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Enabling the rural poor
to overcome poverty

Republic of Colombia

Completion Evaluation

Executive Summary and Agreement at Completion Point of the Rural Microenterprise Development Programme

Evaluation Committee — Forty-seventh session
Rome, 13 April 2007

For: **Review**

Note to Evaluation Committee members

This document is submitted for review by the Evaluation Committee.

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Abbreviations and acronyms

ARMEs	associations of rural microenterprises
CAF	Andean Development Corporation
FINAGRO	Fund for Agricultural Financing
IICA	Inter-American Institute for Cooperation on Agriculture
MCMD	Mix Corporation for the Development of Microenterprise
RME	rural microenterprise

Completion Evaluation

Rural Microenterprise Development Programme

Part A – Executive summary

I. Introduction

1. The population of Colombia is 45.6 million (2005), of which 23 per cent live in rural areas. The country's economy is the fifth largest in Latin America, with a GDP per capita of US\$2,688.¹ The Government estimates that 52.6 per cent of the total population live below the poverty line, while this figure reaches 69 per cent in rural areas.
2. The completion evaluation of the Rural Microenterprise Development Programme was conducted by the Office of Evaluation (OE) from July to September 2006.²
3. The programme was approved by the Executive Board in September 1996, and implementation began in June 1997, with a scheduled closing date of June 2003. The closing date was first extended to June 2005, and finally to 30 June 2007, following two additional extensions. The programme cost was US\$26.7 million, of which US\$15.9 million was to be covered by an IFAD loan provided on ordinary terms. The Government of Colombia provided US\$10.7 million in counterpart funding towards the programme. Following two amendments to the loan agreement, the total programme cost was reduced to US\$20.2 million, of which IFAD's loan covered US\$16.1 million and the Government's contribution, US\$4.1 million. The institution responsible for programme implementation was the Ministry of Agriculture and Rural Development and the cooperating institution responsible for loan administration and programme supervision was the Andean Development Corporation (CAF).

II. Evaluation objectives, methodology and process

4. The main objective of the evaluation was to assess the performance and impact of the programme and to generate a series of findings and recommendations for the design and implementation of similar projects in the future in Colombia. To that end, as per OE's project evaluation methodology, the evaluation of the Rural Microenterprise Development Programme sought to: (i) analyse the programme's performance in terms of its relevance, effectiveness and efficiency; (ii) assess the programme's impact on rural poverty; and (iii) assess the performance of key programme partners, including IFAD, CAF and the Government of Colombia. As per OE's project evaluation methodology, a six-point scale has been used to attribute ratings to each of the aforementioned evaluation criteria.³
5. The evaluation included two missions to Colombia: a preparatory mission in July 2006 to launch the evaluation and the main field mission, which visited the country in August-September 2006. The main evaluation mission held discussions, inter alia, with Government officials at the national and local level, as well as with programme staff and beneficiaries. It also had a chance to visit various programme sites during its fieldwork. In this regard, the mission visited a stratified sample of 15 associations of rural microenterprises (ARMEs) supported by the programme in three of the country's departments: Atlántico, Bolívar and Cauca. The criteria for sample selection were: geographic coverage (department), product line and the phase of

¹ Source: The Economist. Country Briefing (2006).

² The mission was composed of Jorge Piña (mission leader), Waldo Bustamante (specialist in rural microenterprise) and Olivier Pierard (specialist in rural microfinance). Miguel Torralba, Evaluation Officer, OE, was the lead evaluator and thus responsible for the programme evaluation.

³ On the six-point scale, 6 represents the best score. For example, in assessing programme relevance, the scale would read as follows: 6 (highly relevant), 5 (relevant), 4 (partly relevant), 3 (partly irrelevant), 2 (irrelevant), 1 (highly irrelevant).

support that the associations were receiving. Security conditions on the ground, access and logistics were also taken into consideration.

III. Programme design

6. The overall objective of the programme was to increase incomes and employment in rural areas through support for the development of rural microenterprise, while ensuring gender equity and environmental protection. The programme's specific objectives were to: (i) facilitate the growth of rural microenterprise in commercial, productive, business-development and economic terms; (ii) foster the development of rural microcredit; (iii) help develop, build the capacity of and stimulate the market for the suppliers of services for rural microentrepreneurs; and (iv) generate applicable policy guidelines for the development of rural microenterprises as a strategy for combating rural poverty.
7. The programme had four components, namely: (i) technological services and training for rural microenterprises; (ii) financial services; (iii) institutional strengthening for first-tier financial intermediaries and suppliers of technological services; and (iv) programme coordination.
8. The programme covered the entire country, but four rural departments (Bolívar, Sucre, Cauca and Nariño) were prioritized initially, owing to their high concentrations of rural poverty and to the existence of favourable conditions for the development of microenterprise activities. Direct beneficiaries included some 10,200 rural families and 3,110 rural microenterprises.

