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Why Should Microfinance Organizations Invest In Clients Business Training? Empirical Results from the Haitian Microfinance Industry

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Abstract

Despite many critics and mitigated effects, microfinance continues to grow all over the world, and equally in Haiti. Beyond rapid expansion, to really contribute to local economic development, microfinance organizations (MFOs) need to help micro entrepreneurs to better manage their businesses. However, practitioners consider investment in training activities as non-productive. With a national sample, we study, in this article, some supportive reasons why MFO's should provide business training to borrowers, particularly in low-educated context like Haiti. According to our empirical findings, implementation of business training sessions reduces negative perception of interest rate, and improves borrowers' satisfaction. Such induced socioeconomic change reduced clients drop out and foster MFOs sustainability.

Keywords: Clients' perception, Business training, Microfinance organizations, Haiti.

JEL Classification: B52, D01, G21, N26.

1. Introduction

Microfinance is largely discussed as a tool to alleviate poverty in developing countries. Discussions concern its role in poverty alleviation (Ledgerwood1999; Rutherford 2002; Armendariz de Aghion and Morduch 2005; Armendariz de Aghion and Morduch 2010; Ahlin and Jiang 2005; Rutherford 2002; Blondeau 2006), its impact on women empowerment (Mayoux 1999; Rahman 1999; Kabeer 2001, 2005; Guérin and Palier 2006; Sharma 2008), its effectiveness on financial inclusion (Kiiru 2007; Paul, Garrabé, and Daméus 2011),and more recently on over-indebtedness of poor borrowers (Guérin and Palier 2006; Roesch and Helies 2007). Current debates concern microfinance regulation (Hartarska and Nadolnyak 2007). Despite many controversies, microfinance is adopted as a development tool, and because of its mitigated effects, it needs to be improved (Bhatt and Tang, 2001). Authors like Aneel Karnani (2007, 2008, 2009) radically argue that money spent in microfinance could be better used on other development programs.

MFOs are following two sets of objectives, social and financial objectives (Hartarska and Nadolnyak 2007). Researchers document the necessity for MFOs to be financially sustainable; even they are serving poor people. The two objectives are not necessary mutually exclusive (Singh 2012; Rhyne 1998). But, many researchers, practitioners and advocates neglect the fact that microfinance sustainable achievement relies on both clients and MFOs' success. For poor borrowers to succeed in micro business, entrepreneurial skills are needed. Here, there is an interesting debate on which this article aims to contribute.

In Yunus' vision, the poor are naturally skilled to lead microenterprises (Nora 2011). But considering the actually economic life of the poor (Banerjee and Duflo 2007; Daryl et al. 2009), Yunus' vision is qualified as "romantic" by Karnani (2009). To transform the poor into successful micro entrepreneurs – as microfinance advocates claim –, or to allow them to enter successfully financial intermediation, MFOs have to make them change their financial perceptions and get some basic entrepreneurial skills. But, very little number of MFOs includes business training in their set of services. This is particularly the case in Haiti,

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where the microfinance industry is continuously growing after its first crisis in 2001-2002 (Paul, Daméus, and Fleuristin 2012).

Since MFOs focus on maximizing repayment rate and considering clients' training as non-productive investment, this article provide supportive answers to this question: why should MFOs invest clients' business training? More precisely, we take a national representative sample and make a semi-experimental study. We analyze the impact of the obligation to get trained and the education level on clients' perception.

Our institutional approach of microfinance intermediation is sustained by econometric measures of its impact on clients' behaviors. More precisely, following Paul (2009) and Paul, Garrabé and Daméus (2011), we consider microfinance socioeconomic impacts to depend upon multiple capitals: financial, human, social and institutional. The latter is made of the different institutions, seen as rules (Ostrom 1986; North 1991) that govern the interactions between economic agents, and influence behaviors. The three first assets are closely related (Fedderke and Luiz 2008) and are provided by MFOs whose services supply package includes training sessions.

