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MARKET DEVELOPMENT IN ACTION:

THE CASE OF MSME IN CAMBODIA

CASE STUDY #1: STIMULATING CLIENT SELF-SELECTION

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CASE STUDY #1: STIMULATING CLIENT SELF-SELECTION

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INTRODUCTION

One of DAI’s recent successes with the Making Markets Work for the Poor (M4P) approach to design and implementation is the USAID Strengthening Micro Small and Medium Enterprise Project (MSME) in Cambodia.

WHAT IS M4P?

M4P is an overarching approach to development that provides agencies and governments with the direction required to achieve large-scale, sustainable change in different contexts. M4P is focused on the underlying constraints that prevent the effective development of market systems around poor people.

The focus of M4P is on developing market systems, assessed with respect to different market functions and players, public and private, formal and informal. This systemic character of M4P defines many of its most important features.

By addressing underlying causes (rather than symptoms) of weak performance, M4P aims to unleash large-scale change. Interventions may be small in themselves, but they should continually strive to leverage the actions of key market players to bring about extensive and deep-seated systemic change.

Sustainability is a prime concern of M4P. This means considering not just the existing alignment of key market functions and players but how they can work more effectively in the future, based on the incentives and capacities of players (government, private sector, associations, etc.) to play different roles.

M4P requires that agencies and governments play a facilitating role. As external players, they seek to catalyze others in the market system (while not becoming part of it themselves).

For governments, except where they are playing longer-term roles within the market system, and agencies, facilitation is inherently a temporary role.

Finally, as an overarching framework M4P does not necessarily replace other specific methodologies and tools but provides a transparent and multi-disciplinary framework within which they can be utilized and adapted in order to address their limitations and so enhance their efficacy. (from Tschumi and Hagan)

A guiding principle of the project’s interventions is the strictly facilitative role – building relationships between actors in the target value chains and stimulating change in the market system, including the enabling environment, without taking a direct role in or becoming part of the system. To a great extent, MSME can be described as a culture change project that employed M4P best practices to achieve sustainability and scale. To improve private sector competitiveness and the business environment, the project’s activities have promoted a systemic change in how private businesses interact with each other and in how the government interacts with the private sector.

MSME conducts activities in 17 of the 24 provinces of Cambodia across nine value chains, including swine, aquaculture, clay roof tiles, honey, tree resin, eco-tourism, potable water, household latrines, and garment industry. The project works across all levels of the value chain, as well the enabling environment (rules) and supporting environment (institutions) of the targeted sectors. It is a two-phased project, with a budget of \$26.5M over 7 years that has facilitated comprehensive assistance directly to more than 7,400 firms and 800 government officers. In fact, more than