IV. Implementation results

9. At the time of the evaluation, the programme was in its ninth year of implementation. Estimated disbursements as of end-2006 totalled around US\$18.9 million – 94 per cent of the revised overall programme cost of US\$20.2 million. Virtually the entire approved amount of the IFAD loan had been disbursed, whereas 66 per cent of the counterpart contribution of US\$4.1 million had been disbursed.
10. The programme was implemented in two stages, which were markedly different in terms of the modality and partners responsible for implementation. The first stage ran from 1997 to 2000, and the second from 2001 to 2006. The turning point in programme implementation came after an amendment to the IFAD loan in 2000, following a review mission organized by the Fund to address the difficulties encountered and the scant results produced by the programme up to that point. During the first stage, implementation was the responsibility of an inter-ministerial implementing committee, made up of the Ministry of Agriculture and Rural Development, the Ministry of Economic Development and the Mix Corporation for the Development of Microenterprise (MCMD). During the second stage, the Ministry of Agriculture was given sole responsibility for programme implementation through the National Technical Coordination Unit for the programme, which was housed within the ministry. The new programme management committee consisted of the Ministry of Agriculture and the National Planning Department, that is, the institutions most directly concerned with rural development.
11. The two stages differed significantly with regard to the overall approach to programme implementation. During the first stage, for example, the technological services component was administered by MCMD, which selected training and technical assistance proposals formulated by suppliers, without the participation of rural microenterprises (RMEs). As a result, services did not always respond to needs of the microenterprises. In the second stage, the RMEs formulated their own business development plans without the involvement of other entities, and selected their own suppliers of technological services. Among other issues, an increased involvement of microentrepreneurs contributed to their overall empowerment. It also improved the effectiveness of technical services, which became more responsive to

demand, and enhanced the efficiency of investments by eliminating payments for unnecessary activities and high administrative costs.

12. Once the MCMD was no longer involved in programme implementation, the allocation of resources for technical assistance was decentralized through regional competitive selection processes. This decentralization also enabled the involvement of departmental governments, which promoted promising business initiatives for their regions, supported the RMEs in formulating their business development plans and cofinanced some projects. For the past few years, microentrepreneurs have been participating in the pre-selection process, contributing their practical knowledge and experience.
13. Through the financial services component, the programme provided loan funds to financial operators that were not regulated by the Superintendency of Banks, an option that was not available to the Fund for Agricultural Financing (FINAGRO). In addition, loans to RMEs not assisted by the technological services component were authorized, thus avoiding the difficulties often associated with tied-credit programmes.
14. The activities carried out under the programme were: cofinancing of training and technical assistance for microenterprises (technological services component); loans to microentrepreneurs and incentives for capitalization (financial services component); strengthening of suppliers of technological and financial services (institutional strengthening component); and additional assistance for the execution of microenterprise projects, such as participatory monitoring and evaluation, and assistance in the design of policies and instruments for rural microenterprise development (programme coordination component). A succinct overview of some of the key results under each component is provided below.

Technological services

15. Efforts to improve RMEs focused on four major areas: (i) introducing modern production technologies; (ii) increasing market access for RMEs; (iii) improving business management; and (iv) organizational strengthening of ARMEs. Support was provided following a gradual strategy in four annual phases; 69 per cent of RMEs received support only in the first phase, 19 per cent over two phases, and the remaining 12 per cent over three or four phases.
16. The Rural Microenterprise Development Programme cofinanced 199 projects to support the development of 380 ARMEs. The overall number of microentrepreneurs assisted totalled 20,167. Projects were carried out in 22 departments, covering most of the country. The cost of the projects averaged approximately US\$43,000. The implementation rate rose from 3 projects in 1999 to 68 projects in 2006. A total of 20,167 individuals were reached (62 per cent of whom were men and 38 per cent, women).

Financial services

17. Activities under this component included the selection and contracting of 12 financial operators and the administration of resources for the Credit Fund and the Capitalization Fund. In addition, an agreement for administration of funds was signed with FINAGRO, as a second-tier bank.
18. The operations of the Credit Fund and of the Capitalization Fund began in 2001 with the establishment of loan funds with the financial operators, which were selected through a competitive process. Initially, the resources were disbursed directly by the programme, but since 2006, FINAGRO has administered the funds.
19. As of June 2006, 4,992 loans had been extended (US\$3.59 million) and there were 3,397 active clients under the programme. Lending increased each year after 2001, in terms of both number of loans and amounts. The peak lending years were 2005 and 2006.

Institutional strengthening

20. A total of 160 technological service suppliers were identified, and their contact information was published in a "talent map" (available on the programme's website).⁴ The capacity of the financial services operators was strengthened through two activities: (i) an international seminar on microfinance held in Bogotá in 2005, and (ii) a study visit to Bolivia in 2006.

Programme coordination

21. The main outputs of this component were: (i) the production of eight reports documenting experiences under the programme; (ii) support for the drafting of two policy documents⁵ by the National Planning Department; and (iii) the implementation of a programme monitoring and evaluation (M&E) system, the methodology and instruments of which were transferred to the RMEs, to build their M&E capacity.

V. Performance of the programme

Relevance

22. The evaluation considers the programme to be highly relevant (with a rating of 6), as its objectives and its strategy for rural poverty reduction through support for rural microenterprise were effective in meeting the needs of the target population. The programme also helped overcome the agricultural crisis that Colombia was experiencing in the 1990s and supported efforts aimed at eliminating illicit crops. The programme addressed the weaknesses of the RMEs, helped to empower microentrepreneurs and encouraged the development of technological and financial service markets. It is also proving useful to the Government for formulating national policies for rural development, particularly those in the subsectors of rural finance and rural microenterprises, to the extent that it has been identified as a "flagship programme" by the Ministry of Agriculture. Last but not least, the programme is in line with the broad objectives contained in the Colombia country strategic opportunities paper, which was prepared by IFAD in 2003.

