PROJECT CLUSTER
EVALUATION

Rural Enterprise Development

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Independent Office of Evaluation

Project cluster evaluation
Rural enterprise development

Summary

I. Background

1. As approved by the Executive Board at its 131st session in December 2020, the Independent Office of Evaluation of IFAD (IOE) has undertaken a project cluster evaluation (PCE) on rural enterprise development. The PCE is a new evaluation product, the aim of which is to enhance the learning aspect of project-level evaluations through comparative analyses of a small number of projects sharing common features.

2. **Objectives.** The main objectives of the PCE were to assess the results and performance of selected projects and to generate learning based on an analysis of the findings from different projects on key common issues and questions relating to rural enterprise development.

3. **Scope**. The PCE covered the following four ongoing projects: (i) Youth Agropastoral Entrepreneurship Promotion Programme (PEAJ) in Cameroon; (ii) Rural Enterprises Programme (REP) in Ghana: (iii) Promoting Agricultural Commercialization and Enterprises Project (PACE) in Bangladesh; and (iv) Samriddhi – Rural Enterprises and Remittances Project (RERP) in Nepal, which was restructured and therefore reviewed only for design relevance. These projects were selected among projects scheduled for completion between 2021 and 2023 based on the following considerations: (i) they have a clear focus on rural entrepreneurship, enterprise/business development and employment creation; and (ii) they include support for non-financial services, access to finance and an enabling environment for rural micro and small enterprise (MSE) development.

4. **Rural enterprise: concept and definition**. There is no clear common definition of either "rural enterprise" or "MSE". National governments and international organizations tend to differentiate micro, small and medium-sized enterprises by their number of employees, value of turnover and assets. The category of microenterprises alone can cover a wide range of sizes and types of enterprises. In its Rural Enterprise Policy (2004), IFAD defined MSEs based on the characteristics of such enterprises, not their number of employees or turnover. In line with the description provided by IFAD, the enterprises reviewed in this PCE are mostly microenterprises or pre-entrepreneurial activities that are operated by the primary and direct target group that are expected to create jobs for others. Occasionally, they are also small enterprises (as job creators).

5. **Impact pathways around rural enterprise development**. Projects implicitly or explicitly provide for multiple avenues (or impact pathways) to achieve the objectives of income enhancement and employment creation, including the following (see also figure 1 in annex):

   - **Microenterprises for self- and family member employment.** Rural entrepreneurs' engagement in profitable entrepreneurial activities will enable them to enhance and/or diversify their income sources.

   - **Growth of new microenterprises generating wage employment opportunities.** Some of the new microenterprises with strong entrepreneurship aptitude will grow, supported by adequate non-financial and financial services and will create wage employment opportunities for non-family members.

- **Growth of existing micro (and/or small) enterprises increasing employment.** Existing micro (and/or small) enterprises are supported to upgrade and expand their businesses and increase profitability and revenues. This will create wage employment for non-family members, as well as market linkages and business opportunities for other microentrepreneurs and smallholder producers.
- **Technical and vocational education and training and apprenticeships** will enhance technical skills (e.g. as welders, carpenters or electricians) of the rural poor (often youth). This will enable those trained to get new or better-paid jobs or to start their own businesses such as workshops.

6. **Methodology**. Since the PCE was a new evaluation product, this evaluation applied some modifications to the existing methodological guidance on project performance evaluations, such as: (i) the use of selected evaluation criteria with no performance ratings; and (ii) presenting lessons without recommendations. These features are now part of the 2022 Revised Evaluation Manual. The project-level assessment was guided by key common questions, with necessary tailoring to specific cases to facilitate comparative analyses. In addition to desk reviews, field visits were undertaken in Bangladesh, Cameroon and Ghana for primary data collection. Mini phone surveys for the financial service component were conducted in Bangladesh and Ghana. Furthermore, evidence from literature was used to check and contextualize the emerging findings.

II. Main findings

A. Relevance

7. **Impact pathways.** Support for rural MSE development and institutional frameworks was overall relevant and aligned with government policies and strategies. However, the projects did not always articulate how different interventions were expected to lead to employment generation or increased incomes. There was insufficient reflection on whether the projects should focus on supporting pre-entrepreneurial activities or microenterprises mainly for self-employment or income diversification and/or creating and strengthening enterprises that would generate more or better wage employment for non-family members.