The results show that business training implies significant change for Haitian micro entrepreneurs involved in microfinance intermediation. Particularly the impact of obligation to get trained upon the perception of interest rates (between 4 and 5 percent per month), perception of obligation to save, and credit satisfaction. By contrast, we find no significant impact of education level upon saving obligation perception and satisfaction.

This paper is organized as follows: after a brief literature background on microfinance and training, we explicit the model. An econometric analysis of our field data is then provided and discussed, before concluding.

2. Microfinance and business training

Business training and entrepreneurship are largely accepted as means to create economic development (van Stel and Carree's book (2010) provides details on the relationship between entrepreneurship and economic development). Business training programs are a popular policy option to try to improve the performance of enterprises around the world (McKenzie and Woodruff 2012). This aim is also fundamental for Microfinance. In the following, we briefly review the literature relating to the two fields.

MFO's implication on clients' education

In microfinance intermediation, client's training is not naturally included in services packages. When it is provided, training is either used as a methodology or including in microfinance services (Hudon and Vanroose 2006). When the training is used in the borrowing methodology, MFOs explicit an "obligation to be trained" as a condition to access credit. This is particularly the case in cooperative branch of the microfinance industry in Haiti. But any kind of MFO can find a good reason to provide educative help to their clients. This kind of training may concern business creation or business management.

Hudon and Vanroose (2006) underline a little debate on direct provision of educative services to clients. In practice, MFOs are divided in two groups according to their vision of the pertinence of these additional services. On the one side, MFOs that follow the Grameen classic model regard clients as sufficiently skilled to manage their microenterprise. They do not propose any systematic training. They make do with regular contact with clients when those come to repay the loan. The argument is in this case the relatively low interest rate the MFOs apply. Muhammad Yunus' vision is radically expressed in his book *Banker to the Poor* as follow:

"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..." (Yunus 1999:140).

On the other side, the MFOs that consider clients' entrepreneurial skills need to be improved impose participation in training session as a condition to access credit and other services. Sometimes, they go further and provide regular training session to clients on specific business skills like on salesmanship, accounting, etc. This view is based on the rejection of the innate entrepreneurial skills of the poor. As discussed by Karnani (2008b), in the continuation of Banerjee and Duflo (2007) who described the economic life of the poor and provided insightful understanding on their situation, the poor do not have enough education level to manage successful business in the liberal economy. And, because MFOs, particularly in developing countries, target poor clients, they may pay attention to clients' entrepreneurial capacity.

Bénédique Paul (2011) studied the Haitian microfinance clientele and remarked that borrowers are not necessary analphabet but they have a limited education level, in a country where education is not necessary good. He reported only 1 percent of MFO clients had university level, when 54 percent attended secondary school and 40 percent primary school. To better understand these data, he cited Tondreau (2008) who remind us that in Haiti, 61 percent of the population aged ten years or more were analphabet in 2008. And the education level is lower among woman – they represent 78 percent of the clientele – than among men. Tondreau also remind that, in Haiti, education level is higher in urban (80,5 percent) than in rural (47,1 percent) area. Considering the local socioeconomic context and the social situation of the women targeted by MFOs, training appears to be a condition for entrepreneurial success (Mauconduit, Emile and Paul 2013).

Among the reasons to invest in clients training, the vulnerability of microfinance clients is recently largely argued (Taylor 2011; Servet 2011). For the Consultative Group to Assist the Poor (CGAP), it is a "vital strategy", for instance, to protect borrowers from vulnerability, financial education (Porteous and Helms 2005). A largely cited definition of financial education is given by an OECD report that describe "financial education" as: "The process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction, and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being." (OECD 2005: 5). Isabelle Guérin (2012) discusses and criticizes financial education programs. Although MFOs should not invest blindly on clients training, it is obvious that specific skills are needed in certain context, like Haiti, to struggle vulnerability and poverty among other fundamental problem (PNUD 2004). Karlan and Valdivia (2011), who analyzed the impact of the introduction of business training in a microfinance program in Peru, found strong benefits for both the client and the MFO. According to their results,the trained client showed improved business processes and knowledge and increased sales (Karlan and Valdivia 2011).