Effectiveness

23. The evaluation considers the programme to be effective with a rating of 5. It has successfully achieved its objectives, for example, in relation to the strengthening of RMEs, development of rural microcredit and stimulation of the market of service providers in a number of areas including production, marketing and management.
24. The strengthening of the RMEs translated mainly into growth in sales. This was observed in 88 per cent of the RMEs supported, which exceeded the target of 70 per cent. At the same time, 26 per cent of the RMEs increased their assets, although this result fell short of the target of 70 per cent. Additional indicators used to assess RME growth were:
- (a) **Productive development.** The vast majority of RMEs improved their productive processes from a technological standpoint; however, little headway was made with regard to diversification of production.
 - (b) **Organizational development.** Gains were made in transparency and participation, thanks largely to the implementation of participatory monitoring and evaluation systems. The ARMEs that received the most phases of support made the greatest progress in this area.
 - (c) **Commercial development.** There was significant integration of RMEs into regional production chains, particularly among RMEs undergoing their fourth phase of support (92 per cent).

⁴ <http://www.minagricultura.gov.co/pademer.html>

⁵ The Opportunity Bank document (National Economic and Social Policy 3424) and *Visión Colombia II Centenario* (the chapter *Aprovechar las oportunidades del campo*).

- (d) **Market orientation.** This was key to changing the mentality of the microentrepreneurs, who adapted their production to market requirements and improved the quality of outputs as a result.
- (e) **Business development.** The programme helped to enhance competitiveness in response to changes in consumer behaviour and technological progress. The principal indicators were: (i) maintenance of financial records, which was noted in 68 per cent of the ARMEs and in a fourth of the RMEs; (ii) yearly operational planning, noted in 62 per cent of the ARMEs, and strategic planning, noted in some cases; (iii) quality control, noted in virtually all the ARMEs; and (iv) joint marketing, noted in 70 per cent of the RMEs.
25. The programme contributed to the development of rural microcredit by facilitating the entry of nine new financial operators into the rural microcredit market. These financial operators were also active at the time of the evaluation (60 per cent of the target of 15 operators envisaged at appraisal). A total of 4,992 loans were extended amounting to US\$3.59 million, and in June 2006 active clients totalled 3,397 (exceeding the target of 3,000). The financial operators provided timely access to credit (disbursement times ranged between three and seven days, less than the target of ten days), with enhanced gender equity (58 per cent of the loan recipients were women, exceeding the target of 40 per cent). The financial operators also managed their loan portfolios effectively. This is evidenced by the low percentage (2.8 per cent) of the total portfolio-at-risk, in terms of outstanding loans exceeding their repayment date by 30 days. Nevertheless, a high proportion of RMEs did not receive loans, mainly due to the fact that the financial operators did not know them and to the lack of coverage in areas located a long distance from the agencies. In addition, it is clear that a line of credit for commercialization – crucial for ARMEs – should have been implemented.
26. During implementation, FINAGRO became a new source of funding for financial operators interested in microcredit lending, thanks to the creation of its rural microfinance unit, which is currently administering the Credit Fund. Another unforeseen outcome was the creation of 10 self-managed revolving funds administered by the ARMEs, with total capital amounting to US\$95,489.
27. On a related topic, the market for suppliers of services to RMEs was stimulated and strengthened by the identification of providers, the facilitation of contacts with the beneficiaries through competitions, and the addition of new suppliers (some RMEs became service suppliers). A total of 148 ARMEs (far above the target of 30) identified and contracted suppliers of technological services in an openly competitive market. In addition, nine financial operators acquired rural microcredit technologies and expressed willingness to apply them; however, at the time of the evaluation, they had not done so and continued to employ urban microcredit technologies (possibly because of the time required to change the software used for loan management and to set up agencies and/or representative offices in rural areas).
28. With regard to the formulation of policy guidelines for the development of RMEs as a strategy for combating rural poverty, eight reports were produced documenting experiences under the programme. Assistance was also provided to the National Planning Department in drawing up the Opportunity Bank policy document.⁶

Efficiency

29. The programme was found to be highly efficient, with an evaluation rating of 6. For example, the cost of support per family (US\$936) was approximately half that of other IFAD projects in Latin America and the Caribbean, which is attributable both to the RME development strategy and to the efficient implementation of the components. Operation cost was 0.16 cents per United States dollar of products and

⁶ This policy promotes access to credit and other financial services, while seeking to ensure social equity.

services delivered to microentrepreneurs – very efficient both in absolute terms and in comparison with other projects in the region, where operation costs are generally about double that amount.

VI. Performance of the partners

IFAD

30. The Fund's performance was highly satisfactory, earning an overall rating of 6. The IFAD country programme manager for Colombia monitored implementation closely, in collaboration with Government authorities and the cooperating institution. Twenty monitoring missions were conducted by IFAD, most of them led by the country programme manager, resulting in two amendments to the loan agreement and specific recommendations for improving programme performance. IFAD demonstrated flexibility, ensuring that the necessary corrections were made in a participatory and timely manner. The support provided by IFAD's regional grants⁷ was highly beneficial.

Government of Colombia

31. The Ministry of Agriculture was the implementing agency. Other institutions involved were FINAGRO, the National Planning Department and the Directorate of Public Credit (an agency of the Ministry of Finance and Public Credit). Between 1997 and 2000, MCMD implemented the technological services component, and during that period budgetary allocation by the Ministry of Agriculture was clearly insufficient. After 2001, the ministry increased budgetary allocations steadily, encouraged regional coordination and designated the Rural Microenterprise Development Programme a flagship operation. Consequently, taking its overall performance into account, the evaluation considers the Government's performance as satisfactory, with a rating of 5.

FINAGRO

32. FINAGRO initially had legal difficulties in administering the Credit Fund, but succeeded in resolving those problems early in 2006. In the short period since then, lending has increased to its highest rate ever, and the Rural Microfinancing Unit has been set up. FINAGRO's performance is therefore rated as satisfactory (rating 5).

