

# RURAL **ENTERPRISE** | **POLICY**





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# IFAD RURAL ENTERPRISE POLICY

## abstract

The reduction of poverty in the rural areas is increasingly linked to the ability of poor rural people – especially rural women and unemployed/underemployed youth – to diversify and complement their sources of income through off-farm micro and small enterprises (MSEs) (processing, trading, manufacturing and services, etc.). Nonetheless, any effort to develop sustainable MSEs in rural areas calls for a proactive strategy to reduce constraints on the entrepreneurial poor and provide them with, among other things, suitable business-related services. The purpose of the present paper is to contribute to the debate on the conditions and modalities for developing micro and small off-farm entrepreneurship among the rural poor. MSEs contribute to the achievement of IFAD's strategic objective of reducing rural poverty by empowering the poor and strengthening their organizations, thereby increasing their access to

markets and to inputs for enterprise development — financial resources, skills training and technology and raw material. The first section shows how MSEs can reduce poverty and summarizes IFAD's achievements in this field of activity to date. The second categorizes the various types of rural enterprises and analyses the core issues contributing to the development of MSEs: access to financial and non-financial services, skill development, market links and a conducive institutional environment. The third section outlines the elements of an IFAD policy on MSE development, drawing on the above-mentioned core issues in the context of IFAD's Strategic Framework 2002–2006.





# 1

RATIONALE  
MICRO AND SMALL ENTERPRISES  
AND POVERTY REDUCTION

## Role of the Off-Farm Sector in Reducing Poverty

Several factors contribute to rural poverty in the developing world – deterioration of the agro-ecological environment, isolation of rural communities from the rest of the economy (especially markets) and lack of productive assets (e.g. health, skills, land and capital) – all of which have a serious repercussion on the livelihoods of people in the rural areas. As the majority of poor rural people in developing countries are involved in farming, their income is affected both by the vagaries of the climate and by the volatility of agricultural prices. Therefore, while poor rural people have to look for other ways of complementing or substituting their farm income (Box 1), their options are limited and usually consist of selling their labour to other, better-off farmers. The off-farm sector may represent a new and/or better source of income, especially for the most marginalized and vulnerable strata of the rural population, e.g. rural women and youth and the

landless poor, who represent an important part of IFAD's clientele.

In view of the crucial role that women play in poor rural households, facilitating their access to off-farm enterprise opportunities would not only increase household incomes but also improve family welfare and nutrition. Women greatly value the respect and status they earn by making a greater contribution to the welfare of their families. Such empowerment often translates into women being more confident about participating in community decision-making. Additional sources of income are also important inasmuch as they generate financial surpluses (savings) that can be used for household-related investments, consumption, education and health. Young adults – both non-graduates and, in some countries, young graduates – constitute a large proportion of those who are increasingly affected by poverty. Due to lack of supportive economic conditions (low economic growth) as well as sector- and labour-market imperfections, many young people are unable to find employment and are therefore obliged to migrate towards congested urban centres in search of work. Apart from the loss of human capital that out-migration causes, it is increasingly recognized that young people represent an

### BOX 1

#### Livelihood Improvement and Microenterprise Development for Rural Women in India

Through the Rural Women's Development and Empowerment Project in India, IFAD and the World Bank are supporting the promotion of income-generating activities (IGAs) and microenterprises for poor rural women in Bihar, Gujarat, Haryana and Karnataka as instruments of economic development, social advancement and poverty reduction. Rural women are trained by local service providers (non-governmental organizations (NGOs)) to form self-help groups (SHGs) to increase ownership of the activities and ensure long-term sustainability. SHGs mobilize small savings from their members and develop links with lending institutions. Women are also empowered by means of training in business skills to ensure appropriate management of their IGAs. In March 2001, after a pilot-phase, 7 000 SHGs were effectively in place and had initiated community asset-creation activities.

Source: Supervision Report, 2000

insufficiently tapped entrepreneurial source that might contribute to resolving the problem of unemployment in the rural areas (see below). Finally, microbusiness may provide new and important income-earning opportunities for the landless poor who, despite progress in the implementation of land reforms over recent years, are still prevented from owning land, especially in Asia and Latin America.

## Small-Scale Rural Enterprise and the Rural Economy

The promotion of MSE clusters may also benefit the rural economy by creating new sources of economic growth and helping to improve local living conditions. While economic liberalization in the rural areas has created new market opportunities, especially in terms of agricultural processing and marketing, and the provision of services to rural households, it has also brought out special challenges for women and other disadvantaged groups. Business investments linked to processing and marketing activities are crucial for increasing the value of

agricultural production. Small entrepreneurial activities in rural areas may also contribute to improving rural livelihoods by facilitating household access to basic social and non-agricultural services: input trading and marketing, transport, repair and assistance activities (electricity, private water access, agricultural equipment), blacksmithery, brick manufacturing, small business centres, rural telephone services, small bakeries, etc. Rural populations frequently have no access to these services owing to the shortage of commercial intermediaries interested in investing in rural areas. In most cases, rural community demand is largely unsatisfied (Box 2).

## BOX 2

### Rural Non-Farm Activities in Asia

A recent study by the International Food Policy Research Institute on IFAD projects in Bangladesh, India and The Philippines confirmed the importance of rural non-farm activities (RNFAs) in the rural economy, owing to high-density population, scarce land resources and low agricultural productivity. In terms of employment, the non-farm economy contributes 20–50% of total rural employment in the Asian region and field surveys show that non-farm incomes are typically 5–10% higher than the share of non-farm employment in rural areas. The rural non-farm economy also shows interesting similarities across countries. Service activities are dominant in the lower-income south Asian countries, followed by manufacturing and trade, which are equally as important as services in the east Asian countries.

Source: Development Opportunities in the Non-Farm Sector: Review of Issues and Options in Asia, IFPRI, 2001

## IFAD and Rural Enterprise

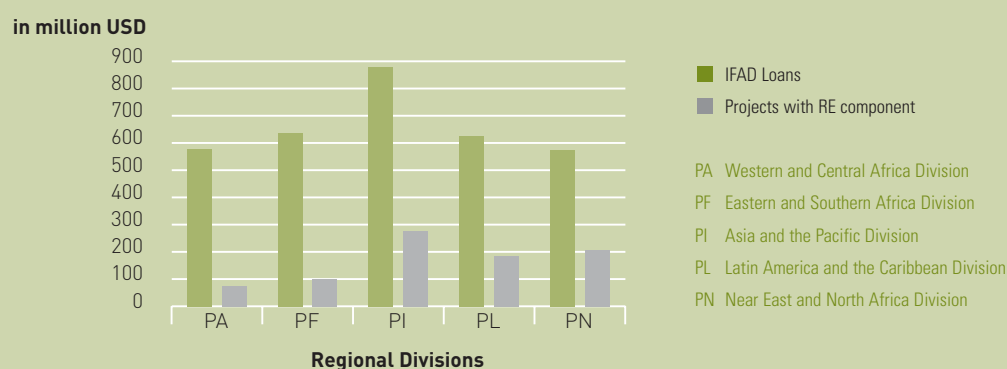
Since the establishment of IFAD, the development of off-farm enterprises in the rural areas has been seen as a means for improving the well-being of the rural poor and for empowering rural women. Assisting beneficiaries to set up small enterprises, therefore, has been an important part of IFAD's lending activities. An internal desk review conducted in 2001 showed that, over a period of 22 years, IFAD had developed about 60 project/programme components aimed at supporting the development of small-scale enterprises in rural areas. At the present time, IFAD's active investments in small-scale rural enterprises are mainly concentrated in the Near East North Africa region and Eastern Europe (where 38.2% of the portfolio of projects include MSE-related activities), immediately followed by Asia and the Pacific (33%), Latin America and the Caribbean (32.4%) and Eastern and Southern Africa (18.7%). The Western and Central Africa region (11.9%) accounts for the smallest number of MSE activities (Figure 1).

Historically, IFAD has promoted rural micro and small enterprise (RMSE) in the context of spe-

cific components and/or sub-components of rural development projects. In 1994, for the first time, IFAD designed a USD 5.4 million rural enterprise project (in Rwanda) that was entirely aimed at promoting small-scale rural enterprises. This was followed by ten other projects: three in Western and Central Africa (Burkina Faso, Ghana and Senegal); one in Asia (The Philippines); one in Eastern Europe (Republic of Moldova); and five in Latin America and the Caribbean (Colombia, Dominica, Grenada, Peru and Saint Lucia). These projects are being implemented on a pilot basis in one or two regions where there is a high incidence of poverty and where economic potential is likely to develop should the rural clientele be empowered and market linkages improved. While the core objective of IFAD's more recent rural enterprise projects is to raise incomes and improve rural livelihoods, such interventions have also tested approaches that combine the provision of financial and non-financial services to small rural entrepreneurs, including women. The objective is progressively to build up an institutional knowledge base of good practices and appropriate, cost-effective methodologies and instruments aimed at supporting RMSEs for replication elsewhere. Since 1994, funding

**FIGURE 1**

**IFAD's active portfolio of projects with rural enterprise components (as of January 2002)**



under IFAD's technical assistance (TA) grant programme and the NGO/Extended Co-operation Programme has been used to support and accompany loan operations through activities linked to the promotion of small-scale rural enterprises (support to rural communities, access to technology, methodologies and financial instruments – Box 3).

