

Pro-poor rural economic and enterprise development: A framework for analysis and action

This project focuses on new pro-poor economic and enterprise development mechanisms for public policy and interventions to enhance poverty outcomes in developing countries. Preliminary work undertaken through a multi-donor initiative has developed a framework which would benefit from further analysis, development and piloting. The model and good practice generated will guide the development community and national institutions in their support to pro-poor economic and enterprise development. The application of the Rural Economic and Enterprise Development (REED) framework will provide guidance on pro-poor public policy and institutional support at local and national government levels specifically in South Africa and Bangladesh but also in Sri Lanka.

Themes and recent initiatives

Rural Economic and Enterprise Development (REED) has the potential to help the rural poor to 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. It allows people to graduate from semi-subsistence and food security activities to improved, diversified and sustainable livelihoods. This work contributes to the Millennium Development Goal for the reduction of poverty.

The scope of REED incorporates many aspects of the economic development of rural areas: policies and institutional framework, infrastructure, services and markets, entrepreneurial competence, and stakeholder involvement and linkages. It also includes the promotion of on-farm commercial activities, as well as non-farm activities, by rural households and enterprises, which ultimately leads to the creation of new jobs, improved rural livelihoods and growth. The main focus is on promoting employment, labour opportunities and generating income through micro-, small- and medium-sized rural businesses and on improving the access of resource-poor rural households to these opportunities.

The research aims to develop further a conceptual framework and project tool for the fostering of rural economic and enterprise development in developing countries. Promoting rural economic and enterprise development may require interventions that differ from other business development services and urban enterprise programmes. Economic and enterprise development has to overcome multiple institutional and government obstacles at the macro, meso and micro levels.

The conceptual framework, building on the experiences and lessons learned from practical experience in rural projects, consists of ten cornerstones for intervention. These are clusters of successful elements of intervention approaches dealing with rural economic and enterprise development. Although there are many linkages and interdependencies between them, which do not allow one to draw clear lines between them, the cornerstones can be broadly classified into four categories:

- Policies and institutional framework,
- Infrastructure, services and markets,
- Entrepreneurial competence, and
- Stakeholder involvement and linkages.

The cornerstones represent the core functions that must be provided for successful, self-sustaining rural economic and enterprise development processes. The framework is based

upon the principle of systemic interaction, so that each of the cornerstones is critical for the success of policies, programmes and projects. They are fundamental functions, which are nevertheless interdependent and linked to each other. The framework thus facilitates the analysis of weaknesses and bottlenecks, and the identification of critical entry points and priorities for intervention.

For each of the ten cornerstones, the core elements, key strategies and ways of implementation have been identified in an iterative process, building on the collection of available information and experience-based knowledge. The format is open-ended, allowing the addition of new strategic elements and case study material, which will be developed as part of this research project.

Project components

Components of the project include: a) refine and develop the conceptual framework so that it can address gaps in the framework; b) pilot the approach in Bangladesh and South Africa in the form of in-depth case studies including training for local development practitioners and government in utilising the framework as a pro-poor REED programme planning, design and evaluation tool and, c) make widely available a robust framework and set of tools for use by the development community including national institutions.

The research outputs will develop several options for applying the framework which will improve rural economic and enterprise development policy and programme effectiveness in PRSP and non PRSP countries.

Project objectives

The main objectives of the project are to:

