly as they need BDS
- Outreach of financial institutions to millions of clients... can this be used to increase outreach of BDS?
- Financial viability of BDS providers might increase if linkage to financial service can be offered
- Financial instruments could be designed to finance the purchase of BDS, increasing access to BDS



## 2. Why haven't we be talking about linking BDS and finance?

- Problem of overburdening institutions that are struggling with financial sustainability
- «Hostility» of the Microfinance industry and traditional banks
- Different approaches of microfinance and BDS' «new paradigm»
- Traditional «donor driven» BDS-financial linkages vs. market driven process



### 3. Is it back on the agenda?

- Several agencies working on the issue: USAID, IADB, ILO
- It is being implemented widely in the field by a wide variety of actors
- Financial service providers are feeling more competition and are looking for ways to:
  - Get a marketing advantage by offering new/additional service products
  - Binding clients to their institution by offering credit plus BDS for good clients



## 4. What is out there? Types of existing linkages

ILO desk review on existing linkages by internet and library research, some key interviews and postings to list-serves:

- Hypothesis was that linking BDS to financial services would be beneficial to three main groups of players: MSEs, Financial institutions and BDS providers
- More than 25 cases of linked delivery identified, mainly initiatives of donors or financial institutions
- Most of these still very much «donor driven» and «mechanical»
- Very few BDS providers/facilitators have effectively been trying to link up to financial service providers



## 4. (cont.) What is out there?

**Voluntary  
(client  
decides)**

**Compulsory  
(service  
package)**

**Unified**

Financiera Solución  
Tkwin Jdid Al Amana

FFH

**Parallel**

BRAC

**Linked**

CARE Bosnia

Financiera Solución Tkwin Jdid Al Amana	FFH
BRAC	
CARE Bosnia	



## 5. Tkwin Jdid Al Amana, Morocco

Al Amana, a large microfinance provider in Morocco, has launched BDS linked to its financial services

- Based on market research and clients willingness to pay for micro-training
- Micro-training through digital videos delivered alongside credit payback sessions
- Voluntary for the clients
- Low transaction costs for the clients
- 3 US\$ for three training sessions based on videos and discussions



## 6. Financiera Solución, Peru

Financiera Solución is a commercial financial institution that entered the Peruvian market to deliver consumer credit

- Discovered the MSE market as specialized market niche
- Introduces management training programmes for good clients
- Training is offered free of charge to the clients, to try to attract and retain the most dynamic businesses
- Reaches more than 4,000 clients per year (out of 200,000 FS clients)
- 10-15% of clients to whom the training is offered actually take the training



## 8. BRAC, Bangladesh

BRAC is one of the biggest NGOs worldwide. Sector-specific BDS are delivered to credit clients. An impact study by Halden showed that:

- Clients pay a contribution for the training but find it difficult to distinguish between credit and BDS service
- BDS is highly cost effective for the clients
- Clients cover only 47% of the cost of BDS for the institution but could easily cover the whole cost considering the gain in profitability of their enterprises



## 9. Conclusions

- Market signals crucial for success (compulsory linkages and strongly donor- driven processes seldom seem to work)
- Different types of MSEs need different types of services: extremely poor vs moderately poor
- Should we link?
  - Repayment rates of clients are not a convincing argument for financial service providers to link to BDS providers
  - Little evidence yet on «best practice» model



## 9. Conclusions (cont.)

- Is there a demand for linking from the MSE side?
- How market driven can the process be?
- Can we find private/commercial examples of linked provision?
- New financial instruments for MSEs as «door openers» for BDS (leasing etc.)?