Business Development Services and Economic Development through Community Savings Re-investment Approach

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Abstract
In the last few decades, microcredit has become the predominant strategy for alleviating poverty from the world, while micro savings and all other forms of business development services have been overlooked. This paper will assess the need for business development services and their growing importance among rural households of financial services including micro savings, payment services and remittances. The study aims at revealing the constraints that the rural poor people face other than finance such as access to markets, price information and skills training.

Keywords: Financial Services; Non-financial Services; Micro savings; Business Development Services; Community Savings

JEL classification: (O16, P36, R51, I32)

1. Introduction
“Microcredit is not appropriate for everyone or in every situation. The destitute and hungry that have no income or means of repayment need other forms of support before they can make use of loans. In many cases, small grants, infrastructure improvements, employment, training programs, and other non-financial services may be more appropriate tools for poverty alleviation. Wherever possible, such non-financial services should be coupled with building savings.” (CGAP, 2004)

The financial system that was started decades ago by providing microcredit to women acknowledges women as the forgotten half of the poor. The last decade had to face many questions and development strategies as microcredit moved on to microfinance. By providing microcredit to the poor; it was recognized that the poor are the forgotten half of the population; landless women were better qualified for loans than male land owners, likewise informal business was recognized as the forgotten half of economy. Practitioners and academics started to question why the poor only need microcredit and do not need other financial services like micro savings. This critical questioning was an acknowledgment to micro savings as the ‘forgotten half of microfinance’. Why cannot the poor enjoy individual
financial services? This style of intervention is called the ‘financial services approach’ (Rutherford, 2003a).

“By the late 1990s, especially within the microfinance sector, we heard hardly any debate on questions about development. Instead, the debate in microfinance was focused exclusively on technique and scale, with purpose and impact having been taken largely for granted” Marten and Paul (2007)(quoted in Fisher and Sriram. 2002)

Now we come to another crucial cross road; If financial services are the only or major constraint in doing business for poor people.

**Business Development Services**

People living in abject poverty have little or no education, poor access to markets, unreliable infrastructure, lack of access to information resources, inadequate technical skills, inability to perform simple mathematical calculations, poor health conditions and no access to clean drinking water and struggle on daily basis to earn their livelihood. This is the picture of the rural area of any developing country. The poor in rural areas are small farmers, street hawkers, small shopkeepers, wage laborers and low paid contractual workers who are fighting to cope with hunger and poverty. They work from dawn to dusk but are unable to meet the basic needs of their families. It is very difficult for them to keep the wolf from the door within their very limited income. It should be kept in mind that poverty is not only the lack of funds but also the lack of education, technical skills, information, poor access to markets and lack of the knowledge needed to make rational decisions.

![Figure 1: Microfinance’s Shifting Ideals](adapted_from_Rutherford_2003b)
“Not all micro debt produces favorable results, especially for poor people working in low return activities in saturated markets that are poorly developed and where environmental and economic shocks are quite common.” (Harper, 2003)

It is time to reformulate and rethink the strategy to combat and defeat poverty. If the strength of MFIs can empower the poor, they can come out of this vicious cycle of poverty. A poverty alleviation strategy has to incorporate nonfinancial services. This approach is named the “financial service plus approach” (see Figure 1). At times, these non-financial services are also known as “business development services” which includes technical skills, market access, input supply, technology information, price information and marketing of the produced products (ADB, 1997).

This new financial service plus approach contrasts with the more traditional and generally held beliefs that poverty alleviation mainly requires credit led microfinance strategy and direct intervention by providing subsistence to poor families. This new approach however offers a home grown solution to poverty alleviation by helping them to escape poverty through their own effort. This approach not only offers equitable access to financial services - credit, savings, payment services- but also improves the market environment opportunities of rural people through business development services.

For this part, one conceptual model has been developed where one tier has been added to the traditional approach has been added (see Figure 2). The poor informal rural economy is often unconnected to value chains that have direct access to wider markets. At this time, one needs to facilitate the establishment of these linkages between firms at the higher and lower level the value chain.