### Role of the Off-Farm Sector vis-à-vis IFAD's Strategic Framework and Regional Strategies

IFAD's Strategic Framework 2002-2006 identifies three areas of intervention and change that are crucial to the achievement of the Millennium Development Goals in rural areas: strengthening the capacity of the rural poor and their organizations; improving equitable access to productive natural resources and technology; and increasing access to financial assets and markets. Promoting sustainable MSE clusters

in rural areas is one way of achieving these objectives. The contribution that MSEs can make to poverty reduction depends on empowering the poor and their organizations to increase their access to assets. In this context, assets concern inputs for enterprise development, including financial resources, raw materials, appropriate skills, technologies, utilities, social services and access to markets.

The role of the off-farm sector in reducing poverty and improving the livelihoods of the rural poor is one of the building blocks of IFAD's regional strategies. In Asia and the Pacific, where most of the world's 1.2 billion poor are located and where the rural population still accounts for more than 50% of the population, the rural non-farm sector represents an important source of income and employment for women, small farmers, landless workers and poor people. Lessons learned in Latin America and the Caribbean, where the rural poor include indigenous communities, women, shepherds, smallholder farmers, subsistence and landless farmers, rural wage workers and artisanal fishermen, led IFAD to adopt a 'two-pillar' strategy in rural areas based on improvements in agricultural production in parallel with



## BOX 3

### Developing Regional Synergies for RMSE: the Example of the Rural Microenterprise Support Programme in Latin America and the Caribbean (PROMER)

Common constraints affecting the development of rural enterprise in Latin America and the Caribbean convinced IFAD of the need to launch PROMER – an innovative programme aimed at supporting IFAD-funded projects in the region – to develop methodologies, tools and instruments. PROMER is cofinanced by IFAD and the Inter-American Institute for Cooperation on Agriculture. During its first phase (1999-2002), PROMER's activities focused on (i) disseminating new information and knowledge on national rural enterprise set-ups; (ii) training IFAD project staff and microentrepreneurs in business-related techniques (business administration and product marketing) on a demand-driven basis; and (iii) providing TA on key technical, managerial and marketing issues. These objectives should be consolidated during the second phase, which will place greater emphasis on market access for small-scale rural enterprises, and institution- and capacity-building (support to business associations and national, small-scale support-service platforms).

Source: Formulation Report for the Second Phase, PROMER, September 2002

the development of small-scale enterprises and agribusinesses. More than in any other region, such development is facilitated by strong integration between urban and rural areas and the presence of small rural towns with markets for small rural entrepreneurs. In the Eastern and Southern Africa region, despite accelerated economic liberalization and greater opportunities for individual and group-based businesses, isolation is a key determinant of rural poverty. Increased access to markets for inputs (including technology) and outputs, and to appropriate skills and business counselling services, are also seen as key elements in enabling the rural poor to become economically active and helping them to cope with market constraints, overcome their poverty and improve their standard of living.

<sup>1</sup> CIS countries benefiting from IFAD loans are: Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Georgia, the Republic of Moldova, Romania and the Former Yugoslav Republic of Macedonia. In these countries, the poorest segments of the population are farmers in upland and mountainous areas, rural wage earners, rural women, the elderly and ethnic minorities.

In the Western and Central Africa region, on average, rural non-farm employment and income account for 36% of the total. Business activities usually relate to agriculture – food processing and marketing, construction, and repairs to agricultural tools and machinery. As in other regions, the difficulty in exploiting non-farm business niches in rural areas is

linked to the presence of high entry barriers, limited human and social capital and market access, lack of credit for working and investment capital, and poor infrastructure. However, rural households participate in RNFA's for various reasons, including potentially higher returns compared with agriculture, increased cash flow and spreading risk strategies, especially in high-risk marginal areas such as the Sahel. In the Near East North Africa region, the difficulty of absorbing more labour into the agricultural sector is exacerbated by limited urban-sector employment for growing numbers of migrant rural youth. In this respect, the development of off-farm activities would help to diversify incomes and create job opportunities.

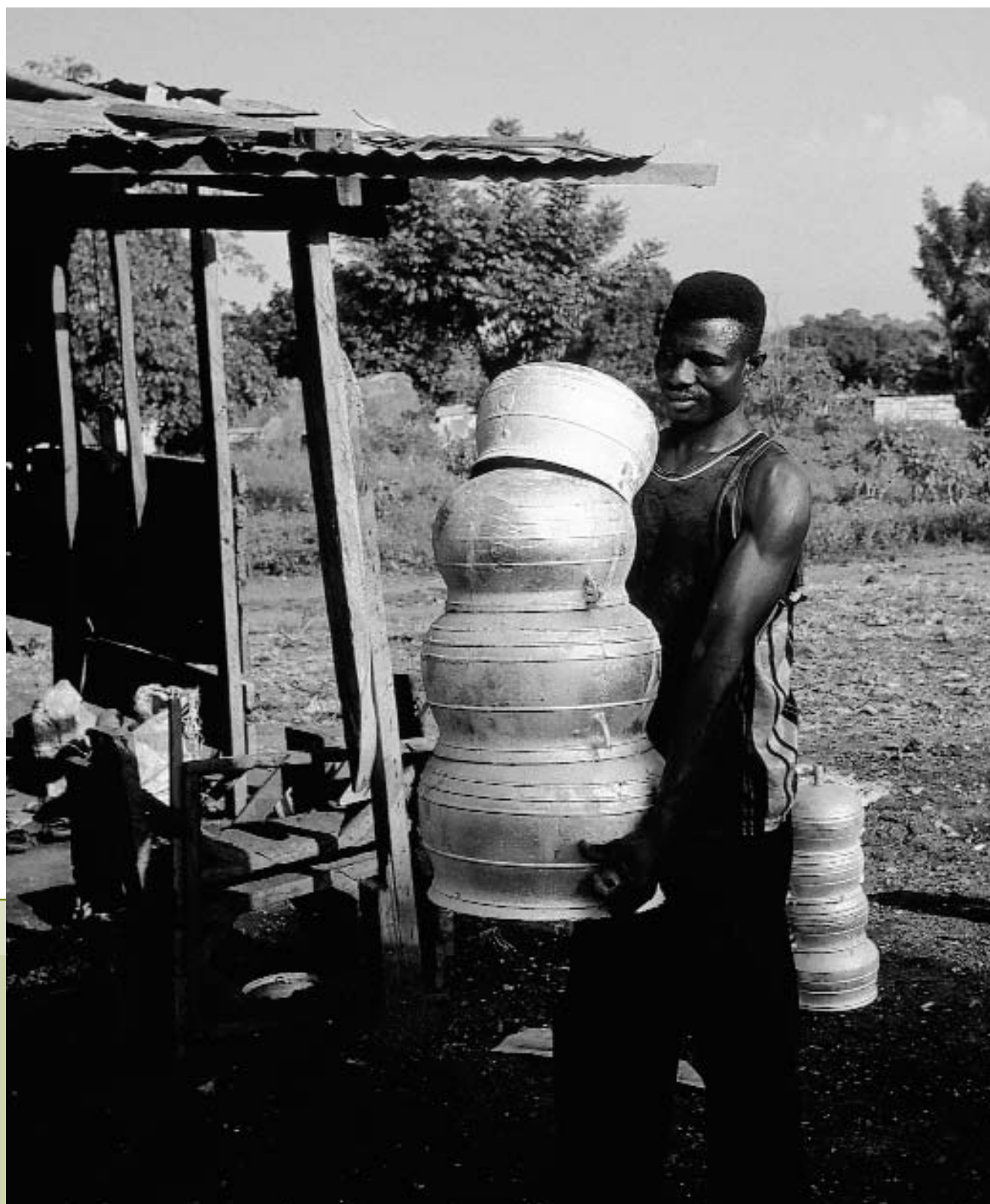
In Central and Eastern Europe and the Newly Independent States (CIS)<sup>1</sup>, transition to market economies has created new opportunities for growth and private investment. However, the lack of institutional support and persistent market inefficiencies, combined with the small size of farm holdings, means that more and more rural people are forced to earn a large proportion of their income from off-farm activities.

## BOX 4

### Seth Boadu, a Graduate Apprentice Assisted by the Rural Enterprise Project in Ghana

Seth was born at Techiman in May 1975, one of 11 children. He started attending school in 1981 but left in 1992 because his father was involved in land litigation, which drained the family's financial resources. After dropping out of school, Seth started farming and cultivated yams, plantain and corn. He could not save much from his farming activities, as part of the profits were used to educate his younger brothers and sisters. In 1996, Seth decided to learn a trade so he started an apprenticeship course in welding at Techiman under the Rural Enterprise Project's apprenticeship training programme, through which he received financial assistance. There were seven other apprentices, but he was the only one to be supported by the project. As he put it "I was very proud that I was the only one among my friends to be supported by the project. Without that support it would not have been possible for me to receive this training. I too might have been like one of my friends, roaming around the town without any employable skills." Seth completed his welding training in March 2000. With financial assistance of GHC 150 000 together with his own savings of GHC 100 000, he has teamed up with another graduate apprentice and set up a workshop. He and his partner have bought a kiosk, from which they produce coal pots, burglar-proof windows, farming tools, etc.. Seth and his friend do not intend to seek a bank loan but to work hard and save money to expand their business, because, as Seth put it "if you start life with debt, if you are not careful you will be in debt for the rest of your life."

Source: Rural Enterprise Project, Mid-Term Evaluation Report, IFAD, September 2002





# 2

DEVELOPING MICRO  
AND SMALL ENTERPRISES  
FOR THE POOR IN RURAL AREAS  
DEFINITION, LESSONS LEARNED  
AND ISSUES

In developing countries, RMSEs may be seen as small-scale activities that start up as individual or collective businesses strongly linked to agriculture. Such activities usually draw on limited assets, and have little or no business management capacity/access to business support services (financial and non-financial) and markets. However, such businesses generate income and profit, and create employment. A definition of three levels of RMSEs is given in Box 5.

