Promoting rural enterprise growth and development: Lessons from four projects in sub-Saharan Africa

“Field experiences”
Promoting rural enterprise growth and development: Lessons from four projects in sub-Saharan Africa

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**Abbreviations and acronyms**

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Foreword

It is my pleasure to share with IFAD colleagues and partners this report on the lessons learned from IFAD-financed rural enterprise projects in sub-Saharan Africa. This is the first of a series of documents emerging from ‘capitalization workshops’ on key topics related to our work in achieving IFAD’s goal of enabling poor rural people to improve their food security and nutrition, raise their incomes and strengthen their resilience. These workshops bring together staff from IFAD-financed projects, along with farmers and other rural entrepreneurs and technical specialists, to draw out, share and discuss – in other words, to ‘capitalise on’ – the practical lessons learned from their experiences. The workshops involve an intensive week of writing, presentation, discussion, debate – and laughter. Their results amount to a veritable treasure chest of wisdom from practitioners, relating not only to their successes, which we plan to scale up and replicate, but also to their difficulties, which we hope to avoid.

Rural enterprise growth and development is a particularly important topic for IFAD to explore through a ‘capitalization’ process as the Fund has limited experience in supporting this work relative to its more traditional work in agriculture and community development. The focus on Africa (more precisely, sub-Saharan Africa) is also timely. Africa’s economies today are becoming more dynamic, and agricultural growth is catalysing broader rural growth. This has led to the rapid emergence of rural enterprises. Many, if not most, of these enterprises are owned and managed by women and young people. Nearly all have the potential to generate further employment in rural areas. We therefore expect to expand our work with rural enterprises beyond the farm, building on the lessons from our colleagues in Ghana, Madagascar, Rwanda and Senegal. I therefore extend my thanks to them for sharing their hard-earned knowledge with us. I hope that you will agree that the lessons and recommendations that have emerged are very useful for all of us working in rural development.

Ides de Willebois
Director
Western and Central Africa Division
Introduction

The dynamic role of micro and small-scale enterprises (MSEs) in developing countries as "necessary engines for achieving national development goals such as economic growth, poverty alleviation, employment and wealth creation, leading to a more equitable distribution of income and increased productivity is widely recognized." In an attempt to accelerate growth rates in low-income countries, particularly in Africa, many development partners and donors have made the promotion and development of MSEs a major concern.

These enterprises, which are mainly rural and agriculture-based, are faced with unique problems that affect their growth and, thus, reduce their ability to contribute effectively to economic development. The problems range from the lack of access to credit, inadequate managerial and technical skills, and low levels of education to poor access to market information and an inhibitive regulatory environment. The ability of MSEs to realize their potential impact on the rural economy in terms of generating employment and increasing income therefore depends largely on the availability and provision of appropriate and cost-effective business development support services, including financial support.

Against this background, many development agencies and donors consider the promotion and development of rural enterprises to be a key tool for rural poverty reduction in Africa. IFAD, for example, views rural entrepreneurs in particular and the private sector in general as the main drivers of sustainable rural development. It also recognizes that providing an enabling environment for market-oriented economic activities is crucial for the realization of countries' economic and social objectives. IFAD is therefore implementing various projects in Africa that have the potential to help rural communities diversify their income-generating activities by stimulating engagement not only in value addition to rural products but also in non-farm production and services that provide additional employment and income opportunities. Experience has shown that there is great potential for scaling up rural enterprises in Africa.

The search for solutions to scaling up MSEs in Africa as one way of tackling rural poverty has been the central focus of policymakers, donors and development practitioners including IFAD. To this end, a number of donors and development partners provide enterprise development interventions through programmes, projects and initiatives. In this effort, diverse approaches are used to promote the growth and development of MSEs based on the policy directions and interests of these donors and development partners. A wealth of information and experiences in rural enterprise development methodologies is therefore held by these development institutions, which, if harnessed and shared, could help to improve best-practice interventions in support of MSE development and address the key sectoral issues that constrain private-sector development in particular and MSE growth and expansion in general.

Accordingly, knowledge acquisition and transfer resulting from the systematic implementation of enterprise development projects across multiple countries and projects will provide major opportunities throughout the life of projects to mainstream learning and reduce costs of replication and scale-up. This process can also contribute to improving country and regional implementation and future programme development.

Capturing and disseminating best practices and lessons learned in rural enterprise development has therefore been central to the management of IFAD’s Africa regional portfolio. At the same time, it has been realized that this knowledge is not adequately documented in the various reports that projects are required to submit, since these reports tend to focus almost exclusively on implementation progress and constraints. As such, the wealth of experiences and lessons learned that are essential for scaling up are not sufficiently shared with other projects and stakeholders.

The Capitalization Workshop on Rural Enterprises Development: Challenges, Progresses and Lessons Learned, held in Accra, Ghana, from 16 to 24 May 2011, was therefore intended, among other things, to bring together best practices and lessons learned in rural enterprises from four selected projects in Western and Central Africa to serve as a guide for future programming by IFAD. The projects involved were the Rural Enterprises Project – Phase II (REP-II) in Ghana, the Support Programme for Rural Microenterprise Poles and Regional Economies (PROSPERER) in Madagascar, the Rural Small and Microenterprise Promotion Project – Phase II (PPPMER-II) in Rwanda, and the Promotion of Rural Entrepreneurship Project – Phase II (PROMER-II) in Senegal.

One of the many ways to showcase project results is through success stories that describe how projects have affected people’s lives. Thus, the Western and Central Africa Division, apart from using the capitalization workshop as a platform to engage projects and partners in a participatory process of documenting experiences and creating knowledge products for various purposes, also used the process to identify and capture lessons learned and experiences across projects in rural enterprise growth and development. This has led to a greater understanding of the constraints and challenges faced, which has formed the basis for generating knowledge products that can contribute to improved programme design and policy dialogue.

This technical report therefore documents the lessons learned and good practices identified on enterprise development approaches, methodologies and innovativeness across projects from these four countries.
Brief project profiles

This section presents brief profiles of the four projects whose experiences and practices have been used to capture enterprise growth and development good practices and lessons learned in this report. These projects have accumulated sufficient experiences during implementation for them to yield a number of practical lessons and good practices, which can be applied to inform ongoing and future IFAD-funded projects, and may be of value to other projects as well.

Rural Enterprises Project – Phase II (Ghana)

The overall goal of REP-II is to contribute to the alleviation of poverty and improved living conditions in rural areas of the country, particularly for women and vulnerable groups, through increased self- and wage employment. The project has an eight-year duration (2003-2012) and covers 53 districts with four years of technical assistance per district. It also provided limited support to 11 of the 13 districts of the Phase I project for the first two years.

