



Failing Forward: What caused enterprise failure in CARE's SWEEP and IWRA projects?

LEARNING BRIEF

Lead Author: Anmut Zeleke, Monitoring and Evaluation Specialist

Co-author: Gardachew Tiruneh, Senior Program Manager

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BACKGROUND

This learning brief aims to delve into the real reasons behind the likely failures of enterprises supported by CARE through the Water for Food Security and Women's Empowerment and Environmental Protection (SWEEP) project from October 2017 to February 2021, and the Improved WASH Systems and Resiliency in Amhara (IWRA) from December 2021 to February 2024. Both were implemented by CARE Ethiopia with financial support from the Austrian Development Agency (ADA), the operational unit of Austrian Development Cooperation (ADC). These projects included the goal of supporting the private sector and nurturing local enterprises linked to the WASH agenda.

For context, Ethiopia, with the second-largest youth population in Africa after Nigeria, has a median age estimated at 19. Out of its 120 million citizens, approximately 30 million fall within the 15-29 age range, a number projected to increase to 40 million by 2030. Many Ethiopian youth, particularly those in rural and peri-urban areas, grapple with poverty, with unemployment disproportionately affecting this demographic. As of June 2013, the official overall youth unemployment rate in Ethiopia stood at 6.8%, with male unemployment at 4.6% and females at 9.1%. The challenge intensifies in food-insecure regions like the Amhara region, where the projects were implemented. A government report from 2018 revealed that in the Central Gondar zone, out of 149,708 job seekers, over 99% had been unemployed for two years or more. Individuals with disabilities, as well as young female and male graduates, face limited opportunities for social and economic engagement.

In an effort to create job opportunities for these vulnerable groups and ensure sustainable project outcomes by integrating job creation into project components, CARE Ethiopia and government partners conducted an assessment, identifying high potential Income Generating Activities (IGAs) that new groups of entrepreneurs could engage in. They then selected unemployed people to take up these activities and implemented support services. These initiatives included the supply of water spare parts and filtration kits, livestock fattening, tree/fruit seedling production, mini-restaurants, tailoring, energy-saving stove production and marketing, mini boutiques, beauty salons, solid waste disposal enterprises, and more.

Despite the diverse enterprises organized and supported by the projects and government partners, these initiatives have struggled to fulfil their intended services to the community and support livelihoods. The question is why.

METHOD

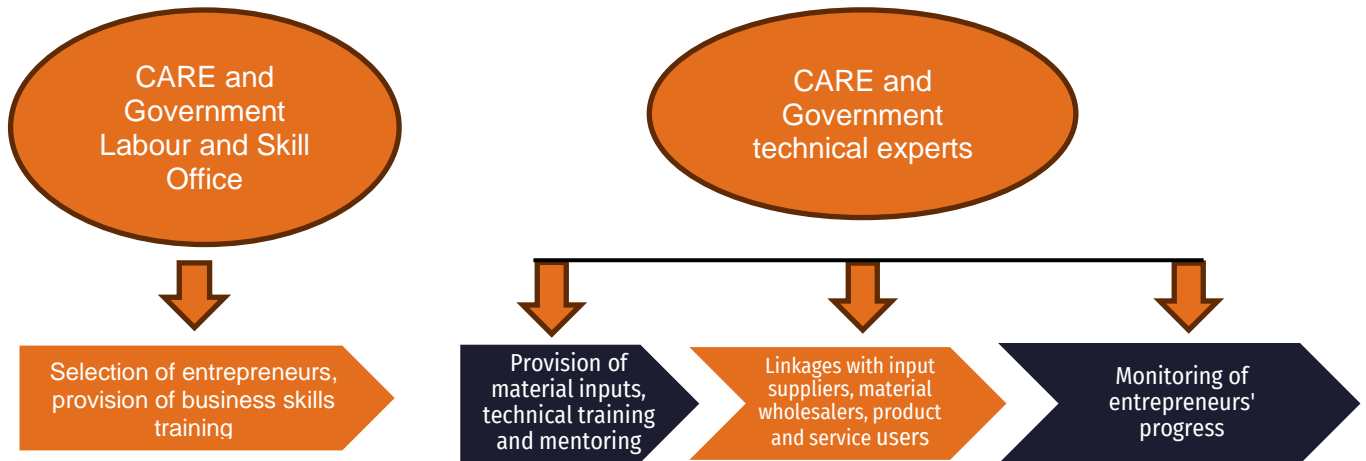
Data was gathered through 9 Key Informant Interviews (KIIs), 3 with CARE staff (who were directly working for enterprises' support including the project team leader, and two project officers) and 6 with government partners, with woreda partner office leaders from the Women, Children and Social Affairs Office, Labor and Skill's Office, and Water and Energy Office. In addition, 6 in-depth interviews (IDIs) were conducted with entrepreneurs from the supported enterprises and 6 focus group discussions (FGDs) with energy saving stove producers, spare part suppliers and solid waste management groups. Desk reviews were also carried out.