Cooperating institution

33. CAF administered the IFAD loan and supervised implementation. At first, loan administration did not operate smoothly, which caused financial difficulties for the programme. However, the situation improved over time and the period needed for replenishing programme funds decreased substantially. Supervision comprised 16 multidisciplinary missions during the programme period, which were carried out in a participatory and conscientious manner. CAF's performance is rated as satisfactory (5).

Inter-American Institute for Cooperation on Agriculture (IICA)

34. IICA served as fiduciary agent for the programme, and was responsible for procurement. Its performance was adequate, conscientious and effective. In addition, IICA provided technical assistance for programme implementation, promoting a gender perspective and assisting in the organization of business round tables held within the framework of the programme. In 2006, IICA assumed the responsibility of auditing several projects under the programme. Its performance is therefore considered highly satisfactory (6).

⁷ The Internet-based network of organizations and projects working with the rural poor in Latin America and the Caribbean (FIDAMERICA), Strengthening the Regional Capacity for Monitoring and Evaluation of Rural Poverty Alleviation Projects in Latin American and the Caribbean (PREVAL) and the Rural Microenterprise Support Programme in Latin America and the Caribbean (PROMER).

VII. Impact

Rural poverty impact

35. The programme had significant impact in several areas, in particular on human assets and social capital. Improvements were noted in the ability of microentrepreneurs to run their businesses, especially in productive, managerial and commercial terms. In addition, the transfer of decision-making responsibility for the selection and contracting of services and for the management and administration of public resources helped to empower microentrepreneurs vis-à-vis their customers, their suppliers and the Government. The programme also helped to build capacity among community organizations, notably through the organizational strengthening of 159 ARMEs, which established effective and transparent managerial bodies – many incorporating young people – and participatory monitoring committees.
36. On the other hand, the programme only partially achieved its expected impact on family incomes, and the compliance of the main environmental pollution processes with national environmental legislation (vis-à-vis disposal of untreated wastewater, and waste and rubbish collection) has not been ensured. It is therefore rated as moderately successful (with a rating of 4).

Sustainability

37. According to the evaluation, the programme is likely to be sustainable, with a rating of 5. In this regard, the evaluation noted that the ARMEs have strengthened their technical capacity and social organization (for example, the evaluation noted greater participation in decision-making and more transparency in their governing and managerial bodies) and that they are working in expanding industries (for instance, virtually all of the microenterprises studied are profitable). In addition, within the framework of the strategy of developing production chain systems at the regional level, the RMEs are closely linked to one another and/or are in a direct business relationship with other more powerful agents in value chains. The programme contributed to creating an institutional fabric – which includes regional governments and private agents favourable to the development of RMEs – along with a clear sense of identification with the programme's objectives by everyone involved. Stimulating the technological services market enhanced the interaction between supply and demand, encouraging improvement in the quality of services and ensuring their continuity. Administration of the Credit Fund by FINAGRO will guarantee access to credit until 2014, but growth will be limited since FINAGRO can only disburse **external** funds to unregulated entities; hence, any increase in funds can only come from the resources of the financial operators.

Innovation and replicability/scaling up

38. The strategy of reducing poverty by focusing on the development of RMEs is innovative, both for the Government of Colombia and for IFAD in Latin America and the Caribbean.⁸ Although conducive conditions for this new approach existed during the design phase, the Government was not really prepared to implement the strategy because its main experience lay with urban microenterprises. The programme introduced specific approaches, organizational mechanisms and processes, which today constitute a proven strategy for supporting rural microenterprise in Colombia.
39. In particular, empowering microentrepreneurs to set their own priorities and identify their own needs is an innovation that offers significant strategic potential and lays the foundation for an inclusive, participatory and dynamic process of rural development. The decentralization of the process for preselecting projects for cofinancing through regional competitions, the participation of regional governments and of the microentrepreneurs themselves in the preselection committees, and the

⁸ It is the only operation of the Latin America and the Caribbean Division devoted exclusively to rural microenterprise.

introduction of a rural approach to microfinance in Colombia are also important innovations.

40. Programme approaches can be scaled up, thanks to the degree of credibility enjoyed by the programme among concerned government authorities. Indeed, the idea of direct transfer of funds to beneficiaries (without the involvement of NGOs) is already being discussed within the Ministry of Commerce, Industry and Tourism with an eye to incorporating it into the ministry's support programme for urban microenterprises. The programme also offers lessons for all actors in the Colombian financial system with regard to policies to support rural financial institutions. The reforms proposed in the Opportunity Bank policy document provide clear evidence of the willingness to change and reform in order to facilitate access to the formal financial system by the rural poor, who have not benefited generally from such services in the past. On the whole, the programme is considered successful in terms of innovation and opportunities for replication and scaling up. The rating for this evaluation criteria is therefore 5.

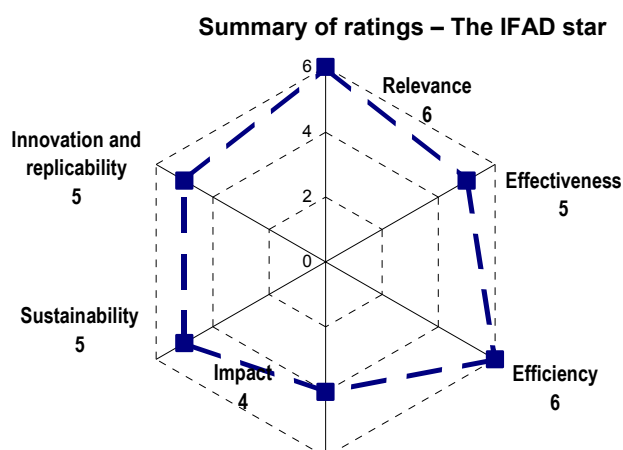
VIII. Overall assessment

41. The table below shows programme ratings compared with the average ratings presented in the annual report on results and impact of IFAD operations (ARRI) in 2005.