At appraisal the project was based at the Ministry of Environment, Science and Technology, but was later moved to the Ministry of Trade and Industry. A project steering committee comprising all main project stakeholders oversees project implementation. The project coordination and monitoring unit (PCMU) coordinates all project activities and provides technical backstopping, through the National Board for Small Scale Industries (NBSSI) and the Ghana Regional Appropriate
Technology Industrial Service (GRATIS), to the district-based delivery mechanisms: business advisory centres and rural technology facilities. The PCMIU is supported by two zonal offices.

The main project components are:

- Business development services
- Technology promotion and support to apprenticeship training
- Rural financial services
- Support to rural MSE organizations and partnership-building
- Project management and monitoring

The business development services component is implemented through business advisory centres in a tripartite arrangement comprising the project, the district assemblies and NBSSI. Business advisory centres, which are part of the district assemblies, have the following main activities:

- Business orientation seminars
- Community-based skills training
- Small business management training
- Literacy and numeracy training
- Information and referral services

The technology promotion and support to the apprentice training component is implemented through the rural technology facilities in a tripartite arrangement comprising the project, the district assemblies and GRATIS. In addition to the three rural technology facilities already set up under REP-I, 18 new facilities have been established with the aim of servicing all 53 districts. Overall management of each
facility lies with a management board comprising representatives of district assemblies, business advisory centres, GRATIS and the local private business sector from the districts being served. The main activities of rural technology facilities are:

- Support to master craftspersons
- Support to the traditional apprenticeship system
- Promotion and dissemination of technologies
- Technology support through the production and repair of equipment for the rural MSE sector

The rural financial services component is implemented through participating financial institutions in the rural areas with the aim of providing rural MSEs with access to finance. The component is supported by:

- An onlending credit line from the project – the Rural Enterprise Development Fund (managed by the Bank of Ghana) – through the participating financial institutions to small rural businesses
- Support to the efficiency monitoring unit of the ARB Apex Bank for training and monitoring of the participating financial institutions

The support to the rural MSE organizations component is implemented by the PCMU through business advisory centres. The main activities under the component are:

- Support to local trade associations for partnership-building and -strengthening
- Support for the formulation of MSE policies to the working group on microenterprise development

The PCMU coordinates all project activities and provides the necessary technical backstopping.

A project steering committee comprising all main project stakeholders oversees project implementation.

**Support Programme for Rural Microenterprise Poles and Regional Economies (Madagascar)**

The main goal of PROSPERER is to increase the incomes of poor rural people by consolidating microenterprises at local and regional levels. Among its other activities, the programme contributes to the formulation of a national policy and institutional framework in support of rural microenterprise development. It also improves rural microenterprise competitiveness in order to boost the performance of clusters and value chains with linkages to regional growth poles.

The programme has five components:

- Rural microenterprise identification and mobilization
- Business development services for rural microenterprises and vocational training
- Rural finance and risk management
- Market infrastructure and enabling investments
- Monitoring and evaluation, knowledge management and communication
The following are the main programme activities:

- Providing existing small-scale entrepreneurs from the five most densely populated regions with a range of business development services, from training services to improved technologies, to overcome bottlenecks and to support economic growth
- Facilitating access to financial products and services, such as microfinance and insurance schemes
- Offering professional and apprenticeship training to young people and adults who want to create their own microenterprises along key value chains
- Helping to strengthen public-private partnerships with professional federations, the government and the Federation of the Chambers of Commerce, Industry, Artisans and Agriculture

Rural Small and Microenterprise Promotion Project – Phase II (Rwanda)

PPMER-II promotes rural microenterprise development with a view to improving the living standards of disadvantaged rural groups and increasing the contribution of the secondary sector to the Rwandan economy.

The main purpose of the project is to assist small and medium-sized enterprises (SMEs) in becoming important sources of supplementary income for rural groups, particularly in areas with high population density and land pressure, and to help diversify Rwanda’s economy by promoting the secondary and service sectors.

To improve the living standards of the most disadvantaged rural groups, the project is focused on promoting rural microenterprises (particularly for vulnerable groups),
developing professional organizations capable of providing services to SMEs, and supporting the development of a national policy and dialogue platform for SMEs.

Specifically, the project’s objectives are to:

- Promote the development of viable SMEs and their professional organizations so that they can respond to the needs of the target group
- Improve the performance and productivity of SMEs through access to sustainable non-financial services
- Promote the use of appropriate technology, the observance of acceptable quality standards and better access to markets
- Enhance access to financial services adapted to the requirements of SMEs
- Improve the institutional and legal framework of SMEs

The project’s main target group consists of SMEs, which for programme purposes are divided into three groups (subsistence SMEs, emerging SMEs and expanding SMEs) defined as follows:

- Subsistence SMEs are active or potentially active microentrepreneurs with less than Rwandan franc (RWF) 15,000 (slightly under US$25) in savings or working capital
- Emerging SMEs are more dynamic, often seasonally active enterprises with RWF 15,000-RWF 150,000 (about US$25-US$250) in savings or working capital; they are characterized by a reliance on artisanal and/or traditional skills
- Expanding SMEs are full-time, specialized and more modern enterprises with growth potential and RWF 150,000-RWF 1.5 million (roughly US$250-US$2,500) in savings or working capital
The project pays particular attention to vulnerable groups in rural areas, which include:

- Women and woman-headed households (the latter 22 per cent at the national level)
- Uneducated and/or under- or unemployed young people
- Households headed by children and orphans
- Landless people
- Households affected by HIV/AIDS
- Former soldiers resettled in the project area

**Promotion of Rural Entrepreneurship Project – Phase II (Senegal)**

PROMER-II aims to boost employment, and hence incomes, among the most vulnerable groups by improving the profitability of non-farm MSEs and – indirectly – by stimulating agricultural activities. In particular, it is helping to create and develop self-employment and wage-based jobs by providing rural MSEs with appropriate and accessible good-quality and self-sustaining financial and non-financial business development services.

The project’s overall goal is to promote, in a gender-equitable way, the sustainable diversification of poor rural people’s livelihoods and income sources. Its specific objectives are to:

- Foster and consolidate profitable rural MSEs able to offer stable jobs in the target areas
- Strengthen and professionalize the rural entrepreneurial subsector in those areas
- Improve the overall political, legal and institutional environment for rural MSEs
The project has five main components:

- Access to non-financial business development services
- Promotion of rural financial services
- Strengthening of professional organizations and political, legal and institutional environments
- Development of business information services
- Coordination and management

Project beneficiaries are members of the following vulnerable rural households:

- Rural unemployed people who are interested in self-employment, but who lack the necessary skills, technologies, market access and initial capital
- People with rudimentary skills, but who need both training in entrepreneurship development and initial capital to set up their own businesses
- Existing owners of MSEs who require better skills and technologies and easier access to markets in order to improve and expand their businesses

Project activities are managed by a project coordinating unit with four field offices, and a strong monitoring and evaluation unit to track achievements and guide project planning and implementation strategies.
Good practices/lessons learned across projects

What is a ‘good practice’?
A ‘good practice’ is defined as a technique or methodology that, through experience, has consistently shown results superior to those achieved with other means, and that is used as a benchmark after a success has been demonstrated. In rural enterprise development, a practice can be said to be a ‘good’ practice when it has the capacity to provide sustainable rural development that has the potential to help rural communities improve and diversify their income-generating activities “by stimulating engagement in value addition to rural products and in non-farm production and services which provide additional income opportunities and reduce household risk.”