## Lessons Learned and Issues Raised in the Development of Rural Micro and Small Enterprises

As a general rule, poor rural people and vulnerable groups face constraints that limit their social and economic potential. These asymmetries lead to high transaction costs, especially when they relate to the development of small entrepreneurial activities. Lessons learned through the implementation of recent RMSE projects<sup>2</sup> confirm that the promotion of

small, sustainable entrepreneurial activities is a multifaceted problem with a significant institutional dimension, which may call for the establishment of ad hoc MSE support institutions or for strengthening existing institutions dealing with financial services, business counselling, market infrastructures, etc. If MSE-related institutions are to achieve self reliance, long-term financial/technical commitments will be needed from all stakeholders (government, donors, NGOs, service providers, etc.). Specific issues linked to RMSE development, e.g. access to financial and non-financial services, access to markets and promoting an enabling institutional environment, are discussed below.

## Access to Financial Services

Providing access to appropriate financial services is a key element in establishing small-scale enterprise clusters in rural areas (See Box 6). While the development of microfinance institutions (MFIs) has increased the scope of financing possibilities for entrepreneurial

<sup>2</sup> In particular, the Rural Enterprise Project in Ghana (Phase I completed in August 2000) and the Rural Micro-enterprise Finance Project in The Philippines (Phase I completed in June 2002).

## BOX 5

### The Nature of Small-Scale Enterprise in Developing Countries

Three types of 'enterprise models' can be distinguished:

**Pre-entrepreneurial activities**, also traditionally designated as IGAs (small crafting, petty trading, etc.), depend on people that have limited knowledge of the basic principles that guide any business activity and lack basic assets - essentially working capital - to develop their own small business ventures. Pre-entrepreneurial activities are mostly self-employed initiatives. Benefits may be partially reinvested in the activity but they are mainly used as incremental income. Typically, these activities are mainly undertaken by women, who have limited time and assets to engage in full-time entrepreneurial activities.

**Microenterprises** are defined as semi-structured activities, including limited fixed assets (first or second-hand equipment), possibly a physical location (for instance, a small milling workshop); and as observing some basic management principles.

activities, lending to small-scale entrepreneurs is often constrained by lack of resources. In most countries, MFI lending resources derive from savings and current account deposits. The high cost of mobilizing small savings, and the need to adhere to official regulations, means that rural-based MFIs are mainly involved in providing short-term/working capital loans at high interest rates to cover their operational costs.

Such high interest rates are not usually appropriate for small enterprise activities, which may require larger investments and longer amortization periods. It may be possible to overcome the shortage of resources for lending to small rural enterprises by increasing cooperation between commercial banks – including development banks – and the microfinance sector. In some developing countries, the forging of partnerships between commercial banks and MFIs is now being facilitated through institutionalization of the microfinance sector.

Collaboration between MFIs and commercial/development banks may also be encouraged by guarantee mechanisms aimed at mobilizing resources for MSE development, for example. It may also be possible to increase the access of

poor entrepreneurs, especially women, to financial services by developing financial innovations targeted at MSEs. In this respect, leasing finance and/or self-help guarantee schemes may be more appropriate for RMSE financing (Box 7) if the venture/equity capital appears to be at risk owing to lack of legal status.

## Access to Non-Financial Services

Lessons learned with regard to modalities for developing micro, small and medium-scale enterprises in developing and emerging countries, as promoted by the Donor Committee on Small and Medium Enterprise<sup>3</sup>, have led to the adoption of a 'double dimension' terminology. If improved access of potential entrepreneurs to financial services represents the 'first dimension', access to non-financial services therefore represents the second. Non-financial services generally involve the following services/activities (non-exclusive list):

- **entrepreneurship training**, e.g. building up knowledge on elementary business principles and practices;

<sup>3</sup> The membership of the Donor Committee on Small and Medium Enterprise, which was established in 1979, consists of representatives of bilateral and multilateral agencies. The Committee's aims are to encourage research and knowledge-sharing on ways of improving the institutional set-up for enterprises in developing and emerging countries. In 1996, the Committee commissioned a team of international consultants to study structural constraints affecting business development in developing countries. Recommendations drawn from the various country case studies emphasized the need to strengthen business support services, especially non-financial services, to support enterprise development. This gave birth to the concept of Business Development Services (BDS), now found in most publications as the reference acronym designating non-financial business-related services.

**Small enterprises** are structured businesses that usually have a well-defined market niche and physical location, an acceptable turnover, some business skills, regular access to market-based (fee-based) business advisory services, and a number of part- or full-time employees. Small enterprises may also have legal status and a bank account. Accounting principles and financial rules (write-offs) may also be applied with regard to fixed assets such as machines, vehicles, etc.

These categories are not 'closed', but represent stages of development through which any small business is likely to graduate from the informal stage (pre-entrepreneurial) to the formal or semi-formal stage (small enterprise).

Source: IFAD and Liedholm and Mead, [1995]

- **business management**, accounting and bookkeeping services, e.g. cash flow management, and improving the capacity of small-scale entrepreneurs to run their business activities over the long term;
- **market services**, e.g. market investigations (studies), training and facilitation (links with traders);
- **access to cost-effective technologies and vocational/technology training**;
- **business planning**, e.g. analysis of investment proposals, especially term-finance proposals, appraising their technical and financial feasibility and linking up with financial institutions for funding requirements; and
- **product and process quality assessment** (quality standard requirements)<sup>4</sup>.

The aim of this holistic approach to the development of small enterprises, based on provision of financial and non-financial services, is to contribute to securing increased investment (Donor Committee on Small and Medium Enterprise, 2001). The role of non-financial services is also to increase the impact of financial services in rural areas by strengthening the capacity of entrepreneurs to make appropriate use of their loans (post-investment phase), thus contributing to improved repayment records

with financial institutions (Box 3). Despite their pre-entrepreneurial status, start-up MSEs have similar needs – although they sometimes have different priorities – to small and medium-scale operations. Therefore, the provision of non-financial services should not follow a ‘blue-print’ approach but be tailored to meet the constraints and difficulties encountered by MSEs. Furthermore, in view of their initial technical, institutional and financial fragility, rural MSEs would benefit from coaching until such time as they have acquired the needed knowledge and autonomy and are sufficiently confident to manage their businesses on a sustainable basis. In most developing countries, however, newly established poor entrepreneurs, whether urban or rural, are not well served in terms of access to non-financial business counselling (from either the public or private sectors).

The high transaction costs involved in delivering business support services in the rural areas – especially the more remote and poorly populated areas – often create some prejudice against rural enterprises. If they are to overcome these problems, poor rural people will need access to business counselling from public/private institutions or NGOs that are capable of acting as local service providers and of extending their outreach to poor rural areas. However, the lack

<sup>4</sup> The delivery of non-financial services, especially for rural women, may also be leveraged by non-merchant social capital investments (water and alternative energy projects, nurseries, meeting/working centres, literacy training, etc.).

## BOX 6

### IFAD and Rural Finance

IFAD sees the promotion of sustainable financial systems in rural areas as a prerequisite for reducing rural poverty. Its policy of promoting financial systems tailored to poor rural areas is based on four major building blocks: (i) building sustainable rural finance institutions with outreach to the rural poor; (ii) fostering the partnership of stakeholders, including the poor, in the development of rural finance; (iii) building a diversified rural financial infrastructure; and (iv) promoting a conducive policy and regulatory environment. In 2000, the active portfolio of projects with rural finance or microfinance components accounted for USD 1 247 million.

Source: Rural Finance Decision Tools, IFAD, December 2002

of any such capacity in the rural areas may call for ad hoc capacity-building strategies aimed at developing rural business advisory services in support of RMSE clusters. Development of a sustainable business counselling capacity targeted at poor rural entrepreneurs is crucial for guaranteeing the success of small rural businesses. Logistic support from public/private service providers may come to an end once such counselling comes to an end, and unless transitional mechanisms have been put in place during project implementation there is a risk that any technical and institutional achievements will be lost.

In this context, RBA networks<sup>5</sup> may help to resolve problems related to long-term sustainability and the phasing out of project/programmes. In some countries, the establishment of RBA networks is facilitated by the availability of unemployed or underemployed graduates, whose participation in the rural economy is generally limited. Given their high level of education, such graduates could contribute to expanding business services into the rural areas, and at a reasonable cost. Local RBAs may also contribute to ensuring better delivery of technical messages: lessons from the field show that micro and small entrepreneurs in rural areas – especially women-led

MSEs – pay more attention to messages delivered by people of similar national or ethnic backgrounds (Box 8).

## Access to Markets

The success of any small-scale rural enterprise depends on the availability of sustainable commercial outlets. Local, national and export markets (regional or international) may provide potential outlets for RMSE products.

As far as local market potential is concerned, despite their limited purchasing power, rural people are potential consumers of products available in the rural areas – but often at prices they cannot afford. Therefore, strategic market niches should exist for alternative products of an acceptable quality manufactured by RMSEs. It may also be possible to sell artisanal products manufactured by RMSEs on national, regional or international markets. Thanks to progress in both market globalization and telecommunications, developing countries now have more access to market information and thus are more aware of available markets (for

# 2

<sup>5</sup> Alternative 'institutionally oriented' solutions are also being tested by IFAD in Ghana and Romania to extend the outreach of non-financial services to poor rural entrepreneurs through business development centres (BDCs) in rural areas. In Ghana, BDCs supported under the IFAD-financed Rural Enterprise Project are linked to the national network of BDCs working under the coordination of the National Board for Small-Scale Industries and are publicly-funded. In Romania, pilot BDCs supported by IFAD are ad hoc institutions that provide services on a commercial basis.

