

# **Republic of the Philippines**

## **Rural Microenterprise Promotion Programme**

### **Project Performance Evaluation**

#### **Executive summary**

##### **Background**

1. The Independent Office of Evaluation of IFAD undertook a project performance evaluation of the Rural Microenterprise Promotion Programme (RuMEPP) in the Republic of the Philippines. The main objectives were to: (i) provide an independent assessment of the overall results of the programme; and (ii) generate lessons and recommendations for the design and implementation of ongoing and future operations in the country.
2. This evaluation was based on a desk review of available data and project-related documents, and a country mission from 18 January to 3 February 2016. In addition to the desk review, data collection methods included interviews with various stakeholders (Government staff, IFAD staff, programme partners, beneficiaries), group discussions and direct observations. The sites for field visits were selected based on a review of available data and in close consultation with IFAD staff and the Department of Trade and Industry (DTI), with a view to gathering information and evidence on activities, achievements and challenges in different contexts. While in the country, the team visited 7 provinces in 3 regions out of 19 provinces in 5 regions focused under the programme.

##### **The programme**

3. The development goal of RuMEPP was “increased economic development and improved job generation resulting in reduced rural poverty among 200,000 poor rural households”, and the programme objective was “increasing numbers of new and existing rural microenterprises expanding and operating profitably and sustainably”. The underlying theory of change in RuMEPP was that providing business development services to poor rural entrepreneurs, and those with an entrepreneurial aptitude, along with improved access to microcredit, would lead to an increasing number of start-up microenterprises. In addition, existing microenterprises would expand and operate profitably and sustainably, thereby contributing to economic development and job creation.
4. Consequently, the major thrusts of the project were to support access to finance, and knowledge and skills, both seen as important bottlenecks to microenterprise development. The programme had three components: (i) microfinance credit and support, with most of the funds allocated for credit lines for wholesale lending to microfinance institutions (MFIs) through the Small Business Corporation (SBC); (ii) microenterprise promotion and development; and (iii) programme and policy coordination. DTI was the main implementing agency, while the SBC was responsible for the first component. The geographical focus of RuMEPP was 19 provinces in 5 regions, which were considered to be poorer, but the wholesale credit facility was to be made available in rural areas in the whole country outside these 19 provinces, except for Metro Manila and Cebu.
5. One of the most significant changes in the context in the later part of the project period was the decline in interest rates in the financial markets. As a consequence, the wholesale lending terms by SBC to MFIs, which had to be based on the terms of the subsidiary loan agreement between SBC and the Government, became uncompetitive, and SBC repaid most of the amount borrowed from the Government in 2015, although the repayment term was 25 years.

### **Main evaluation findings**

6. **Relevance.** The programme objectives and main design thrusts in two main domains for microenterprise development, i.e. knowledge/skills and finance, were relevant at a broad level, but there were some shortcomings and internal incoherence in the design. The assumption implicit in the design – that there would be MFIs with interest in on-lending to microenterprises and capacity to do so, and that the main constraint of MFIs was liquidity shortage – was not entirely valid. Simply injecting liquidity into the system without attention to how MFI services could be strengthened to better cater for existing and potential microenterprises was not optimal.
7. There was also ambiguity in the main target group, intended beneficiaries and impact pathways. It was not entirely clear whether the focus was on: (i) lower-end of microenterprises themselves as the main target group and direct beneficiaries; (ii) helping "larger-scale microenterprises" with more potential to generate job opportunities for poor rural people, even if they themselves may also be part of the target group; or (iii) both. This also relates to the question of whether job creations were expected primarily from self-employment through the establishment of as many microenterprises as possible, or employment opportunities increased by growing businesses, or both in a balanced manner. Careful reflection on these issues and differentiated approaches and strategies to be developed accordingly were not evident.
8. **Effectiveness.** The programme objectives and expected outcomes were achieved to a certain extent, and in some cases with a significant contribution to facilitating start-ups and improving existing microenterprise business activities. It is roughly estimated that 70,000 to 80,000 people might have directly received the RuMEPP supported services in the 19 core programme provinces, provided with either business development services, credits, or both. The programme data showed close to 15,000 "convergence microenterprises" that received both credits and business development services. However, during implementation, there was an over-emphasis on having as many such "convergence" cases as possible, even if both services were not always or necessarily required by most or all microenterprises.
9. It is certain that there are cases where RuMEPP support contributed to improving business of existing microenterprises, or to starting up new enterprise activities, thereby generating incremental profits, incomes and jobs. Nonetheless, there are scarce data that would enable even an estimation of the extent of such outcomes and job creations. This relates to the overall weakness of monitoring and evaluation (M&E). There was also an absence of careful reflection on a reasonable "success rate" or "drop-out rate" for microenterprises that receive training.
10. **Efficiency.** The process from loan and grant approval to effectiveness was slow and significantly longer than the average of projects in the region. There were some issues related to disbursement pace and project management initially, but they were largely addressed before the mid-term review. Project management cost was relatively low, which may have been one of the factors that affected M&E performance.
11. **Rural poverty impact.** The impact domains with the most visible contributions by the programme were "human and social capital and empowerment" and "institutions and policies". Particularly relating to the latter, RuMEPP made a significant contribution to upgrading the Government support, in particular for DTI, to microenterprise development in scale and content, based on the approach used, experience and lessons, fostering partnerships, and linking up with various opportunities.
12. There are certainly numerous microenterprise owners and employees for whom the programme contributed to increased household incomes, often complemented by

non-RuMEPP support initiatives (e.g. provision of small equipment), but the magnitude and width of such positive impact among those who were reached by the programme are not known with certainty due to lack of data.