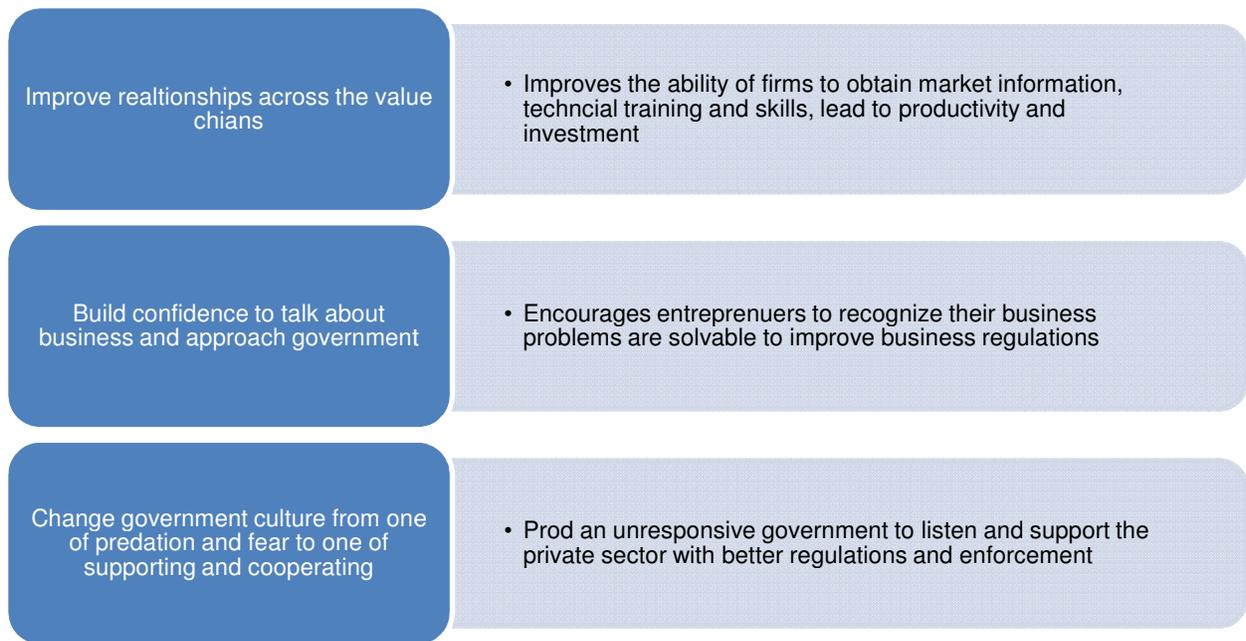
SYSTEMIC CHANGE

Although it is rarely possible to work with all firms in a system, the impact of interventions should reach beyond a few lead firms. Interventions should stimulate changes in the way the system works as a whole. Systemic change is a change in the underlying causes of market system performance – typically in the rules and supporting functions – that can bring about more effective, sustainable and inclusive functioning of the market system.

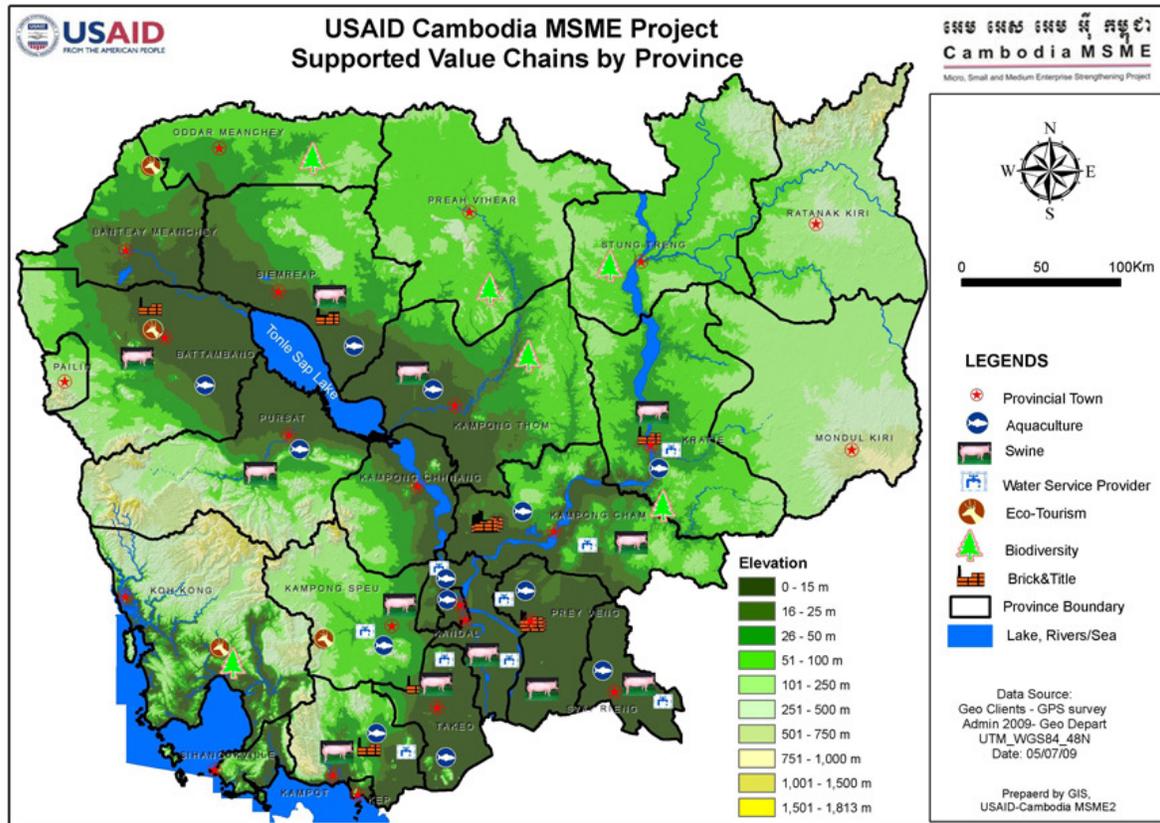
280,000 Cambodians directly benefited from project activities, and more than one million indirectly benefited.