## BOX 7

### Leveraging Finance for Small-Scale Enterprises in Grenada

As a general rule, banks and other financial institutions in Grenada do not wish to bear the risks associated with small entrepreneurs having little equity, limited business experience and confronting innovative activities. Through its Rural Enterprise Project, IFAD is providing assistance to Grenada's domestic financial sector to leverage its financing capacity targeted at small-scale enterprises. Three complementary instruments have been put in place: (i) a pilot equity investment facility to test the provision of equity funding to viable ventures; (ii) a loan guarantee scheme (LGS) covering a maximum of 75% of unsecured portions of loans made by financial institutions; and (iii) a credit fund (CF). The LGS and CF are managed by commercial banks.

Source: Rural Enterprise Project in Grenada, Formulation Report. IFAD, 2000

textiles, carpets, jams, dried fruits, etc.). However, both national and international markets are very competitive and usually more demanding in terms of quality criteria, and, despite their market potential, poor rural people still find it difficult to access markets where they can sell their agricultural and non-agricultural produce. These difficulties are usually caused by:

- the absence of market-related infrastructure (especially rural roads), which not only increases delivery costs but also makes it difficult for traders to reach people living in the rural areas, thus weakening the latter's negotiating capacity; and
- lack of suitable skills, information and market-related services that would enable poor entrepreneurs to compete in the market place.

Market information services contribute to reducing transaction costs for rural entrepreneurs to access markets. Basic market sup-

port services comprise market studies and investigations, access to price/market information, and market facilitation (e.g. links and business contacts between producers and buyers). The potential for creating market niches is often undermined by the limited capacity of rural markets. Since increased competition between small-scale entrepreneurs might lead to market saturation, potential entrepreneurs rely on market information to guide decisions about establishing MSEs. These services may be delivered on a permanent or temporary basis, depending on the types of markets involved. Empowering poor rural entrepreneurs by means of appropriate skills might, in turn, improve their position vis-à-vis market constraints and create additional employment opportunities along the 'marketing chain' (transport, processing/marketing enterprises, etc.). A major focus of work on MSEs by the Food and Agriculture Organization of the United Nations (FAO) relates to marketing and post-harvest technologies (see Appendix III).

To overcome the problem of limited market opportunities in rural areas may call for proactive gender-sensitive market research strategies targeted at market innovation. In developing

## BOX 8

### The Rural Business Adviser (RBA) Concept

The RBA concept is that of a broker of small enterprise-related services. Enterprising poor people look for external competencies to facilitate their access to various business support services that might help them in launching and stabilizing their business, including market access services. In this respect, the role of an RBA should be that of listening to the problems of small rural entrepreneurs and helping them to find solutions. RBAs may also assist small rural entrepreneurs to anticipate problems linked to their activity, especially with regard to financial management and/or technology failure. An important function of the RBAs is to *interface* between rural financial institutions and small-scale rural entrepreneurs, especially by screening investment proposals. Finally, RBAs can link micro and small entrepreneurs with markets, either directly or through specialized, market-related services.

Source: IFAD



countries with an abundance of natural resources, business-oriented tourism may create important market niches for rural entrepreneurs (Ashley, 2000) and add value to local skills (blacksmiths, carpenters, local furniture makers, etc.) (Box 10).

## Enabling Institutional Environment

In many developing countries, economic liberalization has been accompanied by structural reforms aimed at creating an enabling environment for entrepreneurial and private-sector activities, the objective being to increase the level of investments – both domestic and foreign – with a view to sustaining growth. Among other things, these reforms have addressed ways of improving the business and legal environment: legal and administrative procedures for establishing business concerns; and design of entrepreneurship-friendly support policies (fiscal reforms; training policies for staff of enterprises; changes in market intelligence service infrastructure; enhancement of the business advisory indus-

try; and development of financial medium-scale enterprises). In most cases, working groups or ad hoc measures to supervise such reforms have been established with the support of donor agencies, particularly with regard to support policies for the private sector.

It is increasingly recognized, however, that such policies have rarely devoted sufficient attention to issues linked to developing the private sector and rural enterprises. Given the hostile environment faced by rural entrepreneurs – mainly characterized by uncertainties and strong entry barriers – small, private-sector activities in rural areas must be backed up by policies and measures aimed at supporting the development of MSE clusters as instruments for rural poverty reduction. This may play an increasing role in the poverty reduction strategy processes. Development of a vibrant agricultural economy capable of raising rural incomes and of being at the forefront of economic development in the rural areas (input trading, output marketing, agricultural finance services, agricultural machinery, etc.) is a key element of rural MSE promotion policies. Other possible measures might be to adopt fiscal and legal policies for entrepreneurs in rural areas and to foster rural-urban business support policies (Box 11).

## BOX 9

### Linking Small Rural Entrepreneurs with Markets: the Smallholder Enterprise and Marketing Programme in Zambia

This IFAD-funded programme was designed in response to the Government of Zambia's need to support the commercialization of smallholder farming. Programme objectives included: creation of a competitive and efficient network of agribusiness/trading enterprises serving smallholder farmers; and building up a capacity for legal/policy dialogue and formulation. Activities connected to the enhancing of market linkages in programme areas included, among others, access road improvement, support for smallholder market intermediaries, support for market diversification, policy/legislative and institutional support aimed at promoting a more favourable policy environment for smallholders and market intermediaries, and providing market information.

Source: Formulation Report, 1999

# 2

## Rural Micro and Small Enterprises and Gender

In view of the correlation between infrastructure development and the promotion of entrepreneurial activities, RMSE policies should be backed up by policies for the development of rural infrastructure. Investments in RMSE-related rural infrastructure should mainly concern the rehabilitation and upgrading of rural road networks to improve connections with markets and include rural electrification programmes as a precondition for the development of local institutions and/or businesses that provide services to rural entrepreneurs (e.g. small, multi-purpose business centres in rural areas).

Another important dimension of the enabling environment concerns the facilitation of constructive dialogue among private-sector actors and other concerned stakeholders: governments, financial institutions, business service providers (private and public), NGOs, donors, etc. In some countries, this dialogue may draw upon permanent or semi-permanent fora where stakeholders discuss progress in defining institutional MSE frameworks. Specific institutions, such as rural business associations and other advocacy groups and/or individuals that represent the interests of rural MSEs should be empowered to play an active role in the elaboration of such frameworks.

Women run most successful small business ventures in developing countries. However, there are several ways of enhancing women's access to markets and of rendering their activities more effective. First, conducive policy frameworks need to focus on removing the constraints that prevent rural women from embarking on MSE activities. Secondly, training and other types of small business support services should continue to be made available to women, bearing in mind their often limited literacy and time (see Figure 2). This not only calls for freeing up women to engage in entrepreneurial activities, for instance, increasing their access to improved livelihood technologies (e.g. solar-based technologies or improved water

### BOX 10

#### Increasing Rural Community Livelihoods Through Ecotourism in Peru

Through its NGO/Extended Cooperation Programme, IFAD is supporting a Peruvian NGO involved in implementing a pilot participatory project targeted at the poor rural community of San Martin de Porras. This community is situated near the archaeological site of Quillarumiyoc (literally "stone from the moon" in Quechua) in the Cuzco area. The site has an enormous potential for improving the community's livelihood. In this regard - and apart from rehabilitating the site (stabilization of terraces), the NGO provides business support services aimed at upgrading the quality of women's handicrafts, and assisting the population to establish small tourist lodges that serve typical Andean food produced in home gardens. Finally, to develop the community's ownership of the archaeological and natural resources, selected individuals are being trained to become tourist guides.

Source: IFAD

distribution schemes), but also for greater sharing of domestic work. In IFAD's experience, the latter sometimes occurs as a consequence of increased recognition of women's important economic and social contribution to household and community welfare. Scaling up women's enterprise activities through the introduction of new technologies is particularly difficult, as men frequently take over when the business becomes more profitable. Safeguarding women's control over the benefits of their enterprises should be foreseen in any action to develop RMSEs.

## Other Issues

Policy dialogue should also cover two important sub-issues linked to the promotion of micro and small businesses in developing countries: bringing an end to the use of child labour in RMSEs; and promoting environment-friendly MSE products and manufacturing processes.

As agents of change, business advisory services and institutions should be equipped to sensitize rural populations, potential rural entrepreneurs and their members to the need to respect norms and standards linked to their business activities.

## BOX 11

### Small-Scale Enterprise, Economic Growth and Rural-Urban Business Linkages in China

China provides a remarkable example of how voluntary public policies based on investments in human capital (primary and secondary education, vocational training) and rural infrastructure (communication and transport) combined with appropriate business linkages have contributed to developing small enterprise clusters in rural areas. Rural industrialization in China has been closely linked to urban industry in terms of product, technology, staffing and facilities, especially in the early stages of development. Specific rural industry clusters named Township and Village Enterprises (TVEs) and sub-contracting agreements consisting of input provision (cheap or used equipment) and output purchase were initially organized with the larger urban industries. The TVE sector was privatized in 1984 and its impact on the Chinese rural economy has been massive. Over the period 1984-1995, TVE gross product value (in constant 1985 prices) increased 13 fold, with an average annual growth rate of 24.1%. The TVE sector played an important role in absorbing rural labour surpluses resulting from an increased labour productivity in agriculture and was also boosted by the growth of rural income and rural demand. Total employment in the sector rose from 52.1 million to 128.6 million. TVEs have had an important impact on the whole Chinese economy, as they contributed 25% to GDP in 1995. While TVEs will face increased challenges especially with regard to globalisation, they provide a notable example of how rural development strategy focused on the non-farm sector can bring about a significant change in the structure of the national economy.