1. contribute to the improvement of sustainable rural livelihoods in developing economies by assisting government and civil society (public sector policy, investment and institutional) efforts to enhance the rural poor's access to non-farm employment and SME opportunities through strategic advice, the development of best practice, evidence based research and dialogue through policy forums and networks.
2. promote the participation of the poor into policy processes and fora for discussing the fostering of rural economic development through rural non-farm enterprise. Thus, promote research, dissemination and policy formulation with the poor through CBOs, NGOs etc.
3. support and build networks of research institutions; project implementing bodies and stakeholder organisations, which facilitate the process of policy reform to create an improved REED enabling environment which supports SMEs and employment. Strengthen the links between the current REED framework and in-country policy and programme processes, through regional workshops, seminars and shared learning/-training platforms.
4. elaborate on the ingredients for a 'REED guide for program design' in rural economic development based on key success factors, promising approaches and practices. Disseminate policy tools that enable effective public-private partnerships in promoting SME growth, and best practice guidelines. Dependent on the results of the above, promote the development of business service support outreach, which includes access to rural finance, public services and non-local markets.
5. evaluate incidence, role and influence of local initiatives which address the problem of rural labour markets and unemployment; to appraise local government, donor and NGO strategies, techniques and instruments; their relationships to the formal service sector; to assess capacity and resources available. Evaluate the effectiveness and efficiency of existing rural non-farm (RNF) enterprise initiatives (credit programmes,

employment programmes) in creating jobs, raising incomes, promoting pro-poor growth and reducing poverty.

6. foster the development of coalitions between local, national governments and donors to identify strategic linkages and partnerships both within the public sector and between private and public undertakings to promote RNF employment, SME development and pro-poor growth. Assess public and private involvement, institutional performance, cross- sector arrangements and co-ordination in this context; to analyze operational constraints and bottlenecks, which impede private-public partnerships and co-operation in these matters.

The key research hypotheses

A potential strength of REED framework lies in its focus on development constraints within the rural space, based on a systematic analysis of the situation and subsequent joint learning by all stakeholders, instead of a total reliance on theoretical development concepts. The framework includes some explicit hypotheses about how successful interventions foster economic development in rural areas, such as:

1. Shaping favourable conditions for rural entrepreneurs to increase their incomes and improve their livelihoods will help reduce income poverty levels;
2. Developing and supplying supportive infrastructure (hard and soft) and services will allow the private sector and rural communities access to inputs and markets for their output, whilst reducing transaction costs related to production and distribution;
3. Creating adaptive management capacity and entrepreneurial competence among rural firms will enable pro-poor economic development as firms are better placed to respond to and utilise the opportunities and challenges of the wider market;
4. Improving the different types of existing and potential horizontal and vertical links between stakeholders (general communication, representation of interests, production activities, etc) will provide useful building blocks for a range of institutional and operational options for rural enterprises, for access to financial or other resources and services, at all levels, but particularly at the micro-level for the rural poor; and
5. Developing instruments to assess opportunities in the global market place for the benefit of rural enterprises will reduce poverty and enhance growth.

The REED framework can also be applied at different levels, i.e., national and regional, because it is area-based.

Our approach

The project team will work on building a common understanding with both in-country and international collaborators (in particular DFID), developing a shared REED conceptual framework, undertaking exploratory work and agreeing on specific research focuses, sites, teams and procedures prior to the full in-country piloting of the REED framework.

This study will comprise sociological and economic approaches to generate:

- (a) a micro-level understanding of REED and its potential impact in certain field sites, and
- (b) a link between this and the national picture provided by the Living Standards Measurement Survey (LSMS) and Household Budget Surveys, allowing these to be better understood and acted upon by policy-makers.

The primary micro-level data collection will be in three rural field sites in Bangladesh and three in South Africa. At the macro, national level, we will utilise existing LSMS data but also where possible Household Budget Surveys which will help us to identify the poor and provide additional information on enterprise and household characteristics. The analysis will also consider migration, microfinance and employment.

The field studies will use Decision Tree Analysis (which enables the binary codification of data), PRA techniques and simple surveys. Data will be collected on the availability and type of enterprise and employment opportunities from all sources.

Our fieldwork will include stakeholder interviews, focus groups; a baseline study and case studies based on the pilot. Together, these would highlight specific household and community level, demographic, gender, physical, financial and social capital factors which underlie both the adoption of and access to employment and income diversification opportunities (also through enterprises) in the rural economy. The baseline survey and case studies should also highlight linkages between such opportunities and the institutional environment, and linkages between the farm and non-farm sectors, whilst placing particular emphasis on the poor, and the delivery of services to rural areas. We also propose, through our baseline work to undertake action research on weak/ missing elements of the framework such as microfinance, and the political and institutional components of REED. The team will also pull-together the experiences of the piloting for consolidation and review of the REED framework, both in-country and across the two countries with local and donor partners.