A ‘good practice’ could therefore be, among others, a methodology, process, policy, regulation, resource or structure.

Sometimes, however, a good practice may not necessarily be applicable or appropriate for a particular organization’s or country’s needs. Thus, a key strategic approach when applying a good practice is to create a balance between the unique qualities of the practice and the areas that the project or country has in common with where the practice has been successful.

In the capturing of good practices, there is a tendency for only the positives to be reported. However, the failures are equally important lessons for future project design and can help to chart a path that will avoid the same mistakes being repeated.

Good practices and lessons learned from the various projects have been based on the following key enterprise development areas:

- Targeting and accessibility
- Effective business development services
- Effective business financial services
- Availability of materials and tools
- Client-market connection
- Enabling environment
- Sustainability
- Gender

Specific lessons learned/good practices across projects
The specific lessons and good practices captured on the above key developmental issues are discussed in the paragraphs that follow.

**Enterprise development approach: Targeting and accessibility**

By and large, all four projects focus on demand-led/market-driven approaches to provide enterprise development support to MSEs, basing their interventions on the priority needs of their client MSEs, particularly existing businesses. In the case of REP-II, the assessment of client capacity-building needs for the trade-specific deficiencies or technical skills development and business management skills is predominantly demand-driven both for business advisory centres and rural technology facilities. The business advisory centres/rural technology facilities use engagement approaches including meetings with local business associations, sampled visits to clients, vocational premises and capacity-building requests received from clients. PPPMER-II’s MSE-related interventions are also demand-driven and are determined by beneficiary priorities in all intervention phases, from identification of activities, to planning, implementation, and monitoring and evaluation. PROSPERER's main target is already established rural microbusinesses and small rural businesses whose needs are identified to ensure that the programme support provided is relevant and efficient.

This demand-driven approach for enterprise development, according to PROSPERER and REP-II, is the most appropriate since it enhances beneficiaries’ motivation to contribute to the cost of services. Thus the effectiveness of this approach is evidenced by the willingness of MSEs to pay fees, albeit small ones, to access the range of services they require, demonstrating their commitment to use such support services because they see the need for them. Committing themselves financially to access these services motivates the MSEs to make productive use of the business development services provided by the projects.

However, it is also evident that some project interventions directly targeted at specific groups, especially women, young people and other vulnerable groups, are free or subsidized because they are meant to address particular problems such as youth and graduate unemployment, rural-urban migration and dwindling local economies. Again, since vulnerable people lack the self-confidence and knowledge to access enterprise development services, it is appropriate to use such a direct targeting approach.

One example of such a direct targeting approach is REP-II’s equipment support to graduate apprentices to promote rural youth employment. Similarly, the project has a matching grant scheme, whose main purpose is to enable significantly more women to access longer-term funds that are needed for capital formation and technology upgrades.

PPPMER-II also has specific programmes for women, especially woman-headed households, and for uneducated and/or under- or unemployed rural young people. It sets aside special days to interface with these targeted beneficiaries, briefing them on the programmes available to them and seeking to motivate them to access these programmes. In addition, the project provides concessionary loans from funds provided to banks for onlending to the productive poor to enable them to engage in income-generating activities after undergoing training. Financing for equipment purchase is extended to apprentices to kick-start new MSEs; terms are 50 per cent loan/50 per cent subsidy.
Similarly, PROSPERER, through its vocational training and basic skills programmes, targets rural young people who want to create their own microenterprises along key value chains. It encourages illiterate people to take advantage of its free literacy activities (which use a system recognized by the Ministry of Education known as intensive functional literacy for development). Those who have completed their training under this literacy programme have access to various types of enterprise development support. These include basic skills or vocational training that best corresponds to their entrepreneurial activities and other types of support/guidance once they are considered apt and ready for it. In the same vein, a major project component of PPPMER-II is the promotion of literacy and empowerment with an emphasis on raising beneficiaries’ awareness of local development issues. The project provides functional adult literacy training as a strategy and entry point for working with poorer and illiterate groups.

The key challenge faced by the four projects may be how to find the right balance between providing subsidized or even free goods and services, which can deliver short-term outcomes, and supporting more market-driven and sustainable approaches. This notwithstanding, although there is now a consensus among the four projects on the need to move towards more market-oriented approaches because they are more effective, opinions differ on how to put this into practice when it comes to productive poor people, young people and women.
Lessons learned

A demand-driven approach to enterprise development has proved effective for existing businesses as this approach has helped projects increase their visibility and has made enterprise development support more accessible to MSEs. These enterprises are much more likely to accept project interventions that are based on their needs, relevance and have immediate application to their businesses. The demand-led approach also tends to increase beneficiaries’ willingness to pay higher commitment fees to access business development support services because these are based on their requirements. This has implications for the sustainability of enterprise development support.

At the same time, a demand-driven approach may also carry the implicit risk of restricting outreach to vulnerable groups. Therefore, direct targeting of specific groups, especially start-ups and vulnerable groups such as women, young people and productive poor people, assisting them in establishing new MSEs appears to be appropriate, effective and offers projects the opportunity to focus their interventions on the specific problems to be solved.

Considering the effectiveness, appropriateness and relevance of the two approaches, projects should continue to use a combination of demand-driven and targeted services in their enterprise development activities, as the situation may require. There is evidence, however, that demand-driven services are much more successful with existing businesses while targeted services have been effective in addressing specific problems associated with vulnerable groups, such as high youth, women and graduate unemployment rates, as well as problems associated with rural-urban migration and dwindling local economies.

However, to make such a direct targeting approach more purposeful, projects must put in place and respect transparent qualifying criteria and guidelines, and have a clear exit strategy in order to avoid market distortions.

The inclusion of numeracy and literacy programmes in enterprise development interventions tend to help illiterate people access enterprise development support in order to be integrated into the MSE sector effectively. PROSPERER provides basic skills or vocational training that best corresponds to a person’s entrepreneurial capacity or proposed business choice to those who complete their functional literacy training as a way of integrating them into the mainstream MSE subsector. PPPMER-II, however, initiates income-generating activities first for illiterate people and as part of the programme incorporates three to four hours per week of functional literacy.
Effective business development services

In enterprise development, business development services are provided, among others, to build the capacity of MSEs to become competitive enough to compete in mainstream markets. The four projects provide financial and non-financial services to MSEs mainly through local service providers and/or business advisory centres/rural technology facilities. Because these intermediaries (for instance, master craftspersons) live in the districts, language, proximity and cost management issues relating to the implementation of business development services are better managed and cost-effective. The projects can therefore focus more directly on building the capacity of these persons or centres providing services rather than delivering direct assistance to MSEs themselves. This helps build sustainable capacities for all types of providers at the local level.