Source: Assessment of Rural Poverty in Asia and the Pacific, IFAD (January 2002)



2

**FIGURE 2**

### Differences Between Women- and Men-led MSE Activities in Latin America

Differences	Women	Men
- Motivation to initiate MSE activities	<ul style="list-style-type: none"> <li>- Need for achievement</li> <li>- Satisfaction in work</li> <li>- Economic necessity</li> <li>- Be her own 'boss'</li> </ul>	<ul style="list-style-type: none"> <li>- Need for achievement</li> <li>- "Wish to make things work well"</li> <li>- Control of resources and assets</li> <li>- Be his own 'boss'</li> </ul>
- MSE growth strategies	<ul style="list-style-type: none"> <li>- Horizontal diversification</li> </ul>	<ul style="list-style-type: none"> <li>- Vertical growth</li> </ul>
- Psychological aspects	<ul style="list-style-type: none"> <li>- Lack of self-confidence</li> <li>- Fear of success</li> <li>- Build upon a variety of networks regarding business development, including women's groups</li> </ul>	<ul style="list-style-type: none"> <li>- Fear of business failure</li> <li>- Frequent use of external advisory services</li> </ul>
- Initial capital	<ul style="list-style-type: none"> <li>- Personal goods and savings</li> </ul>	<ul style="list-style-type: none"> <li>- Loans (banks, relatives, friends), other investment sources</li> </ul>
- MSE type	<ul style="list-style-type: none"> <li>- Services (sales, trade and education-related) or home-based businesses</li> </ul>	<ul style="list-style-type: none"> <li>- Manufacturing and/or technology-based businesses (out-of-home businesses)</li> </ul>
- Business management	<ul style="list-style-type: none"> <li>- Lack of technical capability</li> <li>- Limited human resource management skills</li> <li>- Limited financial management skills</li> <li>- Limited education</li> </ul>	<ul style="list-style-type: none"> <li>- Limited raw material, physical inputs and management skills</li> <li>- Limited administration capacity</li> <li>- Limited marketing capability</li> </ul>



# 3

## RECOMMENDATIONS AND POLICY IMPLICATIONS FOR IFAD

IFAD's approach to promoting RMSEs will be founded on the attenuation of current constraints and asymmetries that prevent the rural poor from investing in MSE activities as a means of diversifying their income, finding employment, reducing their poverty and improving their livelihoods. To that end, IFAD favours a holistic approach (see Figure 3) that would facilitate the access of entrepreneurial poor people to various grass-roots-oriented business support services (financial and non-financial, including market-related services) delivered by public or private providers. Since IFAD's focus is on empowering the poor people in the poorest rural areas, the programme in such areas will be mainly concerned with smaller-scale activities (pre-entrepreneurial and microenterprise) (see Box 5).

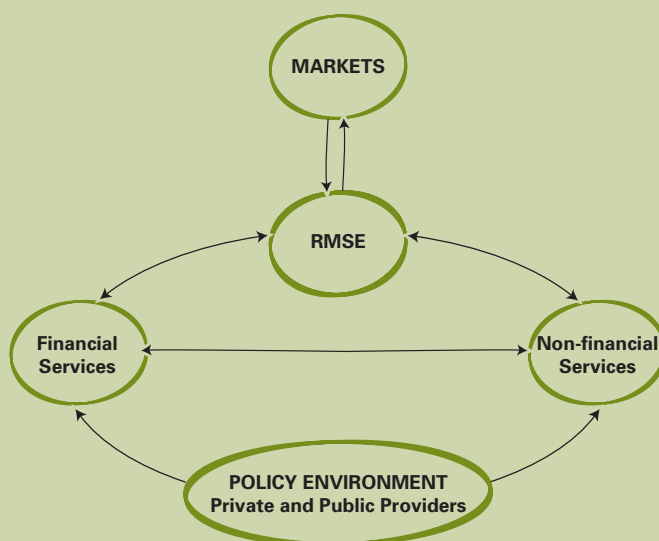
The Fund also intends to invest in establishing an enabling policy environment for promoting MSEs in rural areas, to be implemented as illustrated below:

## Provision of Entrepreneurial-Oriented Financial Services

The provision of suitable financial services (working capital and medium-term loans for large investments in technology) to micro and small-scale entrepreneurs will be considered as an integral part of support provided to rural MSE promotion programmes and policies. The specific objective to be pursued by IFAD will be to increase the number of financial institutions in rural areas - including commercial, rural finance or microfinance institutions, as described in *Rural Finance Decision Tools* (IFAD, 2002). This will be made possible by leveraging the financial and non-financial means of intermediaries to increase their involvement with entrepreneurs. Possible IFAD support would range from the establishment of small-scale enterprise development funds for medium-term credit and/or guarantee mechanisms aimed at limiting the risks borne

**FIGURE 3**

**IFAD's Holistic Approach to Small-Scale Enterprise Development in Rural Areas**



by financial institutions that deal directly with small-scale rural entrepreneurs, to equity capital. IFAD will also seek to encourage partnerships between commercial banks and rural MFIs, especially for refinancing purposes. Every effort will be made to test innovative solutions for small-scale enterprise finance, such as venture and start-up capital, and micro-leasing schemes. In addition, IFAD will seek increased geographical and technical partnerships between projects, focusing primarily on rural finance and projects dealing with RMSE development.

## Provision of Sustainable Non-Financial Services

The strategy pursued by IFAD in increasing the outreach of business advisory services to poor entrepreneurs will hinge on the development and/or strengthening of business counselling capacities in rural areas through NGOs or public/private services. The objective is to develop RMSEs on a sustainable basis, based on the identification and understanding of poor entrepreneurs' needs and the provision of suitable and timely responses – through either projects or associated service providers (NGOs, rural institutions, colleges, business associations, etc.). This may be achieved by enhancing the institutional capacity of existing advisory institutions in rural areas (for instance, BDCs or other business advisory-related institutions, including business associations, educational establishments, private-sector providers, NGOs, etc.); and strengthening or developing rural-based grass-roots advisory capacities (establishment of RBA networks – including women business advisers – through capacity-building, training and transfer of expertise). In some countries this may constitute an element of community development and institutional strengthening.

The types of services to be provided will consist of:

- **Entrepreneurship training.** Small-scale rural entrepreneurs should be empowered, through well-targeted training (business training), to increase their capacity to run their businesses. Particular attention will be paid to enhancing their knowledge of basic entrepreneurial requirements and constraints. This will be achieved by developing, within IFAD projects or through associated activities, entrepreneurship training programmes and other types of specific business-oriented training: business planning, cash-flow management as an instrument of financial autonomy, principles of product marketing and quality, etc.
- **Vocational training and access to technology.** Vocational training and access to cost-effective, pro-poor business technology will be considered as the building blocks of entrepreneurial support in rural areas. Through its projects and activities, IFAD will endeavour to improve the professional competency of potential entrepreneurs. This will be achieved through:
  - intensive exposure to vocational and training programmes (including apprenticeship schemes for young rural people and on-the-job training); and
  - greater access to information on technologies that meet the needs of the entrepreneurial poor. Through specific instruments/facilities, public or private institutions and NGOs engaged in pro-poor business-oriented technology research, IFAD will support both adaptation and manufacturing activities.

## Facilitation of Market Access

The identification of markets will be an overriding criterion for RSME promotion. With the assistance of rural business advisory services, IFAD's objective of enhancing market access in rural areas will be to link micro and small-scale entrepreneurs with existing markets and to identify new market opportunities (including non-traditional activities such as ecotourism). Every effort will be made to strengthen market linkages through improving rural/urban business links and contacts between producers and potential buyers, and empowering rural and business associations, communities and cooperatives so that they may deliver services to their members and clients, and to develop specialized market support services (market information and training, definition of product quality standards, etc.) as and when required.

## Policy Dialogue

Drawing up a framework for an institutional and business-policy environment for RMSEs is an important step for IFAD. To that end, the Fund's activities in this regard will concentrate on:

- supporting policy dialogue among all concerned stakeholders (government authorities, financial institutions, small enterprise associations, service providers, etc.) through support to dialogue platforms such as poverty reduction strategy processes, ad hoc MSE task forces and other institutional working groups. The aim is to enhance the effectiveness of MSEs in poverty reduction support programmes;
- encouraging the creation of grass-roots small-scale enterprise associations in rural areas - including women's associations - and imparting the necessary technical and

policy skills to their representatives in order that they may protect the interests of their members during the development of RMSE policies. In so doing, IFAD will rely on a range of financing tools (grants, loans, cofinancing) and partnerships (NGOs, rural financial institutions, government administrations, donors). It will also seek to ensure flexibility in the duration of loans in order that such grass-roots organizations may develop into self-reliant and legally recognized entities; and

- supporting governments and sector-regulatory authorities in introducing reforms in policy and institutional frameworks for RMSEs, including concrete measures and benchmarks aimed at preventing the use of child labour within RMSEs; and protecting the environment and natural resources. This will be achieved by disseminating information and mainstreaming best practices to policy-makers through studies, workshops and seminars; or by providing TA and other support to concerned institutional actors.

IFAD will also discuss the possibility of promoting public-private partnerships in its dialogue with stakeholders. Such partnerships may facilitate MSE development through the establishment of sub-contracting agreements between the public and private sectors for delivery of business support services in rural areas.

## Cost-Recovery Strategy

Because of their limited financial assets, micro and small-scale entrepreneurs may find it difficult to pay for the service(s) they receive. Consequently, IFAD may initially subsidize the operational costs linked to the implementation of business support services in rural areas, especially in isolated areas, but

on a gradually decreasing basis during the project cycle. IFAD intends to apply existing good practices on cost-recovery in order to guarantee the development of a sustainable business advisory capacity in the rural areas<sup>6</sup>.

