ASSESSMENT OF THE SUSTAINABILITY OF COMMUNITY-BASED MEMBERSHIP ORGANIZATIONS

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CAMBODIA MSME 2/BEE PROJECT

ASSESSMENT OF THE SUSTAINABILITY OF COMMUNITY-BASED MEMBERSHIP ORGANIZATIONS

TASK ORDER NO. 04

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BACKGROUND

The USAID Cambodia MSME Project, implemented by DAI, improves the performance of firms, supports public-private dialogue, and strengthens the public sector through targeted technical assistance. MSME has conducted 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 the garment industry. The project works across all positions of the value chain, as well the enabling environment (rules) and supporting environment (government and public institutions) of the targeted sectors.

The project has facilitated MSMEs to organize effectively among themselves through interest groups, community working groups, agricultural cooperatives, and associations to improve competitiveness and gain and industry vision, and then 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 sustained growth of the target value chains.

MSME also worked with the public sector to demonstrate the economic value of better regulations, facilitating a change of the government culture from one of predation and intimidation to one of cooperation and support. The project has worked with provincial authorities to improve the 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 has engaged with many officers in 10 national-level Government of Cambodia (RGC) counterpart agencies.

OBJECTIVES OF THE ASSIGNMENT

The overall purpose of the assignment was to: 1) assess progress on activity implementation related to sustainability of community working groups, associations, and other community and membership-based organizations in the swine, aquaculture, tile, honey, and water value chains; 2) review the MSME Year 4 Workplan in the activities and tasks associated with strengthening community and membership-based organizations; 3) advise the team leaders and the broader team members on possible adjustments to activities or additional activities that could lead to a higher propensity for sustainability after the MSME Project ends; and 4) develop a short briefing paper with ideas and recommendations on where USAID/Cambodia could consider supporting additional activities to improve chances of sustaining the existing or new community and membership-based organizations based on international experience and best practices in value chain development. This also included an analysis of how different levels of the government could be included in these activities in a manner that would not inhibit private sector ownership and include ideas on what lessons can we extract that might help USAID/Cambodia as it looks at potential future sustainable food security, climate change, technology, health and education activities. Annex 1 provides the complete Statement of Work.

ACTIVITIES UNDERTAKEN DURING THE TRIP

To meet the objectives as stated in the Statement of Work, activities undertaken July 16-30, 2012 included meetings with MSME staff and visits and interviews with many MSME clients.

Interviews with MSME staff were held throughout the entire assignment, both in the Phnom Penh MSME office and during field visits. Among those interviewed were Curtis Hundley (Chief of Party), Boreth Sun (Deputy Chief of Party), Kimhor Proum (Team Leader, Public-Private Sector Dialogue), Sophath Oeun (Value Chain Team Leader), Ratana Try (Senior Aquaculture Value Chain Coordinator), Sambon Kong (Senior Advisor), Than Thoeurn (Swine Value Chain Coordinator), Sovtiyea Sea (Business Association Development Specialist), Hoeun Oen (Monitoring and Evaluation Coordinator), Sokunthea Chan (Legal Advisor), and Vibol Theng (Legal Advisor).

The nature of these conversations cut across all aspects of the Statement of Work, including understanding progress made during MSME implementation, discussing activities in the Year 4 Workplan, understanding the elements of sustainability of current activities and their future prospects, and lessons learned under MSME that can inform USAID/Cambodia. The insights gained from these discussions greatly assisted in the completion of this assignment.