Each project provides business development services to MSEs in different ways. REP-II uses district-level structures to promote and develop business enterprises. These structures include district assemblies, business advisory centres, rural technology facilities and district assembly subcommittees on MSE promotion. PROSPERER also delivers various forms of support through district community-based structures (such as multiservice one-stop shops), but also uses individual local service providers. PPPMER-II mobilizes and works with both private- and public-sector service providers.

The identification and selection of local service providers is vital in ensuring the quality and suitability of business support services. To this end, PROSPERER has established accreditation and evaluation committees that meet regularly to approve the initial accreditation of service providers, without which they are not authorized to deliver support services. Furthermore, to further the competitive and sustainable delivery of business development services, the programme is promoting the establishment of a network of service providers. This network is expected to facilitate the exchange of ideas and methodologies among service providers, help ensure competitive pricing for services, and enable productive poor people to access business development services.
**Lessons learned**

Using local service providers to deliver business development services to MSEs is cost-effective for projects, more economical for clients, and efficient in that the trainees tend to be receptive to mentoring by a successful local service provider in their selected trade. The use of local service providers also ensures sustainability after the life of the project.

To increase the effectiveness of local service providers, capacity-building and the provision of some form of accreditation are essential. Service providers need to have greater knowledge and proficiency in areas such as facilitation, training evaluation, report-writing, adult training techniques, training needs assessment, training design and session planning, post-training monitoring of clients’ performance, and information and communication technology. National training programmes should make these subjects part of their normal syllabus and should also provide appropriate testing and certification.

Furthermore, the presence and use of district-level structures to deliver business development services, such as the business advisory centres/rural technology facilities in Ghana and the one-stop shops in Madagascar, make access easier, which ensures sustainability and boosts local-level enterprise development after projects have ended.

The promotion of a network of service providers can potentially ensure the quality of service delivery and promote competition among local service providers. Such a network can also serve as a self-monitoring tool. Funding for promoting a service provider network and related capacity-building can pose challenges that a project must meet if it is to succeed in developing a strong network institution that will provide the desired impact.

One fundamental principle, agreed on by all projects, is that the training should be easily transferred back to the clients’ workplace. Therefore, the relevance of the training content, and the quality, appropriateness and pragmatism of the delivery methods used by trainers, including responsiveness to trainees’ characteristics, are all critical for putting into practice the skills and knowledge acquired during training.

The projects also identified another crucial element in client capacity-building, namely the need for continuous maintenance of the new skills or knowledge acquired once training has been completed. Follow-ups/refresher top-ups are essential, because if skills and knowledge are not used regularly, they quickly fade away. This is even more critical for start-ups and new MSEs established by young people, women and graduate apprentices.

Building positive attitudes and entrepreneurial mindsets among clients essentially ensures that the support provided to them by business development services is effective. With the right attitudes and mindsets, clients take the risks necessary for the development and success of their businesses. In addition, businesses need to have the potential for growth and access to markets in order to become profitable.

The provision of a full range of services and the correlation between the quality of service and its price also prompt strong MSE buy-in and underpin service sustainability. The stage of growth of a client’s business determines the composition of the services to be provided, but the mix must include business and technical skills development, financial management and market connection support.
Effective business financial services

The main objective of rural financial services is to enhance rural small-scale entrepreneurs’ access to sustainable financial services provided by efficient local financial service providers that offer deposit facilities and small-scale loans to community members for rural business activities.

However, banks are generally averse to providing funds to MSEs without instruments that reduce their credit risks. The few that venture provide mostly short-term working capital loans because they have inadequate funds to support the provision of long-term loans to MSEs for the acquisition of capital assets. Furthermore, commercially priced lines of credit targeting MSEs, which are often channelled through banks by donor-funded initiatives, are generally unattractive to banks given the high capacity-building costs associated with significant expansion into this sector. Thus traditional MSE credit lines have often been underutilized or are not onlent to intended borrowers.

To address this situation, projects have established onlending credit lines (e.g. REP-II’s Rural Enterprise Development Fund) to provide financial support to MSEs, mainly through the banking system. REP-II uses matching grants to finance equipment purchased in order not to distort the competitive environment in the financial sector. PPPMER-II grants concessionary loans (subsidies) as a pro-poor intervention to MSEs; the loans are granted through the banks based on negotiated interest rates, and the credit risk is shared between the project and the clients. The PPPMER-II experience is therefore a credit incentive instrument that seeks to facilitate greater MSE lending by reducing the risk that banks face in providing funds to the productive poor. All these financial support mechanisms are complemented with financial literacy education.

In addition to credit, savings products that encourage clients to set aside part of their income as savings have been developed by PPPMER-II with the banks. Their purpose is to inculcate clients with the habit of savings. This enables clients to pay off the 50 per cent subsidy loans granted them and accumulate funds that will allow them to be weaned off credit in the future.

Most banks do not have adequate institutional structures (such as strong MSE units), and traditional loan officers generally lack effective MSE credit risk assessment and supervision skills (particularly cash-flow-based analysis and intensive loan-monitoring methods). These factors prevent them from expanding MSE lending sustainably. REP-II, recognizing that the characteristics of matching grant credit operations are quite distinct from collateral-based lending operations and new in Ghana, provides technical assistance to the participating financial institutions through capacity-building, helping them to establish the internal systems and procedures that are critical to the development of the skills needed to manage matching grants.

To increase MSEs’ accessibility to loanable funds, REP-II, PROMER-II and PPPMER-II assist them in improving their capacity to present credible loan application packages, including proper financial records and business plans; make productive use of the loans; and improve their ability to service the debt by addressing credit management, business management and technical capacity constraints. Such targeted assistance to the beneficiary MSEs is intended to bring about a significant increase in effective demand – bankable enterprises – for the expected expansion in available credit.
REP-II involves the business advisory centres, which are closer to the clients, in the screening of clients as a pre-appraisal technique to evaluate the character, repayment capacity and loan history of clients before referring them to the banks for loans/matching grants. Such screening helps to select ‘good’ clients for bank financing and reduces appraisal time by banks. Similar initial screening is done by local service providers/associations under PROSPERER and PPPMER-II.