8. **Employment generation objectives.** All projects had employment creation as part of their objectives, with an assumption that many participants would grow their enterprises and also create jobs for others. This assumption was overoptimistic and is contrary to research that shows that, in many developing countries, much entrepreneurial activity is not a choice but a necessity. Moreover, projects paid little attention to monitoring the types and quality of the wage jobs created. Only one project (RERP in Nepal), which focused on vocational and technical training and apprenticeships rather than enterprise development per se, made efforts to track the job placements and wage levels.

9. **Project scope and strategy.** Overall, the projects' scope and interventions were not sufficiently guided by the potential for rural enterprise development and growth based on sound market analyses. For example, some types of non-agriculture off-farm microenterprises, mainly oriented towards local clients and markets (e.g. hairdressing), offer income opportunities, but are limited in terms of scope for growth and creation of job opportunities. In the agriculture sector, the project support focused more on on-farm production, with less attention to opportunities for off-farm enterprises (e.g. input supply, processing).

10. **Business development services.** Business and technical skills development and advisory services were generally relevant, but the intensity and level of support differed across the projects and it was not always sufficient for start-up enterprises to progress beyond survival or allow existing ones to grow. The "incubation"

approach in PEAJ in Cameroon was suitable to support youth start-ups, with sequenced and focused support over time. The introduction of business coaches during PEAJ's implementation further responded to the specific need for intensive and continuous follow-up support for new entrepreneurs. On the other hand, REP in Ghana provided less intensive support to a greater number of more diverse groups of new and existing entrepreneurs. Across the projects, support for market linkage and improved marketing (e.g. branding) received less attention than aspects of production.

11. **Improved technologies.** New or improved technologies, commodities or practices introduced were mostly relevant to improving production and productivity in agriculture (on- and off-farm) and non-agricultural sectors (e.g. improved equipment for shoe-making in Bangladesh). In some cases, there could have been a more careful assessment of the feasibility and appropriateness of technologies and techniques (e.g. their ease of use, affordability, maintenance, return on investments).

12. **Identification of participants**. Attention to gauging entrepreneurial aptitude to screen and identify participants was inconsistent. For example, in REP in Ghana, which defined the target group broadly as the "entrepreneurial poor", participation was largely based on self-selection and the payment of token fees, and services were provided to almost anyone living in rural districts who was interested. PEAJ in Cameroon, in contrast, screened potential participants using a sequenced approach, starting with information dissemination and support to interested youths to explore business ideas, combined with an assessment of their entrepreneurial potential during this period, which was introduced during implementation.

13. **Technical/vocational training** in off-farm enterprises was most relevant to improve the employability of participants. Interventions targeting wage job enhancement or creation were suitable when the training was linked to existing jobs (e.g. shoe-making under PACE in Bangladesh) or to clear job opportunities (RERP in Nepal, informed by labour market assessment). With regard to apprenticeship support, there was an overestimation of the capacity, motivation and resources of apprentices to start businesses (REP in Ghana).

14. **Financing for MSEs.** The allocation of credit funds was not sufficient to respond to the needs of rural MSEs and there was inadequate consideration of financial institutions' incentives and capacity and of broader constraints (e.g. low capitalization and liquidity of rural and community banks and the prevailing requirement for traditional collateral in Ghana). Where the project's credit funds were integrated into a larger existing microenterprise loan programme (e.g. PACE in Bangladesh), linkages with other non-financial support was not evident. Furthermore, the value addition in this case was unclear, given that the liquidity of partner organizations (microfinance institutions) was not a critical issue and most borrowers were existing clients accessing loans mostly for working capital. An interesting feature of PEAJ that complemented the project-supported financing facility was its sequenced approach. First, a business plan was partially financed on a grant basis, to be reimbursed into the bank account; then a bank loan given – which was appropriate to introduce new youth clients and help them build track records in financial management and develop repayment discipline.

B. Effectiveness

15. **Types of enterprises and entrepreneurial activities** supported in different projects included new and existing on- and off-farm (agricultural and non-agricultural) activities. PEAJ in Cameroon was focused on youth start-ups and REP in Ghana supported both new and existing enterprises, whereas PACE in Bangladesh mainly reached existing businesses. Project participants were mostly concentrated in smaller microenterprises for self-employment or employment of family members. In all projects, women's participation was high (e.g. 41 per cent

in start-ups supported by PEAJ in Cameroon and making up 65 per cent of REP participants in Ghana).

