



**USAID**  
FROM THE AMERICAN PEOPLE

# MARKET DEVELOPMENT IN ACTION:

## THE CASE OF MSME IN CAMBODIA

**CASE STUDY #2: IMPROVING COMPETITIVENESS TO EXPAND  
ECONOMIC SPACE**

**AUGUST 2012**

This publication was produced for review by the United States Agency for International Development. It was prepared by DAI.



# MARKET DEVELOPMENT IN ACTION:

## THE CASE OF MSME IN CAMBODIA

### CASE STUDY #2: IMPROVING COMPETITIVENESS TO EXPAND ECONOMIC SPACE

<b>Program Title:</b>	<b>Strengthening Micro, Small and Medium Enterprises (MSME) in Cambodia, Phase 2</b>
<b>Sponsoring USAID Office:</b>	<b>USIAD/Cambodia</b>
<b>Contract Number:</b>	<b>EEM-I-00-07-00009-00/04</b>
<b>Contractor:</b>	<b>DAI</b>
<b>Date of Publication:</b>	<b>August 2012</b>
<b>Author:</b>	<b>Shannon Sarbo, DAI</b>

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



# CONTENTS

- CONTENTS ..... 5**
- INTRODUCTION ..... 6**
- CASE STUDY #2: IMPROVING COMPETITIVENESS TO EXPAND ECONOMIC SPACE ... 11**
- PROBLEM: LACK OF TRUST LEADS TO LACK OF INVESTMENT ..... 11**
- PROJECT INTERVENTIONS..... 11**
  - Build Trust and Collaborative Culture between Firms ..... 12
  - Facilitate Technical Skills Training to Improve Production ..... 12
  - Empower Firms to Invest and Incentivize Upgrades ..... 15
  - Promote Commercial Surplus and Market Interactions ..... 17
- RESULTS..... 18**
- LESSONS LEARNED..... 19**

# 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

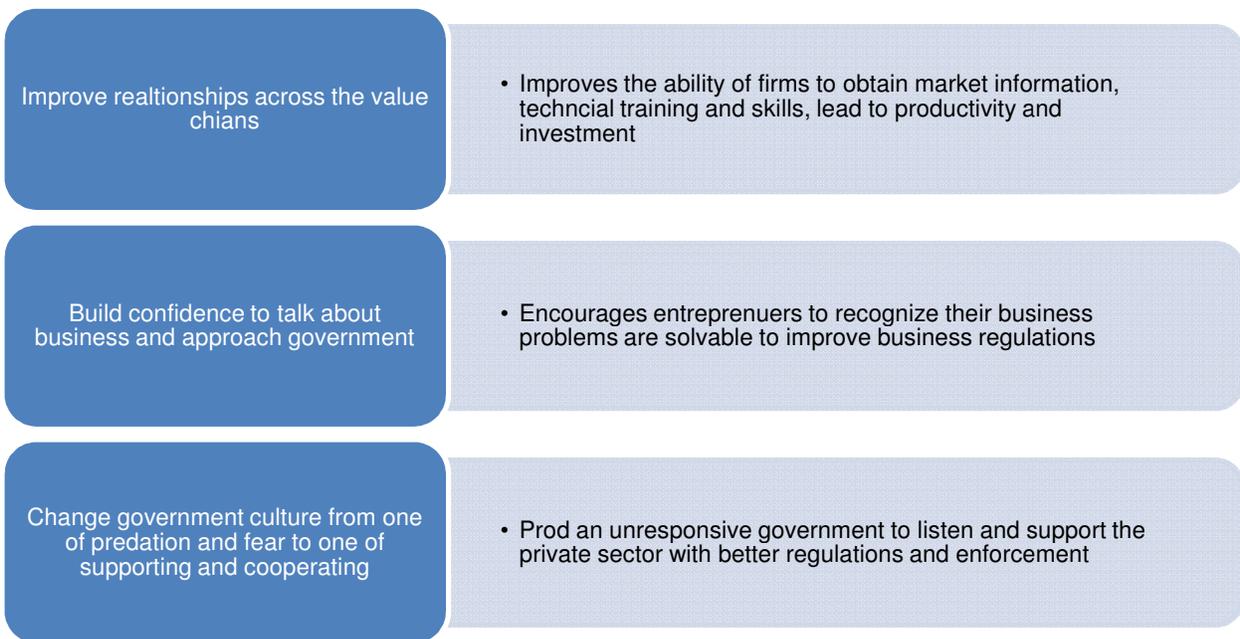
## SYSTEMIC CHANGE

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.