MFOs client's education financing

If MFOs are hesitant to invest in client's education, the reasons rely mainly on those two questions: Who and how finance the training cost? Marek Hudon and Annabel Vanroose (2006) argue two possibilities. In the first case, clients have to pay for their training. Obviously, they pay to the MFO a little amount that allows them to participate in business training session. In the other case, all the training costs are supported by the MFO. Clients then participate in training session for free. But in reality, as underlined by Hudon and Vanroose (2006), the training costs are often included in the interest rate.

Whoever pays for training session, our assumption is that business training session should be provided to MFOs clients, particularly in Haiti where microfinance clienteles poor and under-educated. This should be the case because Microfinance long-term success depends on clients' success too. Since many Haitian MFOs receive additional funding from international organizations. They can easily provide short but intensive business training sessions to clients, for their mutual benefit.

By providing training sessions to clients, MFOs can have, in return, positive perceptual/behavioral change toward their services, and *in fine* high repayment rate. This is what our study aim to show.

3. Methodology

The expansion of the Haitian microfinance is relatively recent (Paul, Daméus and Fleuristin 2012) and offers an interesting analytical field to test relation on microfinance intermediation and clients' behaviors. Through an institutional economic literature, impact of microfinance is analyzed through a set of provided assets to clients. In these assets, we assume that the most active on clients' perception is made of specific rules (Ostrom 1986; North 1990),incentives (Besley and Coate 1995; Godquin 2004), what is called and theorized as "institutional capital" by Bénédique Paul(2011), and Paul, Garrabé, and Daméus (2011). This concept refers to the new institutional economic and is mobilized as a framework to analyze the mechanisms designed by MFOs to constraint or shape clients' behaviors.

The Model

In our model, we consider that MFOs' clients are in a context of intermediation where they receive micro financial services. They are also exposed to specific rules designed and imposed by the MFOs. Their participation in the microfinance intermediation allows them to have access to the assets or capitals (mainly credit, social, network training). This context of intermediation impacts their business skills through financial education they receive or, more precisely, are obliged to receive. This financial education received through the business training sessions improves clients' perceptions on key determinants for MFOs. These determinants include: interest perception, saving and satisfaction. When client's interest perception and credit satisfaction are positive and high respectively, their drop out disposition is low (Paul 2011). When they maximize their savings, the MFOs have possibility to enlarge their credit portfolio and reduce failure to reimbursement. In the same time, savings maximization helps to know if borrowers' businesses are being successful. All those perceptual change are initiated through awareness raising during training sessions.

As borrowers may not necessary see the importance of participating in those sessions, MFOs impose an obligation to participate. In the model, we focus particularly on the significance of the correlation between this specific rule and the above determinants.

We put in equation three dependent variables to several independent ones including all the forms of the capital, and selected characteristics of the individual (client or non-client) and the milieu. The dependent variables are: 1) interest perception, 2) saving obligation perception, 3) credit satisfaction. The three first explanatory variables include the assets provided by the MFOs to their clients.

Then the model to be tested is formulated as followed:

$$Y_{ki} = \beta_0 + \beta_1\text{*(institutional capital)}_i + \beta_2\text{*(financial capital)}_i + \beta_3\text{*(human capital)}_i + \beta_4\text{*(social capital)}_i + \beta_5\text{*(natural capital)}_i + \beta_6\text{*(sector of activity)}_i + \beta_7\text{*(gender)}_i + \beta_8\text{*(area)}_i + \text{Lambda}_k + \varepsilon_k$$

Where:

Y_{ki} denotes the k dependent variables for the individual i.

(institutional capital)$_i$ refers to the set of rules conveyed by the MFO where the client i participates. Paul (2011) have found that in Haitian microfinance, institutional capital is made of specific institutions or rules that are targeted obligations for clients:

Inscrip: obligation to pay registering fees.
Insreso: obligation to make part of a collateral group.
Insint: obligation to pay interest fees.
Insfoge: obligation to follow training session.
Insepar: obligation to save money in the MFO.

(financial capital)$_i$ refers to the amount of the invested loan by the client i or the amount of the invested capital made by the non-client i.
(human capital)$_i$ refers to the level of education and auto evaluated health of the individual i.