Rural Microenterprise Development Programme performance compared with the average performance ratings presented in the 2005 ARRI report

	<i>Programme score</i>	<i>ARRI 2005</i>
Programme performance		
Relevance	6	5
Effectiveness	5	4
Efficiency	6	4
Impact	4	4
Physical and financial assets	4	4
Environment and natural resources	3	4
Human assets	6	4
Social capital and empowerment	6	4
Institutions and policies	5	4
Overarching factors		
Sustainability	5	4
Innovation, replication and scaling up	5	4

42. The Rural Microenterprise Development Programme has been successful, with an overall rating of 5. It is considered to have been very relevant in relation to the needs of the rural poor and is in line with the country strategic opportunities paper for Colombia. The programme was also effective and very efficient, especially in comparison with other similar operations. In terms of impact, it was moderately successful, making evident progress in several areas, including, notably, human assets, social capital, capacity for action of the ARMEs, market access and empowerment of women, although the increase in family incomes was not as high as expected and there were shortcomings with respect to the environment. There is strong evidence to suggest that the development processes initiated under the programme will be sustainable.



43. The programme contributed significantly to the achievement of IFAD's strategic objectives in Colombia, strengthening the capacity of 17,000 rural poor people and their organizations to play an active role in society and in the overall economy, and improving their access to technology, financing and markets under competitive conditions.

IX. Conclusions and recommendations

A. Conclusions

44. The programme's objectives and the strategy for rural poverty reduction through support for rural microenterprises were timely, coinciding with Colombia's agricultural crisis in the 1990s, and apposite, in the light of the high percentage of the rural population (57 per cent) dedicated to microentrepreneurial activities.
45. Results were poor during the first stage of the programme (between 1997 and 2000) as a result of highly centralized and supply-driven programme design, which was conceived within the framework of the urban-oriented National Plan for Microenterprise Development.
46. The loan was amended in 2000 following a review mission organized by IFAD. RMEs would now formulate their own business proposals. The increased involvement of microentrepreneurs contributed to their overall empowerment. It also improved the effectiveness of technical services, which became more responsive to demand, and it enhanced the efficiency of investments by eliminating payments for unnecessary activities and high administrative costs.
47. The programme contributed to better access to microcredit, but coverage is still limited and the range of financial services inadequate to meet the needs of RMEs.
48. The approach to business development as a strategy for poverty reduction was successful, and the operational strategy – giving microentrepreneurs a leading role in their own business development processes – was innovative within the Colombian context. The programme offers encouraging experiences for replication, particularly in view of the efficiency of the investment.
49. The evaluation notes that there are a number of key issues that should be carefully considered in the design and implementation of similar future projects and programmes.

Strategy

50. Genuine empowerment of the beneficiaries and their organizations as part of the strategy of business strengthening represented a major methodological innovation for the development of programmes to fight rural poverty.

Decision-making and information mechanisms

51. The programme has shown that the poor are capable of making their own decisions, the evidence of which was the microentrepreneurs' demonstrated ability to identify their own needs in their business development plans, to select and contract suppliers of technological services, to achieve economies of scale through their associations, and to tailor their production and their businesses to market demand. The Government should gear its efforts towards providing the elements that microentrepreneurs need to manage information on markets and on their businesses.

Allocation of public resources

52. The allocation of public funds through regional competitive processes is another approach to be considered in the future. Not only did this enhance the effectiveness of public investment – by prioritizing the best projects – but it also improved the efficiency of the investment by ensuring that resources were channelled to relevant, timely, high-quality activities. The formation of preselection committees for regional competitions, whose members included regional government authorities, successful microentrepreneurs and subject-area specialists, demonstrated the advantages of decentralizing decision-making and involving the private sector.

Integration into production chains

53. The strategy of linking the programme-supported RMEs to production chains has made it possible to incorporate them into more dynamic links in the various value chains, thereby ensuring the RMEs a more stable market presence and encouraging improvements in the quality of their goods and services. This strategy has spurred the development of new microenterprises linked to the chains, notably service-providers, resulting in local business development and job creation; it has also meant that RMEs have not had to rely on technologies and processes that are generally available only in urban areas.

Cooperative and decentralized relationships

54. The involvement of a variety of public and private actors operating in the regions prioritized by the programme was very effective and led to productive interaction based on cooperative partnerships. The various stakeholders – microentrepreneurs, public institutions and service providers – were linked together in networks that broke with the traditional vertical pattern of a state that gives and a population that receives. There is scope to strengthen horizontal linkages and to continue deepening and decentralizing activities by increasing the involvement of public and private entities in the regions in activities that are currently being supervised directly by the National Technical Coordination Unit.

Market orientation

55. It is worth noting the importance of changing the mentality of the RMEs and their organizations, which have moved away from a historically "productivist" orientation. RMEs now examine the market before embarking on any production activity in order to improve their chances of success and sustainability. They are also adopting business practices that will enable them to compete on the market.