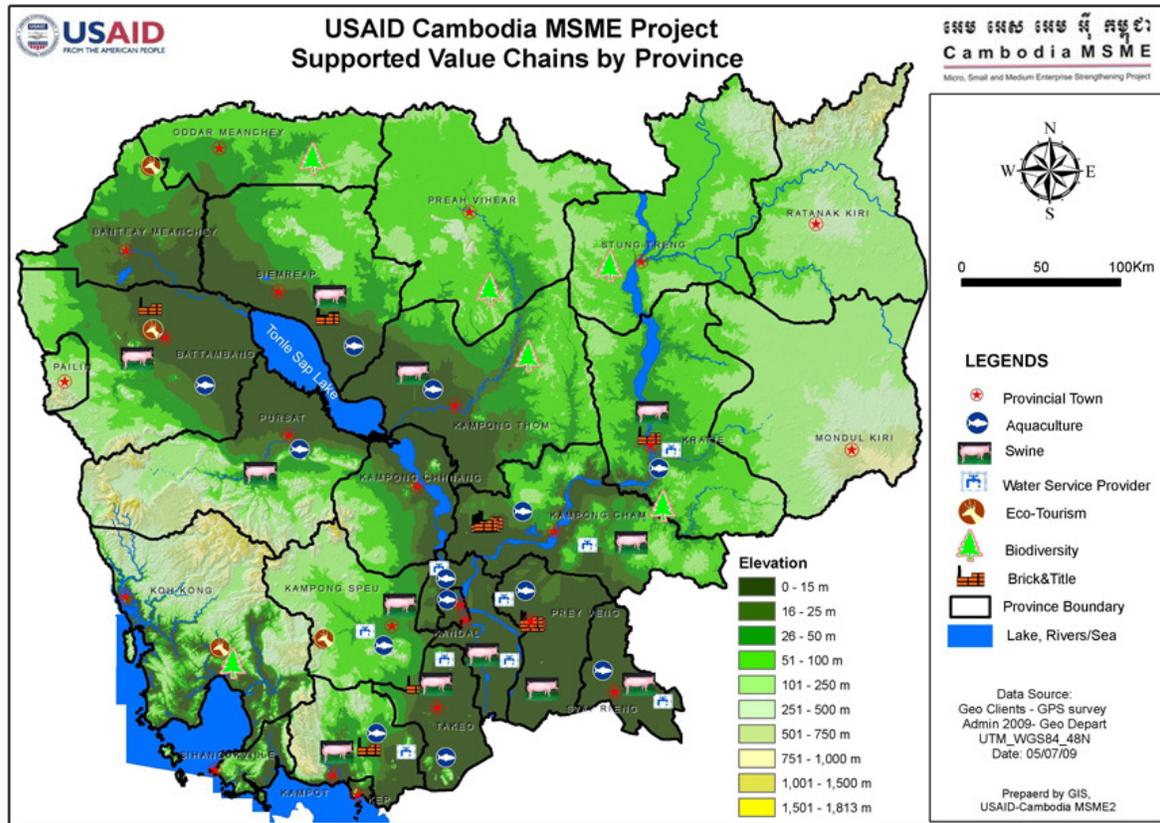
280,000 Cambodians directly benefited from project activities, and more than one million indirectly benefited.

