

Facilitating Business Development Services (BDS) for micro Finance Institution (mFI) Clients in India

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Microfinance sector significantly contribute towards promotion of livelihoods in India. Microfinance refers to provision of financial services including credit, savings, insurance and remittance. In India, micro Finance services is provided by different types of organizations like Self Help Groups (SHGs) and their federation, Cooperatives, Non Government Organizations (NGOs) and also different forms of micro Finance Institutions (mFIs). Amongst these institutions, there is increasing trend in provision of micro Finance through mFIs. Through efforts of mFIs, there has been increase in availability of micro Finance services (mainly credit) to poor families across the country. In many cases, mFIs have provided credit to their clients for promotion and strengthening of micro Enterprises. However, field observation reveal that, standalone credit (as an input) is not contributing towards promotion of micro Enterprises. As most of the micro Enterprises are operating at sustenance level (not on the growth path - requiring future investment), there is limited opportunity to utilize the credit, being availed from mFIs. There are also limited on going efforts to promote new micro Enterprises that could utilize credit.

It is an established fact that micro Enterprises require both financial and non financial services. Non Financial services include services relating to technology, training, business planning, marketing and sourcing raw materials; popularly known as **Business Development Services (BDS)**. Unlike growth in micro Finance service market there has not been growth in BDS service market to support/promote micro Enterprises in India. There is an urgent need to develop BDS service market for micro Finance clients. Micro Finance Institutions may have to reorient their current strategy to cater to BDS needs of their clients. This would enhance their quality and size of portfolio. This would also strengthen their contribution towards promotion of micro Enterprises and in enhancing quality of life of poor families.

There are three potential options for mFIs to cater to BDS needs of their clients i.e. provide BDS along with micro Finance service (with existing team associated with mF), provide BDS as an independent service or collaborate with BDS facilitating organizations. Although it is desirable to provide BDS and micro Finance services in an integrated manner, experience reveals that in practice, it is quite difficult. While micro Finance service involves two way process (ex. disbursement of credit and recovery), BDS would be largely one way service. Skill and attitude required for field team to provide micro Finance service and BDS is quite different. At times, failure of BDS (which may not relate to input of BDS provider) affects certain micro Enterprises, further affecting the credit portfolio of mFI. Often clients mix up credit with failure of BDS and stop repaying loans. Hence it is practically difficult to offer BDS and micro Finance services in an integrated manner.

The other possibility is to offer BDS through separately promoted organization or through separate team within mFI. In this case, it is also equally challenging for top management to simultaneously give attention to BDS and micro Finance services. Micro Finance market has a clear focus on financial sustainability. This is not the case with BDS market. Current BDS market is quite informal and is evolving. The focus on financial sustainability is yet to emerge. It is also an established experience across geographical locations and size of financial institutions that, it is better for a financial institution to concentrate on their core service i.e. financial services than getting into BDS.

In this context, the most relevant option for mFIs is to collaborate with different BDS facilitating organizations in ensuring BDS to their clients. This may require promotion and support to new BDS facilitating organizations. With this MFIs can contribute to development of sustainable BDS market for micro Enterprises in India, with out loosing focus of their core service i.e. micro Finance.

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