Rural financial services

56. The programme banished several misconceptions about rural financial services, showing on the contrary that:
- Rural microentrepreneurs require credit in order to sustain commercial development processes, since they must finance their access to regional and national markets, accommodating delays in payment for products while still maintaining adequate cash flow in their businesses;
 - Microentrepreneurs are good clients of the financial system – the portfolio-at-risk greater than 30 days was 2.8 per cent – and they generate broad and diverse demand. This is attributed to the clarity of the terms of

business established with the financial operators, which discouraged the culture of non-payment often found in government-run tied credit programmes; and

- Lending to rural microentrepreneurs was profitable for the financial operators, even though they had to extend their coverage into rural areas, which raised overheads.

B. Recommendations

Recommendation 1: Reinforce support mechanisms for RMEs

57. **Information mechanisms.** Enhance the availability of business and market information to support both RMEs and providers of technological services through the use of the various systems that have been implemented by the Ministry of Agriculture. The challenge is to adapt these systems and make them more accessible and user-friendly, bearing in mind the knowledge level of the microentrepreneurs.
58. **Horizontal linkages.** Make a greater effort to create horizontal linkages among the microentrepreneur beneficiaries of the programme with a view to achieving better synergy among peers and adding to the reservoir of business knowledge that they have developed together. The organization of meetings, thematic workshops and study visits might be an efficient means to that end. It might also be worthwhile to consider creating a rural enterprise observatory, with the support of IICA, given its experience in setting up other observatories.
59. **Early warning.** Develop a more effective online system (an early warning system) for monitoring the progress of RMEs, in terms of both commercial and financial variables, in order to identify promptly any problems that they are facing and thus lower the "mortality rate" among rural microenterprises.
60. **Social action.** Emphasize social activities as a key component of strategies aimed at organizational strengthening. The equation "organization equals business" is generally very unstable. Given the potential for business failure in the face of various challenges (for example financial, commercial or external shocks), carrying out activities of a social character will give organization members a greater sense of value and ownership. Some of the organizations visited by the mission have made a major effort in this regard.

Recommendation 2: Strengthen financial services

61. **Diversify the supply of financial services.** Strengthen financial operators in order to enable them to diversify their supply of services and begin offering working capital and marketing loans, collective loans, savings accounts, insurance and fund transfers. Implement a programme for the development or transfer of methodologies to diversify financial products, employing a multiproduct approach based on detailed analysis of demand in each region.
62. **Expand the coverage area of financial operators.** Extend the coverage of agencies of financial operators to remote rural areas currently not being served by:
 - (i) promoting partnerships among financial operators and consolidated ARMEs that operate self-managed credit funds. These associations have experience in the administration of loan funds and they can partner with financial operators in preselecting loan applications, linking collections of loan payments to deliveries of products and consolidating payments in bank accounts of the financial operator; and
 - (ii) promoting partnerships through non-bank representative offices. The cost of establishing such an office is infinitely lower than that of opening up an agency. An incentive system for expanding rural financial services could be implemented by either the Ministry of Agriculture, the programme or another institution or project through the establishment of representative offices and partnerships with associations of producers.

63. Stimulate the participation of savings and loan cooperatives in rural microcredit, since these institutions have a strong regional identity and enjoy a great deal of trust among the public. They are service-oriented and they have shown themselves to be very effective in assisting microentrepreneurs, provided they have access to product methodologies and improved technologies for the management and processing of information. They require specialized technical assistance programmes and support for horizontal and vertical integration processes.⁹ Another advantage of cooperatives is that they can offer virtually all the services provided by banks, except for checking accounts, but their costs are significantly lower.

64. Specific recommendations for FINAGRO:

- (a) Improve FINAGRO's current capabilities for the management of financial operators through the implementation of a training programme. FINAGRO might create a technical assistance unit specializing in microfinance product methodologies for the rural sector.
- (b) Create a database of credit users in order to measure the impact of the component and include this information in the programme's monitoring and evaluation system.
- (c) Implement a monitoring system based on indicators of financial, administrative and managerial performance and of impact. Widely available computer systems could be used for that purpose (those of the Consultative Group to Assist the Poor or the World Council of Credit Unions, among others), enabling rapid interpretation and early detection of risks.
- (d) Consider whether FINAGRO's access requirements (bank guarantees and insurance policies) might be placing small operators at a disadvantage with respect to larger NGOs.

⁹ Horizontal refers to partnerships or associations of cooperatives in a region, area or department; vertical relates to integration with second- or third-tier institutions that provide the cooperatives with services and the possibility of managing liquidity.

Part B – Agreement at Completion Point

I. The Core Learning Partnership and the evaluation users

1. IFAD's Office of Evaluation carried out a completion evaluation of the Rural Microenterprise Development programme (PADEMÉR). An evaluation mission visited the country from 21 August to 8 September 2006, closing its activities in the field with a meeting held in Bogotá where preliminary conclusions were presented to the stakeholders.
2. The evaluation process of IFAD's projects is based on learning of all stakeholders. Therefore it requests the identification and participation of all actors through the "core learning partnership" (CLP). This partnership includes: the Colombian Government, represented by the Minister of Finance, the Ministry of Agriculture and Rural development, and the National Planning department: the Andean development Corporation (CAF); the Fund for Agricultural Financing (FINAGRO); the Inter-American Institute for Cooperation on Agriculture (IICA) and the International Fund for Agricultural development (IFAD).
3. The workshop celebrated on 26 January in Bogotá offered the opportunity to discuss the evaluation results with the members of the CLP. The Comments received have been integrated to this document.