16. **The outreach** achieved through non-financial services varied greatly, reflecting the difference in the intensity of support. The outreach of PEAJ in Cameroon (about 3,800 entrepreneurs receiving incubation support, of whom over 2,600 transitioned to start-up enterprises) was much lower than for REP in Ghana and PACE in Bangladesh, as the level of support per participant was higher, with a more comprehensive, intensive and continuous approach.

17. **A range of factors influenced the results in enterprise creation and survival and the growth of new or existing enterprises**. These included: (i) the selection and screening process, balancing attention given to inclusiveness and entrepreneurship potential; (ii) the sequencing and intensity of advisory and follow-up support, synergy with financial services and support to address other constraints (e.g. land, access to inputs); (iii) the types/sectors of enterprises vis-à-vis the specific context (e.g. markets, growth potential); and (iv) education/literacy level of participants. Furthermore, external factors, such as the COVID-19 pandemic and animal disease (in Cameroon), also affected enterprise performance.

18. **The introduction of new technologies and practices** was effective in improving the performance of existing enterprises through improved productivity, both on- and off-farm (e.g. new seed varieties, soap-cutting equipment). The level of uptake was influenced by observable benefits in a short cycle; their affordability and the profiles of entrepreneurs; and access to finance, among other factors. In some cases, enterprises that were unable to implement new practices due to a lack of access to finance did not grow. There were also missed opportunities to link technology promotion to enterprise development. For example, there were cases where inputs and services associated with new/improved technologies were provided by project implementing partners, rather than being turned into enterprise opportunities (e.g. input suppliers or service providers in the case of PACE in Bangladesh). Across the projects, the adoption of **new or improved routine management practices** (e.g. record-keeping) was lower than the adoption of technical practices.

19. **The formalization of enterprises** which was promoted under PEAJ in Cameroon and REP in Ghana had mixed success (60 per cent and 28 per cent of enterprises supported, respectively). Inhibiting factors included entrepreneurs' lack of ambition to grow their businesses, the cost of formalization and fear of taxation. It is noted that, while enterprise formalization can facilitate access to markets and finance, the pros and cons differ depending on the nature, type and size of the businesses and the entrepreneurs' aspirations.

20. **The results for access to loans**, especially for new clients, were modest. The reasons for this included: (i) common challenges and risks in supporting start-up enterprises; (ii) financing facility designs and approaches not adequately taking into consideration contextual issues and incentives and the capacity of partners; and (iii) insufficient deliberate efforts to promote improved or innovative products and services responsive to needs.

21. Support for business plan preparation was useful and better coordination between business services providers and financial institutions improved the success of loan applications in Cameroon and Ghana. PEAJ in Cameroon succeeded in supporting youth access to bank loans, but the progress achieved at the time of the evaluation was modest (only 28 per cent of 2,605 youth had received start-up fund support) and the repayment performance was unsatisfactory, although it was reportedly improving thanks to the introduction of business coaches. The matching grant facility under REP in Ghana was originally intended to help first-time borrowers build relationships with financial institutions, but in the actual implementation a good proportion of the grant recipients were relatively well-established enterprises

with a credit history. REP's credit facility also underperformed owing to a range of factors, including participants' inability to meet financial institutions' eligibility criteria (e.g. collateral) and financial institutions' reluctance or difficulty to mobilize their own credit funds for their share (20 per cent). PACE in Bangladesh provided additional credit funds to the larger microenterprise loan programme, which mostly served existing clients, and microfinance institutions have increasingly been able to mobilize funds for lending from other sources.

22. **New financial products or innovative approaches** were limited across the projects. PACE in Bangladesh introduced start-up capital loans and lease financing but they have not advanced beyond the pilot stage. A mini phone survey by the PCE team found that only 16 per cent of start-up capital loans went to new enterprise undertakings. No project explored opportunities for innovations with digital finance.

