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BUSINESS TRAINING AND MFI CLIENT BEHAVIOR:

FINDINGS FROM A RANDOMISED IMPACT EVALUATION IN AHMEDABAD, GUJARAT

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POLICY QUESTIONS

Does the provision of micro-savings help the poor get access to finance? Is credit sufficient to get the poor out of poverty? The lack of skills such as financial literacy and human capital often makes it difficult for the poor to take advantage of such opportunities. How do women in particular deal with these problems, given that these problems are amplified for them by constraints on mobility and lack social networks to assist them with information and skill acquisition?

BACKGROUND

To combat these obstacles, microfinance institutions have begun to offer training programs on financial literacy to their clients. SEWA Bank in Ahmedabad, India, has run a five-day program on financial literacy that uses lessons, games, and movies to teach modules on accounting skills, avoiding debt, and the importance of long-term planning. It has also expanded to include a second program on business skills, such as marketing, cost reduction, investment, and customer service. A shorter training can maximise the efficacy of information provided to the clients, and can be tailored to illiterate, self-employed women who do not possess basic numeracy skills yet have to make sound business decisions. In addition, a shorter training might attract more participants as the opportunity cost with respect to income and time is lower.

INTERVENTION

The researchers designed the training module after a series of focus group discussions with women who had attended SEWA trainings in 2006. Information about what elements of the training participants most often retained was used to condense the two five-day trainings into a two-day training (a total of 4 hours). Key features of the training were teaching women what constituted business expenses, informing them about the need for savings for the future, and identifying an important short-term financial goal.

Approximately 57 training sessions were conducted from September 2006 to April 2007. Each two-day class had 10-12 participants, drawn largely from the pool of SEWA members who own a small business (e.g., vegetable vendors, tailors, etc.) or are engaged in home-based piece work (e.g., embroidery, rolling bidis, etc.). Approximately 604 SEWA Bank clients were randomly assigned into control, treatment, and peer-treatment groups in two rounds of randomization, as part of the evaluation. The training cost was Rs. 157 per client. This training was unique in several ways. First, during the module women worked in groups to identify specific financial or business goals as well as sources of wasteful expenditure and sub-optimal business practices. In addition, the training featured an inspirational element in the form of a movie that showcased a few successful SEWA members who have used good financial practices to

bring themselves out of poverty, to help participants visualize themselves as being able to take control of their lives and finances.

Another unique feature was that half of the participants were invited to come alone and the other half was invited with a friend, in order to examine if attending with peers has an influence on take-up, participation in class, retention, and reinforcement of the training lessons. Finally, the training involved clients who had never before borrowed from SEWA, allowing for an examination of the influence of training on clients who may not have access to capital and whose decision of whether to borrow can be influenced by training. The evaluation of the training program focused on the following aspects of client behavior that have the potential to be influenced by participation: borrowing and repayment behavior, savings behavior, allocation of individual and household income, investment and scale of business activity, and goals and aspirations for the future.

RESULTS

Women who attended the training took out twice as many loans as women who did not in the four months since the program occurred. In addition, one objective of the training was to help participants identify a short-term goal – the most frequently cited goals were buying a house, expanding their business, or investing in their children’s future. Participants were more likely to take out loans toward fulfilling these goals, especially housing goals (Figures 2 and 3). The confidence of participants in business also increased as a result of the program: the percentage of women, after attending the training, who reported feeling confident about countering problems that arise in their work life was 91.3%, compared to 84.4% in the control group. In addition, women who attended the training with a friend were more likely to attend and complete the training (Figure 4). These results show the promise of such training programs in microfinance, and how they can be specifically tailored to enable financial literacy for self-employed women.

