STUDY SUMMARY

Business Education for Microcredit Clients in Peru

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.

Evaluation Context

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. 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, $233 in savings and their average loan is US$203, with a recovery rate of 99%.

Details of the Intervention

Researchers worked with FINCA in Ica and Ayacucho, Peru to measure the marginal impact of adding business training to a group lending program. FINCA sponsored 273 village banks with a total of 6,429
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 or monthly 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 assess 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.

**Selected Media Coverage:**

- Lending Talent, and Money, on a Microscale - New York Times

**Sources**