## Follow-up Activities

The present paper describes the current state of knowledge on MSEs developed in recent years by the donor community, including IFAD, and development practitioners. There is, however, a continuing need to further develop the policies, mechanisms and instruments to meet the needs of, and for, different types of poor entrepreneurs. IFAD intends to refine the above-mentioned principles in the context of its evolving regional strategies and country strategic opportunities papers, reflecting the different opportunities and constraints for MSE development in its partner countries.

# 3

<sup>6</sup> Recent field surveys have confirmed that small-scale entrepreneurs are ready to pay for selected business support services if such services are tailored to suit their needs (Downing, 2001).



# EXAMPLES OF MICRO AND SMALL ENTERPRISE ACTIVITIES IN RURAL AREAS

annex

## Agriculture-based MSE

- :: Livestock processing and products  
(hides and skins, small artisanal tanneries, cheese making, etc.)
- :: Fish processing and marketing  
(dried, smoked, salted)
- :: Processing (milling, jams, pickles, syrups, honey, beer making, and oil extraction).
- :: Agricultural marketing enterprises (associations/groups)
- :: Input sales (chemicals and non-chemicals)
- :: Agricultural equipment manufacturing (carts, agricultural tools, etc.)
- :: Non-timber forest products

## Non-agricultural MSE

- :: Brick-making
- :: Charcoal-making
- :: Marketing transport
- :: Public transport
- :: Small rural shops (food and non-food)
- :: Rural restaurants
- :: Small bakeries
- :: Repair workshops (various items)
- :: Small business centres
- :: Blacksmiths and metalworkers
- :: Carpentry workshops
- :: Handicraft products (sewing, basket-weaving, cloth-making, etc.)
- :: Batik, tie and dye
- :: Small lodges (ecotourism)
- :: Tours and guides (ecotourism)



# appendix I

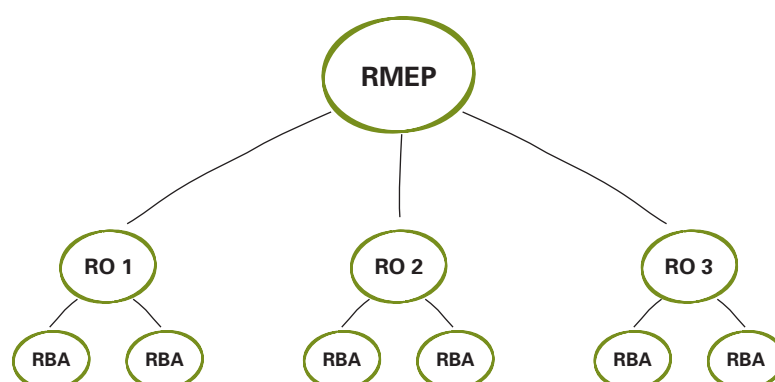
## EXAMPLE OF A RURAL ENTERPRISE PROJECT DEVELOPED BY IFAD

### THE RURAL MICRO-ENTERPRISES PROJECT, SENEGAL

The Rural Micro-enterprises Project (RMEP), which started up in 1995, was one of the first IFAD interventions to focus on small and medium enterprise (SME) development, with equal emphasis on financial and non-financial services. Three decentralized regional offices (ROs) were placed under the administrative supervision of the Ministry of Agriculture and staffed with coordinators and marketing specialists who supervised a number of village-based multi-purpose specialists (MPSs). These offices were charged with facilitating rural entrepreneurs' access to markets and eliminating constraints on the sale of products. The role of these decentralized staff was to detect business opportunities in their areas of intervention and help small entrepreneurs to clarify their business concepts and/or finalize their investment proposals. The MPSs, who were recruited on the local job market, have played a crucial role in forging links with enterprising poor people and contributing to the dissemination and management of information among project beneficiaries.

**FIGURE 4**

**RMEP  
Business  
Advisory Support  
Structure**



Source: RMEP appraisal report and mid-term review, May 2001.

The mid-term review of October 2000 recommended that the MPSs be trained so that they become fully-fledged RBAs capable of handling increased responsibility for follow-up and monitoring. RMEP's integrated approach was also based on a partnership agreement with *Crédit Mutuel du Sénégal (CMS)*, which was one of the first Senegalese microfinance networks to provide credit to small and microentrepreneurs. A guarantee fund was originally established with CMS in order to leverage its funding sources for micro and small-scale rural enterprises. CMS's relationship with RMEP has been strongly supported by the MPSs, who made an initial screening of business proposals. As of October 2001, some 832 small and microenterprises were being supported by the project (including consolidated MSEs), of which women managed 700 and 102 were small businesses managed by young entrepreneurs. These enterprises generated 1 795 jobs, or an average of 2.2 jobs per enterprise (including self-employment), and the estimated monthly incremental income was FCFA 110 000 (approximately USD 150).

# appendix II

## BILATERAL DONORS INVOLVED IN THE MSE SECTOR

The **United States Agency for International Development (USAID)** has been one of the prime movers of MSE development inasmuch as it views such enterprises as contributing to the reduction of poverty, women's empowerment, agricultural development, democratization and economic growth, and, since the 1980s, it has helped to define their role and functioning. In financial terms, it has been the largest financier of MSE support initiatives, having provided USD 2 billion over the past 20 years for the development of microenterprises. In 1998 and 1999 alone, it provided more than USD 300 million. Research under USAID programmes led to the now generally accepted segmentation of what was previously known as the 'informal sector'. Support to financial services through United States-based private voluntary organizations has contributed greatly to the development of innovative microcredit/finance models and the strengthening of international technical support organizations such as *Acción Internacional* (International Action). New methodologies such as sub-sector analyses were developed and nationwide surveys of the MSE sector were undertaken in six countries of Africa and the Caribbean. Although USAID's primary focus is on microfinance development, it plans to expand support for BDS with a view to improving market access, technology and management skills, and remain active in the areas of institution-building and policy work. Types of MSE-related programmes developed by USAID include: micro-enterprise best practices, which expanded the knowledge base of microenterprise support practices through action-research and publications; assessing the impact of micro-enterprise services, which worked on measuring the impact of microenterprise support programmes and developed tools for practitioners; programme for innovation in micro-enterprise, which cofinanced microenterprise projects; implementation grant programme, which provided grants to United States-based and international organizations providing financial and business development services; and micro-serve, which provided training and TA to missions and practitioners.

**Department for International Development (DFID) (United Kingdom).** Promoting MSEs is part of DFID's efforts to reduce poverty in urban and rural areas. Its support to MSE development falls under three headings: financial services, especially microfinance; support to BDS providers; and enabling the MSE institutional framework. Such support is seen as a continuing process aimed at enhancing the capacity of both private- and public-sector institutions dealing with MSEs, its rationale being that enhanced capacities lead to positive changes in enterprise practices, capacity and performance, and increase efficiency and economic growth thereby leading to higher incomes and employment. DFID intends to broaden the range of its activities in this field and to focus more on improving rural livelihoods, especially through promoting off-farm employment opportunities.

**The German Agency for Technical Cooperation (GTZ)** is one of the bilateral donors that are most involved in MSE development. As a technical assistance institution, GTZ is well equipped to provide BDS, particularly training. One of GTZ's better-known programmes for MSE promotion is the competency-based economies through formation of enterprise training programme, which seeks to empower small entrepreneurs with a range of business-related techniques so that they may compete more effectively in the market place. A recent GTZ intervention in Sri Lanka offered a range of BDS to potential entrepreneurs, including preparation of business plans, links with financial services, training for business start-up or expansion, business-related information, consultancy services, career guidance, and job matching for employment seekers. GTZ provides services on a commercial basis with a view to creating a sustainable institutional structure for MSE promotion. The primary institution involved is the Central Province Enterprise Centre, a private company owned by seven MSE-support organizations. Another example is the Informal Sector Training and Resource Network (ISTARN) based in Masvingo, Zimbabwe. ISTARN's activities include: (i) assistance to potential entrepreneurs in establishing themselves in self-employment, including one-year credit for tools; (ii) a small business advisory programme to help clients identify their problems and track business performance; (iii) promotion of MSE trade associations for purchasing raw material wholesale and reselling it to members at competitive

prices; and (iv) promotion of intermediary marketing operations in specific sub-sectors. Since 2001, GTZ has been working on the elaboration of its corporate policy on the rural non-farm economy (RNFE).

The **Canadian International Development Agency (CIDA)** supports both microfinance and microenterprise activities to promote sustainable development and reduce poverty in developing countries. In 1998, some USD 47 million was spent on 80 projects in 43 countries of Africa, Middle East, Latin America, Asia and Central/Eastern Europe. Almost half of these funds were allocated to MSE projects in Latin America. CIDA's interventions related to MSEs are directed at creating a more enabling environment; building up institutional capacity; providing direct support; and establishing business links. An interesting example of CIDA support in developing rural enterprise through business links is its collaboration with the Bata Company in Thailand, where it is involved in the installation of genuinely rural factories at which 400 villagers are producing high-quality shoes. The technology, training and quality control aspects are supported by Bata and a local NGO. Many of the workers are women who have returned from the cities (reverse migration). CIDA finances other joint ventures between Canadian firms and MSEs in Chile and Malaysia and has set up the CanAsian Businesswomen's Network. The International Development Research Centre based in Ontario with CIDA funding is also active in promoting both MSEs and medium-sized enterprises. Ongoing research activities led by CIDA in Africa, Asia and Latin America place considerable emphasis on the importance of BDS (training, management, marketing and technology), with special focus on strategies to extend the outreach of support services to segments of the MSE sector that are difficult to serve (e.g. microentrepreneurs and women).