13. **Sustainability of benefits.** Under RuMEPP, DTI gained experience and strengthened skills to support existing and potential start-up microenterprises and gained some recognition, whereas it used to be more focused on industry development. The "Go Negosyo" Act passed in July 2014, which seeks to strengthen micro, small and medium enterprises to create more job opportunities in the country, and related initiatives developed based on the RuMEPP experience (e.g. SME Roving Academy, *Negosyo* Centres) provide venues and frameworks for continued provision of support services to microenterprises.
14. In terms of the continuity of business operations of microenterprises that benefited from RuMEPP, it is difficult to make conclusive statements due to data limitations. SBC may have gained knowledge on how to handle a microfinance on-lending window, but the prospect of its continued operations in microfinance (wholesale or retail lending) is not certain, at least at this point, given competition in the market and insufficient branch networks, among other factors.
15. **Innovation and scaling up.** The major change expected to be introduced under RuMEPP was the merger of finance and knowledge ("convergence"), but there was an over-emphasis on the need to combine, to the extent possible, these two areas under the programme. In reality, entrepreneurs only chose what they wanted and wanted to afford, rather than the whole menu. On the other hand, DTI and RuMEPP support proved to be an effective conduit for pulling together various actors and opportunities for microenterprise support. Another area where RuMEPP was innovative was the systematic integration of marketing-related aspects into most of the interventions.
16. Public support to microenterprise development has been scaled up, as shown by the launching of various initiatives in this area. Some of the Government-funded initiatives do seem to reflect the experience and lessons under RuMEPP. One of the factors for sustainability and scaling up of business development services which was not well addressed under RuMEPP is exploring ways to charge fees and recover the cost of business development services.
17. **Gender equality and women's empowerment.** The programme design did not contain any specific targets or guidelines on gender inclusiveness. Nonetheless, the proportion of women beneficiaries in all types of support remained high throughout the programme (close to 80 per cent). Many of the enterprise models supported by DTI tended to be more interesting to women, such as light food processing and handicrafts.
18. The environment for promoting gender equality and women's empowerment is relatively conducive in the Philippines. Building on such a favourable environment, RuMEPP enhanced women's access to information, knowledge, experience and finance, and facilitated the creation and ownership of new business, and the generation of incremental income for the households.
19. **Environment and natural resource management.** In general, the types and sizes of microenterprises supported were such that the likelihood of negative impacts on the environment in terms of pollution from the waste generated were relatively low. While there was no evidence of unsustainable exploitation of the local natural resource base (and there are also some positive examples of environmentally friendly technologies used), there could have been more proactive and systematic incorporation of the issues related to the environment and natural resource management into support to microenterprises.

## Recommendations

20. Provided below are key recommendations for consideration by IFAD and the Government of the Philippines for future investments and projects in the country for micro- and small-scale enterprises and their access to finance.
21. **Recommendation 1. Be clear on the target group, including different categories within the group, their needs, and how they will be reached and benefit.** Clarity is needed on the target group to which project support will be directed, the intended beneficiaries, and how they will be reached. It is important to have a critical reflection on possible impact pathways to promote inclusive rural transformation and on the role of micro- and small-enterprise sector. Linked but tailored and differentiated strategies might be required according to different potentials and characteristics of the target group.
22. **Recommendation 2. Develop diversified and structured approaches to improve financial services.** The focus should shift from mere unspecific credit lines to facilitating critical reflection and learning on how to finance micro- and small enterprises and how to enhance the use of the available liquidity in the system for financing development. Structured dialogue with the financial sector could be an important entry point. Such dialogue must be specific for the type of financial institution and geared at helping the institution understand specific requirements of different types of micro- and small enterprises, and the opportunities to develop products to meet their needs. Capacity-building of financial institutions with potential to expand outreach should be carefully considered.
23. **Recommendation 3. Devise measures to enhance the relevance and quality of non-financial services.** Business development services should be designed according to needs of different types/maturity levels of micro- and small enterprises. Depending on the level of enterprise maturity, ways to charge at least part of the costs should be considered to confirm interest and commitments and to enhance sustainability. Furthermore, attention to the environment and natural resource management should be systematically incorporated in non-financial services to microenterprises.
24. **Recommendation 4. Ensure sufficient investment in and support for M&E, analytical studies and documentation.** Capacity development, and research and development geared at practical issues, are indispensable elements of a strategy to support micro- and small enterprises. These should cover various aspects, including enterprise profitability under different economic/social and organizational parameters. There should be sufficient allocation of financial and human resources to enable essential studies and surveys to be conducted, so that M&E data and such survey results can be used as a basis for project implementation and policy development.