The Impact of Business and Financial Literacy Training for Young Entrepreneurs in Bosnia-Herzegovina
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Firms in developing countries are widely known to face many constraints, from lack of access to finance and physical capital to poor infrastructure. Recently, however, there has also been a growing focus among researchers on “managerial capital”, or business skills, as an important determinant of entrepreneurship in developing countries. Policymakers have been equally interested in the perceived deficit of managerial capital, and have been pouring resources into financial and business literacy education programs around the world.

Yet we still have a very incomplete understanding of the effectiveness of these programs, and their specific impact on business outcomes. Until recently, there were only two completed randomized impact evaluations of business training programs in developing countries: one in Peru which found positive effects on certain business practices but not on profits (Karlan and Valdivia, 2010), and one in the Dominican Republic which found that basic rules-of-thumb-based training had a greater effect on business outcomes than formal business training (Drexler, Fischer, and Schoar, 2010).

Our Field Experiment in Bosnia and Herzegovina
We conducted a randomized evaluation of a comprehensive business and financial literacy training program for young entrepreneurs aged 18-30 in and near Tuzla, Bosnia and Herzegovina. The sample consisted of 445 loan clients of our partner financial institution, Partner Microcredit Foundation, who either already owned a business or had taken out an exploratory business loan. It included only those individuals who expressed an interest in attending our business training course, which was provided by an experienced local NGO, the Entrepreneurship Development Center. The course covered basic business concepts and accounting skills, as well as investment and growth strategies, with a particular emphasis on the importance of up-front capital investment.

Both the setting and the sample are of special interest for several reasons. As an emerging post-conflict economy, Bosnia has a low business survival rate, as well as a very high rate of youth unemployment (about 58 percent, 2007 Labor Force Survey). Both factors could increase the marginal value of a business training program. We also study somewhat larger businesses than do previous studies, which focused on microenterprises; the businesses in our study have an average of two employees, and a sizeable fraction of them own operational assets, make business investments, or are formally registered.

We randomly divided the sample into a treatment group and a control group, both of whom were administered a baseline and a follow-up survey, allowing us to measure the effect of training on: financial knowledge and attitudes; new business start-up among clients who were only given exploratory loans; business survival; surviving businesses’ practices, investments and performance.
We also had excellent administrative data on loans from Partner, making it possible to examine the effect of training on default rates, propensity to refinance, and terms for new loans.

**Results**

All of the individuals in the treatment group had expressed interest in a business training course, but ultimately only 39 percent attended the course. The major reason given for not attending the course was lack of time. The vast majority of those who did attend report being satisfied with the course.

*Knowledge and attitudes:* the program led to significant improvements in basic financial knowledge for those with low ex-ante financial literacy. It also increased the preference for using own funds versus credit, and improved understanding of having a good credit history.

*Business outcomes:* although the program had a significant impact along the intensive margin (i.e. growth of surviving firms), it had no significant impact on the extensive margin (i.e. new firm entry and firm survival).

Specifically, we found that surviving businesses who received the training were more likely to:

- implement new production processes;
- inject new investment in business;
- separate business and personal accounts;
- refinance existing loans for more favorable terms, and negotiate a larger number of loan installments;
- exhibit greater improvements in sales and profits, though this was only the case for those with higher ex-ante financial literacy.

However, the program had no effect on firm survival or business start-up, or on loan default rates. Only one new business in the entire sample was started up over the course of the study; 36 percent of businesses in the sample eventually shut down, which is consistent with high rates of business failure in Bosnia and Herzegovina.

**Analysis and Policy Implications**

Our results seem to indicate that while business training programs can have a significant impact on surviving businesses, particularly for those entrepreneurs with higher ex-ante levels of financial literacy, in our context it does not seem to affect business start-up or business survival itself. Lack of business knowledge may therefore not be the primary constraint to new entrepreneurship, or business survival among the types of firms we look at. Although training programs could form an important part of policies to promote firm growth, lack of access to finance, for instance, may be a much more important factor in business development.

However, business training clearly has positive effects on businesses that do survive, encouraging them to implement production processes and make investments that they otherwise would not have. This is promising, given that the course specifically emphasized these behaviors. The course seems to have been particularly effective at promoting business growth for those entrepreneurs who exhibited higher levels of financial literacy at the baseline. Policymakers might therefore consider targeting business training resources towards existing firms, with an emphasis on particularly teachable behaviors.