Lessons learned

Although credit is a critical factor for MSE development and may guarantee the take-off of new MSEs – contributing to growth and job creation – the inclusion of savings instruments in the financial packages can better address the risk mitigation needs of MSEs by improving their access to capital and increasing resources available for further financial intermediation. Matching grants and guarantees are gradually gaining ground in MSE development as good cost-sharing financing and risk-mitigating mechanisms as against collateralized credit.

Thus incorporating savings products into financial service delivery enables clients to accumulate internally generated funds for use in the future so as to wean them off bank credit eventually and allow them to become self-sufficient. Savings deposits therefore provide a relatively stable source of funds that can enable an MSE to become sustainable and self-reliant in the longer term since indications are that medium- to long-term financing is not easily available.

The recommended best practice approach so far as MSE saving is concerned is to encourage voluntary savings, tailored to the demands and purposes for which clients
save, and to link such savings to credit as banks tend not to want to bear 100 per cent credit risk for MSE loans. New savings products for MSEs should not be developed and implemented in isolation, but need to be assessed within the holistic context of all the savings insurance and credit products that can be provided to MSEs: this will address their total financial services needs, including savings with education.

Leasing is also a viable mechanism for rural finance for unleashing liquidity into existing MSEs, including value chains.

The provision of financial services to MSEs must, however, be complemented with financial literacy education. Financial education provides a foundation for managing money, which is an indispensable skill in a world where microfinance products and services are proliferating at the same time that overly aggressive financial service providers are ever ready to pressure the consumer. Further, research shows that financially literate clients make better financial decisions and maintain a better overall financial well-being. With regard to how to deliver the financial education, experience has shown that there is no ‘best way’; it depends on the target group, the objectives of a financial literacy initiative and the available resources. Mass media – including television, street theatre, call-in radio, or printed materials, such as posters and comics – are being used increasingly to expose poor and often illiterate people to key financial messages. The choice of delivery systems is very much a question of resources. While tangible, direct training is expensive on a large scale, bundling delivery channels – for example, combining radio with some direct training offers – can help strike a balance between achieving both broad and focused impacts.

Technical assistance in the form of capacity-building is equally critical for participating banks and will contribute to a greater use of MSE credit lines/matching bank grants and higher patronage by borrowers. Regular MSE finance capacity-building assistance helps banks strengthen their ability to target MSEs, establish the requisite internal systems and procedures, and develop a cadre of specialized staff essential for the development of commercially viable MSE lending operations. The matching grant concept is a new financing option for MSEs and financial institutions lack the expertise for its management. Capacity-building to participating banks should include institutional strengthening in financial intermediation that is appropriate for MSEs (e.g. introducing mobile banking, teaching liquidity management or teaching banks to price MSE credit products). It may involve helping banks to understand the needs of the MSE sector and how to develop new products (or adapt existing ones) accordingly. It may also require building banks’ capacity in risk mitigation and product innovation techniques, including areas such as partial guarantee programmes and index-based insurance.

All stakeholders involved in credit administration need to work together for the efficient functioning and management of rural business financial services. The initial screening of prospective borrowers by local service providers (PROMER-II) and business advisory centres (REP-II) has helped financial institutions to target only

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committed clients and bankable MSEs. This has been possible because the service providers are closer to the clients than the banks. Experience shared by some of the participating financial institutions under REP-II’s Rural Enterprise Development Fund revealed that the involvement of business advisory centres in the initial screening of MSEs for loans has made their loan-making processes easier and loan repayment better precisely because the business advisory centres assist them in distinguishing good borrowers from bad ones. Forging strong partnerships between financial institutions and projects in the management of credit for MSEs gives credence to the delivery of credit to MSEs and increases the financial institutions’ commitment to the process.

Availability of materials and tools

Numerous strategies to generate youth and women employment have been adopted by development practitioners and government to, among others, help minimize rural-urban migration. One of the strategies is the promotion of youth employment through apprenticeship. However, many graduate apprentices in rural areas, where poverty levels are relatively higher, cannot establish themselves after graduation because they lack the means to acquire the necessary tools and equipment to start their own businesses. This forces them to prolong attachment to their masters, take menial jobs in unrelated trades or migrate to urban centres.

The provision of start-up kits has been incorporated into the four projects’ apprenticeship programmes as one strategy to generate new MSEs and jobs in rural areas. As part of REP-II interventions to encourage and stimulate business start-up by graduate apprentices, the project has a graduate apprentice start-up fund under its ‘technology promotion and support to apprenticeship training’ component. The fund is used to provide start-up kits (equipment or tools). The district assemblies pay 20 per cent of the total cost of the start-up equipment while the project pays 80 per cent. About 70 per cent of those who have received the grant have already established their own businesses. Lack of start-up capital appears to be the main contributory factor to the low adoption rate of business establishment by graduate apprentices.

PROMER-II also provides seed capital to support apprentices with tools and equipment for start-ups. Like REP-II, it provides grants for the purchase of light equipment to young workers facing constraints in terms of access to credit (i.e. lack of resources and guarantees). The main difference between REP’s and PROMER’s strategies is that while REP-II provides the tools as a grant, PROMER-II, in addition to grants for start-ups, has a revolving matching grant through which clients can access loans to purchase tools and equipment to be repaid over a specified period. Similarly, PROSPERER subsidizes only part of the cost of equipment to beneficiaries; the beneficiaries contribute the other part through loans granted by microfinance institutions to cover initial working capital and investment credit.

The tools and equipment support appears to be a strong vehicle for the generation of new MSEs and jobs. The starter tool kit arrangement by REP-II and PROMER-II, for instance, has proved to be a highly efficient incentive for graduate apprentices to start and own businesses. Because of the cost involved, however, the ongoing direct provision of tools and equipment by projects raises sustainability issues.
Lessons learned

The provision of tools and equipment to young apprentices is an effective way of encouraging them to establish MSEs, which in turn leads to rural job creation. However, project financing of this intervention cannot be sustainable over time.

Sensitizing the local governance system to the need to internalize the provision of tools and equipment in the budgets of local authorities is of vital importance. Only by creating a high sense of ownership among the assemblies will sustainability be assured.

A revolving matching grant fund from which loans are granted for the purchase of tools and equipment is a more effective and sustainable way of financing MSE tools and equipment than providing these as a grant. PROMER-II provides matching grants to finance tools and equipment for apprentices whereas REP-II does so for other MSEs. Both approaches are highly effective. PROSPERER’s experience of a cost-sharing approach could be looked at as an alternative option to scale down the donation image.

To sustain new MSEs established by young people after the provision of tools and equipment, further capacity-building in savings and banking culture, in addition to technical and business skills, a maintenance culture and business planning, must be provided to help them grow their businesses.
**Client/market connection**

MSEs face a combined lack of market exposure and a market-led product development culture. These result in their limited capacity to identify and take advantage of market opportunities offered by the growing local economies and globalization. Furthermore, because of their size limitations, most MSEs cannot afford to develop the critical mass of functions that are essential to access markets and secure market shares. Under such circumstances, supporting MSEs to access and settle on markets on a sustainable basis through compliance with quality standards, product adaptation, product development, proactive marketing, active sales and marketing, integration into value chains and management is critical for their growth and expansion.