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 #2: IMPROVING COMPETITIVENESS TO EXPAND ECONOMIC SPACE

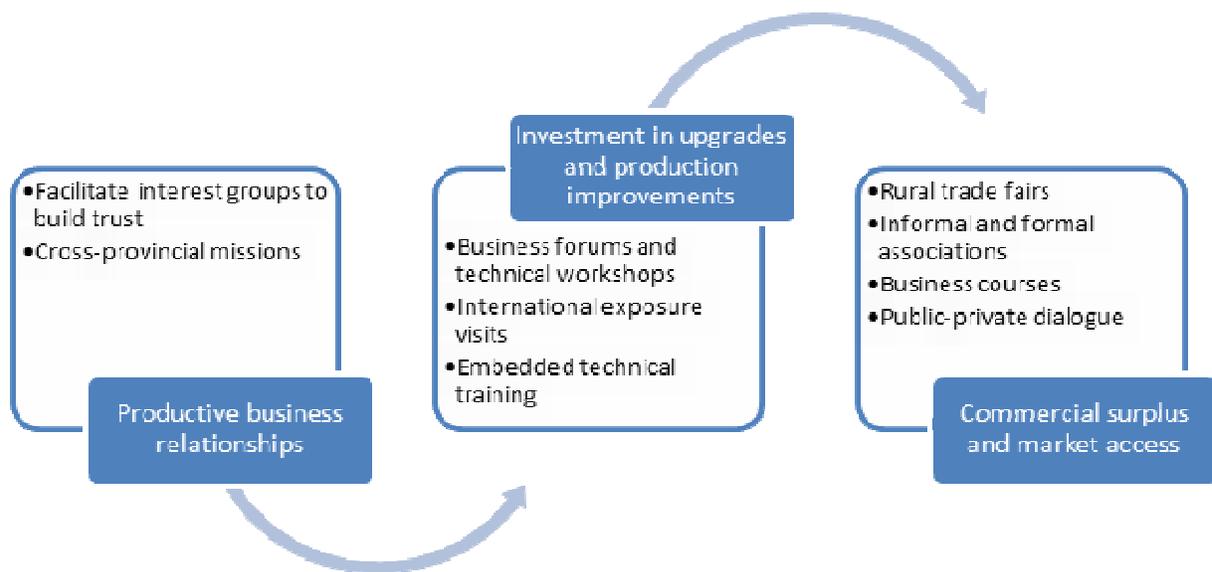
## **PROBLEM: LACK OF TRUST LEADS TO LACK OF INVESTMENT**

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. There were also heavy restrictions on market functions, predatory traders, and the few input suppliers that provided technical assistance at the enterprise level – especially in provincial areas outside of Phnom Penh. In addition, access to market information was expensive for firms to obtain, and it was often manipulated by the traders to extract higher profits. Furthermore, if products were available from input suppliers, they were often expensive, of poor quality, and adulterated.

There was also a debilitating lack of trust among actors in the private sector. Leading firms had little interest in working together, and micro enterprises did not have the required skills to increase production. Without necessary skill or vision of how to advance their enterprises, their adoption of new technology and investment in upgrading was minimal. The supply chains were further weakened because firms lacked confidence that they could obtain a fair return on any investment. Issues were not discussed locally and without informal business associations or cooperatives, actors in the private sector were not incentivized to collaborate to solve common business challenges.

## **PROJECT INTERVENTIONS**

MSME implemented a series of interventions to foster market linkages and trust between private sector actors, to create incentives for upgrading and increasing commercial surplus, and ultimately, to improve the competitiveness of the targeted value chains. These activities facilitated a culture change among actors in the private sector to see one another as partners and work together to grow competitive businesses. Please see the chart below for an illustration of how the project's interventions supported the transformation of the private sector in Cambodia, facilitating local ownership for improving industry performance and competitiveness in the targeted value chains.



## BUILD TRUST AND COLLABORATIVE CULTURE BETWEEN FIRMS

The project first began to interact with the private sector through **informal interest groups**. 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 (details of the client selection process are described in Brief #1). The project typically invited about 30 members of the private sector to a facilitated meeting, called a “working group” by the project, at one of the villager’s homes or the local pagoda. 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 rice or per diem payments), and this practice served as a reliable recruiting tool for true entrepreneurs and ambitious members of the private sector.

The project then facilitated a **discussion around each of the firms’ business problems**, which largely, were the same: lack of technical skills, no linkages to markets, only one trader to sell to (whom they thought always cheated them), an inability to obtain high quality feeds, medicines and vaccines for their animals, and shortage of credit. For most of these villagers, these meetings offered the first opportunity to openly discuss business with one another and helped them to discover that they all suffered from the same problems. In many cases, this was a critical revelation to them and served to challenge the existing dogma about what was acceptable to discuss with other value chain actors. Once the issues were surfaced and firms appreciated the common challenges they all faced in their businesses, they began to appreciate the value of working together. This process not only identified common issues for taking forward with the government (described in more detail in Brief #3), but also led to cohesion among the firms. According to one project client, “From my perspective, the project’s key successes have been building trust and encouraging communication between firms. This has made such a difference for my business.” Many of these common issues, the business owners discovered, were related to the lack of technical skills and training in new technology. Once the interest groups were formed and meeting on a regular basis, the project invited local input suppliers to attend as well.