The state of emergency imposed in the Amhara region during the data collection period was a challenge, however, CARE's field-level staff and partner staff were still able to collect data, under the guidance and supervision of CARE Addis staff and the lead writer. Additionally, secondary data, including monitoring reports and learning briefs, was thoroughly reviewed.

Summary of Enterprises Supported and Status

S/N	Supported group	No of groups	Members	Status	Remarks
1	Energy saving stove producers group	9	53	2 groups are functional 7 failed	The 2 functional groups sold their products to a project which distributed stoves freely to households in its intervention kebeles
2	Shoat fattening group	1	5	1 Failed	They sold the first fattened animals, shared the money and ceased the work.
3	Spare part supplier groups	5	18	3 functioning 2 failed	Two groups dissolved. One group and one individual supplier in West Belessa, and one group in East Belessa are still selling spareparts, but do not offer maintenance services.
4	Mini Restaurant groups	2	10	2 groups failed	Because of group members disagreement and the conflict in the area, they stopped their work.
5	Seedling producers' groups	3	11	1 functioning 2 failed	An individual supported with farm tools is producing and selling seedlings. Others have no interest in continuing.
6	Solid waste management groups	3	30	Functioning but not well	Groups find it hard to collect fees from the residents. One group has members' disagreement. The government is trying to support them.
7	Water filtration kit suppliers	2	6	1 functioning 1 failed	Both group members are people with disabilities, but the dissolved ones are those with hearing impairments. The functional group diversified shop items like food items with the filtration kit.

FINDINGS



The diagram shows the key processes of support employed and who was involved. The more detailed steps and the lessons learned were as follows.

PROBLEMS LINKED TO THE PROCESSES

Selection and initial start-up:

The government's Labor and Skills Office and the local administration maintains records of both graduated and non-graduated job seekers. Based on these lists, the Labor and Skills Office, woreda government offices and the kebele administrations selected candidates, prioritizing women, individuals with disabilities, those from resource-poor families and older graduates rather than more recent ones.

The project steering committee defined two selection criteria for the business identification: (i) bring together individuals with different professional expertise that can reinforce each other (e.g., mini restaurants and mini boutiques) and (ii) focus on businesses deemed vital for supporting and sustaining overall project outcomes (e.g., spare part supply and energy-saving stove production). Following this prioritization and selection process, the project steering committee granted formal approval to the chosen entrepreneurs to pursue their business. The selected entrepreneurs were organized into groups of 3-6 individuals.

Business skill training was then provided to the selected group members, and in collaboration with the Labor and Skills Office, the group formulated by-laws¹. Technical training sessions linked to the selected business sector were then organized in partnership with respective sector offices (e.g., Water and Energy Office for spare parts, water filtration kit, and energy-saving stoves; Agriculture Office for seedling production groups; Health Office for solid waste disposal groups, etc.).

The project team recognizes that the fact that the group formation was not based mainly on the members' interests and personality, but more on the relevance of the business ideas for the given context, partly contributed to the business groups failing to succeed. Also, a critical gap existed as a

¹ Group by-laws are a governing document prepared and approved by the enterprise members which defines members roles and responsibilities, sharing of benefits, fine in case of breach pf rules etc.

robust market and feasibility studies was not conducted and the project team relied on a market analysis from the previous project SWEEP. Finally, although the groups developed a business plan, it was too superficial to yield sustainable results.

Material stocks, seed money and training

Materials and utensil specifications were carefully developed to support the respective groups and as an initial capital injection for the enterprises, CARE supplied production and shop materials, along with stocks. However, start-up materials and capital were found to be insufficient to run and scale up the business, and it became a challenge to maintain and replace materials after their initial use, the situation being made worse by the significant increase in the costs of materials of production, i.e. the inflation rate at the time.

As one group put it: "The support we got covers only a few spare part items and these spare parts stayed on the shelf for quite a long period. On top of that, we used the money we obtained from selling a few items to cover our living expenses. We faced a real problem with replacing the previous stock." Spare-part supplier, East Belessa.

More specifically, one young female entrepreneur who had been supported to run a mini restaurant and had received utensils like beer boxes and bottles lamented, "How can we sell beer without the cash to buy the beer itself? We are not going to sell bottles." Entrepreneurs expressed frustration over the insufficient working capital.

Technical capacity-building support was provided to the entrepreneurs and training of trainers support to relevant zone and woreda government staff so that they could provide refresher trainings when needed and teach other entrepreneurs. However, the initial training to the entrepreneurs was compromised to some extent by absences during COVID-19, conflict in the region and other factors. Moreover, the assumption that the government staff that were trained would implement the follow up training without additional encouragement and support, especially at a time of turmoil, does need to be questioned.

The entrepreneurs had no additional resources to call on and for the most part were unable to leverage support from government because the financial loans available were distributed to other non-CARE supported groups. However, linkages were successfully made to a government-led project, the Sustainable Land Management (SLM) project at one point, allowing energy-saving stove production groups to sell their products at reasonable prices and quantities.

