

Business Training: impact and experiment on product design

Project Background and significance

Microfinance clients often lack entrepreneurial and financial skills, and as a result may fail to run their business efficiently and even face difficulties in repaying loans. Investing in basic business or financial skills training may greatly increase the impact of taking a loan. It may also result in improved repayment and benefit to the organization. For a microfinance institution, it may therefore be a useful investment to provide such training. However, since this comes at a cost, it is necessary to evaluate the cost-benefits of such intervention.

This study examines the impact of a short training course on business and financial skills for self-employed women in Ahmedabad. The intervention is based on currently used training courses that SEWA Bank offers to its clients. In the training course, each 2-day class will have about 10 to 12 participants, drawn from SEWA's members who own a small business (e.g., vegetable vendors, tailors, store owners, etc.) or are engaged in home-based piece work (e.g., embroidery, rolling bidis etc.). The first day of class covers basic concepts such as keeping track of business income, expenses and options. On the second day, each woman identifies a long-term business goal (e.g., buying a sewing machine, new equipment, learning new skills) and, through group activities, develops a short-term plan to reach that goal. SEWA Bank has found that its training has helped participants, not only because it imparts skills to them, but because it is enabling them to realize that they can run a business and are capable of having a longer-term view.

Programme description

SEWA Bank (Self Employed Women's Association) Shri Mahila Sahakari Bank has been around since 1974. It is considered the oldest Indian MFI and is unique from most Indian MFIs in that it has employed individual lending to urban clients for over thirty years. In addition, all of SEWA's clients are required to hold savings accounts as SEWA has employed a life-cycle model which features of diverse set of products geared toward helping women throughout different stages in their lives, including a pension scheme run with UTI bank.

Training Module: SEWA Bank already runs two five day trainings, one for basic financial literacy and another for business counseling. Focus groups were held that included women with various occupations who had received each of these trainings at different periods of time. Based on our discussions with these women, we attempted to identify which lessons from each training stuck with the women long afterwards and which may have actually changed their financial behavior. Based on these observations, past studies done on optimum learning period, and observations that we made about the

women's business patterns, we consolidated the five-day trainings into one two-day, four hour training.

Peer effects: In addition, a main focus of the study is to measure the differential effect when women are trained alongside friends and neighbors. For a randomly selected subset of the treated group, their close peers will also be invited. The hypothesis is that there is a social dimension to learning: women might be more (or less) engaged during the training if they are with a friend. They might be more likely to implement the skills afterwards and change some of the aspects of their business. This is perhaps because they have a friend to discuss the training with to consolidate what they have learned or simply because having announced a goal in front of a friend acts as a commitment device.

Research design and analysis

This evaluation study will test the ideas described above by collecting survey data on the women participants after 6 months to 1 year of training to measure profits, business investments, and other outcomes by comparing a treatment and control group.

Baseline survey : Approximately 2,000 SEWA member households have been surveyed throughout the Ahmedabad area. The sample consists of three groups of women: savers, established borrowers, and new borrowers. The baseline survey includes information on the entire households' income, education, assets, and savings and credit habits, including loans from SEWA Bank along with outside sources.

Intervention: From the 2,000 households surveyed, the training will be offered to a randomized set of women who are either piece-rate workers or business owners. The sample was later extended to women who have other occupations and are unemployed. These women are recruited at their homes to participate in the business training and are asked to name three friends who might also be eligible for participation. Half of the recruited women have one of their friends invited as well. Topics covered in the training include how to avoid seasonal fluctuation in income, calculation of business costs, how to increase profit, marketing, how to avoid wasteful expenditure, and a description of good and bad business habits. The women are shown a motivational video composed of the stories of four women originally from their income level, who overcame great financial and emotional difficulties, and through their businesses came out of poverty. After viewing the film, the women are given a homework assignment in which they are asked to calculate their household and business costs, as well as to think of a goal that they hope to achieve through savings, investment, and better financial behavior. During the second day of training, each woman receives individualized advice on how to manage her current debts, decrease her business costs, and increase her profits in order to achieve a specific financial goal by the end of one year, as well as longer term goals. As only 72% of the sample is literate, the training is arranged so that illiterate women can also participate and learn.

Midline survey: A survey will be conducted four months after the initial trainings to evaluate if there are any short term changes in behavior.

Follow-up survey: After a year there will be a final survey which we will use to assess the impact of the product on savings and credit behavior, expenditure, business and non-business investment.

By comparing the outcomes in the three different groups, we propose to study the impact of these following interventions:

- Business training
- Business training + peer treatment

Contributions

Only one other notable randomized evaluation has been done on financial training and business counseling in microfinance, and that was by Dean Karlan in the Philippines. It is unquestionably valuable for the sector to understand how to help microfinance clients optimize the use of their financial services. In order to reach the goal of bringing the poor out of the debt trap, practitioners must help clients learn both that they are able to forward themselves economically as well as ensure that they take on financial behaviors that are characteristic of those who are not accustomed to indebtedness. Guidance on business expansion could potentially decrease the number of NPAs for an MFI by increasing the capacity of clients to repay. In addition, proper identification of effective ways to encourage business expansion among MFI clients would ensure a greater benefit, and possibly greater economic mobility, from borrowing than would otherwise occur if loans were used solely for consumption purposes.

Timeline:

January- April 2006: Baseline Survey

May/June 2006: Focus Groups

July 2006: Module and Recruitment Design

August-September 2006: Piloting of Business Training and Recruitment Survey

October 2006-April 2007: Business Training Treatment

February 2007-July 2007: Midline Survey (4 months after initial training)

Endline Survey: October-April 2008