## FACILITATE TECHNICAL SKILLS TRAINING TO IMPROVE PRODUCTION

Although local input suppliers lacked access to quality medicines and vaccines, the project located several companies in the capital of Phnom Penh with high quality products. When first engaged by the project, these companies were not interested in developing business in the rural areas and did not offer training services. However, after months of discussion, the project team was able to convince one input supply

company to provide free training to potential customers in Prey Veng town. Although the project facilitated this process, the only contribution provided was the use of the MSME provincial office for the initial training. No other subsidy was utilized to encourage attendance or to compensate the input supplier. In keeping with the project's principle to include multiple value chain actors in project activities, MSME invited animal health workers, veterinarians, producers, traders, even retail owners from local markets to the initial trainings, held during the local interest group meeting. The provincial interest groups provided a platform for linking the value chain participants with high-quality technical advice and support. The trainings were a success, with input suppliers selling out of their supplies and vaccines immediately and recruiting distributors to work as village livestock agents (VLA).

The experience was transformative for the businesses as well as the input suppliers. Now 14 input supply firms provide **embedded training** to customers, free of charge, in rural areas and practice the same model of roving training teams without project support. The project's "light touch" approach – whereby the implementer's role does not include direct service provision – clearly exemplifies M4P best practice and the appropriate level of intensity to support other enterprises and entities in sustainably fulfilling the technical training gap. Furthermore, the project facilitated the "crowding in" of additional input supply companies to provide services and products to rural producers in the targeted chains. This approach also strengthened the relationship between the service providers and producers and kept the project's role in the relationship mostly behind the scenes.

For instance, one of the best examples of overcoming the training constraints in a sustainable way is exemplified by the business relationship the project has developed with a leading firm in the swine feed and pharmaceutical input supply business. In the swine value chain, producers typically lose up to 50% of their piglets before they are a month old because they lack the adequate technical skills and understanding of when to use the right pharmaceuticals at the proper time. Medivet Animal Health Company was the first firm to accept the project's proposal to provide "free" technical swine health and production training to members of project-facilitated interest groups in the swine value chain. Medivet is a Cambodian joint venture with the high-quality French pharmaceutical producer Meriel. The results achieved by the partnership demonstrate how valuable embedded technical assistance can be for the trainers and trainees.

Within days of providing their first technical training session to about 60 MSMEs in Prey Veng province, Medivet signed on the largest input supplier in the provincial capital to carry its product line. In addition, Medivet's provincial distributor, located about 25 kilometers away, reported initial increases in sales of about 50% during the first few weeks after the first training.

Since then, more trainings have resulted in sales consistently 30% above those before the trainings began. Continuing the partnership, Medivet assisted the project on its first cross-provincial exposure tour by encouraging the firm's most successful swine raisers to allow 25 MSMEs to tour their facilities and to better understand

#### **INTENSITY**

Intensity refers to how heavy-handed the project is in terms of resources deployed or the role played by the project in a transaction between value chain actors. As the intensity of project activities increases, the prospects for sustainability decrease because the project artificially shields actors from real costs and risk by providing goods and/or services that would otherwise be integrated into commercial cost structures and investments.

#### **CROWDING IN**

The central process in – and purpose of – facilitation through which interventions catalyze or bring other players and functions into the market system so that it works better for the poor. Crowding-in can result in enhanced breadth (more transactions in the core of a market), depth (supporting functions) or reach (new areas or markets).

how new technologies and processes are successfully applied to swine production at smaller, family-sized MSMEs. Medivet is now the first partner to provide advanced technical training to local veterinarians. Since engaging with Medivet and launching these trainings, piglet mortality rates have significantly decreased, the number of animals available to market has increased, and access to high-quality medicines and feeds has improved.

In addition, the project's facilitative approach to filling the training gap also led to the uptake of investment and upgrading by actors within the market system, ushering a win-win relationship in the chain. Not only have input suppliers now expanded their sales and market coverage, but also rural producers have access to inputs and the knowledge and skills to upgrade. In fact, the demonstration effect of the input suppliers' use of new products and technologies was a compelling tool to help change producers attitudes toward adopting new technologies and investing their own capital in upgrading. The project witnessed a 20-fold increase in investments in the client swine and fish enterprises between 2007 and 2008. The trainings have encouraged rural farmers to expand their businesses and in many cases, firms initiated enterprises in additional value chains, such as chickens, ducks, and cattle to diversify their incomes. Furthermore, many firms exhibited copycat behavior once they were able to see new techniques in practice and to observe other firms in their communities investing in different technologies.