II. Main conclusions of the evaluation

4. PADEMÉR has been a successful Project in general terms. The project is rated as very relevant in relation to the socio-economic context, the country strategy y IFAD's priorities. In addition it was an effective project in the achievement of its objectives, very efficient compared to similar projects y clear progress was achieved en various impact domains.
5. The approach to business development as a strategy for poverty reduction was successful, and the operational strategy – giving microentrepreneurs a leading role in their own business development processes – was innovative in Colombia.
6. As a result of limited results achieved in the period between 1997 and 2000 , IFAD and the borrower agreed to reorient the Project and in August 2000 a loan amendment was approved aimed at: (i) introduce modifications that would facilitate implementation of the financial services component ; and (ii) reorient project execution in order to benefit micro entrepreneurs directly.
7. The larger degree of participation in the second stage promoted microentrepreneurs empowerment, improved the effectiveness of services –which responded to demand- and increased investment efficiency because no unnecessary activities were financed nor high administrative costs were paid. Decentralization allowed the involvement of departmental governments, which promoted promising microenterprise initiatives for their regions, supported RME in the formulation of Business development Plans (BDPs) and cofinanced some projects.
8. PADEMÉR cofinanced 199 projects to support the development of ARMEs, which in turn cofinanced business development plans and the provision of technological assistance fro 308 ARMEs. The number of microentrepreneurs assisted in all phases totaled 20 167. Projects were carried out in 22 departments, covering most of the country.
9. PADEMÉR was highly relevant as its objectives and its strategy for rural poverty reduction through support for rural microenterprise were effective in meeting the needs of the target population, helping to overcome the agricultural crisis that Colombia experienced in the 1990s. The project has also proved helpful for the government to build rural development policies and is also supporting efforts aimed

at eliminating illicit crops. PADEMÉR has been identified as a “flagship project” by MARD.

10. The project is considered successful because it has achieved its proposed objectives with regard to strengthening of RMEs, development of rural microcredit, stimulation of the market of service providers and generation of policy guidelines.
11. PADEMÉR was a highly efficient project in terms of use of resources, including both unit costs of implementation and overhead. The cost of support per family was US\$936 and the operation cost was 0.16 cents per dollar of products and services delivered to microentrepreneur, very efficient in absolute terms and in comparison with other projects in the region, where it is generally about double that amount.
12. The project generated significant impact in several domains, particularly human assets, social capital, market access and the empowerment of women. Nevertheless, it only partially achieved its expected impact on family incomes.
13. The 20,167 families of microentrepreneurs who received technological services saw their current earnings rise by 23 per cent. The number of jobs created by the RMEs totaled 43,014, well above the target of 25,000 for the project.
14. Improvements were noted in the ability of microentrepreneurs to manage their businesses. The transfer of decision-making responsibility for the selection and contracting of services and for the management and administration of public resources definitely helped to empower the microentrepreneurs vis-à-vis their customers, their suppliers and the Government.
15. The project helped to build capacity among community organizations, notably through the organizational strengthening of 159 ARMEs (comprising 3 949 RMEs), which established effective and transparent managerial bodies and participatory monitoring committees. The management of many ARMEs received an infusion of new energy through the incorporation of young people into managerial positions.
16. Market access improved substantially, thanks to joint commercialization (96 per cent of RMEs that received Phase-II support are selling through their associations), better quality of products and better presentation and packaging.
17. The main environmental pollution processes addressed by national environmental legislation (disposal of untreated wastewater and waste and rubbish collection) had not been controlled. The project did not achieve to improve the environmental performance of the initiatives supported.
18. Sustainability is considered likely. The ARMEs have strengthened their technical capacity, their social organization, and they are working in growth industries (virtually all of the microenterprises studied are profitable).
19. The strategy of reducing poverty by focusing on development of RMEs is innovative, both for the Government of Colombia and for IFAD¹. The project introduced changes and innovations of demonstrated effectiveness in approach, organization and processes, which today constitute a proven strategy for supporting rural microenterprise.
20. In particular, empowering microentrepreneurs to set their own priorities and identify their own needs is an innovation that offers significant strategic potential and lays the foundation for an inclusive, participatory and dynamic process of rural development. The decentralization of the process of pre-selection of projects for cofinancing through regional competitions, the participation of regional governments and of microentrepreneurs themselves in the pre-selection committees, and the introduction of a rural approach to microfinance in Colombia are also important innovations.

¹ PADMER is the only project of the Latin America and the Caribbean Division exclusively devoted to rural microenterprise.

III. Key issues for the future

21. PADEMÉR yielded some extremely valuable lessons, including the following:
22. **Strategy:** Genuine empowerment of the beneficiaries as part of the strategy of business strengthening represented a major methodological innovation for the development of programmes to fight rural poverty.
23. **Decision-making:** PADEMÉR has shown that the poor are capable of making their own decisions. Proof of this was the microentrepreneurs' demonstrated ability to identify their own needs in their business development plans, select and contract suppliers of technological services, achieve economies of scale through their associations, and tailor their production and their businesses to market demand. The Government should gear its efforts towards providing the elements that microentrepreneurs need to manage information on markets and on their businesses improving access to commercial information lines and fostering horizontal integration.
24. **Allocation of public resources:** The allocation of public funds through regional competitive processes is another approach to be considered in the future. Not only did it enhance the effectiveness of public investment – by prioritizing the best projects – but it also improved the efficiency of the investment by ensuring that it was being channeled to relevant, timely, high-quality activities. The formation of pre-selection committees for the regional competitions, whose members included regional government authorities, successful microentrepreneurs and subject-area specialists, demonstrated the advantages of decentralizing decision-making and involving the private sector.
25. **Integration into production chains:** The strategy of linking the RMEs supported by the project to production chains has made it possible to incorporate them into more dynamic links in the various value chains, thereby ensuring the RMEs a more stable market presence and encouraging improvements in the quality of their goods and services. This strategy has spurred the development of new microenterprises linked to the chains, notably service-providers, resulting in local business development and job creation; it has also meant that RMEs have not had to rely on technologies and processes that are generally available only in urban areas.
26. **Rural financial services:** In the area of rural financial services, the project cleared up several issues about which various misconceptions existed.
27. Rural microentrepreneurs require credit in order to sustain commercial development processes, since they must finance their access to regional and national markets, accommodating delays in payment for products while still maintaining adequate cash flow in their businesses.
28. The microentrepreneurs were good clients of the financial system – the portfolio at risk greater than 30 days was 2.8 per cent – and they generated broad and diverse demand. This is attributed to the clarity of the terms of business established with the financial operators, which discouraged the culture of non-payment often found in government-run tied credit programmes.
29. Lending to rural microentrepreneurs was profitable for the financial operators, even though they had to extend their coverage into rural areas, which raised their overhead.
30. **Cooperation between public and private sectors:** The involvement of a variety of public and private actors operating in the regions prioritized by the project was very effective and made it possible to organize cooperation processes based on cooperative partnerships. The various stakeholders – microentrepreneurs, public institutions and service providers – were linked together in networks that broke with the traditional vertical pattern of a State that gives and a population that receives. Moreover, the possibilities for further expansion of these linkages were by no means exhausted; indeed, there is room for the inclusion of additional activities.

