
Response of IFAD Management to the project cluster evaluation on rural enterprise development

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Useful references: Final draft report of the external peer review of the evaluation function at IFAD ([EC 2019/106/W.P.7](#)).

Action: The Evaluation Committee is invited to review the response of IFAD Management to the project cluster evaluation on rural enterprise development.

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Response of IFAD Management to the project cluster evaluation on rural enterprise development

I. Introduction

1. Management welcomes the first project cluster evaluation (PCE) on rural enterprise development produced by the Independent Office of Evaluation of IFAD (IOE). In line with the recommendations issued by the 2019 external peer review of the evaluation function at IFAD, PCEs enhance the learning aspect of project-level evaluations through comparative analyses. The rural enterprise development PCE clearly displays a sharp focus on learning. While it does not provide recommendations, this PCE presents significant lessons to inform the design and implementation of future rural enterprise projects, as well as country strategic opportunities programmes, and corporate or regional strategies.
2. The PCE is highly relevant for both of the regions covered by the evaluation. In the West and Central Africa (WCA) region, the large youth bulge urgently requires innovative solutions for employment creation, particularly in rural areas. Rural enterprises operating both on farm and off farm are increasingly part of the development strategies and priorities of governments in WCA. In the Asia and the Pacific region, small farm businesses struggle in the face of rural-urban migration, while much of the region lacks the basic infrastructure to ensure efficient market linkages.
3. The findings also demonstrate the relevance of IFAD's private sector work through its non-sovereign operations, which are also focused on promoting rural enterprise development. Private Sector Financing Programme (PSFP) projects are aligned with countries' strategic goals and public sector efforts to ensure complementarity between public and private sector initiatives to maximize impact. PSFP projects provide a complementary vehicle to enhance rural enterprise development and provide the necessary tools to micro, small and medium-sized enterprises (MSMEs) to access finance. Lessons from this PCE will also be relevant to PSFP work going forward.
4. Management is pleased to see that the results of IFAD's work are mostly satisfactory, confirmed also by the largely positive conclusions and lessons learned. This Management response provides feedback on the methodological approach adopted for this evaluation (section II) as well Management's perspective on the key lessons presented at the end of the report (section III).

II. Considerations on the PCE methodology

5. This PCE is the first evaluation to look at the development of MSMEs, whose definition and scope are highly complex. Not only do they depend on national contexts, they also include both on-farm activities related to agricultural production and off-farm activities that may or may not be related to agriculture (e.g. input supply, processing, transport or retail trade). Such complexity is augmented by the fact that rural, non-agriculture-related MSMEs produce goods for local or external markets, and provide services for the local population or external clients.
6. Management is therefore pleased to note that the PCE, while applying guidance on project performance evaluations from IOE's 2015 Evaluation Manual, also introduced modifications to cater for such complexity and allow for comparative analysis and the synthesis of project-level findings. Modifications included the use of selected evaluation criteria rather than an entire set of standard criteria, as well as abstaining from providing performance ratings. In the methodological approach used for this PCE, Management confirms that the project-level assessment was guided by key common issues/questions specifically around rural enterprise development.

7. This PCE analyses the performance of four projects with completion dates between 2021 and 2023 from Bangladesh, Cameroon, Ghana and Nepal. With regard to Nepal's Samriddhi – Rural Enterprises and Remittances Project, the PCE only reviewed the design and relevance. This is due to the project restructuring in 2020, which led to the significant scaling down or dropping of interventions with features common to other projects (such as access to finance and business development services). In case similar conditions materialize while conducting future evaluations, Management suggests that IOE could expand the analysis by conducting a longitudinal comparison, looking at similar projects preceding those originally included in the sample.

III. Management's perspective on the PCE lessons

8. Management carefully reviewed the six lessons brought forward in the PCE and generally concurs with the key points included therein. However, there are a few additional messages that Management would like to put forward to complement the content of selected recommendations, as detailed below.
9. **Lesson 1: Strategies need to consider the profiles, skills, capacity and resources of entrepreneurs, with a clear understanding of how the expected outcomes for those entrepreneurs are to be achieved.**
10. Management fully concurs with the above lesson. IFAD should continue to focus on and support rural and agricultural entrepreneurs, with the objective of generating income and creating employment. The different IFAD target groups, especially women, youth and persons with disabilities, have different profiles and therefore require different approaches to effectively support the enterprises they own, with the ultimate goal of lifting them out of poverty. Going forward, it will be important to ensure that new projects on rural enterprise development invest in gaining a better understanding of the profile, capacities and resources of entrepreneurs in order to provide tailored responses to their needs. To do so, robust market analysis and information on the development pathway for different types of rural enterprises should be a standard part of the design process or the implementation of future projects supporting rural enterprises.
11. Looking beyond the ownership of MSMEs, the provision of tailored support should address technical and management needs to ensure growth, and the adoption or maintenance of an inclusive approach. The rural and agricultural MSMEs supported must generate revenue sustainably, and create decent jobs and employment. Where better-off entrepreneurs/enterprises participate in IFAD projects, there should be a clear rationale for extending grants, subsidies and technical assistance to them, taking into account how such support is expected to impact the rural poor. The approach should be informed by market demand, supply analyses, and opportunities for development and growth of rural enterprises of different types and sizes.
12. **Lesson 2: Creating and growing enterprises requires systematic, longer-term support.**
13. Management fully concurs with the above lesson. The necessity for long-term engagement is consistent, for example, with the experience of Ghana's Rural Enterprises Programme, ongoing since 1995.
14. Rural and agricultural initiatives with the potential of becoming MSMEs are multiple and diverse. Therefore, IFAD needs to use a mix of business development services, affordable financial services and associated non-financial services, together with longer-term monitoring for growth and sustainability. Accessing concessional resources to support the start-up of rural and agricultural MSMEs is key, and requires well-sequenced approaches, which should be intensive and continuous and should include a well thought out business plan or strategy on the part of the MSME, adaptable over time.