C. Impact

23. **Employment creation.** The projects reported the number of jobs created (74,677 jobs for REP in Ghana; 10,516 jobs for PEAJ in Cameroon and 473,218 full-time wage jobs for PACE in Bangladesh through its microenterprise loan component), but the data's basis and accuracy were uncertain. For example, the number of jobs created per enterprise supported (PEAJ) or per microenterprise loan borrower (PACE) seem to have been overestimated. It is also questionable to what extent any job creation effects can be attributed to access to loans when the loans were mostly for working capital and often went to existing clients who had already been borrowing (PACE).

24. The projects have mainly contributed to increasing or improving self-employment. This reflects the projects' targeting strategies; the emphasis on creation or strengthening enterprises operated by the primary target group in place of supporting enterprises that would create wage employment opportunities; the nature and maturity of the entrepreneurs and enterprises supported; and, in general, the limited wage employment opportunities in the rural economies where the projects were located. In most cases, as observed in the field, the activities were largely pre-entrepreneurial, and the entrepreneurs would have multiple sources of income.

25. Full-time and more continuous jobs were more common in non-agriculture sectors in urban or peri-urban areas (PACE in Bangladesh, REP in Ghana). Wage employment opportunities generated in agriculture-related enterprises were often seasonal and temporary. In the projects reviewed, there was little evidence that the adoption of new or improved technologies resulted in reduced potential for job opportunities. In some cases, improved technologies contributed to reducing drudgery and reallocating labour (e.g. a shift from manual labour to operating simple equipment).

26. Technical and vocational training and apprenticeship increased employability and employment opportunities, but not necessarily through setting up enterprises. In REP in Ghana, apprentices were expected to start their own businesses, but only some transitioned, while others were hampered by the inadequacy of the start-up kits provided by the project and a lack of resources to acquire land or rent a space.

27. **Increased incomes** were achieved mainly through improved production and productivity, which in turn were achieved by introducing technologies and better practices (on- and off-farm). The survey conducted by REP in Ghana indicated that 90 per cent of participating enterprises reported increased incomes over the previous three years (compared with 49 per cent among non-REP respondents). The projects also contributed to increased incomes of employees through new wage employment opportunities or better wages due to improved skills (e.g. off-farm wage workers interviewed by the PCE team in Bangladesh reported improved incomes, with an average of US$116 per month, which is near the upper

poverty line in the country). However, across the projects, the evidence on the depth and breadth of changes is incomplete. Most rural entrepreneurs are engaged in multiple entrepreneurial activities, and income diversification and risk mitigation were an important impact for many participants.

28. **Institutional frameworks and support systems for non-financial services.** The projects in Ghana and Cameroon contributed to the development of institutional frameworks and mechanisms to support MSE development. In Ghana, with the long-term substantial investment under REP and its previous two phases since 1995, the structures for decentralized service delivery for MSE support are well-established and institutionalized (e.g. through business advisory centres at district level). However, the ability of various institutions to effectively and efficiently deliver services varies. PEAJ in Cameroon has made important progress, such as the accreditation of 13 out of 15 incubation centres supported under the project. Within the PEAJ framework, the International Labour Organization has also supported incubation centres to adapt training materials for agropastoral entrepreneurship and for a network of entrepreneurship trainers and advisors.

29. **Financial services.** Generally, projects have had limited influence on financial institutions, their services and systems or related policy issues. REP in Ghana and PACE in Bangladesh envisaged that financial institutions would develop new financial products, but limited progress was made. Nor is there evidence that projects have leveraged additional financial resources for MSE lending. In part, the limited achievements reflect the constraints in each country's financial sector and incentives for financial institutions.

D. Sustainability

30. **Prospects for the survival and future growth of enterprises** are mixed. Most new enterprises remain at their early stages of development, and while there is already some evidence of attrition, it is too early to determine how many will continue beyond project support. That said, given that many participants are likely to be involuntary entrepreneurs, they are expected to continue with some entrepreneurial activity, even if it is not the activity directly supported by the project. In general, economic activities that do not require highly technical knowledge and skills, investment funds or working capital and that provide reasonable returns are more likely to be continued. Some such activities respond to consistent demand by the local populations (e.g. hairdressing, repair services), even if the margin for growth may be limited. Pre-existing enterprises are more likely to be sustained, and a few, including new ones, may grow.

31. The sustainability and growth of some enterprises is at risk where they have weak linkages to value chain actors. To facilitate access to inputs and services, some partner organizations in PACE in Bangladesh took on the role of input suppliers or service providers themselves – or they engaged with and provided grant support to other entrepreneurs to deliver inputs and services, but without appropriate business planning. Uncertainty about the financial viability and sustainability of these operations has implications for the continuation of smaller microenterprises that rely on inputs and services from them.

