Business Education for Microcredit Clients in Peru

Researchers:

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Sector(s): Finance, Gender

Fieldwork: Innovations for Poverty Action (IPA)

Location: Semi-urban poor in Ica and Ayacucho, Peru

Sample: 4,591 Clients of FINCA-Peru

Target group: Entrepreneurs Women and girls

Outcome of interest: Employment Women's/girls' decision-making

Intervention type: Business skills training Credit Training

AEA RCT registration number: AEARCTR-0001133

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Partner organization(s): ATINCHIK, Gates Foundation, Corporación Andina de Fomento (CAF) Research Program on Development Issues, Finca-Peru, Ford Foundation, Freedom From Hunger, Henry E. Niles Foundation, National Science Foundation (NSF), Poverty and Economic Policy (PEP) Research Network, U.S. Department of Labor, Bureau of International Labor Affairs

Microfinance has generated worldwide enthusiasm as a potential answer to economic development and poverty reduction. But high default risk and unproductive use of loaned funds plagues many programs. Researchers worked in Peru to measure the marginal impact of adding business training to a group lending program. The results of this study found business training slightly improved business practices, but had no impact on key business outcomes such as revenue and profit.

Policy issue

Microfinance has generated worldwide enthusiasm as a potential answer to economic development and poverty reduction. But high default risk and unproductive use of loaned funds plagues many programs. A significant debate exists within the microfinance community as to whether lenders should focus solely on the lending business, or whether they should take advantage of the frequent meetings to integrate various types of training and improve microfinance outcomes. Integrating trainings on health or good business practices with group meetings poses a unique opportunity to deliver these services at minimal cost, but requires clients to spend more time at regular meetings, potentially leading to a higher dropout rate.

Context of the evaluation

Of Peru' s 29 million people, almost half live in poverty, and microfinance institutions (MFIs) hope to improve the socio-economic situation of this population through the promotion of village banking.[1] FINCA Peru, a small non-profit, but financially sustainable

MFI that has been operating in Peru since 1993 creates village banks for poor, female microentrepreneurs, giving them access to formal financial services. Their clients are relatively young, have little formal education, and often have families to support. All clients have microenterprises, which may include selling food or handicrafts, or small scale agriculture. FINCA clients each hold, on average, US$233 in savings and their average loan is US$203, with a recovery rate of 99 percent.

A small business in Peru. Photo: Lia Mistral | Shutterstock.com

Details of the intervention

Researchers worked with FINCA in Lima and Ayacucho, Peru to measure the marginal impact of adding business training to a group lending program. In these two regions, FINCA sponsored a total of 239 village banks and 4,591 clients, most of whom were women. These banks were divided into treatment groups and comparison groups, with 104 mandatorily participating, 34 voluntarily participating, and 101 as the comparison.

Individuals who held accounts at treatment banks received 22 entrepreneurship training sessions and materials during their normal weekly banking meeting. Training materials were developed through a collaborative effort between FINCA, Atinchik, and Freedom from Hunger and had been used in past projects. Sessions included exercises and discussion with the clients, and a lecture which aimed to improve basic business practices such as how to treat clients, how to use profits, where to sell, and the use of special discounts and credit sales. For example, in one lesson the trainers had each microentrepreneur write out a budget for their enterprise. Comparison groups remained as they were before, meeting with the same frequency to make loan and savings payments. Data was collected on dropout rates, repayment rates, loan size, savings, business size, and income to asses the impact of the training.

Results and policy lessons

Impact on Business Practices: There was weak evidence that the training may have helped clients identify strategies to increase sales and reduce downward fluctuations: for clients in the treatment group, sales in the month prior to the follow up surveys were 15 percent higher than in the comparison group, and returns were an average 26 percent higher in "bad months" when they would have expected downward fluctuations in their sales. Clients who received business training were significantly more likely to keep records of their account withdrawals, and had better knowledge about business and how to use profits for business growth and innovation. Interestingly, there were actually larger effects for those individuals that expressed less interest in training at the outset of the program. This result implies that demand-driven market solutions may not be as simple as charging for the cost of the services. It is possible that after a free trial, clients with low prior demand would subsequently appreciate its value and demand the service.

Impact on Business Outcomes: This study found little or no evidence of changes in key business outcomes such as business revenue, profits or employment. For example, the business training had no effect on the number of workers employed at family businesses, did not change the profit margin of the most common products sold at retail businesses, did not increase the number of sales locations, and did not induce entrepreneurs to start new businesses.

Impact on Institutional Outcomes: Business trainings had effects on some institutional outcomes such as client retention, but not on others such as loan size or accumulated savings. Perfect repayment among treatment groups was three percentage points higher than among comparison groups. Treatment group clients were four percentage points less likely to drop out of the program (either permanently or temporarily) than were comparison group clients, although the proportion of client dropout still remained high in the treatment group, where 59 percent of clients left their banks at some point during the intervention, compared to 63 percent in the comparison group. The training is costly to run, as it requires labor costs for the organization to train their staff and acquire materials. This constituted a 10 percent increase in FINCA' s costs. However, the improved client retention rate generated significantly more increased net revenue than the marginal cost of providing the training, and so all in all providing business trainings was still a profitable undertaking for FINCA.

Karlan, Dean, and Martin Valdivia. 2011. "Teaching Entrepreneurship: Impact of Business Training on Microfinance Clients and Institutions." The Review of Economics and Statistics 93(2): 510-527.

1. CIA World Factbook, "Peru," https://www.cia.gov/library/publications/the-world-factbook/geos/pe.html.