Figure 2: Shift from Traditional Financial Service to Financial Service Plus Approach.
The new tier of business development services (BDS) is added here to help the poor develop small business and have access to new markets for their locally produced products. The concept of one product fits all is replaced with the local needs and demands of businesses. This for profit institution will bridge the information gap and help the rural informal economy to link with formal markets.

“The response strategies of individual firms often involve cooperative linkages with other firms. These linkages can be vertical (with firms at either higher or lower levels of the value chain) or horizontal (with other firms at the same level). Strengthening such linkages can facilitate production process and improve market access” (Downing et al., 2006).

The institution can facilitate the shortcomings of small business developments. Financial deepening of MFIs would be more fruitful when grouped with non-financial services. Synergy of MFIs and BDS has enough potential to trigger growth and lead the poor out of poverty (Downing et al., 2006).

A lot more research about BDS effects on micro enterprises and the life of rural people is needed. One such study by Mc. Karman (2002) has found a strong impact of microcredit programs when offered with non-financial services.

**Figure 3: Development of Financial and Non-financial Service**

![Diagram](image)

Source: Author’s own compilation

The firms which took vocational training and market link services by some BDS providers had been earning more profits than others. But much more
scientific work is needed to study the impact of BDS on poverty Marten and Paul (2007)

**Community Savings Re-Investment**

Most of the time, people do not want to visit commercial banks even if they are reachable because of disrespect and disregard they feel in the premises of banks and the belief that they must be well dressed to enter banks. Ninety-four percent of the urban population in Pakistan does not save with banks even when they have easy access to them (de Montoya and Haq, 2008).

Studies postulate that institutions which give due respect and offer needed products to the people have a more close relationship with them and are better integrated in the community. Clients feel a sense of trust and loyalty to the institution (Harper, 2003). This motivation and sense of belongingness plays an important role in saving money with banks.

“The key for successful deposit mobilization is trust - and trust in an institution can only be built if its staff members are also trustworthy. Hence, in order to mobilize savings, staff should be open and friendly to all clients, and they should be willing to work in a team.” (Grammling and Holtmann, 2006)

It is evident that funds generated from rural areas are invested in urban areas. This mismatch again demotivates people from rural areas. To address this issue, agriculture credit schemes and specialized banks were introduced but small farmers have seldom had access to such credits. Access to credit is far better for some groups than others. This further aggravates the situation for the poor and a firm belief is established that banks are for rich people (Matin et al., 1999; Mayada et al., 1995).

“The interdependence of savings and loan products is clearly illustrated, so that savings are also appreciated as a source of future loans. This concept can have far reaching implications, as seen in the case of SFCL Anandavan, where loans financed by internally generated resources are three percentage points more expensive than loans from ADBN-funds, but still in high demand by members. Members are interested in paying higher loan rates in order to make it possible to get higher interest rates on their savings.” (Stefen, 2001)

In this way, rural people control their own fate; run their own businesses by getting loans, not from moneylenders and friends, but from their own funds managed by the groups. They gain status in the community, earn more from their traditional agri-business; get clean water and health facilities. Reinvestment will start a rising spiral of growth.

“The impact on clients is substantial. As group members save, borrow and manage their groups, they gain status in their families and become more active in their communities. As their assets and income increase, they start or grow their often agriculturally based income-generating activities, break free from moneylenders, and send their children to school.” (Ashe, 2002)
The Grameen Foundation, the pioneers of which are experts in microfinance, reported “the global magnitude of micro-finance lending at the end of 2002 was just $4 million to 62 million customers. This must be a small fraction of the potential demand, if we assume that at least 1 billion adults are currently “unbanked”. A loan of just $100 to each would correspond to a market of $100 billion.” (Cameron, 2005)

**Conclusion**

Microfinance is a success story but in a limited fashion and its current pace of outreach will need 100 more years to reach. Especially when the Microfinance sector is only limited to credit and access to other financial services out of reaches of the poor. New technology, new ideas to deliver and new impetus to reach out the poor are needed.

A number of research studies have been done on the economic wellbeing of the poor and these are surely more to come. These case studies do not offer a one model fits all solution for poverty reduction. But they are the sources of new ideas to implement in diverse regions to eradicate the poverty. There are diverse actions, multiple strategies and new ideas but the sole objective of them all is to economically empower poor people.

**References**


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