**Ministry of Foreign Affairs (MFA) and French Development Agency (AFD).** As core public aid providers, MFA<sup>1</sup> and AFD consider the development of local private-sector and entrepreneurial activities to be the backbone of economic development. Support to the private sector covers a whole spectrum of potential enterprise-related activities, e.g. from informal or semi-formal microenterprises to SMEs

<sup>1</sup> Ministry of Cooperation until December 1999.

and modern private companies. This support generally aims at (i) establishing an institutional environment for entrepreneurs: increasing their competitiveness, improving quality standards and enhancing policy dialogue; (ii) upgrading the business skills of entrepreneurs; (iii) facilitating access to financial and non-financial services (commercial banks, MFIs) through support to interfacing institutions (business connection points (*guichets uniques*, business and microenterprise associations). Institutional and financial support-oriented action has concerned enterprise networks (the West Africa Enterprise Network and the Franco-African Chambers of Commerce Network) as a means of facilitating dialogue among regional policy- and decision-makers. MSE projects have been implemented in Senegal (Rural Microenterprise Project); in Burkina Faso (Microenterprise Support Office) and Madagascar (Financing and Development of Microenterprises).

Other institutions involved in the MSE sector include the International Cooperation Centre on Agrarian Research for Development (CIRAD) for small agribusiness and food processing and the Research Institute for Development, which focuses on the socio-economic aspects of MSE promotion.

# appendix III

## MULTILATERAL DONORS INVOLVED IN THE MSE SECTOR<sup>2</sup>

The World Bank has for many years been engaged in the field of small-scale business operations, the role of the MSE sector in Africa and the requisite technology and training. It supports the development of MSEs in its client countries through: (i) policy and institutional reform; (ii) provision of information on MSEs; (iii) developing strategies to reduce the risks and transaction costs of lending to MSEs; (iv) developing markets for private-sector delivery of BDS; and (v) improving the performance of public-sector services to the MSE sector. The delivery of BDS to small businesses has taken a variety of forms. For instance, in Africa, the World Bank has financed projects that provide MSEs with technical training, improved work premises and a market for local builders (participation of artisans in construction works). Together with the International Labour Organization, World Bank chairs the Donor Committee on Small and Medium Enterprise, which is working on a market-driven strategy for the provision of BDS. It also provides institutional support for financial services and for promoting emerging and intermediate technologies and support for small business incubators. While the World Bank previously dealt with small business development under the umbrella of private-sector development, it has now formed a new department to promote the development of SMEs, merging its operations with the investment programmes of the International Finance Corporation. The Bank sees the following as key elements of its new strategy: selective use of direct investments and better use of intermediaries; creating and strengthening financial intermediaries; broadening the scope of TA to cover the specific needs of this category of client; results-oriented policy dialogue; and greater emphasis on information technology, training and capacity-building.

The Inter-American Development Bank (IDB), the major financier of MSE support projects and programmes in Latin America, approved projects for a total of USD 452 million in 1990-96. These projects are estimated to have reached 600 000

<sup>2</sup> For simplification purposes, multilateral donors are understood as financial lending institutions (World Bank, Inter-American Development Bank, etc.) and United Nations organizations.

microentrepreneurs and created/strengthened more than 1 800 000 employment opportunities. In 1998, IDB approved an ambitious programme, Micro-2001, which raised its investment in the MSE sector to USD 500 million for 1997-2001. In addition to ongoing initiatives, Micro-2001 includes: a social entrepreneurship programme to promote the microenterprises of very poor people; and development of a rural finance strategy to extend the outreach of MSE finance in rural areas, especially for small-scale farmers. Other areas of IDB interest include training; institutional capacity-building for MSE development; promoting best practices through a microenterprise network; and advocacy on policy. In 1998, IDB approved funding for a total of USD 107 million for several microenterprise development programmes (an increase of 82% over 1997). These projects involve lending and TA for small businesses; national programmes for microenterprise promotion (in Bolivia and Peru); and 15 microenterprise projects channelled through its Multilateral Investment Fund. One of IDB's better-known microenterprise projects is the training voucher scheme now being implemented in Paraguay.

**The International Labour Organization (ILO)** was instrumental in highlighting the importance of the informal sector, beginning with its Employment Mission to Kenya in 1972. As a follow-up, it funded a large number of city studies and launched MSE-development actions in various countries. In line with its institutional structure, ILO has been active in various areas of MSE support: policy formulation; rural technologies; managerial and technical training; promotion of cooperatives and MSE associations; support for women entrepreneurs; and safety/health and social security within the informal sector. ILO has developed useful practical material for MSE support, e.g. handbooks on the strengthening of cooperatives; guidelines for analysing the potential of small-scale manufacturing and processing; food processing technologies (cereals mills, oil presses, meat processing); and packages of theoretical and practical workbooks/manuals on centre-based and out-reach training. ILO was one of the originators of the Farm Implements and Tools Programme, the objectives of which were to develop innovative, low-cost support services for MSEs, including rapid market appraisals and exchange visits. ILO is a major contributor to the debate on BDS. It also co-chairs

the secretariat of the Donor Committee on Small and Medium Enterprise with the World Bank, and has been instrumental in organizing conferences on the subject of market-based BDS.

**United Nations Industrial Development Organization (UNIDO).** In view of its mandate to stimulate industrial development, UNIDO involvement has been more involved with formal SMEs than with the informal sector and microenterprises. However, following UNIDO's recent reorganization, MSE development was entrusted to its private sector development branch, which is responsible for small enterprise policy analysis, business centres and incubators, business information networks and the promotion of small enterprise networking. SMEs constitute the target group of the branch, whose interventions aim at promoting the graduation of small producers into larger and more formal units. The branch also has a small rural enterprise unit. UNIDO participates in sustainable livelihood projects funded by the United Nations Development Programme in China, Egypt, Ethiopia, Lesotho, Mozambique, Uganda, Viet Nam and Zambia, which support strategy formulation, capacity-building and training. UNIDO is frequently responsible for business services and technical training aspects. UNIDO's agroindustries and sectoral support branch focuses on larger-scale economic activities that focus on stimulating exports. The only microenterprises it deals with are those that have a proven market (e.g. honey and some types of food processing) through the provision of equipment, management training and marketing assistance. These projects are intended to demonstrate the types of commercial production that local producers should subsequently take over. UNIDO has also produced a number of technical manuals (e.g. on hammer mills, building materials) and has acquired experiences in the field of rural energy.

**The Food and Agriculture Organization of the United Nations (FAO)** has been increasingly involved in the production of good practices and transfer of expertise on improved marketing and post-harvest, value-added transformation technologies targeted to agricultural production. FAO's efforts are mainly oriented towards increasing the role of the agribusiness sector in the economy and developing

micro, small-and medium-scale 'post-harvest' private enterprises and/or services (storage, marketing, processing and distribution, packaging and food quality standards, market information systems). As a provider of TA, the organization is also involved in the design of training programmes to strengthen knowledge dissemination and foster sustainability. Several FAO units are concerned with the production of enterprise-oriented knowledge and material, i.e. the Agricultural Support Systems Division, and particularly the Agricultural Management, Marketing and Rural Finance Service and the Agro Industries and Post-Harvest Management Service. Both services are responsible for marketing, processing and post-harvest technology transfer, and for the provision of training for small-scale agribusiness industries and enterprises.

Other units involved in this field of activity are the Animal Production Service (dairy and meat products) and the Fish Utilization and Marketing and Fishing Technology Services with regard to fish processing (fresh and smoked fish). Recent work on technology transfer and training includes research on improving operations such as drying, storage, dehulling, threshing and milling for cereals; the design of processing technologies; increasing the availability of edible oils to populations whose vegetable oil consumption is inadequate; and the provision of training in small-scale fruit and vegetable processing. In cooperation with GTZ and CIRAD, FAO has created *Inpho* - a specialized website dedicated to post-harvest knowledge and techniques ([www.inpho.org](http://www.inpho.org)).

# appendix IV

## ACTIVITIES DEVELOPED BY INTERNATIONAL NGOS IN THE MSE SECTOR

**Enterprise Works Worldwide**<sup>3</sup> was one of the first organizations to adopt a sub-sector approach to MSE, based on: technology adaptation and commercialization; improved access to raw materials; product and service development; market assessment and marketing activities; and business services (including common service facilities and business training). It supports institution-building activities to strengthen its partner organizations in Africa, Asia and Latin America. An example of its sub-sector approach is the support provided to alpaca farmers and fibre processors in Bolivia. This project was based on an analysis of the 'value chain' to identify the steps in production, processing and marketing that added value to the product. Division of the chain into its component parts identified bottlenecks and interventions that have potential for reaching large numbers of beneficiaries. Suitable interventions were designed to address the constraints at each stage.

**TechnoServe** is an international non-profit development organization with a specific focus on rural enterprise. Its objective is to help entrepreneurial people and men in poor rural areas of the developing world to build up businesses that create income, opportunity and economic growth for their families, communities and countries. TechnoServe considers MSE as the bottom line for economic development, and its strategy for generating economic growth in developing countries is based on a market-driven and business-oriented approach. Services provided by TechnoServe to micro and small rural entrepreneurs include management and marketing services, market research, market links, business plan development, financial and commercial links, supply-chain management, and operational consulting. TechnoServe projects are presently located in Central America (El Salvador, Honduras, Nicaragua and Peru) and Africa (Ghana, Kenya, Mozambique, United Republic of Tanzania and Uganda). It is also active in Poland, where it is running a Centre for Business Promotion and Entrepreneurship.