Finally, entrepreneurs faced barriers to accessing additional finance to scale up their businesses. They could not benefit from the Government revolving fund, as the latter said that "CARE already supported us," as mentioned by a spare part supplier group member in East Belessa.

Monitoring

Government office monitoring visits were infrequent, and when conducted, they lacked effective problem-solving processes. Issues such as production and marketing locations, loan access, and complaints related to group disagreements were not promptly addressed by the sector offices. Similarly, the government partners felt that the entrepreneurs were not committed to following up on the recommendations. Generally, therefore it felt like the monitoring was not as effective as it needed to be.

1. Motivations of the Entrepreneurs

One of the big problems identified is that the people selected were generally viewing the business as a transitional phase while looking for more secure government employment. This was particularly the case with group members who graduated from university/college.

During the project team's discussions with the tree seedling producer group in West Belessa woreda, the group wanted to incorporate non-graduated individuals, especially farmers, arguing: "Who will manage while we are traveling long distances whenever there are job vacancy announcements?"

Another was that many of the people selected anticipated immediate wealth improvements after receiving the start up support, without recognizing the gradual nature of the progress.

2. Supporting groups versus individuals

Government representatives stated that many people, especially the young, are reluctant to work in groups because of a lack of trust in who they would be working with and not liking the idea of having to share profits rather than be in control of the proceeds from the enterprise.

Group dynamics and conflict within the groups posed a significant challenge to success, as despite the formulation of group by-laws, these were not always adhered to. There is also insufficient support from the government to enforce these by-laws. Expressing frustration, a member of a failed mini-restaurant group in West Belessa stated, "Had we received support individually, I would be successful. How can a new, small restaurant be expected to be viable for a group having five female members with different expectations and each putting in a different degree of effort?"

3. Difficult Times

The repercussions of the war, the COVID-19 pandemic and inflation subsequently have been particularly challenging backdrops to the attempts to support small scale entrepreneurs. They have faced setbacks in the form of lost working capital and materials. They have faced reduced demand for products and services such as energy-saving stoves, spare parts, water filtration kits, and solid waste disposal materials. The escalating costs of raw materials, essential food items like cement, and other necessary supplies posed also an important barrier. The fact that the entrepreneur groups have started off from such poor backgrounds, also means that they lacked any buffer or any additional resources to help them establish a stable income and secure sufficient working capital.

The entrepreneurs who have continued to operate despite all the problems and the constraints of the current context are using their income primarily for survival.

CONCLUSION

It is unfortunately very unlikely that the entrepreneurs supported by the SWEEP and IWRA projects will achieve a successful business that can grow with a reasonable increase in sales and profits. Lessons need to be learned and the approaches changed significantly if supporting entrepreneurs in the region can have any chance of success.

One of the female entrepreneur groups in East Belessa supported for the mini restaurant business said " We were selected by the woreda labor and skill office and women, children and social affairs office since we were in their record of job seekers' list. Following their invitation, we preferred to be engaged in the restaurant business since we thought it was appropriate for women. The project supported us with business skill training provided by the labor and skill office. After the training, the

project provided us with restaurant materials including utensils and consumable goods, though this was not sufficient. We started the business with no experience, and before the business went well, we started to consume our working capital ... and lately, we came up with no working capital to continue the business. Being five members and all with different interests didn't make us effective."

The key recommendations are:

1. **Selection of entrepreneurs and of business type:** A better mapping of what people are interested in and who they might want to work with when forming their businesses is critical. They need to be more involved, and this cannot be the decision of government or of CARE.
2. **Business feasibility:** A feasibility study and a robust business plan need to be part of the start-up processes.
3. **Access to Financial Services:** Pathways to access sufficient financial services and to leverage support need to be in place, otherwise the maintenance and scaling up of the businesses will be hampered.
4. **Motivations of those selected:** Those selected as potential entrepreneurs need to show interest in being entrepreneurs and in businesses rather than be people looking for government employment.
5. **Dependency Syndrome:** It is critical that the potential entrepreneurs and others around them including government understand the nature of the support to the entrepreneurs. The danger will always be the assumption that CARE and others will provide external support. Greater arms' length approaches from CARE might be more successful in this regard.
6. **Promotion of Services and Products:** More attention needs to be given to supporting the promotion of products and services in the community, so that they know about the products and services available. For example, after talking about energy saving stoves and water filtration kits during VSLA trainings in West Belessa, sales reportedly increased. More advertising and promotion would help.
7. **Monitoring Support:** More attention is required to ensure effective monitoring and the management of group by-laws.
8. **Working Capital:** The inadequate or non-existent working capital base of the entrepreneurs is too precarious a start. Ways in which the potential entrepreneurs can build more capital and more of a buffer is required, though on the job training and capacity building would reduce the rate at which capital stocks diminish.

Cover image: A small business owner from Amhara region, Ethiopia. Credit: Genaye Eshetu / CARE