Journal of Behavioral and Experimental Finance 14 (2017) 23–29

Contents lists available at ScienceDirect

Journal of Behavioral and Experimental Finance

journal homepage: www.elsevier.com/locate/jbef

Full length article

The impact of training and monitoring on loan repayment of microfinance debtors in Ghana

Daniel Agbeko[a,*], Vincent Blok[b,c], S.W.F. Omta[d,1], G. Van der Velde[d,1]

[a] University of Wageningen, The Netherlands

[b] Management Studies Group, School of Social Sciences, Wageningen University, The Netherlands

[c] Wageningen University, Hollandseweg 1, 6707 KN Wageningen, The Netherlands

[d] Wageningen University Management Studies, de Leeuwenborch, building 201, Bode 77Hollandseweg 1 6706 KN Wageningen, The Netherlands

ARTICLE INFO

Article history:
Received 3 October 2016
Received in revised form
10 March 2017
Accepted 30 March 2017
Available online 7 April 2017

Keywords:
Training programmes
Entrepreneurship
Microfinance

ABSTRACT

Microbusiness entrepreneurs training and monitoring programmes are widely recognized as key to loan repayment performance of microfinance institution (MFI) loan clients in developing countries. Empirical evidence is, however, largely lacking and where present, not consistent. The present paper introduces objective data on loan repayments and examines whether loan client training and monitoring improve loan repayment rates. We conducted a two-step longitudinal survey. We collected baseline data on 229 uniCredit Ghana Limited MFI loan client files. One and half years later, after having introduced training and monitoring interventions, follow-up data on the same loan clients were collected. Results showed that training interventions fail to improve loan repayment rates. Strikingly, client monitoring does improve repayment rates, irrespective of the clients' educational level, business experience or gender. These results suggest that MFI's may significantly improve repayment rates should they consistently monitor their loan clients.

1. Introduction

In developing countries, microfinance institutions' (MFI) microfinance debtor repayment rates typically fall short and jeopardize sustainability of both MFIs and microbusinesses. Entrepreneurship training and microfinance debtor monitoring programmes may improve microbusinesses performance and, therefore, loan repayment rates. Empirical evidence remains, however, inconclusive.

As to entrepreneurship training, the human capital theory asserts that those individuals endowed with knowledge, skills and competencies perform better in executing relevant tasks (Becker, 1993; Kraiger et al., 1993; Ployhart and Moliterno, 2011). Entrepreneurship training may improve microbusiness performance and, therefore, loan repayment rates (Edgcomb, 2002; Karlan and Valdivia, 2011; Lensink et al., 2011). Empirical studies however fail to establish that entrepreneurship training programmes systematically improve microbusiness performance (Karlan and Valdivia, 2011; McKenzie and Woodruff, 2012).

Microfinance debtor monitoring may be instrumental for preventing loan diversion, improving the relation between MFI and microbusiness entrepreneur and mitigating information asymmetry between lender and borrower (Behr et al., 2011; Edgcomb, 2002; Kohansal and Mansoori, 2009). Though widely recognized, in the literature there is no empirical evidence on the effectiveness of monitoring for improving loan repayment rates.

The objective of the present paper is to empirically establish whether entrepreneurship training and microfinance debtor monitoring programmes improve MFI microfinance debtors' repayment rates. We advance on the literature in two dimensions. First, the present paper is the first to empirically examine whether those microfinance debtors who were monitored systematically improve loan repayment performance. Second, we improve on the research design. As opposed to previous literature, we compare a baseline study with one and half year follow-up repayment rates, after having introduced training and monitoring interventions. This longitudinal research design better allows for examining the advantages of training and monitoring programmes. As opposed to previous studies, we rely on MFI microfinance debtor files and

* Corresponding author.
E-mail addresses: daniel_agbeko@yahoo.com (D. Agbeko), vincent.blok@wur.nl (V. Blok), onno.omta@wur.nl (S.W.F. Omta), g.vander.velde@windesheim.nl (G. Van der Velde).
1 Fax: +31 0 317 485454.

http://dx.doi.org/10.1016/j.jbef.2017.03.002

collect objective loan repayment data. Results show that training programmes do not improve loan repayment rates; microfinance debtor monitoring programmes prove advantageous.

In Section 2 we discuss literature on entrepreneurship training and monitoring. Section 3 presents the data and methods. Section 4 provides the results. Section 5 concludes.

2. Entrepreneurship training and monitoring programmes

Consistent with human capital theory, various studies argue that entrepreneurial and business competencies improve entrepreneurial performance (Baron and Ensley, 2006; Baum and Locke, 2004; Chandler and Jansen, 1992; Newman et al., 2014; Ucbasaran et al., 2008). Entrepreneurship training may help microbusiness entrepreneurs use microfinance more effectively (Ekpe et al., 2010; Idris and Agbim, 2015; Karnani, 2007) and, therefore, alleviate their poverty (Karlan and Valdivia, 2011; Mutisya and Yarime, 2014).

Lensink et al. (2011) use data from 61 countries and empirically establish that those microfinance debtors who participate in training programmes improve on their business performances and repay their loans better. Echtner (1995) considers entrepreneurship programmes the most cost effective means of educating and empowering individual entrepreneurs.