(social capital)$_i$ refers to the number of social groups in which the individual i participates.
(natural capital)$_i$ refers to the actual financial value of the natural or land capital owned by the individual i.
(sector of economic activity)$_i$ refers to the economic sector (primary, secondary or tertiary) in which the individual i invested the financial capital.
(gender)$_i$ refers to the gender (male or female) of the individual i.
(area)$_i$ refers to the area of activity (Metropolitan or Province) where the individual i is managing is economic activity.
Lambda$_k$ is an introduced variable to test eventual auto-selection bias in every k equation.
$\beta_{0\ldots}$ β_n are parameters to be estimated.
$\varepsilon_k$is the error.

The main purpose is to track the impact of the training through the significance of the difference between clients and non-clients' situation. We pay particular attention on correlation between the institutional capital (particularly the obligation to participate in training session (insofge)), human capital (particularly the education level) and the Y_k dependent variables. The other independent variables are used as control variables. The variables are defined in tables 1 and 2. In order to check eventual selection bias, we use Heckman Sample Selection Bias model (Heckman 1979). The significance of the variable "lambda" introduced into the model suggests the presence of bias.

The data

The data have been collected in Haiti for the year 2009, among 500 clients and 100 non-clients. To be nationally representative, the sample has been distributed all over the country according to quota method. Quotas have been established on the basis of USAID national surveys (USAID 2008a, 2008b, 2009 and 2011), the largest representative microfinance data collection in Haiti. Investigations have been made using structured questionnaires. Clients and non-clients have asked specific but clear questions. They had to express their agreement to quoted statements concerning their perception before participating in the microfinance intermediation. To compare clients' and non-clients' situation through time, the same questions were asked for 2000 and 2009. The year 2000 has been selected as starting period because of the precedence of the first Haitian microfinance failures during 2001 and 2002 (Paul, Daméus and Fleuristin 2011).

Data has been collected once (in 2010) for the two periods (2000 and 2009) and for the two groups (clients and non-clients). Collected data allow impact evaluation while using semi-experimental protocol.

Econometric tests have been made using ordered Probit Model (Koutsoyiannis 2001), since the three dependent variables are binary. Metric explanatory variables like natural capital have been transformed into logarithmic for econometric convenience.

Table 1: Definitions and summary statistics for the dependent variables

Variables	Definitions	Clients	Non-clients
		N=500	N=100
Interest perception Perint	Change in religious belief about interest on lending: 1 if in favor of interest, 0 otherwise	0,130 (0,336)*	0,190 (0,394)
Saving obligation perception: Perinsav	Perception of saving obligation: 1 if positive, 0 otherwise	0,936 (0,244)	0,000 (100)
Satisfaction	Global satisfaction expressed by individual	0,934 (0,248)	0,730 (0,446)

* Standard deviation in round brackets

As shown in Table 1, saving obligation perception data is noted zero for non-clients because the obligation under study concerned exclusively borrowers. Even though, some clients declare they are also saving in banks.

Table 2: Definitions and summary statistics for the dependent variables

Independent variables		**Definitions**	**Clients**	**Non-clients**
			500	100
Institutional capital	Inscrip	Obligation to pay registration fees: 1 if yes, 0 otherwise	0,512 (0,500)*	0,000 (0,000)
	Insreso	Obligation to present debt collateral: 1 if yes, 0 otherwise	0,262 (0,440)	0,000 (0,000)
	Insint	Obligation to pay interest: 1 if yes, 0 otherwise	1,000 (0,000)	0,000 (0,000)
	Insfoge	Obligation to participate in training session: 1 if yes, 0 otherwise	0,518 (0,500)	0,000 (0,000)
	Insepar	Obligation to save in the MFO: 1 if yes, 0 otherwise	0,594 (0,491)	0,000 (0,000)
Financial capital		Annual amount borrowed (Haitian Gourde, HTG) (clients) or amount (HTG) invested (non-clients) in 2009	31285,14 (33359,20)	15635,00 (18775,23)
Interest rate		Interest rate per month, in percentage	4,403 (3,380)	9,290 (11,466)
Human capital	Education	Number of years of education, without repetition	3,444 (0,774)	3,00 (1,015)
	Health	Self-evaluation of health-enhancing: 1 if enhancing or no deterioration, 0 otherwise	0,510 (0,500)	0,020 (0,140)
Social capital		Number of groups (all kinds) in which the individual participated in 2009	1,778 (0,939)	1,230 (0,839)
Natural capital		Financial value (in HTG) of landownership in 2009	6020,50 (23053,67)	965,00 (5438,94)
Gender		Dummy variable taking value 1 if individual is a woman, 0 if man	0,788 (0,409)	0,840 (0,368)
Sector of activity		Dummy variable taking value 1 if sector of activity is tertiary in 2009, 0 otherwise	0,980 (0,140)	0,990 (0,100)
Area of activity		Dummy variable taking value 1 if area of activity is Metropolitan, 0 otherwise	0,592 (0,491)	0,710 (0,456)