In addition to capacity-building in marketing, projects can improve the market access of MSEs by organizing their exhibitions and trade shows. REP-II and PROMER-II have indicated that their clients have greatly benefited from such trade shows, especially because they have provided increased visibility for their products, and have expanded sales and markets beyond their localities. REP-II reports an increase in client interest in participating in trade shows.

On the other hand, PROSPERER strengthens market access by deploying its efforts to improve the productive and commercial/marketing environment of rural microbusinesses/small rural businesses. For example, it builds stores, retail outlets and exhibition halls to provide MSEs with greater market access. It is expected that MSEs will eventually take ownership of this infrastructure.
Lessons learned

Providing marketing training to clients in areas such as product development, pricing, advertising, packaging and labelling remains the main, but least expensive, building block for strengthening the market access of MSEs. Training should be complemented with trade information support through the establishment of an interactive database, which is regularly updated and which clients can access, on major buyers, supplies, market prices and other market support information.

The promotion of clients’ market access through local (district) trade shows has been another important and potent marketing tool that helps to facilitate trade, thereby increasing the incomes of MSEs through market expansion, increased sales, business linkages and product development at the local level. Client exhibitions and fairs also help to facilitate the building and harnessing of local knowledge and skills in marketing.

Increasing patronage to boost sales at trade shows is also essential and largely depends on such critical issues as publicity of the trade show from within and outside the host districts; good client display skills; and the establishment of common quality measures to ensure uniformity of product standards at fairs and exhibitions. Again, a high sense of commitment by exhibitors in terms of paying commitment fees towards associated organizational costs ensures the sustainability of fairs. Experience has shown that providing a special package to women is a key to motivating them to participate in such shows.

The sustainability of these fairs, however, depends on the availability of funds for their recurring organization. The best option for achieving this is to secure governments’ acceptance of the trade shows as a strategic and catalytic intervention of their trade development support structure within the framework of their entrepreneurship development strategy. This would necessarily involve the creation of a budget line for trade show organization in the annual budgets of district assemblies.

PROSPERER’s market development strategy of improving the commercial environment of MSEs by building specific infrastructure such as stores, retail outlets, exhibition halls, packaging/processing workshops and multi-purpose business centres could be looked at as an alternate market connection option for MSEs. Projects should, however, not become involved directly, but should play only a facilitating role at the local level for ensuring the general improvement of market infrastructure for MSEs.

The ingredients necessary for small enterprises to enter into more organized and remunerative urban, national or regional markets are product quality, good packaging, regularity of supplies, capacity to supply at the right time, price and quantities, and the use of acceptable record-keeping standards in addition to market access support. PROMER-II’s market access support to rural bakers in Senegal, which allowed bakers to modernize their traditional bakery businesses and substantially increase their turnovers, is a potent example of the impact of such market access support.
Enabling environment for sustainable MSE development

To promote MSE development, a conducive business environment must be created. This includes the formulation of appropriate MSE policies, the institution of appropriate structures to promote MSE development, the availability of the institutional capacity of government agencies to effectively deliver services to the private sector, an increased capacity of MSEs to leverage investment funds, an improved market information system, and a national system of standardization, certification and accreditation.

Mainstreaming REP-II’s institutional and delivery processes into the decentralized government system, through the design of the project, has helped considerably to create an enabling environment for enterprise development at the local level. The district assemblies (local authority) play crucial roles in project implementation, coordination, financing and monitoring. Several examples that demonstrated district assemblies’ keen appreciation of the importance of the project activities to their own developmental efforts were presented at the capitalization workshop.

To enable district assemblies to play their coordination and facilitation roles to support MSEs more effectively, REP-II has been building their institutional capacity. The project sees such support as crucial since district assemblies will continue working with business advisory centres and rural technology facilities after the project has ended. Many district assemblies have shown their commitment to the project by providing financial, human resource and logistical support. Examples are the provision of office space and furniture, the recruitment of support staff for the business advisory centres/rural technology facilities and the payment of contributions towards recurrent costs. In some participating districts, the district assembly has provided office equipment such as computers.

Some district assemblies have already learned from the concept of the graduate apprentice support facility and are providing start-up support for newly trained community-based clients in the form of materials and equipment such as beehives, cement and tables for beekeepers, grasscutter farmers and soap-makers, respectively.

A directive has been given by the Government of Ghana for the establishment of an MSE subcommittee within the district assemblies, to be responsible for all MSE activities at the district level, with the business advisory centres as their executing wings.

Finally, collaboration among projects and with major stakeholders/participating institutions, local service providers and local business associations/groups and banks at the local level also helps to create an enabling environment for the achievement of project objectives. PROSPERER, for instance, helps strengthen public-private partnerships with professional federations, government and the Federation of the Chambers of Commerce, Industry, Artisans and Agriculture to create an enabling environment for sustainable MSE development.
Lessons learned

Mainstreaming project activities into the local governance system commits governments through the local authority to provide the right environment, resources and support to MSE development on a sustainable basis. This mechanism provides an exit strategy that allows ownership by the public-sector entities themselves.

Two crucial elements are strengthening local authorities by building their capacity to play their roles for MSE promotion and development, and creating a conducive environment for sustainable rural MSE development.

MSE development and growth can also be achieved through collaboration and partnerships among all the major stakeholders, with each stakeholder playing its role effectively and efficiently.

Further, the need for governments to formulate appropriate MSE policies to promote and develop MSEs cannot be overemphasized. One such policy in Ghana that is contributing notably to the development of MSEs at the local level is the one mandating all metropolitan, municipal and district assemblies to set up MSE subcommittees within the local governance structure. The new local government law in Ghana for the decentralization of MSE administration and promotion is another example.

The promotion of an enabling environment that fosters MSE/public-sector dialogue at the local and national level on issues pertaining to private-sector development policies, infrastructure, access to services and supporting laws is an essential foundation for sustainable MSE development. Dialoguing on policy formulation will not only help capture private-sector concerns but also create a better understanding and commitment on the part of the business community, of which
MSEs are part, and make policies more acceptable and effective. Thus project support of the emergence and empowerment of MSE associations has allowed them to become well-organized bodies, building their capacity in business advocacy, and dialoguing and linking them to apex bodies of MSEs so as to give them the voice to advocate for appropriate policies and by-laws, and also support gender-responsive policies at both the local and national levels.

The first hurdle every country must overcome in developing its private sector is to create a sound macroeconomic environment by formulating strategies to promote growth and reduce poverty that will create business opportunities and options to access the resources required for investment. Also essential are good governance factors that minimize the risks involved in doing business.

