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**TEACHING ENTREPRENEURSHIP: IMPACT OF BUSINESS TRAINING ON  
MICROFINANCE CLIENTS AND INSTITUTIONS**

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*Abstract*—Most academic and development policy discussions about microentrepreneurs focus on credit constraints and assume that subject to those constraints, the entrepreneurs manage their business optimally. Yet the self-employed poor rarely have any formal training in business skills. A growing number of microfinance organizations are attempting to build the human capital of microentrepreneurs in order to improve the livelihood of their clients and help further their mission of poverty alleviation. Using a randomized control trial, we measure the marginal impact of adding business training to a Peruvian group lending program for female microentrepreneurs. Treatment groups receive 10 days of one-on-one entrepreneurship training sessions during their normal weekly or monthly lending meetings over a period of one to two years. Control groups remained as they were before, meeting at the same frequency but solely for making loan and savings payments. We find little or no evidence of changes in key outcomes such as business revenue, profits, or employment. We nevertheless observed business knowledge improvements and increased client satisfaction for the microfinance institutions.

I firmly believe that all human beings have an innate skill. I call it the survival skill. The fact that the poor are alive is clear proof of their ability. They do not need us to teach them how to survive; they already know. So rather than waste our time teaching them new skills, we try to make maximum use of their existing skills. Giving the poor access to credit allows them to immediately put into practice the skills they already know. Muhammad Yunus, *Banker to the Poor* (1999).

**1. Introduction**

**F**EW doubt that financial constraints limit the ability of the poor to invest and thus increase their income. Many, however, claim that the poor optimize their profits given such financial constraints. This is the spirit of the

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opening quote by Muhammad Yunus and is the rationale behind focusing interventions for microentrepreneurs solely on credit or savings, with no attention to skills training.

In this study, we implemented a randomized control trial to assess the marginal impact of incorporating entrepreneurial training into a microcredit program. Although a program evaluation at one level, this study provides an opportunity to test whether these microentrepreneurs are indeed maximizing their profits given the resources available to them, or whether instead simple lessons on business development can guide them toward higher profits. As an example, in one lesson, the trainers have each microentrepreneur write out a budget for her enterprise, often focusing on particular products or services. Particularly after taking into account the microentrepreneur's opportunity cost of time, many activities prove to be generating an economic loss. Similar, more concrete evidence comes from de Mel, McKenzie, and Woodruff (2008a, 2008b) who conducted a field experiment to measure returns to capital for microentrepreneurs in Sri Lanka. They found considerable heterogeneity, with many microentrepreneurs (in particular, women) earning negative returns to capital. Most interesting and relevant here is the heterogeneity: those with higher cognitive abilities (as measured by a digit-span test) yielded the highest returns. This calls into question the "poor but rational" view that microentrepreneurs maximize profits subject to their financial constraints (Yunus, 1999; Duflo, 2006).

The study was conducted with FINCA-Peru, a microfinance institution (MFI) that implements village banks for poor, female microentrepreneurs in Lima and Ayacucho. We have strong reasons to expect significant selection bias with respect to the types of individuals who seek out such training and are allowed in such programs, and thus a randomized control trial is helpful for measuring the efficacy of such interventions. We randomly assigned preexisting lending groups to either treatment or control. Treatment groups then received the training as part of their mandatory weekly meetings. Control groups remained as they were before: a credit and savings-only group. We conducted a baseline survey before the intervention and a follow-up survey between one and two years later.

The entrepreneurial training materials, and the training of the credit officers, were developed and adapted by Freedom from Hunger (FFH), a U.S.-based nonprofit organization, and Apechki, a Peruvian firm. Similar entrepreneurship training has been used around the world by other organizations, such as the International Labor Organization, Promper in Latin America, and BRAC in Bangladesh. FFH is considered a leader in the credit-with-education integrated model of microfinance and is directly responsible for such work in eighteen countries and over fifty financial institu-

# Teaching Entrepreneurship: Impact of Business Training on Microfinance Clients and Institutions

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microentrepreneurs. Treatment groups received thirty- to sixty-minute entrepreneurship training sessions during their normal weekly or monthly banking meeting over a period of one to two years. Control groups remained as they were before, meeting at the same frequency but solely for making loan and savings payments. We find little or no evidence of changes in key outcomes such as business revenue, profits, or employment. We nevertheless observed business knowledge improvements and increased client retention rates for the microfinance institution.

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