

CREDIT WITH EDUCATION IMPACT REVIEW NO. 4:
TEACHING ENTREPRENEURSHIP
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August 2006

A recent impact study conducted with Freedom from Hunger's partners FINCA-Peru and Innovations for Poverty Action compared clients who received only financial services with those who received financial services and Freedom from Hunger's business education. The business education addresses such topics as how to increase sales and market products, how to improve business planning, and the management of business money.

The study employed a randomized control design to measure the impact of the business training. A baseline and a follow-up survey were conducted in two of FINCA's program areas, representing both urban and rural communities. The study first randomly assigned village banks to either receive credit with education, or remain credit-only. Then, two years later, the study compared clients receiving financial services plus business education with clients receiving only financial services, and measured the added benefits of the education. Specifically, the study examined changes in knowledge and behavior regarding business practices, revenue and income. In addition, the study examined whether the addition improved institutional outcomes as well for the microfinance organization.

The study categorized the findings on four different levels—on changes in business skills and practices, business results, household-level outcomes and institutional outcomes:

Business Skills and Practices

As a result of the education, education clients demonstrated greater business knowledge as measured by the number of questions they answered correctly about suggested business practices. The training increased the likelihood that individuals re-invested their profits in their business, maintained sales records for their business, and maintained withdrawal records from their business. Education clients were more likely to indicate they made a change or an innovation to their business in the last year.

Business Results

Business results were measured primarily by business revenues. Education clients had higher business revenues in the month prior to the follow-up survey than non-education clients and, most notably, when measuring variation in revenues per month, there were higher revenues for education clients during bad sales months. Thus, it is inferred that the education helped the clients identify strategies to reduce the fluctuations in their sales during months in which revenues dip for others. Cost margins remained the same; hence the results indicate an improvement in business income as well.

Household-level Outcomes

Household-level outcomes were measured by household decision-making and child labor. There were no detectable changes at the household level in terms of decision-making, keeping the client's personal money separate from her husband's money, or decision-making on the use of the loan. When looking at child labor, the number of hours that female children dedicated, on average, to school and schoolwork was greater for the business education clients. However, there was no indication that the female child spent less time in the business or with housework, suggesting that

the female children spent less time in leisure. This implies that the training potentially changed the mother's preference for education for her daughters.

Institutional Outcomes

Institutional outcomes were fairly strong. Repayment rates and client retention among education clients were higher than among non-education clients. It was inferred by the researchers that perhaps clients placed high value on the training they received, causing them to stay in the program. Yet, concurrently, clients were more likely to cite the length of the weekly meetings as a factor in dropping out. Interestingly, improvement in repayment rates and client retention were strongest for clients who expressed the *least* interest in the business training at baseline—indicating that the introduction and marketing of the education to the clients needs to be emphasized since the highest impact was on those who indicated the least demand for the service. There were also higher repayment rates and client retention for clients with larger businesses as measured by the size of their sales.

In conclusion, from an institutional perspective, the business education succeeded. The improved client retention rate generated increased revenue for the institution (more than the marginal costs of providing the program, which are estimated at 6%–9%). Improved client repayment is more difficult to measure as this comes through lower enforcement costs. Increased revenues for business clients during bad periods indicate that they are able to smooth their income through good and bad economic periods, which is a very positive finding from this study. If the purpose of the business education is to teach good business practices so that micro-entrepreneurs can experience business growth and sustainability, then the business education has succeeded on the most fundamental level: improving the financial well-being of microfinance clients and their businesses.

For questions, please contact Bobbi Gray, Freedom from Hunger's Research and Evaluation specialist at bgray@freedomfromhunger.org or Dean Karlan, Yale University, Innovations for Poverty Action and the M.I.T. Jameel Poverty Action Lab at dean.karlan@yale.edu. A full copy of the study can be found at <http://aida.econ.yale.edu/karlan/papers/TeachingEntrepreneurship.pdf>.