Physical infrastructure also plays a central role. Complementing the development of roads, telecommunications and rural information networks open up rural economies, motivating service providers to access rural areas to provide services. Inadequate physical infrastructure has been acknowledged as a factor hampering business growth, especially market access, and sometimes leads to business failures.

**Sustainability of enterprise development**

A good policy on MSE is a prerequisite for the sustainability of MSE promotion and development. The Government of Ghana’s directive to all metropolitan, municipal and district assemblies to establish MSE subcommittees to be responsible for all district-level MSE activities, with the business advisory centres as their executing wing, has been found to be a good policy for the sustainability of MSE development. The directive has helped to consolidate the centres’ place in the local government system. This internalization, making the business advisory centres part of the district administrations, has started the process that will eventually lead to their ownership by the various district assemblies, thereby ensuring continuity.

In addition, REP-II’s efforts to partner with existing public organizations, and its inclusion of such relationships in the delivery of support to MSEs in its project design, appears to have helped to make the sustainability of enterprise development in Ghana more certain. The key implementing agencies are the district assemblies, the NBSSI, GRATIS and the participating financial institutions, mostly rural and community banks.

Again, the use of private local service providers in project districts by all four projects has been highlighted as an important way to help build local capacities for sustained enterprise development support services. The projects’ continuous building of the capacity of local service providers to enable them to be used as conduits for the delivery of business development services to MSEs is therefore building human capital at the local level that will remain in the localities even after a project ends.

The sustainability of specific project interventions such as the provision of tools, equipment and financial services, however, depends largely on how well these programmes can be integrated and mainstreamed into existing government structures.

On sustainability at the enterprise level, helping MSEs to grow from micro to small and from small to medium is an effective tool for business success over time. REP-II, for instance, has training modules for three levels of businesses: start-ups, survival stage and growth-oriented.
Lessons learned

The use of district-level structures to promote and develop business enterprises in the districts in project design consolidates the sustainability of enterprise development. Depending on the area of competence, it is preferable to work with public service agencies that have specific competences granted to them by law and regulations for MSE development activities to ensure the sustainability of services.

Building local capacity and using it to develop MSEs is also an effective strategy to sustain the delivery of business development services to the sector.

A systematic approach of growing businesses, with appropriate and relevant interventions that meet the needs of businesses at every level of the growth ladder, ensures the success of MSEs. Providing continuous, holistic, relevant and easily applied business development support services to MSEs generates client interest and ensures sustainability. MSE development practitioners have outlined the following topics for training modules tailored to the three stages of business growth:

- **Business start-up stage.** Literacy and numeracy skills; strategic mindset; entrepreneurship; basic financial management; general business management; marketing and customer orientation
- **Business survival stage.** Business planning; production planning and management; financial management (budgeting, working capital management, credit management, investment decisions) and marketing (market research, product development)
- **Growth-oriented stage.** Strategic planning and management; marketing for exports; investment finance; production management relating to production methods and financial management (interpretation of financial statements, investment options)
Experiences narrated by REP clients, and shared with projects at the workshop, revealed that the interventions considered to be most helpful in ensuring the growth and profitability of their businesses included: trade shows; marketing training (especially in customer service); costing and pricing; new product development techniques; packaging; financial services; access to appropriate technologies and information on available techniques; and, most important of all, technical skills development. Growth-oriented businesses indicated as their major requirement medium- and long-term financial intermediation for investments in business assets, pointing out that such facilities were limited in the financial sector of their economies.

Business success or failure is a result of a culmination of issues that the business person must grapple with. Having an entrepreneurial mindset alone, even one sharpened through management training, though crucial, does not ensure business success. In the same vein, although a good business environment, including the removal of barriers to business formalization, the promotion of private- and public-sector dialogue, and improved market access, goes a long way towards ensuring business success, it is not sufficient – access to relevant services, including finance, is also needed to spur the growth of sustainable MSEs.

What brings about business success or failure may differ from sector to sector and from country to country. However, entrepreneurs must be helped to avoid certain critical mistakes in order to attain business success. These mistakes include: poor financial control; inability to make the ‘entrepreneurial transition’ at the right time; insufficient capitalization; uncontrolled growth; failure to develop a strategic plan, including a marketing plan; and inability to access various forms of business support/guidance (technical, information).

Gender sensitivity in enterprise development

Gender disparities in Africa are evident in, among others, the restricted access of women to resources and support services, and their limited involvement in decision-making. Women and young people are often marginalized from business relations and have minimal control over access to factors of production, impinging on their capacities to benefit fully from enterprise development support. Enterprise development support therefore needs to take into account the special circumstances and needs of women through the design of gender-sensitive programmes. Such programmes should help improve women’s and girl’s living standards and also promote their participation in decision-making.

The four projects have specific objectives and programmes to reach the most vulnerable and needy segments of the rural community, including women and young people. PROMER-II in Senegal has a project objective of directing 50 per cent of its interventions to women, and 30 per cent to young people. Specifically, the project has a gender and youth action plan that emphasizes improving MSEs run by women and young people. A gender focal person who ensures gender sensitivity in project activities is also in place. PROPERER in Madagascar is institutionalizing gender inclusion in its support activities. Some 60 per cent of its interventions are targeted at women. Furthermore, a manual for gender promotion has been developed to support woman-led enterprises. PPPMER-II in Rwanda ensures that 50 per cent of women are in management positions in associations and at least 30 per cent of support services are
targeted at women. For REP-II in Ghana, 62 per cent of project beneficiaries are women; of the 22,000 new MSEs whose establishment the project has assisted, 14,000 are headed by women. These achievements have been possible because gender activities have been mainstreamed in project work.

Gender interventions have, however, come with some challenges, including the problems posed by women’s lack of self-confidence and illiteracy, and by traditional and cultural norms. Building project staff’s and local service providers’ capacities to mainstream gender issues in project work and to place the gender function within a project are some of the challenges faced by projects in implementing gender-specific interventions. REP-II reported that the Gender Action Learning System (GALS) training of trainers methodology has been helpful in training the project’s major stakeholders in gender issues.

Lessons learned

Gender sensitivity in project management does not mean a concentration on women’s issues to the exclusion of men’s: the emphasis must be placed on a person’s age, sex and economic status.

Women’s leadership can be successfully promoted if women are given equal opportunities in the educational system and if mentorship by successful business women is facilitated (i.e. peer learning).

Gender sensitivity should be reflected in every project component; it should be budgeted for; and action plans should be developed to ensure that it filters through all project activities.
Capacity-building of project staff and major stakeholders in gender sensitivity in enterprise development, using the GALS methodology, has helped projects to provide staff with the requisite knowledge and skills to understand the gender dimension in project work.