Others argue that training programmes fail to effectively improve microfinance debtors' repayment rates (Karlan and Valdivia, 2011) do not find any effect of training programmes participation and conclude that training may improve performance of only few programme participants. McKenzie and Woodruff (2012) empirically establish that training programmes typically have only small positive effects on business practices and do not significantly improve sales nor profitability. More generally, Yunus (1999) argues that entrepreneurial skills are innate and therefore cannot be trained.

Microfinance debtor monitoring programmes involve MFI loan officers to continuously monitor their debtors' business performance, provide tailored and informal on site business advice and help entrepreneurs access business related networks. Balogun and Alimi (1988) and Ledgerwood (1999) consider poor monitoring practices a major cause of loan defaults. At the individual level, effective monitoring requires loan officers to acquire specific entrepreneurial and coaching competencies. At the institutional level, MFIs need organizational structures specifically designed to facilitate this process of monitoring. Lensink et al. (2011) conclude that those MFIs that continuously monitor their debtors have better performance than those MFIs that provide financial services only. Bichanga and Aseyo (2013), Elaine and Barton (1998) and Godquin (2004) conclude that non-financial services such as primary health, basic literacy, market information and informal occupational and business skills training positively influence business performance. Kohansal and Mansoori (2009) and Mensah et al. (2013) argue that monitoring helps prevent loan diversion. Edgcomb (2002) and Elaine and Barton (1998) state that provision of non-financial services such as business monitoring deepens the relation of the debtors with the MFI. Monitoring is instrumental for motivating debtors to repay loans promptly (Mirpourian et al., 2015). Behr et al. (2011) argue that monitoring helps mitigate information asymmetry between lender and borrower and, therefore, improves loan repayment rates. Following Kuzilwa (2005), training and monitoring should be considered a joint effort.

3. Methods

Studies on the advantages of entrepreneurship training typically rely on cross section data and therefore cannot adequately assess the advantages of training programmes. This leaves the results of most studies unreliable (Martin et al., 2013). The present paper advances on these studies and examines the impact of training and monitoring interventions by conducting a two-step longitudinal approach. We collected baseline data on 229 microfinance debtors. One and half year later, after having introduced training and monitoring interventions, we collected follow-up data on these 229 debtors. This study design better allows for examining our research question: What is the impact of training and monitoring programmes on loan repayment rates of microfinance debtors?

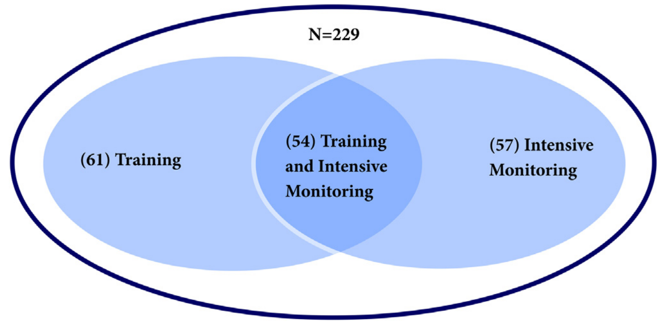

Fig. 1. Total sample strata, by intervention.

The study site for this research is a Ghanaian MFI, where the first author of this paper has been employed as manager. This allowed for access to loan repayment data. The primary focus of the MFI is to provide financial services that are specifically tailored towards the needs of micro, small and medium scale enterprises.

The mission of the MFI case is to develop easily accessible financial products. As of 2011, the MFI had twelve branches, with an institutional deposit of USD 39 million deposited by 71 thousand customers and loans portfolio of USD 24 million with 3, 5 thousand microfinance debtors (Mix-Market, 2015). The loans portfolio is categorized into three categories. The first is the corporate loans category with business loans larger than USD 50 thousand. It accrues to 30% of the total loans portfolio, and shows repayment rates above 85%. The second category is the business loans sector with loans ranging from USD 4 thousand to USD 50 thousand. This category equals 38% of the loans portfolio and shows a 77% repayment rate. The third category comprises of microloans below USD 4000. This category constitutes 32% the MFI loans portfolio of loans and shows a 50% repayment rate. Loan repayment is defined as full repayment of principal and interest before due date, on due date, or seven days past due date.

For our case analysis, the entire loan list was downloaded and microfinance debtors with loan disbursements above USD 4000 were excluded as these microfinance debtors cannot be considered microfinance debtors. Staff loans and salary workers loans were also excluded. From the microfinance debtors loan portfolio, 235 were randomly selected from the total data on 3277 debtors and included in the baseline database. Baseline data were collected in April, 2013. After having introduced the interventions, we collected follow-up repayment data in October, 2014. For 229 respondents we had data on loan repayments at both baseline and follow-up date, leaving the sample size at 229 observations. Loan officers then randomly invited 25% or 60 microfinance debtors to participate in either of the four interventions; no intervention, monitoring, training, or both monitoring and training.

The training intervention

Following Bichanga and Aseyo (2013), Elaine and Barton (1998), Kohansal and Mansoori (2009), Mensah et al. (2013), Lensink et al. (2011) and Echtner (1995), entrepreneurial and business skills may improve business performance and, therefore, loan repayment rates. In total 115 microfinance debtors were trained, see Fig. 1.