15. Identification of sustainable rural and agricultural MSMEs is a necessary condition to achieve the objective of income generation and employment creation. However, IFAD will need to balance trade-offs between sufficiency and sustainability of services and the goal to reach large numbers of rural poor, particularly those dispersed geographically and in areas difficult to access.
16. **Lesson 3: Impact assessment requires a holistic understanding of household economic activities.**
17. Management fully concurs with the above lesson. The typical rural household is a complex unit for analysis, as it could have multiple members, each one undertaking diverse and interwoven and/or complementary social and economic activities. In some cases, resources are shared between the household and the business. Such complexity warrants a holistic understanding for any sort of impact evaluation to be conducted. Understanding the household requires granular data on access to production and productivity enhancement interventions, access to markets that pay cost-recovery prices, waged employment creation, business gestation and maturity periods, including seasonality and stability in cash flows, real rural wage levels, etc. These are all instrumental to identifying decent rural employment possibilities.
18. To allow for comprehensive monitoring of all household activities, the project's logical framework and the monitoring and evaluation (M&E) system should reflect the holistic nature of the household activities. This lesson must therefore be integrated into those phases of project design and implementation that focus on the project's M&E system.
19. However, limited availability of resources poses challenges to carrying out a holistic review to understand the rural household for sound M&E and impact assessment. A reasonable level of dedicated staff time is needed, along with financial resources and qualified econometricians to conduct impact assessments and deliver representative results.
20. **Lesson 4: Strategies to improve rural microentrepreneurs' access to finance must be based on understanding their needs, as well as policy and institutional bottlenecks.**
21. Management concurs with the above lesson, and suggests expanding it as follows: "Strategies to improve rural microentrepreneurs' access to finance must be based on understanding their needs **and capacity**, as well as policy and institutional bottlenecks, and **may depend on additional interventions in place to support access to finance.**" Management continues to uphold and recommend the value chain approach, which requires long-term engagement and multiple-phase support. Some of the phases, including the identification of product outlet markets and establishment of contractual arrangements with off-takers where possible, constitute the basis of the approach and precede access to finance, as they serve to manage non-financial risks that deter appetite for potential lenders. An appropriate enabling environment is needed to grant access to finance, and must be built through relevant policies and institutional set-ups, dedicated to the disenfranchised rural and agricultural MSME sector. Management also supports the involvement of representatives of MSMEs in the dialogue on policy and institutional issues that affect their business.
22. In addition to the need for appropriate macro- and meso-level interventions, Management recommends building micro-level skills, such as business acumen and capacity, creditworthiness or risk profiles of owners and managers of the rural and agricultural MSMEs, as these influence their access to affordable finance. In particular, since most microenterprises are informal and relatively young, the challenge of building an adequate credit history is significant and needs to be addressed. Access to finance is facilitated by the profitability and value propositions of the rural and agricultural MSMEs.

23. **Lesson 5: Technology and innovation introductions require sufficient analysis of: (i) target groups' context and needs; and (ii) the appropriateness of the technology (whether physical equipment/tools or practices), including affordability, access, ease of use (including operations and maintenance), sustainability and contribution to improved profits.**
24. Management concurs with the above lesson, but it highlights the need for capacity-building for owners and managers of rural and agricultural MSMEs to adopt and effectively utilize the technology and innovations introduced by projects. While information and communications technologies for development (ICT4D) may be a useful tool to assist decision-making, reduce costs of engagement or increase productivity, it may not necessarily resolve underlying management and strategic issues.
25. Management would like to flag that the ICT4D team in the Sustainable Production, Markets and Institutions Division is staffed to deliver targeted guidance and support to undertake the needed analysis and assessments of technologies and innovations introduced for the benefit of rural and agricultural MSMEs. Based on IFAD's experience, the challenges to adopting some of the technologies and innovations are linked to their level of complexity and the often inadequate functional literacy levels of the owners and managers of the rural and agricultural MSMEs.
26. Additional useful elements to complement this lesson come from the agricultural innovation system approach, which stresses networking and social interactions among actors in the generation of new ideas and in the adoption of new technologies.
27. **Lesson 6: Productivity improvements can contribute to income/revenue increase, but additional support is needed for enterprise upgrading, such as improved management practices and marketing, and better linkage of producers or service providers to other market actors and functions.**
28. Management fully concurs with the above lesson, and reiterates the importance of applying the value chain approach in establishing rural and agricultural MSMEs. Importantly, support may also be required for cost and risk management. The appropriate operationalization of the value chain approach would result in proper sequencing of activities in the business plans of rural and agricultural MSMEs. With customized and flexible support throughout the life of the business, this would lead to the desired income/revenue generation and creation of decent rural employment and jobs.