During the assignment six provinces were visited, including Kampong Cham, Kandal, Prey Veng, Svay Rieng, Battambang, and Pursat, and in all cases accompanied by senior MSME staff. Several interviews were held in all five provinces with actors in the swine, aquaculture, and brick/tile value chains, including input suppliers, producers, processors, retailers, and cooperatives and member-based organizations. In addition, Graduation Ceremonies in Prey Veng, Svay Rieng, Battambang, and Pursat Provinces and the Strategic Communication Training in Svay Rieng Province were also attended. At all of the interviews and meetings MSME clients described their experience of what they were doing before working with MSME, how the have interacted with MSME, and what impact working with MSME has had on their enterprises and families. Travel during July 19-20 was accompanied by Janet Lawson, the outgoing MSME Contract Office Representative (COR); and the travel during July 23-25 was accompanied by Brad Arsenault, the current MSME COR, and Teffesa Betru, the Alternate MSME COR. Annex 2 presents a complete itinerary and persons visited during the field work.

Focus of this assignment was on community and member-based organizations and the swine, aquaculture, and clay tile value chains. With the exception of the visit to a water user provider in Svay Rieng, value chain actors in the honey, tree resin, eco-tourism, potable water, household latrines, and garment industry were not visited, and therefore not covered in this report.

ASSESSMENT OF ACCOMPLISHMENTS UNDER MSME

INTRODUCTION

To understand what MSME achieved during the course of implementing the project it is important to understand what was in place in Cambodia when MSME began. In terms of cooperatives and member-based organizations, there had been a history of poorly organized and managed cooperatives that were formed at the behest of a government agency or a well-intentioned donor, failing or failed. An organized private sector was not active in most parts of

the country, and where they were present, they were either weak or working in close collusion with government officials, or fully supported by donors.

Production of commodities supported by MSME—for example swine and aquaculture—was characterized as mostly subsistence production for home consumption (swine and aquaculture), high levels of mortality (for example 50% of piglets and 50% of fingerlings died within the first 30 days), low productivity (for example a fish pond would produce 10 MT/HA per year), and low consumer appeal, due to poor practices, such as building toilets over fish ponds and raising pigs with high fat content. For clay tile firms, production was characterized as extremely low quality that was inferior to even low-quality imported tiles, low through (a firm would produce 30,000 tile and bricks every two months), and a low-level of technology use.

Policies and regulations that were in place were predatory, and not encouraging of private sector development. Few laws or regulations were understood by government officers or the private sector, and enforcement existing regulations was inconsistent and focused on rent seeking by several levels of government officials. There was a general lack of trust between Cambodian business persons and a heightened lack of trust between business persons and government officials, which made advocacy and regulatory improvement extremely challenging. This is the backdrop that existed when MSME began its work.

The MSME team recognized early in the project several aspects of the Cambodian context that were fundamental in how they would do their work. First, a holistic approach of development was necessary, which included strengthening and connecting producers, input suppliers, traders, processors, and other private sector actors in the value chain, and including the government officers at all levels in project activities.

Second, if the right incentives were offered, inclusive value chain development was possible, in which poor households would be strengthened and encouraged to accept the risks of investment in farming as a business. Third, activities to increase the trust between Cambodians and between Cambodians and their government were fundamental to building confidence and relationships necessary for a strong value chain. Fourth, an approach was required to promote gradual, but sustainable growth, would require time to address deep-seated mistrust issues; build and strengthen fragile or non-existent relationships; build the technical skills and confidence of enterprises to take risks, and approach enterprises as a profit-making business.

Fifth, incorporating the understanding that Cambodians will observe copy new ideas (both techniques and technologies) if they are exposed to them. Finally, to facilitate the development of value chains the project had to act as a neutral, honest broker and convener to bring different groups together in activities that would be interesting and encourage camaraderie. This understanding of the Cambodian context went into the development of the MSME approach that was used to implement the project.

COOPERATIVE AND MEMBER-BASED ORGANIZATIONS

The promotion, strengthening, and development of cooperatives and member-based organizations under MSME has been successful as a vehicle to support of value chain development, especially the swine and aquaculture value chains. One of the success factors has been the patience and targeted technical assistance to support the progression from 1) the

formation of an Interest Group (IG) where mutual interests are recognized by participants, but where trust and relationships are still weak; 2) to the formation of a Community Working Group (CWG), which is a pre-cooperative, where the organizational structure and business skills are getting stronger, but need further strengthening; and finally 3) to a Cooperative that is well structured and managed, provides a range of services to its members, has the ability to advocate on behalf of its members, and is recognized by the government.