32. **Institutional frameworks for non-financial services** supported in Cameroon and Ghana are likely to stay, but there are uncertainties about the relevance and responsiveness of service delivery. In Ghana, institutions at subnational level (e.g. business advisory centres at district level) already faced challenges during project implementation, owing to weak human and management capacity and lack of funds. In Cameroon, there has been good progress in institutionalizing various services supported under PEAJ (e.g. accreditation of incubation structures). Given the intensive and longer-term support required for youth enterprise incubation, and with the challenges in instituting a cost-recovery model for such clientele,

government or external funding will be required to continue with a similar type of incubation support.

33. Non-financial services that have not been integrated into institutional frameworks and business models are less likely to be available after the project. This is the case with PACE in Bangladesh, where the implementing agency and the partner organizations (which also provide financial services) rely largely on externally-funded projects to provide non-financial services (e.g. technical skills training) rather than delivering them in a "credit plus" business model.

34. **The continuation of the financing facilities for MSEs** supported by PEAJ in Cameroon and REP in Ghana is likely, but the post-project arrangements were still to be defined at the time of the PCE. In Cameroon, IFAD has been discussing options with the government for institutionalizing the PEAJ-supported financing facilities as a government-sponsored initiative beyond the project. The latest REP supervision mission in Ghana also revealed that plans in relation to maintaining the Rural Enterprise Development Fund as a revolving fund needed to be clarified. The microenterprise loan programme supported by PACE in Bangladesh is well established and sustainable, but this would also have been the case without PACE.

35. **The likelihood of new clients continuing to access financial services** is unclear. In Ghana, the rural and community banks will most likely continue to work with selected REP clients on a limited basis, given their own capitalization and liquidity challenges. PEAJ in Cameroon has facilitated the training and exposure of financial institutions to agropastoral on- and off-farm businesses, and some of them are moving towards developing specific agropastoral financial departments and products adapted to their clients' needs. The challenge will be to ensure that the repayment performance of youth entrepreneurs is maintained at an acceptable level in order not to lose the confidence of lenders.

III. Conclusions and lessons

A. Conclusions

36. **Projects' objectives to promote rural enterprise development and employment creation were relevant to efforts to reduce rural poverty.** In the countries covered in this evaluation, MSE development is part of the government's development strategies and, generally these businesses are seen as both an important source of employment and income opportunities for the poor and contributing to local and national economic development.

37. **Interventions lacked clarity about how enterprises were expected to increase incomes and employment and for whom**. Designs assumed that the enterprises created and supported through interventions would generate employment, but lacked clarity on: (i) whether the target enterprises were "survivalist" or one-person enterprises driven by necessity or opportunity-driven enterprises with growth potential, which were more likely to provide greater wage employment opportunities for others (or a combination); (ii) which strategies were expected to achieve what outcomes for which target groups (e.g. poor, less/non-poor); and (iii) the role of other market actors (e.g. small and medium-sized enterprises) that could serve as intermediaries creating benefits for the intended ultimate target group. Lastly, insufficient consideration was given to the extent to which projects should aim to improve individuals' skills, employability and the quality of jobs, as opposed to expecting all participants to operate an enterprise.

38. Project objectives and targets were at times overambitious, and activities did not always match their goals. Projects sometimes underestimated the effort and time required to create, strengthen and sustain entrepreneurial activities and enterprises. Where designs included large outreach targets, projects may have focused on reaching many people rather than providing more support to fewer entrepreneurs and enterprises to increase their likelihood of sustained success.

39. **Overall, project strategies were more suited to creating or strengthening pre-entrepreneurial activities and very small microenterprises than to targeting and supporting enterprises with more growth potential.** The strategies have supported income diversification and risk mitigation for entrepreneurs rather than having larger employment impact. Overall, the projects' scope and strategies, which focused on improving productivity, were not sufficiently guided by sound market analysis or an assessment of the development and growth potential of rural enterprises or employment generation.

40. Projects often paid inadequate attention to gauging entrepreneurial aptitude in screening and identifying participants. Consequently, most project participants were engaged in pre-entrepreneurial activities or in very small microenterprises that were already engaged in multiple income-generating activities. Accordingly, income diversification for managing risks was an important impact.