* Standard deviation in round brackets

4. Results and discussions

The following table 3 summarizes the estimates of the three regressions tested in our empirical study. Globally, Haitian microfinance clients show change in their perceptions for all items. Perceptual change has been positive, for interest rate and satisfaction.

Table 3: Results from Probit regressions

Independent Variables		Interest perception	Saving obligation perception	Satisfaction
Intercept		-0,760 ns (0,621)	2,272* (1,809)	0,980 ns (0,711)
Groups difference		**-1,195**** **(2,555)**	**Quasi-perfect correlation**	**1,732***** **(2,978)**
Institutional capital	Inscrip	0,140 ns (0,833)	**1,020***** **(5,158)**	-0,129 ns (0,525)
	Insreso	-0,298 ns (1,098)	0,052 (0,213) ns	0,420 ns (1,517)
	Insint	**0,943*** **(1,807)**	**Quasi-perfect correlation**	**-2,044***** **(3,006)**
	Insfoge	**-0,483**** **(2,392)**	**0,954***** **(4,816)**	0,427* (1,721)
	Insepar	-0,336 ns (1,517)	0,053ns (0,252)	0,173 ns (0,713)
Financial capital		0,202** (2,301)	0,067ns (0,814)	-0,018 ns (0,195)
Interest rate		-0,023 ns (1,159)	-0,026** (2,118)	0,108*** (3,765)
Human capital	Education	-0,405*** (3,797)	-0,010ns (0,097)	-0,034 ns (0,278)
	Health-enhancing	0,968*** (4,486)	0,046ns (0,237)	1,296*** (4,614)
Social capital		-0,033 ns (0,331)	-0,136ns (1,44)	0,001 ns (0,017)
Natural capital		0,010 ns (0,317)	-0,059** (2,370)	-0,098*** (3,650)
Gender		-0,338* (1,938)	-0,533** (2,524)	-0,280 ns (1,186)
Sector of activity		-0,928** (2,220)	0,158ns (0,281)	1,279*** (2,981)
Area of activity		**1,090***** **(4,746)**	0,398* (1,674)	0,380* (1,655)
Lambda		-1,243 ns (1,165)	-5,931)*** (5,173)	-2,589** (2,380)
McFadden R-squared		0,217016	0,415565	0,315941
Number of observations		600	600	600

The absolute value of the z-statistics are presented in rounded brackets,
* Significant at 10%,
** Significant a 5%,
*** Significant at 1%.

Estimations in the Table 3 show that satisfaction as well as saving obligation perception presents selection bias revealed by the significance of the corrector lambda. This confirms Karlan's (2001) idea on possible bias when measuring microfinance impact.

Interest perception

Our results show that Haitian microfinance has significant negative impact on interest perception. While there is an actually hot debate on interest rate in Haiti, not all the components of the institutional capital have significant impact on interest perception. Obviously, there is positively correlation between obligation to pay interest and interest perception. In contrast, obligation to participate in training session has negative impact on this perception. Curiously, there is not significant relation between interest rate and interest perception. This last result has practical implication: ***Microfinance organizations do improve and beneficiate from the positive interest perception of clients (particularly in reduction of negative perception of interest). Despite actual debate, interest rate can be maintained as a reasonable level***.

