



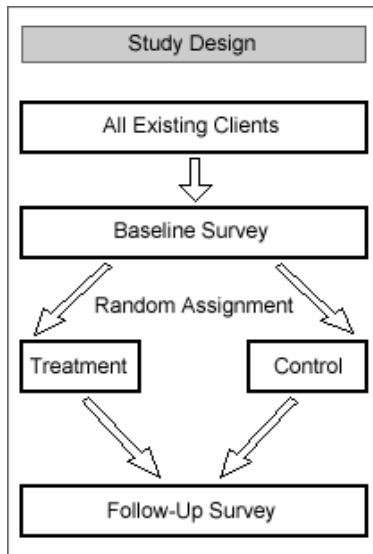
Can teaching business skills improve the impact of microcredit?

MOTIVATION

Policymakers disagree: should financial institutions merely provide credit and savings products, or also provide entrepreneurship training? Muhammad Yunus, grandfather of the microfinance movement, suggests that “the fact that the poor are alive is clear proof of their ability”¹ and that expanding access to credit, rather than teaching the poor new skills, should be the focus of microfinance initiatives. But by ascribing strictly to Yunus’ claim are we missing an important opportunity to improve the effectiveness of microlending?

Country: Peru
Partners: FINCA Peru, Freedom from Hunger, Atinchik
Participants: Approximately 4,500 female clients in village banks.

By using randomized control evaluations, researchers can measure the impact of specific innovations, such as teaching business skills to poor microentrepreneurs, on lender profits as well as on client borrowing, revenues, and social outcomes. Armed with knowledge about which innovations are shown to have positive impacts—and why—lenders can know best what to replicate on a larger scale. In this way, MFIs can refine their business practices so as to improve their portfolios, while the poor gain greater access to credit.



STUDY DESIGN

Through market research, FINCA-Peru, an MFI offering “village banking” for poor, female microentrepreneurs in Lima and Ayacucho, learned that its clients wanted more education in business skills, and thus wanted to implement a program with the aim of increasing the income earned by its clients. The overarching goal of the program was to teach entrepreneurial skills that lead to improved basic business practices, such as how to manage profits, how to budget, where to sell, and how to manage and offer receivables. These improvements could lead to more sales, more workers, and perhaps eventually provide the skills and knowledge needed to join the formal sector.

Partnering with FINCA-Peru, Freedom from Hunger and Atinchik, Innovations for Poverty Action designed a randomized controlled evaluation of two business training modules in order to examine under-explored questions about the impact of business skills training on both the sustainability of the microfinance institution and on business outcomes and overall welfare of the clients. In the study, village banks were randomly assigned to “treatment” and “control” groups. There were two types of “treatment” groups: mandatory and voluntary. Clients in village banks assigned to the mandatory treatment group were required to attend the training in order to remain in the group and receive a loan. Members of village banks assigned to the voluntary treatment group were allowed to leave the meetings after the loan payment was made and before the training began. For banks that were assigned to control group, meetings remained the same as before, without any formal business training. The randomization was stratified by credit officer; each credit officer had the same proportion of treatment and control groups. A baseline survey, measuring socio-demographic, household and business characteristics, was administered to both groups before village banks were assigned to treatment and control groups and the business training began. A follow-up survey was administered two years after the baseline, once the training had been completed, to measure any changes in clients’ businesses or general wellbeing. Bank data on client repayment and retention rates and loan size was also collected.



RESEARCH BRIEF

KEY FINDINGS

- *Sales last month and sales in a typical bad month were higher (16% and 28%, respectively) among those trained.* Clients who received training demonstrated greater business savvy both in increasing sales in a “typical” month, and in improving their business strategies to avoid months of bad sales.
- *Dropout was lower and repayment higher among those who received business training.* From the MFI perspective, the intervention was a successful and profitable undertaking. While the education program carries a monetary cost for the MFI, this is offset by increased client retention and repayment rates. This is valuable information for FINCA-Peru and for other microfinance organizations to consider when determining whether to incorporate business training as a regular part of their community bank activities.
- *Impacts on repayment and retention were larger for clients expressing the least initial interest in the training.* This has strong implications for the appropriate method for introducing business training to a program or market. Since the impact is highest on those who indicate the lowest demand for the service, charging a fee for the business training may attract the exact *wrong* set of clients needed in order to maximize impact.
- Since children in the household are often involved in the family enterprise in settings such as these, any change to the household enterprise may have important effects on child labor and education. *Female children of women who received the training devoted more hours to school and schoolwork than children of women not trained*, perhaps indicating an increased prioritization among mothers for their daughters’ education. On a related note, there was no decrease in the number of hours children in treated households devoted to housework or the family business, indicating that children of treated mothers may have experienced a loss in leisure time.

NEXT STEPS

As more microfinance organizations include trainings in their lending model, the types and methods of implementing such training become more and more diverse. For this reason, this study should be replicated before making broader general statements about the impact of credit-with-education programs. Factors that are unique to FINCA-Peru may have influenced the outcome of the education product. It will also be important to determine whether the positive effects we find are sustained over a longer period of time. Thus, having found encouraging positive results in this setting, further experimentation is now needed to establish best under what circumstances these findings will replicate, and what the optimal mechanism is for delivering, targeting, pricing, and teaching such modules.

Last, this project focused almost entirely on how to improve microentrepreneurs, but not how to transform microentrepreneurs into small or medium entrepreneurs. How to generate such transformations is a critical question for donors, investors and policymakers. Further work needs to focus not just on the marginal growth of revenue, but on job creation and transformation to structurally larger, more substantial firms.

¹ Yunus, M. (1999). Banker to the Poor. New York, Public Affairs.