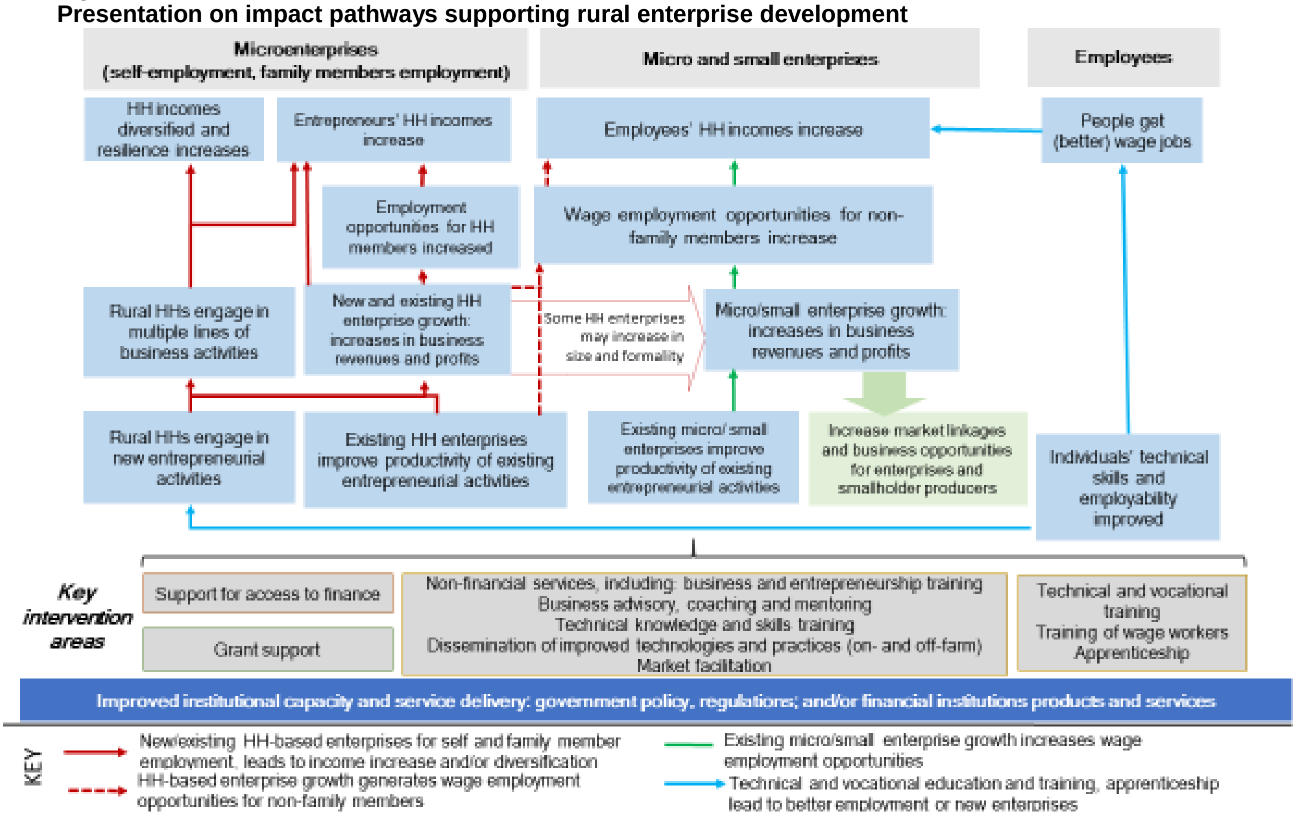
41. **Improved productivity and services through increases in entrepreneurs' knowledge and technical skills was a main driver in increased revenue from entrepreneurial activities.** In some sectors, the projects successfully introduced participants to new technologies and innovations, knowledge, skills and equipment or tools. Projects increased the level of self-employment among some key target groups, such as youth (most clearly in PEAJ), and created new or improved income opportunities for existing entrepreneurs, diversifying income sources. To a lesser extent, improvements in productivity contributed to the enterprises' growth and increased or improved wage employment. However, the adoption of new or improved routine management and business practices was inconsistent or low and synergies between non-financial and financial support could have been stronger.