The project facilitates MSMEs to organize effectively among themselves through interest groups, working groups, agricultural cooperatives or associations and to improve competitiveness and then to engage with national and provincial government representatives to improve their business enabling environment. By design, fostering these linkages among private sector actors has also created incentives for upgrading and capital investment without project support, thus enabling the sustainable growth of the target value chains. MSME also works with the public sector to demonstrate the economic value of better regulation, facilitating a change of the government culture from one of predation and intimidation to one of cooperation and support. The project works with provincial authorities to improve business and investment climate and with the national-level government counterparts to improve their ability to draft and implement good legislation and effectively communicate with other government agencies and the private sector. In addition to provincial authorities in each of the seventeen provinces, MSME engages with 10 national-level Government of Cambodia (RGC) counterpart agencies.

The chart below illustrates the rationale behind the project's interventions.



MSME was the first USAID-funded project focused exclusively on economic growth in Cambodia. The first phase began in 2005 as a three-year, \$5M project working in four economically poor provinces. By 2008, the project was successful in demonstrating the potential of the private sector to open political as well as economic space, and USAID funded Phase 2 with a more comprehensive mandate to explicitly include the government in the development of the targeted value chains. The second phase of the project also drew on lessons learned from past program experience – more than \$450 million in donor funds had been spent on improving agricultural production in Cambodia, with little or no investment in relationship building among the targeted value chains. Once these donor projects ended, growth stopped and the value chain actors lacked support to continue improving on their own. As a result, MSME has been firmly committed to strengthening relationships and building linkages to improve value chains without project



support – even at the expense of short term gains – remaining patient for growth, but impatient for sustainability. In fact, MSME has defined six key principles that all interventions must satisfy:

- **Market First** – prioritize the market by expanding access for firms with commercial surplus and products to sell
- **Non-invasive Subsidies** – facilitate, don't participate
- **Simple and Sustainable Design** – design with simplicity to ensure sustainability
- **Affordable Activities** – ensure that all activities are affordable without donor assistance
- **Broad Benefits** – aim to benefit multiple firms across the value chain to gain value
- **Sustainable Growth** – by building relationships, knowledge, and skills

Now in its final year of implementation, there is clear evidence of the project's impact. Some of the key results from Phase II are highlighted below.

The project’s success in mending fractured value chains supports several key M4P assumptions. First, MSME illustrates that reducing, removing, and improving on supply chain constraints not only requires an understanding of what the constraints are, but also why these constraints exist in the first place – a key feature of the M4P approach. Tackling these issues at their core demands systemic solutions that address incentives and disincentives for behavior change. As a result, the project has overcome a number of challenges (including mistrust and a lack of confidence among firms in the private sector, lack of interest from the public sector, and limited political voice and advocacy power of businesses) by facilitating a change of culture in the public and private sectors. Furthermore, these changes can only be accomplished by improving the functioning of the system as a whole, rather than only improving the performance of specific firms. Finally, MSME also demonstrates how a donor-funded intervention can facilitate change in a market system without providing direct technical assistance that crowds out private sector businesses and sustainable contributions from the public sector. Technical assistance at every level has continually, and now increasingly, come from other private sector actors in the value chain.