<sup>3</sup> Formerly Appropriate Technology International

**The Intermediate Technology Development Group (ITDG)** has its origins in appropriate technology transfer. Its portfolio of activities concerns Africa, Asia and Latin America. ITDG projects aim to demonstrate technological innovation or alternative approaches to improving the performance of small producers and have an important element of research and experimentation. ITDG has relations with several organizations that concentrate on one particular sector (e.g. transport).

**Volunteers for International Technical Assistance (VITA)** has 15 years' experience with microenterprise development. Each VITA microenterprise support programme focuses on providing appropriate financial and business development services to disadvantaged and under-served populations. One of its priorities is to create and support legally registered institutions that rapidly move towards managerial and financial independence. VITA's country experience covers Belize, Benin, Chad, Guinea, Honduras, Mali, Republic of Moldova, Morocco and Ukraine. In Guinea, VITA is managing PRIDE/Finance, a microenterprise finance institution initiated in 1993. PRIDE/Finance's 16-branch network offers both group and individual loans to SMEs. It currently has 10 000 outstanding loans worth USD1.2 million.

VITA is also working to improve the conditions for MSE development in Guinea's rural areas. Working with Winrock, PRIDE/Formation and other Guinean institutions, VITA is helping MSEs to access demand-driven business advisory services such as business planning and product and market development. VITA is helping to create a network of autonomous rural savings and credit associations and has established three enterprise development centres.

**Société d'Investissement et de Développement International (SIDI).** The declared objective of this French NGO is to support MSEs in order to promote local initiatives and employment in disadvantaged areas. To this end, SIDI has developed a holistic approach that combines MSE financial and non-financial services, especially training and capacity-building. Since its creation in 1983, SIDI has developed technical and financial partnerships in more than 25 countries. Through its network of affiliates and local partners, the cumulative amount of loans to MSEs reached USD 200 million in 2001.

# appendix V

## IFAD'S ACTIVE PORTFOLIO OF PROJECTS WITH RURAL MICRO-ENTERPRISES COMPONENTS

January 2002 (USD million)

### ASIA AND THE PACIFIC

Country	Project Name	IFAD Loan	IFAD Rural Enterprise Component
Bangladesh	Third Rural Infrastructure Development Project	11.7	2.4
China	Northeast Sichuan and Qinghai/Haidong Integrated Agricultural Development Project	27.9	22.3
India	Andhra Pradesh Participatory Tribal Development Project	26.7	0.7
India	North Eastern Region Community Resource Management Project for Upland Areas	22.9	1.2
India	Livelihood Security Project for Earthquake-Affected Rural Households in Gujarat	15.0	1.6
India	Maharashtra Rural Credit Project	29.2	1.1
India	Mewat Area Development Project	15.0	1.9
India	Rural Women's Development and Empowerment Project	19.2	4.5
Laos	Northern Sayabouri Rural Development Project	7.3	0.6
Nepal	Hills Leasehold Forestry and Forage Development Project	7.8	1.4
Pakistan	Neelum and Jhelum Valleys Community Development Project	15.8	1.4
Pakistan	Dir Area Support Project	16.5	1.0
Pakistan	Barani Village Development Project	15.3	0.2
Philippines	Rural Micro-enterprise Finance Project	14.7	14.7
Philippines	Western Mindanao Community Initiatives Project	15.5	4.3
Sri Lanka	North-Central Province Participatory Rural Development Project	8.5	0.3
Sri Lanka	Matale Regional Economic Advancement Project	11.7	1.8
Viet Nam	Ha Giang Development Project for Ethnic Minorities	12.5	0.7
	<b>Total Projects for Asia and the Pacific</b>	<b>293.2</b>	<b>62.1</b>

## LATIN AMERICA AND THE CARIBBEAN

Country	Project Name	IFAD Loan	IFAD Rural Enterprise Component
Bolivia	Management of Natural Resources in the Chaco and High Valley Regions Project	12.0	0.2
Brazil	Low-income Family Support Project in the Semi-arid Region of Sergipe State	11.7	1.8
Brazil	Community Development Project for the Rio Gaviao Region	20.1	1.3
Colombia	Rural Micro-enterprise Development Project	16.0	16.0
Dominica	Rural Enterprise Project	2.6	2.6
El Salvador	Rural Development Project for the Central Region	11.7	0.5
El Salvador	Reconstruction and Rural Modernization Programme	20.0	3.7
Grenada	Rural Enterprise Project	4.2	4.2
Guatemala	Programme for Rural Development and Reconstruction in the Quiché Department	15.0	1.5
Guatemala	Rural Development Programme for Las Verapaces	15.0	0.5
Mexico	Rural Development Project for Rubber-Producing Regions of Mexico	25.0	2.5
Nicaragua	Technical Assistance Fund Programme for the Departments of León, Chinandega and Managua	14.0	2.1
Panama	Sustainable Agricultural Development and Environmental Protection Project for the Darien	7.9	1.5
Peru	Development of the Puno-Cuzco Corridor Project	19.0	19.0
Saint Lucia	Rural Enterprise Project	2.2	2.2
Uruguay	National Smallholder Support Programme – Phase II	14.0	1.2
	<b>Total Projects for Latin America and the Caribbean</b>	<b>210.4</b>	<b>60.8</b>

## WESTERN AND CENTRAL AFRICA

Country	Project Name	IFAD Loan	IFAD Rural Enterprise Component
Benin	Income-Generating Activities Project	12.0	4.0
Benin	Microfinance and Marketing Project	12.2	2.6
Benin	Participatory Artisanal Fisheries Development Support Programme	10.0	0.1
Burkina Faso	Rural Microenterprise Support Project	9.4	9.4
Ghana	Rural Enterprise Project	9.3	9.3
Mauritania	Poverty Reduction Project in Aftout South and Karakoro	11.3	0.3
Senegal	Rural Micro-enterprises Project	7.3	7.3
	<b>Total Projects for Western and Central Africa</b>	<b>71.5</b>	<b>33.0</b>

## EASTERN AND SOUTHERN AFRICA

Country	Project Name	IFAD Loan	IFAD Rural Enterprise Component
Comoros	Support to Economic Grass Roots Initiatives Project	3.5	1.6
Ethiopia	Southern Region Cooperatives Development and Credit Project	17.5	0.2
Lesotho	Rural Finance and Enterprise Support Project	4.1	1.9
Mauritius	Rural Diversification Programme	8.7	1.9
Mozambique	Niassa Agricultural Development Project	12.4	0.8
Mozambique	PAMA Support Project	22.8	6.7
Rwanda	Rural Small and Micro-enterprise Promotion Project	5.4	5.4
Tanzania, United Republic of	Agricultural Marketing Systems Development Programme	16.4	10.2
Uganda	Area-Based Agricultural Modernization Programme	13.2	1.6
Zambia	Smallholder Enterprise and Marketing Programme	16.0	7.0
	<b>Total Projects for Eastern and Southern Africa</b>	<b>120.0</b>	<b>37.2</b>

## NEAR EAST AND NORTH AFRICA

Country	Project Name	IFAD Loan	IFAD Rural Enterprise Component
Albania	Northeastern Districts Rural Development Project	11.6	1.9
Albania	Small-scale Irrigation Rehabilitation Project	9.0	2.8
Albania	Mountain Areas Development Programme	13.6	5.0
Armenia	Agricultural Services Project	15.5	1.0
Azerbaijan	Farm Privatization Project	9.3	0.5
Georgia	Agricultural Development Project	6.5	2.4
Jordan	Agricultural Resource Management Project in the Governorates of Karak and Tafila	12.8	1.5
Jordan	Yarmouk Agricultural Resources Development Project	10.1	5.4
Lebanon	Irrigation Rehabilitation and Modernization Project	9.9	0.54
Morocco	Rural Development Project for Taourirt – Taforalt	19.5	0.8
Morocco	Rural Development Project in the Mountain Zones of Al-Haouz Province	18.0	0.3
Republic of Moldova	Rural Finance and Small Enterprise Development Project	8.0	8.0
Romania	Apuseni Development Project	16.4	15.0
Sudan	White Nile Agricultural Services Project	10.7	0.3
Sudan	South Kordofan Rural Development Programme	18.0	0.5
Syria	Coastal/Midlands Agricultural Development Project	20.4	1.0
Syria	Jebel Al Hoss Agricultural Development Project	11.9	0.39
The Former Yugoslav Republic of Macedonia	Southern and Eastern Regions Rural Rehabilitation Project	8.1	8.1
	<b>Total Projects for Near East and North Africa</b>	<b>229.3</b>	<b>55.4</b>
	<b>GRAND TOTAL</b>	<b>899.3</b>	<b>248.5</b>

## ABBREVIATIONS AND ACRONYMS

BDC	Business Development Centre
BDS	Business Development Services
CIDA	Canadian International Development Agency
CIS	Central and Eastern Europe and Newly Independent States
DFID	Department for International Development
FAO	Food and Agriculture Organization of the United Nations
GTZ	German Agency for Technical Cooperation
IDB	Inter-American Development Bank
ILO	International Labour Organization
ISTARN	Informal Sector Training and Resource Network
MFI	Microfinance Institution
MSE	Micro and Small Enterprise
NGO	Non-Governmental Organization
PROMER	Rural Microenterprise Support Programme in Latin America and the Caribbean
RBA	Rural Business Adviser
RMSE	Rural Micro and Small Enterprise
SHG	Self-Help Groups
SME	Small and Medium Enterprise
TA	Technical Assistance
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
VITA	Volunteers for International Technical Assistance

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