42. **Implementation capacity did not fully meet design ambitions.** In both REP in Ghana and PACE in Bangladesh, which were national in scope and covered multiple sectors, different types of support and numerous partners, effective delivery required substantial human, managerial, technical and financial capacity and inter- and intra-organizational coordination and cooperation. Under REP in Ghana, institutions such as business advisory centres and rural technology facilities have faced capacity constraints. Partner organizations in PACE in Bangladesh are experienced and mostly effective in service delivery, but they are more familiar with "traditional" direct delivery or production-oriented support, and have limited practical knowledge and experience in enterprise or value chain development. The facilitating NGOs participating in PEAJ in Cameroon also initially lacked experience and capacity in entrepreneurship development.

43. **The prospects for sustainability of business development and financial services by key institutions are mixed.** Key government organizations have been largely responsible for the delivery of non-financial services, supplemented by contracted non-government or private sector organizations. The provision of non-financial services has been nearly 100 per cent subsidized, relying heavily on external funding. Other donors are likely to step in with further funding that will enable some continuation of services. Contracted organizations, such NGOs or private entities, are less likely to provide ongoing services without grant funds.

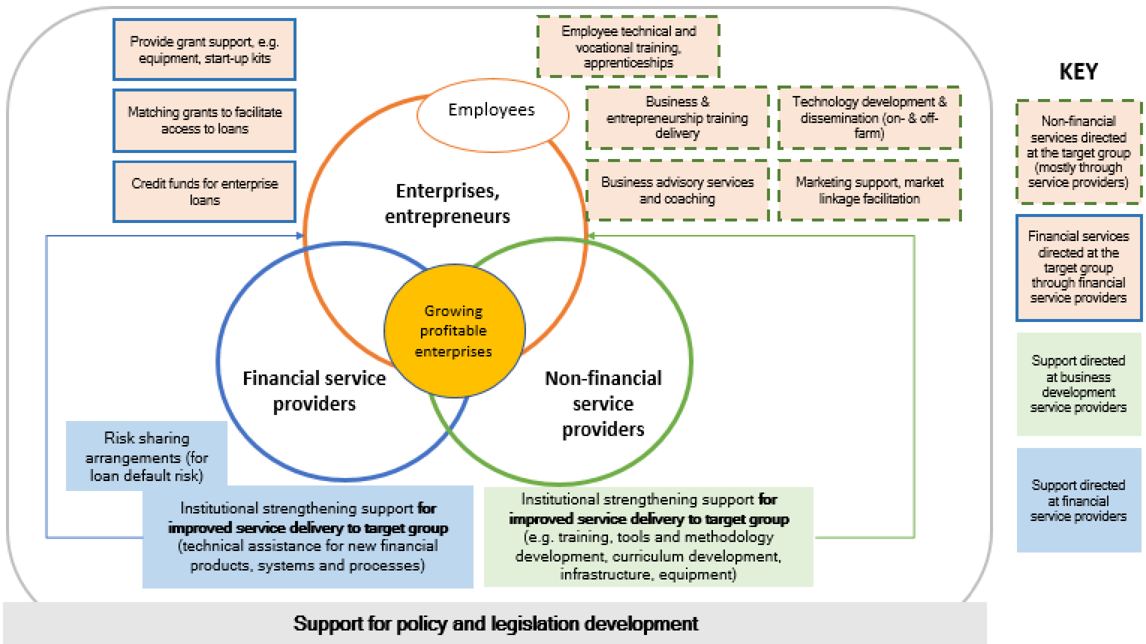
44. **Across the projects, there is lack of longitudinal and granular data and analysis (quantitative and qualitative),** which are needed to better understand who participated and who benefited and to what extent, and which project interventions were most effective and for whom. Monitoring frameworks and processes did not seek a more nuanced understanding of target groups, different outcomes and pathways, while external impact studies did not include sufficient analysis of the type and levels of participation to understand causal relationships between what projects did and the effects experienced by different categories of participants.

Figure 1
Presentation on impact pathways supporting rural enterprise development



Source: PCE team elaboration based on project documents and literature.
HH: household.

Figure 2
Schematic presentation of key intervention areas in projects supporting rural enterprise development



Source: PCE team elaboration based on project documents and literature.
Note: One project does not necessarily include the whole set of interventions.