In the following briefs, different aspects of the project’s successful market development approach will be explored in more detail:

1. Stimulating Client Self-Selection– this brief describes how the project employed the M4P principles of self-selection and crowding-in to select clients
2. Improving Competitiveness to Expand Economic Space – this brief describes how the project fostered a culture of collaboration among rural businesses in the targeted value chains
3. Expanding Political Space to Improve Economic Governance and Growth – this brief describes how the public and private sectors can be motivated to work together to improve the business environment

Highlights from MSME Phase II

- MSME facilitates comprehensive assistance to more than 7,439 firms and 833 government officers – more than 280,000 Cambodians benefit from project activities.
- MSME project works directly with more than 7,439 enterprises across 9 value chains in 17 Cambodian provinces.
- As a result of MSME assistance, 7 national laws and regulations have been reviewed or revised with private sector input (through private sector meetings, workshops, or PPD) and over 4,019 enterprises and government officials at all levels are now participating in policy advocacy meetings and public-private dialogues.
- In addition, through MSME support to public sector organizations at the national and provincial level, 28 laws and regulations have been reviewed, analyzed or modified to improve the business enabling environment. 833 public sector officials at the national and provincial levels have improved their skills and knowledge required for effective regulatory drafting, communications, investment promotion and public-private dialogue.
- MSME improved communication and trust between members of the public and private sectors through exposure trips; conducted 124 cross-provincial trips with a total of 2,099 participants and led 13 international governance and technology exposure missions for 194 participants to Thailand, Vietnam, Malaysia, Philippines, Indonesia and the United States. (results up to September 2011)
- 20 cooperatives and working groups have been established with MSME assistance.

CASE STUDY #1: STIMULATING CLIENT SELF-SELECTION

PROBLEM: CULTURE OF DISTRUST

When MSME began in 2005, the rural Cambodian economy was still suffering the effects of thirty years of civil war. There was embedded distrust in communities and transactions, relatively few firms had commercial surplus in production, and those that did were not well connected to markets. In fact, the majority of enterprises were operating at the micro and subsistence level. Value chain links were weak and fragile, as relationships in the private sector were crippled with a lack of trust. Leading firms had little interest in sharing skills or working together. There were no operational rural-based associations, cooperatives, or working groups in any of the targeted sectors. It was evident to the project team that this was not due to a lack of entrepreneurial energy or business savvy, but rather that the word “cooperative” had negative connotations to Cambodian business owners and most associated it with unproductive experiences from the past. Without the necessary skill or vision of how to advance their enterprises, adoption of new technology and investment in upgrading was minimal. The public sector was not engaged to develop the private sector, and government officers operated as if they were in a command economy, squeezing economic and political space.

Clearly, the project was faced with an immense challenge – one that was deeply rooted in the disempowerment of the private sector and the predatory practices of the public sector. To confront the perceived lack of business leaders and entrepreneurial activity in the market, the project designed a straightforward model that allowed for interested clients to self-select to partner with the project.

MSME now works with more than 7,400 leading enterprises and more than 800 government officers across nine value chains. By wisely choosing the most motivated clients, the impact of the project is significantly scaled up and the probability for sustainable change is increased. According to Mr. Eang Chan Phalla, brick and tile producer in Cheung Prey District, “Facilitation is important as a means to sustainability, but also as an approach that guarantees success.”

Self-selection

Self-selection occurs when local actors are required to invest their own time or resources in order to access project support.