Other observations are also important: The less educated and healthier are clients, the more they have positive perception of interest. Clients in Metropolitan of Port-au-Prince area are more likely to develop positive attitudes about interest than rural ones. It is the same if clients' activity is in tertiary sector. These latest observations have entrepreneurial meanings: economic activities are more profitable in urban areas since Haiti is economically centralized; economic services are less costly than others. That is in line with previous observation on the tertiarization of the Haitian economy (Paul, Daméus and Garrabé 2010).

Saving obligation perception

Haitian microfinance clients have a better positive perception about saving obligation than non-clients. They think that saving is not only a good thing, but also accept the fact that their savings can be used by MFOs to lend to others. This result is not directly correlated to the obligation to save in the MFOs. Even the perception of the obligation to save in the MFO is not correlated to this institution. This empirical result appears as good news for microfinance in Haiti. MFOs can see in this 'willingness to save' an opportunity for their own autonomy from subsidies.

Forced saving is a strategic tool for MFOs to prevent failure when clients do not reimburse their loans. They have the possibility to seize clients' savings if those do not repay. Knowing that training improves acceptation to forced saving appears as a good reason for MFOs to implement business training.

Credit satisfaction

Haitian microfinance clients have been found more satisfied than their neighbors, considering their financial situation. For MFOs' clients, this satisfaction does not necessary depend directly on the amount of microcredit borrowed. There is no significant relation between satisfaction and gender. The expressed satisfaction is positively correlated with the sector (tertiary) and the area (in the metropolitan) of activity. Of course, economic activities, especially those supported by MFO are concentrated in the metropolitan area of Haiti. Curiously, contrary to current consideration on MFOs' interest rate in Haiti, we find that interest rate is positively correlated to credit satisfaction. This result challenges advocates' argument for interest rate reduction, but it may not justify bad practices in the credit market.

Clients training improved credit satisfaction. Our results show that the obligation to get trained is positively correlated to clients' satisfaction. By using ordinal measure, our findings confirm previous research. For instance, measure on financial satisfaction has shown significant and positive relation between household income and individual financial satisfaction (Vera-Tescano et al. 2006).

Since credit satisfaction is essential for clients to continue in the microfinance intermediation, MFOs have another good reason to provide business training to clients. As Paul (2011) demonstrated it, the more clients are satisfied, the less they want to drop out the microfinance intermediation. As confirmed here, Borrower Dropout from the microfinance intermediation is not only linked to financial raison but is also explained by institutions conveyed by MFOs (Paul 2011; Pagura, Graham and Meyer 2001).

5. Conclusion

Much of the microfinance industry focuses on the infusion of financial capital into micro-enterprises, not humancapital, as if the entrepreneurs already have the necessary human capital (Karlan and Valdivia 2011). In this article, we aimed to show why Haitian microfinance organizations should also invest in client business training.

As advocated by analysts and practitioners, Haitian microfinance has a relative potential to assist the poor excluded from formal financial system (Lustin 2005). Our results show that Haitian microfinance should be better of providing clients business training, since this has a positive impact on clients' perceptions in a way that is favorable for MFOs' portfolio expansion and clients acceptation. It is then good news for MFOs since they need repayment performance for their sustainability (Ndour 2011). Since the observed change concerns especially interest, saving and intermediation perceptions of clients, Haitian microfinance industry has a bright future ahead.

Our results also provide evidence that improvement in clients' entrepreneurial skills can contribute to microfinance own success and sustainability. These findings complete previous literature on microfinance impact on economic behavior (Vogelgesang 2003; Gray et al. 2005; Karlan and Zinman 2010; Paul 2011; Paul, Garrabé, and Daméus 2011). They show that business training creates perceptual conditions to better repayment and persistence in microfinance intermediation.If clients can avoid participating, the obligation to participate in those training activities helps reduce clients' negative view of microfinance practices. Finally, MFOs can win the jackpot if the can charge training costs to clients through the accepted interest rate.

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