IV. Recommendations

31. **Market orientation.** PADEMÉR succeeded in changing the mentality among the RMEs, which moved away from a “productivist” orientation and adopted business practices that would enable them to compete in markets. This should be borne in mind particularly by regional governments that are supporting RMEs in their respective regions.
32. **Information mechanisms.** Enhance the availability of business and market information to support both RMEs and providers of technological services, using for that purpose the various systems that have been implemented by the Ministry of Agriculture and Rural Development. The challenge is to adapt these systems and make them more accessible and user-friendly, bearing in mind the knowledge level of the microentrepreneurs.
33. **Horizontal linkage.** Make a greater effort to create horizontal linkages among the microentrepreneur beneficiaries of PADEMÉR with a view to achieving better synergy among peers and adding to the reservoir of business knowledge that they have all developed. The organization of meetings, thematic workshops and study visits might be an efficient means to that end. It might also be worthwhile to consider creating a rural enterprise observatory, with the support of IICA, given its experience in implementing other observatories.
34. **Public policies.** IFAD and the GOC should discuss the usefulness and possible incorporation into public policies of the project experiences and mechanisms including The allocation of public funds through regional competitive processes
35. **Early warning.** Develop a more effective online system for monitoring the progress of RMEs, in terms of both commercial and financial variables, in order to identify promptly (early warning) any problems that they are facing and thus lower the “mortality rate” among rural microenterprises.
36. **Social action.** The strategy of organizational strengthening requires the inclusion and the initiation by the project of useful social activities that will give members of the organization an increased sense of ownership. Some of the organizations visited by the mission have made a major effort in this regard. The equation organization = business is generally very vulnerable, given the potential for failure in marketing processes, unless the organization is also carrying out other activities.
37. **Decentralization.** Continue deepening and decentralizing activities by increasing the involvement of public and private entities in the regions in activities that are currently being supervised directly by the NTCU.
38. **Diversify the supply of financial services.** Strengthen financial operators in order to enable them to diversify the supply of services and begin offering working capital and marketing loans, collective loans, savings accounts, insurance and fund transfers. Implement a programme for the development or transfer of methodologies to diversify financial products, employing a multi-product approach based on detailed analysis of demand in each region.
39. **Expand the coverage area of financial operators.** Increase the coverage of agencies of financial operators in remote rural areas that are currently not being served by: (i) promoting partnerships among financial operators and consolidated ARMEs that operate self-managed credit funds. These associations have experience in the administration of loan funds and they can partner with financial operators in pre-selecting loan applications, linking collections of loan payments to deliveries of products and consolidating payments in bank accounts of the financial operator; and (ii) promoting partnerships through non-bank representative offices. The cost of establishing such an office is infinitely lower than that of opening up an agency. PADEMÉR or MARD, or another institution or project, could implement a system of incentives for the expansion of rural financial systems through the establishment of representative offices and partnerships with associations of producers.

40. Stimulate the participation of savings and loan cooperatives in rural microcredit, since these institutions have a strong regional identity and enjoy a great deal of trust among the public. They are service-oriented and they have shown themselves to be very effective in assisting microentrepreneurs, provided they have access to product methodologies and improved technologies for the management and processing of information. They require specialized technical assistance programmes and support for horizontal and vertical integration processes ("horizontal" refers to partnerships or associations of cooperatives in a region, area or department; "vertical" refers to integration with second- or third-tier institutions that provide them with services and the possibility for managing liquidity). Another advantage of cooperatives is that they can offer virtually all the services provided by banks, except for checking accounts, but their costs are significantly lower.
41. **Specific recommendations for FINAGRO:**
- (a) Improve FINAGRO's current capabilities for the management of financial operators through the implementation of a training programme. FINAGRO might create a technical assistance unit specializing in microfinance product methodologies for the rural sector.
 - (b) Create a database of credit users in order to measure the impact of the component and include this information in the PADEMÉR monitoring and evaluation system.
 - (c) Implement a monitoring system based on indicators of financial, administrative and managerial performance and of impact. Widely available computer systems could be used for that purpose (CGAP, WOCCU, among others), enabling rapid interpretation and early detection of risks.
 - (d) Consider whether FINAGRO's access requirements (bank guarantees and insurance policies) might be putting small operators at a disadvantage with respect to larger NGOs.