SOLUTION: FACILITATE CROWDING-IN OF LEADING FIRMS

Initially, the project began the process of client selection by identifying market requirements, then working with the leading firms across the entire value chain to meet those market requirements. As a result, the project’s high performance was dependent on the team’s ability to **define and identify the leading firms** and then facilitate their acquisition of skills, knowledge and confidence. The term “leading firm” can easily be misunderstood in this context. MSME defines these as firms managed by leading entrepreneurs who exhibit a **set of required characteristics** that enable them to grow their businesses at a greater rate than other competitors. This set of characteristics includes:

1. Willingness to invest time to learn more about what markets need and how to meet those needs

2. Desire to acquire technical and business skills and apply those skills immediately to improve business performance
3. Ability to understand how to invest limited resources in the most cost-efficient manner
4. Confidence to compete in a market with many participants
5. Devotion to share information and build relationships with others

The term “leading enterprise” is often misinterpreted to mean the wealthiest or most advanced firms. In fact, for MSME, the term “leading” is reflective of the desire and willingness of business owners to accept and apply technical and business advice. Leading managers can be experienced business owners who have already made considerable investments in their enterprises, such as tile manufacturers in Kampong Cham with 3 kilns and 50 employees. Importantly, however, the project recognized that they could also be inexperienced subsistence farmers, such as single mothers with two pigs and a small patch of land in Prey Veng. The project worked with any firm that exhibited the required characteristics and applied the knowledge and skills gained through project activities.

MSME works across the income strata and across the targeted value chains – no enterprise was too small or too large for consideration. During the past seven years of implementation, the project team has learned that when choosing leading firms, current enterprise investments are not always the best indicator of whether or not the entrepreneur has the required characteristics. Experience has reinforced the assertion that subjective assessments of potential clients based on the expressed desires of enterprise owners themselves to grow their enterprises is the most important determinant for client selection.

“I had a plan to expand the business before the project, but I didn’t know the technical skills for pig raising. Once I was exposed to the technical skills, I was excited to buy more land and invest in my business.”

Ms. Than Vanna, pig producer in Chamka leu district

At the outset of the project, through **discussion, observations, and referrals**, the MSME team carefully identified those people who had ambition and desire to grow their business. The project typically invited about 30 members of the private sector within a relatively small geographic area, such as a village, to a facilitated meeting at one of the villager’s homes or the local pagoda (more details on how the project facilitated this process for building trust and collaboration among private sector actors are described in Brief #2). In keeping with the project’s strict convention against subsidies, MSME did not offer any compensation for attending these meetings. Unlike many other players in the market system, the project **did not attempt to entice participation through subsidies** (such as free fish or per diem payments) and this practice served as a reliable recruiting tool for true entrepreneurs and ambitious members of the private sector.

According to a leading brick and tile producer, “The ideas are mine, but the project guides. I had an idea, but I was blind without the project to show me how.”

The project’s pitch to the potential businesses was the offer to help them learn how to grow their business and facilitate introductions to other people who can help them help themselves. This filter eliminated many of the firms that lacked entrepreneurial energy. The project became known in local communities as the “banana and water project” because

“Many donor efforts have failed in my community because they just provide subsidized inputs. A subsidy without advice is not helpful for my business and the fish die.”

Mr. Keo La, Chief of Fish CWG

that is all MSME offered at their first meetings.

Furthermore, the project did not subsidize technical assistance or business development services, but instead facilitated input supply companies to provide private training and skills development to businesses locally. Similarly, the project insisted that all international and provincial missions be cost shared. While ensuring sustainability, these practices also increased the likelihood that the value chain actors who participated would value the skills, be willing to invest in upgrading, and share their knowledge with the larger private sector community. According to Ms. Than Vanna, a pig producer in Chamka leu district, “The project is doing the right thing for the private sector. A subsidy would not encourage me to invest.”