#### **EMBEDDED TECHNICAL TRAINING TRANSFORMS FISH PRODUCTION**

The MSME team works to improve productivity of fish farmers through embedded technical assistance and works to develop market linkages by promoting relationships with new traders. Most fish farmers who partner with MSME have insufficient technical skills in pond preparation and fish cultivation, barely meeting subsistence production. Improved preparation and cultivation skills enable them to become commercially viable and to sell to local or provincial markets, which results in substantially higher incomes and improved living standards. Since 2008, MSME has partnered with feed and fingerling suppliers. These suppliers train fish raisers on cultivation practices and pond preparation for free when the raisers purchase their products.

In early 2011, an independent consultant assessed 153 fish raisers trained in cultivation, fish production, pond cleaning, stocking density and disease control. The assessment stated, "A clear change in production practices and significant increases in volume of production, sales and profits for MSME-trained fish raisers is noted, which is confirmed by a lack of change for a control group - fish raisers not influenced by MSME. Besides increased yields, each MSME client shared what he learned with at least 2 or 3 more fish raisers, who, in turn, are also adopting improved cultivation and pond management practices." During the course of four years, some MSME clients saw a 1,100 percent increase in production: from 700 kilos to 10,000 kilos from the same pond.

Once initial groups were trained in a few locations, MSME initiated cross-provincial missions to bring together leading firms from other provinces to observe the new technologies. The primary objective of these missions was to expose actors from all parts of the supply chain to input suppliers, technologies, processes, and new traders, and to build relationships with larger firms in and around the capital city and provincial towns. The project also included government officers in these missions. Furthermore, once the project identified a critical mass of interested firms who were investing in their businesses and government officers willing to help the firms to grow, MSME coordinated international missions to Vietnam and Thailand. According to many of the MSME clients, these exposure visits were the single most impactful project intervention, since access to knowledge, skills, and inputs was often the critical barrier to unleashing systemic firm-level change to improve production – empowering business owners to invest their own capital in upgrading and diversifying into other chains. The text box below highlights one illustrative example from the aquaculture sector. It is important to note that these missions were all cost-shared with the project gradually reducing the amount contributed through USAID and increasing

the contribution by the firms and government officers for these missions. In fact, many firms returned to Vietnam and Thailand on their own expense to buy products and contract for technical advice.

## EMPOWER FIRMS TO INVEST AND INCENTIVIZE UPGRADES

One of the key outcomes of the international exposure visits was demonstrating advanced technologies and incentivizing firms to adapt their techniques (taking advantage of the natural tendency towards copycat behavior). Equally important, however, the missions also strengthened the relationships among participants and solidified partnerships between value chain actors. Without cajoling by the project, this led communities to self-organize in **semi-formal working groups** to develop solutions to their common business issues, initiate **business forums**, and seek additional **technical workshops** from input suppliers to address constraints.

The project leveraged the momentum gained from these exposure visits and the strong links they engendered and began to facilitate business forums as a platform for leading businesses and government officers to meet each other, share technical information, and discuss business issues that inhibit growth. They also provided an opportunity for sharing between leading firms and smaller ones – which serves the dual purpose of empowering firms and incentivizing upgrades due to copycat behavior.

One of the common challenges in value chain development projects is ensuring that the changes made by the project become widespread rather than confined to a relatively small group of direct beneficiaries. By targeting interventions at leverage points, the project increased the probability of reaching greater scale. According to Mr. Keat Kheng, fingerling producer in Prey Chhor District, “I am proud to learn new technology and then disseminate the knowledge with the other producers in my community.” In fact, the MSME experience demonstrates that introducing leading firms to new technologies and processes often encourages productive enterprise investments in other firms. Investing firms provide an effective demonstration to less advanced firms who are considering similar investments but are unwilling to take the risks associated with investing in new technologies and processes. As Mr. Eang Chan Phalla, brick and tile producer in Cheung Prey District, explains “Once the project demonstrated the new and improved technology, and I can see it with my own eyes, this reduces the risks for me and I invest my own money to upgrade. But before investing, I want to see it myself.” Again, this is a clear demonstration of M4P best practice as leading firms are employed as a leverage point to catalyze systemic change in the market system. As illustrated in the brick and tile example below, this approach can be truly transformative.