Trust—both between Cambodians and between Cambodians and their government—is a key variable that impacts on how development activities need to be implemented. Each of the steps in the development of member-based organizations represents significant hurdles in overcoming this lack of trust. MSME's approach has been to assist these organizations as and when they were ready, providing the requisite assistance to strengthen and develop them. The project has avoided encouraging formation before the communities are ready, as determined by the communities.

MSME has supported the development and strengthening of 60 Interest Groups, 40 Community Working Groups (CWGs), and 14 Cooperatives with about 1,000 members. Some interest groups have banded together to form community working groups, and some CWGs have combined to form Cooperatives. This assistance has taken the form of 1) strengthening organizational, management, and technical skills through introduction to existing and effective organizations, as well as some training; 2) providing forums to demonstrate the skills needed to identify, assess, and prioritize legal and regulatory issues business persons are facing; 3) facilitating public-private sector dialogue to present and discuss issues in a constructive manner; 4) facilitating cross-provincial and international exposure missions to engage with organizations that are well-functioning and managed; 5) providing strategic communications training to strengthen confidence when dialoguing and advocating their positions with government officers; 6) coordinating training and technical assistance from government agencies (e.g., Provincial Departments of Agriculture, Fisheries Administration at the local and national levels, and Provincial Departments of Industry Mines and Energy) or other development partners (e.g., ILO, JICA, and PADEK); 7) document best practices in technical manuals and posters); and 8) using the media (e.g., radio talk shows, television panels, and technical training videos which are copied and widely disbursed).

MSME made significant progress in promoting, assisting, and strengthening cooperatives and member-based organizations. Given that developing a strong member-based organization is a long-term process, it is not surprising that some of these organizations that have been assisted are strong in terms of relationships, member commitment, cohesiveness, and organizational and management skill and others still require assistance and strengthening. An example of a strong Cooperative, for example is the Svay Rieng Swine Cooperative, which has strong leadership and member commitment. Still, some member-based organizations have not had the time to mature and develop, and will therefore required additional support to make the progression from Interest Group to Community Working Group to Cooperative. Assistance will also be required to continue to strengthen many of these organizations as they move from initial formation into being strong enough to progress to the next level.

SWINE VALUE CHAIN

In the provinces where MSME worked, significant impact was made during the life of the project, both for producers and for other swine supply chain participants. In general, households assisted by MSME went from producing either none or a small number of pigs when they first began working with the project to, on average 48 pigs by the end of the project. Those firms who worked with MSME 1 from 2005 to 2008 began MSME 2, in late 2008, with an average of 26 head of swine.

Actually, the increases were more substantial than the final survey indicates. The final numbers need to account for several extraneous factors. First, the numbers need to consider the significant losses that producers experienced during the 2011 floods. Estimates as much as 50% was estimated in some provinces, which disrupted the impact that MSME was having. It is expected that in the absence of the floods, even more impressive growth in production would have occurred. Second, MSME worked in four of the provinces for 7 years, to additional provinces for five years, and an additional six provinces for only four years. The MSME Value Chain Approach promotes gradual, sustainable growth; meaning that thousands of enterprises in areas where MSME was present for less time likely would had shown considerably higher impact if they had been with the project for a longer term.

The least economically-developed province in the MSME 1 project was Svay Rieng, where commercial swine production didn't exist in 2005. In 2012, Svay Rieng boasts the second largest swine production and most organized swine sector, next to Kandal. Finally, the numbers do not take into account the significant shift in how pig production was perceived and managed by households. Before MSME, households were keeping pigs primarily for home consumption and as an asset (saving), not as a productive resource to generate a consistent income stream.

