POVERTY &
ECONOMIC POLICY
RESEARCH NETWORK

Policy Research Brief
June 2010 – Number 67

Teaching Entrepreneurship: Impact of Business Training for Microfinance Clients and Institutions

by Verónica Frisancho, Dean Karlan and Martin Valdivia

There is an ongoing debate to determine whether microfinance institutions (MFIs) should stick to providing credit and savings products or also provide non-financial services. The fact is that microfinance alone does not appear to be sufficient to allow micro-entrepreneurs to escape poverty. MFIs around the world are actively pursuing innovations to improve the effectiveness of micro-lending. A strong trend in these innovations is the combination of microfinance with other non-financial services such as business training.

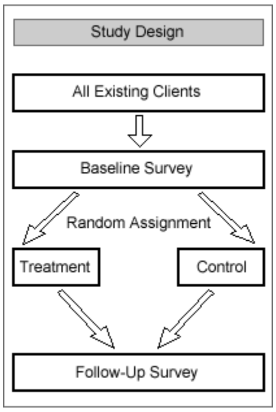
A CASE STUDY

By using randomized control evaluations (RCEs), researchers can measure the impact of specific innovations, such as teaching business skills to poor microfinance clients, on lender profits as well as on client borrowing, revenues, and social outcomes. If MFIs know which innovations are shown to have positive impacts—and why—they can refine their practices so as to improve their performance and better help their clientele.

FINCA-Peru, an MFI offering “village banking” for poor, female microentrepreneurs in Lima and Ayacucho, decided to implement a business training program for their clients. The program sought to teach entrepreneurial skills to improve business practices, increase sales and scale, and potentially join the formal sector. Partnering with FINCA-Peru, Freedom from Hunger and Atinchik, the Group of Analysis for Development (GRADE) and Innovations for Poverty Action (IPA) designed a RCE of the program in order to examine its impact on the sustainability of FINCA-Peru and on the business outcomes and welfare of its clients.

STUDY DESIGN

Participation of village banks was allocated randomly. A baseline survey measuring sociodemographic, household and business characteristics was administered to micro-entrepreneurs in both participating and non-participating banks before the intervention began. A follow-up survey was administered once the training was completed (two years after the baseline) to measure changes in clients' businesses, practices or general wellbeing.



KEY FINDINGS

- **Participating microfinance clients adjust business practices in line with successful microentrepreneurs.** They separate business and household accounts, keep financial records and implement innovations.
- **The effect on sales, however, is not conclusive**. There is some evidence that *trained* micro-entrepreneurs are able to reduce income fluctuations by diversifying income sources, but it is not conclusive.
- **The dropout rate was lower and repayment higher among those who received business training.** Thus, from the MFI's perspective, the intervention was profitable. The monetary cost was offset by increased client retention and repayment rates.
- **Effects on businesses practices and institutional outcomes were larger among those initially less interested in the training.** Such a difference implies that charging a fee for the business training may attract the wrong set of clients needed in order to maximize impact. Free-trial periods or provision attached to other high-value services, such as microcredit, may be helpful to attract those that need business training the most.

NEXT STEPS

With all the particularities of the implementing institutions and delivery methods used, **further studies are needed before making broader general statements about the impact of credit-with-training programs**.

To ultimately generate business growth, institutions may need to extend the training or include more specific technical assistance. However, time is a scarce resource for microentrepreneurs, so that more intense interventions may increase dropouts. **GRADE and IPA are currently working on projects that explore such adjustments to the delivery of business training**.

Finally, consideration should be given to the transition of microentrepreneurs into small or medium entrepreneurs, a critical question for donors, investors and policymakers. **Further work needs to focus not just on revenue growth, but on job creation and firm growth**.

This policy brief is based on PMMA working paper 2008-11