Most importantly, these business forums and technical workshops are now driven and sustained by the private sector, without project support. For instance, in May 2011, an aquaculture business forum was hosted by industry leader, Mr. Keat Kheng and chaired by Fisheries Administration Director, H.E. Nao Thouk. More than 300 members of the private sector and government officers attended, including a leading medicine and feed input supplier from Vietnam, local feed suppliers, fingerling suppliers, aquaculture farmers, fish traders and sellers, and donor-funded development partners

### LEVERAGE POINT

Leverage points are actors or relationships that will stimulate the spread of change without the project replicating activities itself. By addressing underlying causes (rather than symptoms) of weak performance, M4P aims to unleash large-scale change. Interventions may be small in themselves, but should continually strive to leverage the actions of key market players to bring about extensive and deep-seated systemic change.

According to Mr. Keat Kheng, the forum's host, “I think these business forums are useful because we can bring together such a broad group of people in the aquaculture business to share information and discuss technical problems.”

from Kampong Cham and Svay Rieng. The results of this effort are clear: better fish production, an improved entrepreneurial culture, especially in the rural areas, and higher incomes for thousands of rural family businesses.

Business forums not only build relationships, but they encourage deals and commercial relationships between firms. Another compelling example from the tile manufacturing sector occurred in early 2007. The project facilitated discussions between leading construction firms in Phnom Penh, Chamber of Commerce representatives, and leading tile manufacturing firms. The first-ever Cambodia Tile Manufacturer's Business Forum allowed provincial tile manufacturers to learn first-hand what the Phnom Penh market needed – few of the provincial firms had ever performed marketing visits to Phnom Penh-based construction companies.

#### **EXPOSURE VISITS UNLEASH SYSTEMIC CHANGE**

In early 2006, the project began working with clay roof tile and brick manufacturers in Prey Veng province. At first, producers were not interested in investing in their businesses because the Vietnamese sold low-priced clay tiles cheaper than the Cambodian manufacturers could produce them locally. Nearly every Cambodian tile maker was competing in the meager-profit market. There was growing customer demand for high-value, high-quality tiles, but the industry wasn't preparing to serve that evolving, higher-profit market.

Manufacturers also faced constraints including limited understanding of better manufacturing processes and poor marketing and business skills. The Project facilitated workshops, business forums, and exposure missions so manufacturers could share problems, find solutions, and meet skilled tile manufacturers and technicians in Thailand and Vietnam. This encouraged tile manufacturers to understand how new technology and processes could lower their production costs and enable them to compete in the market for high-quality, high-profit tiles.

By 2011, the hard work resulted in more than 30 firms which made investments allowing them to compete for a more profitable market. Mr. Be Rithy, an MSME client, is now one of the industry leaders. His latest investment is a kiln that produces 600,000 bricks and tiles per month. "The Project enlightened me about the potential for my business's future and showed me where I could improve production," said Mr. Rethy. "After joining a mission to Vietnam with the MSME Project, I paid for several more trips on my own to Vietnam to learn more. I hired a Vietnamese expert to help me build a new factory.

The larger construction firms brought along samples of the products they buy and explained their purchase decision-making process. Most importantly, the construction firms enthusiastically encouraged the provincial manufacturers to upgrade tile quality, compete more effectively with imported tiles on price, and market tile products directly to them. Barriers to entry were lowered and a door had been opened for entrepreneurs from the rural areas to exploit.

The 25 tile firms responded with impressive gusto; each manufacturer has invested an average of \$37,620, totaling nearly a million dollars of new investments. Some have hired the Vietnamese technicians they had met during their visit to Vietnam to design and build new, more efficient kilns. Others have invested in new cost-reducing energy technologies. Most have invested in higher-quality molds and more efficient production methods. Many are working out inter-firm cooperation agreements so they can collectively supply larger orders. Tile sales volumes and values have increased by nearly \$600,000 as some firms extend product deliveries to Phnom Penh.