In order to ensure that there is consistency in the approach and methodology in the different field sites where micro-level data is to be collected; workshops will be held to share information between different research teams. They will have a dual role: planning and research presentation.

Research uptake pathways

Decision-makers on public policies for rural areas are charged with designing strategies for rural development and with addressing issues of regional inequality. Increasingly, this is done in a programmatic way, such as in inter-ministerial committees for designing PRSPs, sector investment programmes (SIPs), sector-wide approaches (SWAPs) and poverty reduction support credits. The REED framework adds value to the planning process because it feeds the perceptions, needs and experiences of relevant stakeholders (government, private sector, donors and NGOs) into the process in a systematic way. The relationship of policy research to policy influence through to policy implementation is regarded as a continuum, as there is overlap between research collaborators and target institutions for the policy related outputs. Different kinds of institutions will be involved:

- those active in acquiring policy-related information and analysis, either through their work in peri-urban and rural communities (e.g. NGOs), or policy research (research institutes, universities);
- those involved in policy influence and policy formulation processes, e.g. key sectoral and line ministries, donors; and
- those involved in policy implementation e.g. local government.

The development and promotion of the rural non-farm economy and rural enterprise development has featured significantly within DFID's work and that of the wider donor and NGO community. This work in part builds on the team's recent and extensive work on the rural non farm economy – <http://www.nri.org/rnfe/index.html>

REED and poverty reduction

The REED approach could be used by policy makers, national and local governments, development agencies, field level practitioners, the private sector and NGO participants, those primarily dealing with agriculture-related activities, rural poverty reduction and private sector development. These stakeholders need to consult each other and share experiences however the lack of an organizing framework and set of instruments to mainstream rural economic and

enterprise development into public policy and intervention is limiting the uptake of key poverty reducing opportunities.

Such economic development and enterprise promotion strategies have to be linked to the poverty reduction efforts of the international donor community and national governments. In many countries, the poverty reduction strategy paper (PRSP) process has become the main instrument for channelling support to rural areas. REED has a broad scope and focus and is intended to guide and evaluate the 'pro-poor' rural development interventions that are components of national processes including PRSPs. The research will help to develop the conceptual framework, and in piloting the approach will provide lesson learning and implementation experience to the benefit of the pilot countries specifically but also more widely to developing country governments, donors, NGOs and other stakeholders. REED interventions can support pro-poor poverty reduction strategies particularly in the areas of enhanced income, livelihood diversification, risk reduction and capacity building for SMEs.

The NRI Team

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Economist. Over 15 years' of policy-making research, consultancy and university lecturing experience in economic and financial-market development, pro-poor credit, microfinance, poverty reduction, business development services, social capital, financial services for enterprise development, warehouse receipt systems, private capital flows, foreign direct investment, international trade and international finance institutions (IFI) conditionality. Extensive overseas experience includes 6 years with Central Bank of Peru, 2 years in Thailand, plus Bangladesh, Bolivia, Bulgaria, Colombia, Armenia, Romania, Tanzania and Zimbabwe. Excellent English, Spanish mother tongue, some Portuguese and Thai.

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Rural development specialist. 30 years of international development experience. Responsible for leading NRI's work on technical, institutional and policy issues for pro-poor development. Specific experience: rural and agriculture sector policy and planning; multi-sectoral coordination for rural poverty reduction, rural non-farm economy, rural-urban linkages and local economic development; rural education; agricultural diversification and international horticulture trade; food marketing systems. Leadership and management of multi-sectoral teams. Recently working in senior advisory positions in bilateral and international agencies. Country work experience in Africa, Caribbean, Asia.

Details of our projects and publications can be found on our website <http://www.nri.org/>

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Prepared June 2004