

The benefits of business training for Micro Finance Institutions

A key reason why small scale farmers and village businesses find it hard to expand their business, is (often) due to a lack of capital, which is needed to either increase stock, or buy the means of production. Commercial banks are unable to meet this demand, due to comparative cost per client for training and financing the loan (which can be as small as £25) and hence where MFIs (both NGO and profit making), have identified a need and seen an opportunity.

Micro Finance is a good model for sustainability in the international development context. Unlike some other forms of development aid, micro finance makes the beneficiaries accountable and responsible for the assistance they are given; in the case of MFIs, monetary loans. Because the beneficiaries are accountable, they are more motivated to repay the loan (plus interest) rather than if they had been given a “gift” of money. If the beneficiaries do not pay back the loans, there are monetary consequences, which vary from institution to institution. Some MFIs require security in the form of household goods, before loans are given out, which can be requisitioned in the case of non repayment. The beneficiaries would also not be able to source future loans from the MFI, thus making the beneficiary’s desire to escape poverty, through entrepreneurship and business that much harder. An equally strong motivating factor for the beneficiary to repay the loan, is the lowering of respect and esteem from their peers, both from within their loan group, but also from fellow villagers.

If beneficiaries can not, or do not repay their loans, there is also a financial implication for the MFI. The MFI needs good repayment rates otherwise the sustainability of the organisation through arrears and defaults will be put in question. If a MFI is fully self sustaining, and does not require funding from third parties, their only “income” is through interest gained from the loans. Therefore if loans are not repaid, then the MFI will not be able to meet their own costs such as wages, rent, utilities etc. In effect, poor repayment rates will directly affect the sustainability of a MFI, in the same way that sales or lack thereof, will directly affect the sustainability of a business. In both cases a lack of sales / interest (from repayments) will undermine the financial viability of the business / MFI respectively. If an MFI’s future is susceptible to the income from interest paid on the repayment of loans, one of the priorities of the MFI, should be to ensure (where at all possible) to facilitate (through training) the repayment of the said loans.

Training from MFIs (for the beneficiaries) can be broadly classed in two areas A) group formation and facilitation, B) business development.

A) Group formation training is concerned with the group dynamics of the beneficiaries. These will have to follow guidelines from the MFI head office and be facilitated by the field officers. This will include areas such as:

- Number of members per group
- Sex of group i.e. all female, all male or mixed
- Writing of a group constitution
- Scheduling of repayment meetings i.e. weekly, fortnightly, monthly.
- Choosing of a chairperson, secretary and treasurer
- Group responsibility of repayment of loans
- Encouragement of savings (sometimes as a percentage of loan given out)

B) Business development training aims to make the beneficiary’s business more robust, through the introduction of good business practice. Business best practice should be used and can be applied equally to a multi national, or someone selling onions and tomatoes by the roadside / in the local market; in both examples, the principles of business are the same.

- Business best practice / principles can be broadly classified into ten areas:

1. Setting objectives
2. Analyse business
3. Market research
4. Costs
5. Logistics
6. Pricing
7. Promotion
8. Cash flow
9. Diversification
10. Re-investment

By training beneficiaries in business best practice, it will make the beneficiary's businesses more robust. If their businesses are more robust, then the beneficiaries will be more able to repay the loan. By repaying the loans (plus interest), the MFI will become sustainable, once it has reached "critical mass" i.e. interest paid (on the loans) covers all institutional costs. If the beneficiary has a stronger and more robust business, over time they are likely to increase the size of their loans, and therefore the amount of interest owed.

As well as financial gain through larger loans, more interest, and better repayment rates, there are other benefits to an MFI for introducing business training. By giving new training to field officers, it will increase the capacity of the MFI and the skill set of the field officer. This will increase the motivation of the field officers knowing that the MFI is concerned for their welfare and ongoing training requirements; thus they are less likely to want to work for a competitor MFI. Also, if the MFI operates a system of performance related pay (for their field officers), this will also increase the field officers motivation, as with greater training, they will be in a better position to effect the outcome of the beneficiaries ability to repay the loans. They will be able to act more proactively to assist the beneficiary in the management of their business, which is especially important if the beneficiary is having difficulties in repayments, whilst at the same time increasing their income. By introducing business training, it will also give the MFI competitive advantage and potentially a USP (unique selling position). This will reduce the reasons why beneficiaries might move to other MFIs, and thus reduce the amount of interest generated.

In summary, through the introduction of business training, both the MFI and the beneficiary will have more robust businesses. The MFI will increase their capacity through training the field officers, increase the motivation of the field officers through ongoing training and increased income, as well as increase competitive advantage. Most importantly though, it will make the MFI more sustainable through the increase in the amount of interest paid, whilst at the same time decreasing the number and amount of arrears and defaults. The beneficiary will have a stronger business, providing them with an income with which to bring them out of poverty and help them pay for their dependants' health, educational and household needs; a win win situation!

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