In keeping with the project's guiding principle of sustainable growth, MSME 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. This leads to firms **self-organizing into informal associations**. The project did not promote or push these cooperative structures,

but instead allowed the time needed for the private sector to realize the value of cooperating. For MSME, formalized associations was not an end in itself. Instead, the project employed collaboration and cooperation as a tool to achieve improved production and commercial surplus in the client businesses. To the extent that a formal association or cooperative furthered this goal and was supported by the working groups themselves (as a platform for pooling resources, organizing on business issues, dialoging with the government, for instance), they were encouraged. However the project viewed formalizing these relationships solely as a means to increase production and enterprises competitiveness, not an end in itself.

Once a critical mass of firms came to realize the value of a formal relationship, the project facilitated their legal registration process to become **formalized associations or cooperatives**. However, before progressing, the project ensured the organizations had the necessary leadership to sustain the effort. At this stage, many working groups had also started **savings groups**, which was a watershed event and enshrined trust between enterprises almost overnight. The groups pooled resources and used profits to pay for services like technical trainings, exposure visits, and new animal feed mills.

Encouraging firms to adopt new ways of doing business and to invest capital in upgrading clearly relies heavily on addressing incentives (and disincentives) for behavior change. Another example of the project's approach to overcoming distrust and addressing disincentives to collaboration is MSME's work with retailers and market owners. Most of the physical markets in Cambodia's provincial district towns are cavernous and dirty. As the final transaction point for Cambodian products, physical markets play a crucial role in promoting Cambodian-raised fish and pork products. The MSME team observed that sales of Cambodian pork, fish, honey, and other local products were much higher in retail markets that maintained high levels of cleanliness. By encouraging market owners and stall operators in rural retail markets to improve hygiene and increase sales, all other actors in the supply chain would benefit. But that reciprocal relationship was not immediately clear to actors who have never viewed their goals as the same.

As this market owner explained, "Since working with MSME, my relationships with the vendors have vastly improved . . . I was not able to convince the vendors to participate in the market cleaning myself. What really changed everything was the exposure visits, facilitated by MSME, to other markets. The vendors responded once they were able to see for themselves how other successful markets were operating. The demonstration effect was very effective." By demonstrating the value of improved food safety practices and better management practices to the vendors through exposure visits, the actors in the system were motivated to emulate those productive models and change the unproductive business culture. More information on the project's approach to this challenge is detailed in the text box below.

## **PROMOTE COMMERCIAL SURPLUS AND MARKET INTERACTIONS**

Rural enterprises remain mostly isolated from the capital's markets, product and service suppliers, and credit providers. As a result, rural entrepreneurs often lack the confidence, as well as the know-how and ability, to promote their products and services, acquire new technologies, improve productivity and develop new relationships with like-minded firms. In response, MSME promoted a new growth channel for rural enterprises in 2008 by introducing **provincial trade fairs** in seven provinces to improve market linkages, promotion, and business development skills.

MSME worked with provincial officials, owners of fish, swine, and tile firms, and a limited number of national firms to develop a model for the trade fairs that emphasized a local feel and a practical result and that could be promoted without subsidy. By the project's second year, the trade fairs had generated a high level of support from provincial governments and caught the attention of Cambodia's Minister of

Agriculture. This significantly raised the trade fair profile, and the Minister urged all 23 of his provincial deputies to make the rural trade fairs a regular event in each of their provinces without the support of donors such as USAID, ensuring that the trade fairs are now a sustainable model for local product promotion.

The first local products trade fair in Prey Veng town attracted only about 3,000 visitors per day. By 2012, 25,000 or more visitors per day came to view and buy products. Mr. Thach Ratana, Director of the Provincial Department of Agriculture in Svay Rieng commented, “I have never seen such a great project as the USAID Cambodia MSME Project. The Project not only improves the techniques and confidence of entrepreneurs, but they also demonstrate to them how to market their products.”

Another critical intervention to facilitate the graduation from small, subsistence-level firms to commercial businesses was the development of locally affordable **business-skills training courses**. Thousands of MSMEs in rural Cambodia remain stuck at the subsistence level because their owners lack basic business skills, such as book keeping, risk analysis, and marketing. Their traditional business growth strategy is to observe and duplicate a successful business in their area and then compete on price. This practice fuels an environment of ever-diminishing profit margins and creates disincentives to business growth.