Greater sensitization of men in gender issues increases their gender awareness and also helps to change the fundamental issues (traditions and cultural norms) inhibiting the promotion of women in decision-making.

Functional literacy and numeracy training has an important role in boosting women’s self-confidence and enables them to access productive resources for business development.

Although the appointment of focal persons within the project management structure is necessary in mainstreaming gender issues in project work, gender sensitivity must pervade all project components.
Conclusion

This technical report emphasizes that, although enterprise development (i.e. the establishment and development of MSEs) remains a critical element in reducing rural poverty, there are various other factors that need to be considered. The first of these is the need to mainstream project enterprise development interventions into local government structures at the project design stage (as was done in Ghana). This secures the commitment of the local government to MSE development, and it also helps to ensure the continuation of MSE support after a project’s end. The creation of an enabling environment through the formulation of policies that help determine a business-friendly environment and culture in government is also crucial for development of the sector. Additionally, the provision of support to MSEs in the form of tools, equipment, credit and other business development services facilitates the establishment of new MSEs, especially those headed by vulnerable members of society such as young people and women. The sustainability of such support services, however, depends largely on how well they are integrated into the local governance system and the corresponding degree of government commitment to MSE development.

A predominantly demand-driven and bottom-up approach to enterprise development is most effective, as interventions are based on the real needs of MSEs. When MSEs recognize that a business development service has immediate application, they are motivated to make productive use of it, which then affects the sustainability of the service itself. However, direct targeting of specific groups such as women, young people and productive poor people is much more appropriate as it helps to direct resources to the right people.

The importance of the private sector in enterprise development cannot be overemphasized. Using local service providers, including trainee graduates, to provide business development services to MSEs at the local level is an innovation that helps to build local capacity for continuity of the provision of business development services to MSEs. Local service providers live in the districts, and this ensures their proximity to clients, avoids possible language barriers during service delivery and interaction with project beneficiaries, and is also cost-effective. Institutionalized structures should be put in place to strengthen service providers’ capacities so that they can contribute more effectively to knowledge and skills transfer, and deliver business development services to MSEs in a cost-effective and sustainable manner.
The provision of business financial services to MSEs is crucial for MSE development because it enhances rural small-scale entrepreneurs’ access to sustainable financial services provided by efficient local finance providers that offer deposit facilities and small-scale loans to community members for rural business activities. Credit guarantee funds and matching grants have been the main ways of providing finance to MSEs. Low loan recovery and a lack of capacity on the part of bank staff to manage micro and small loans and administer matching grants are the key negative factors that can endanger the sustainable provision of loans to MSEs. Strengthening the capacity of bank staff to administer credit to small local businesses holds the key to the sustainable improvement of MSE access to financial services.

Promotion of client market access through local (district) trade shows is an important tool that facilitates trade and thereby increases incomes of MSEs through market expansion, increased sales, business linkages and product development at the local level. Publicity of the trade show from within and outside the host districts is critical to the show’s success as this stimulates patronage.
Recommendations

Based on the above lessons captured from the four projects, the following recommendations emerge for ongoing and future rural enterprise programmes:

1. Enterprise development approach: Targeting and accessibility
   • Projects should continue to use a demand-driven/market-based approach in targeting MSEs for enterprise development support because this approach stimulates the commitment of MSEs to access such support. They should use a direct targeting approach in targeting vulnerable groups such as young people, women and productive poor people when specific interventions are to be provided. This difference in approaches reflects recognition that market-based approaches have limitations in dealing with specific problems associated with poor and vulnerable groups. When adopting a direct targeting and subsidized approach, however, projects need to put in place explicit and transparent guidelines together with qualifying criteria and exit strategies to avoid market distortions.

2. Effective business development services
   • Projects should continue to provide business development services through local service providers, but considering the immense benefits that this approach has in helping to sustain the availability of business development services to local entrepreneurs, it is important that it become a permanent part of the local governance system. Where there are already existing business development service structures within this system, these structures should be mainstreamed into a new project design.
   • Institutionalized structures should be put in place to strengthen the capacities of local service providers in client needs assessment, training, design and additional pedagogical tools/skills to contribute more effectively to knowledge and skills transfer.
   • Local service providers should not be limited to providing technical skills development but should provide management skills transfer as well.
   • Projects must ensure service quality, competition and affordability of business development services to the vast majority of MSEs by promoting networks of service providers. This should be included in project design and budget lines provided.

3. Effective business financial services
   • Direct financial interventions by projects to provide credit lines to MSEs through the financial sector help to avoid market distortions and, since financing to MSEs remains greatly inadequate, must be continued. Projects, however, need to focus more on risk-mitigating instruments for financing medium- and long-term investments for MSEs such as matching grants and guarantee funds.
These instruments tend not to compete with short-term funds provided by the banks, and therefore do not create a disincentive to banks to administer project funds.

- Financing the MSE sector is a specialized area and banks tend not to have the requisite knowledge and skills. Consequently, their capacities must be built to make them more efficient in delivering credit to the sector.
- Projects should incorporate savings instruments into their financing packages to provide MSEs with a buffer against credit risks and a way of accumulating capital for business expansion.

4. Client/market connection

- Marketing training, which builds capacity to understand the importance of the various elements of marketing in business development, is the least expensive MSE market connection tool. It should continue to be featured in project capacity-building programmes.
- Client trade shows should be ‘mainstreamed’ into the local governance system as a trade development support structure within the framework of the government’s entrepreneurship development strategy. This will help fund and sustain the trade shows, which are a potent marketing tool to promote increased market access at the local level and beyond.
- Project marketing support to MSEs needs to incorporate clients’ exhibitions in order to spread a culture of competition among project clients and help expand market access for MSEs at the local level and beyond, leading to increased sales and incomes.

5. Enabling environment for sustainable MSE development

- Project strategies for MSE development need to be mainstreamed into local government development frameworks such as local development plans and poverty reduction strategies.
- Projects should facilitate a structured, inclusive and effective public-private dialogue as a main element in institutional and policy reforms at the national and local levels. They should also encourage dialogue between these levels to ensure that decisions made are implemented and can be modified if required. This will help create an environment that will encourage and provide incentives for entrepreneurship and investment by lowering the risks and costs of doing business, including by removing barriers to business formalization.
- A competitive banking system, with expanded access to private credit on terms and conditions more adapted to the needs of the poor, can help poor people move into higher value-added activities.

6. Gender sensitivity in project management

- Gender disparities in Africa are evident in women’s limited involvement in decision-making and leadership, in the inappropriate design of equipment, and in women’s access to and ability to participate only in selected markets activities. Thus inclusion of gender-sensitive policies and strategies in MSE development is essential. To this end, gender sensitivity should be reflected in every project component and budgeted for. Action plans also need to be developed to ensure that gender sensitivity filters through all project activities.
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