In addition, the project engaged in discussions with uninvited guests who attended these trainings, community meetings, and working groups after hearing about them from the previously-selected leading firms. The project employed **self-selection techniques** to draw in potential clients, holding firm to the principle that subsidies do not attract the right profile of business owner. Without hesitation or preconceived notions, the project team also interviewed these firms, caring less about their previous investments and listening more carefully to the words and actions that indicate a willingness and desire to learn, to invest to improve their business, and to share information with others. This method attracted the top 25-30% of entrepreneurs across the value chain.

In addition to self-selection, the project also exploited **self-organization** and copycat behavior in order to build a scalable client base. The project did not push cooperatives or associations to formalize. In fact, the project avoided promoting formal associations, choosing instead to wait until the community working groups had reached the point where they realized the benefit of working together in a more formal manner. There was a very high hurdle the project had to clear before achieving the success it now enjoys—with many active and self-sustaining organizations of members who pay dues, receive services, and recognize value for their money.

“If I attempt something new in my business and it succeeds, I will invest to grow my business. But I do not fear failure. It is the older generation’s responsibility to teach these lessons to the newer generations and they can learn from my mistakes.”

Mr. Keat Kheng, fingerling producer in Prey Chhor District

Similarly, the project leveraged the common tendency for **copycat behavior and crowding** in to engage entrepreneurs to partner with the project and motivate them to invest in growing their business. One illustrative example is the case of Mr. Triev Phalin of Kampong Cham province. Mr. Triev had never considered a career as a swine raiser, especially after watching some of his neighbors fail at operating their swine farms. He feared repeating their mistakes and losing his investments. But like many of the project’s clients, he used his observations to craft a better strategy and become successful. After listening to an episode of the Success Starts with You! a radio talk show produced by the project, Mr. Triev began to consider how he could make a profit from raising swine. “That episode presented ideas about how to raise swine properly using better and new production techniques, as well as how to treat, cure and produce feed by ourselves,” he remembered. “I became very interested and called in to the show to ask more questions.” He then visited the project’s Kampong Cham office to acquire more information about becoming a swine farmer and became a client of the project. More on Mr. Triev’s story can be found [here](#).

SELECTING THE RIGHT CLIENTS LEAD TO LASTING RESULTS

The project’s approach to client selection has been a key driver of its success in achieving scale and sustainability. Some of the results of the client selection process are listed below:

- During the past seven years of implementation, the project team has yet to encountered a client who refuses to work with the project
- Every client has a plan to grow their business and the majority operate in more than one value chain
- Clients invest their own capital to upgrade their businesses; no project support has been utilized to subsidize investments
- Sustainability of many of the project's interventions has been achieved: international and cross-provincial study tours are paid for, technology investment is accomplished, additional businesses are started
- Lead firms initiate business forums to share techniques, skills, and technology with smaller, less advanced firms. As of 2012, there are more than 7,400 leading firms at commercial scale
- Government officers gained confidence in working with the private sector and demonstrated that once they understood how they could assist the private sector, they did. As of 2012, there were more than 800 government officers actively participating in project activities.

LESSONS LEARNED

- Leverage a common paternalistic cultural norm to achieve scale – a leading firm that shares information and skills with a less adept firm, raises their social profile, and is recognized as good. The project's approach to engage market leaders first and then leverage the leading few, the best, to demonstrate to others who are more skeptical has proven successful.
- Avoid offering subsidies to potential clients, as this attracts the true entrepreneurs with interest and ambition to grow their business.
- Facilitation requires a unique skill set and must be built in the project's field staff. Strong local staff that are capable of qualitative decision-making are crucial. All staff must buy into the facilitation approach and understand how to identify entrepreneurial potential. Retraining and continuous mentoring may be required to build staff capacity.
- Define a leading enterprise by their appetite for growth and willingness to share knowledge and skills, rather than income or investment level. The project worked with any firm that exhibited the required characteristics and applied the experiences gained through project activities.
- Referrals and recommendations from current clients was an important tactic for identifying additional project clients.