The project designed these courses to introduce practical techniques and strategies to overcome impediments to growth and pinpoint areas for rational investment. The project’s business training courses assist business owners to understand the value of recording customer purchasing behavior, following up with courtesy calls, and keeping ledgers that allow them to determine profit margins and channel investments. Participants were shown how to make informed investment and service decisions by comparing ledgers and distinguishing profit margins from earnings. MSME marketed these courses to micro-finance institutions, input suppliers, and provincially-based NGOs, who will provide the courses as an embedded service or for a fee using the MSME training model.

Finally, the project promoted a variety of platforms for the public and private sectors to interact and learn from each other, including **radio shows, televised business panels, legal and advisory forums, and regulatory issue forums**. The principal goal of these dialogues was to surface, discuss, and resolve business environment issues (more details of this process are described in Brief #3). However, the underlying goal was to empower the private sector to view themselves as worthy stakeholders in the economy’s growth as well as build their trust as partners to solve business issues together.

## RESULTS

Gradually, through the cross-provincial and international exposure missions, business forums, technical trainings, trade fairs, and many other events, businesses stop viewing their neighbor as the competition and begin to appreciate the market potential and value of sharing. The project facilitated a change in the business culture from “go it alone” to “cooperatively, we can do more.” Some of the project’s key results are highlighted below:

*Improved industry performance and competitiveness, which has led to expanded economic space. Firms in the targeted sectors are now more competitive.* Improved breeds, cheaper feeds, and high skill levels have vastly improved competitiveness, profits, and the ability to meet market needs.

- 4,328 swine farms with an average of 46 head. The mean value of sales is \$2,555 per enterprise. Since Cambodia’s per capita GDP is \$750 per year, leading swine firms can easily make this in three months.

- 802 aquaculture farms with 2 or more ponds
- \$12 million invested in roof tile factories
- 476 persons active full-time in honey sector
- 135,000 persons with access to safe water
- 50,000 estimated new rural jobs
- Sales and incomes increased by an average of 350% in 18 months of becoming clients
- Input suppliers and feed firms have crowded into the sector, including 40 new artificial insemination and 45 feed enterprises
- Input suppliers now routinely provide technical assistance to communities, 14 companies in total, and MSME no longer provides introductions in established areas. In addition, supply companies are continuing to specialize.

*Improved relationships and trust to invest in the private sector, which has led to firms collectively solving problems.*

- From a base of nearly zero working groups in 2006, **63 community-based working groups** exist today with **2,175 members**
- **20 of these groups with 899 members** have become formally registered as agricultural cooperatives and associations, which give them status to discuss issues at all levels of the government and receive tax benefits when obtaining well-understood licenses and when transporting goods
- Associations finance their own cross provincial and international trips
- Some industry leaders are investing between \$1-10M in new facilities
- The mean value of total investments per house for swine producers is \$4,712 for pens, feed, and breeding stock

*Barriers to improving industry are no longer technical. The barriers are now more political and the solutions are increasingly possible due to the confidence of the private sector.*

## **LESSONS LEARNED**

- Trust and relationship building takes time but can be strengthened through fun, interactive, and most importantly, neutral activities
- Viewing rural business owners as rational consumers as well as producers can be effective for fostering behavior change. Given the opportunity to recognize and appreciate the value of adopting new products and technologies, value chain actors are willing to invest in upgrading
- Inputs are a critical part of agricultural value chains and should not be treated as public goods. Subsidies lower the probability of upgrading by displacing incentives for innovation and crowding out private sector investment

- Focusing on behavior change and incentives for changing patterns of interaction has proven effective for understanding why growth is or is not happening and can help to define a project's approach (i.e. focusing interventions on lead firms) to catalyze systematic change.
- Investing firms provide an effective demonstration to less advanced firms who are considering similar investments but are unwilling to take the risks associated with investing in new technologies and processes.
- Entrepreneurs often share their successful business strategies with their neighbors to improve and develop their communities. Leveraging a common paternalistic cultural norm—that a leading firm that shares information and skills with less adept firms raises its social profile, and is recognized as good – is an important project tactic for achieving scale.
- Input suppliers were uniquely positioned to foster behavior change in producers because of the technical knowledge they brought and, through the demonstration effect, became a leverage point for the project. Technical trainings from the input suppliers were a tool to help change producers' attitudes toward adopting new technologies and investing in upgrading.
- The benefits received by all actors in the value chain highlight the potential for win-win relationships in the chain – rural producers now have access to inputs and the knowledge and skills to upgrade; input suppliers have expanded their sales and market coverage.