Since households had only a couple of pigs to which they fed kitchen scraps (with resulting lower productivity) and experienced high mortality rates of piglets, there was a limited need for input suppliers, such as feed, artificial insemination [AI], breeding services, vaccines, and medicines, or traders, wholesalers, processors, retailers, and extension services. Producers now have on average 48 pigs, a percent change increase from when the project began in 2008 of up to 300 percent change for some classifications of swine, such as boars. With AI and extension advice from veterinarians, artificial insemination, and other input suppliers, the mortality rate has decreased to five percent, a percentage decrease of more than 40 percent.

As households' perception that swine production could be profitable and more households became swine producers, the need and demand for value chain services has steadily grown. In terms of forward and backward market linkages, strong progress was made to have a viable and vibrant swine value chain. There are several reasons for this assessment.

First, there are now strong relationships in the provinces of swine value chain actors. Second, the promising level of specialization within the value chain has resulted in efficient piglet producers with high quality piglets available with reduced mortality and have higher potential growth; increased availability of feed, medicines and vaccines; increased accessibility of artificial insemination and breeding services; and embedded extension advice from most input providers is available. Third, high quality inputs are more accessible to producers as there are current at least 14 companies (Cambodian and foreign) importing feeds, vaccines and medicines,

including BKP, LDI, Cargill, World VET, Central Vet, MediVet, CP Group, Betagrow, Vyfavet, and Dr. Nupek, Heng and others. Finally, evidence of increased investment, such as the state-of-the-art slaughterhouse being built in Kampong Cham province, demonstrates the private sector is confident that the swine value chain has strong economic potential.

AQUACULTURE VALUE CHAIN

In the provinces where MSME worked, significant impact on developing and strengthening the aquaculture was made during the life of the project, both for producers and for other value chain actors; the success is very much a mirror image of what happened in the swine sector.

In general, firms assisted by MSME went from producing 4,294 head of fish when they first began working with the project in 2008, to, on average, 91,140 head of fish at the end of the project; a 2,022 percent increase in production. Traders, who were fewer in number in previous years, increased their sales by 6,999 percent between 2008 and 2012, resulting in a net income increase of 3,127 percent. With these profits, trader investments increased 8,408 percent in anticipation of continued good business.

The increase in fish production also does not take into account several factors. First, the numbers do not take into account the significant losses that producers experienced during the 2011 floods; with some areas, such as in Banteay district of Kampong Cham losing more than $1 million in investments. Second, as with the swine value chain, MSME worked in strengthening the aquaculture supply chain in four of the provinces for 7 years, an additional two provinces for five years, and an additional 6 provinces for only four years, limiting the support to half of the provinces. Finally, the numbers do not take into account the significant shift in how farm-raised fish was perceived and managed by households. Before MSME, many households had a fishpond that was poorly managed and was not thought of as a livelihood activity that could be used to generate a consistent income stream.

Since households had only a single pond and experienced high mortality rates of fingerlings of an average of 50%, there was a limited need for input suppliers selling feed, vaccines, and medicines, or wholesalers, processors, traders, retailers, and extension services providers. Also, farm-raised fish were perceived of as dirty because households often had their toilets or a pigpen over the fish pond. Consumers preferred wild fish over farm-raised fish. Producers now, with higher consumer acceptance and higher productivity, produce on average 91,140 head of fish a percent change increase from when they began of 2,022 percent; and the mortality rate of has decreased to 2 percent, a percentage decrease of 48 percent.

As households' perception that aquaculture production could be profitable and more households became fish producers, the need and demand for value chain services has steadily grown. In terms of forward and backward market linkages, strong progress was made to have a viable and vibrant aquaculture supply chain.

First, there are strong relationships in the provinces of aquaculture value chain actors. Second, the promising level of specialization within the value chain has resulted in strong fingerling producers offering high-quality fingerlings with a reduce mortality and higher potential growth; increased availability of feeds and feeding machines designed for different stages of fish development; embedded extension advice embedded with input providers; several examples of

vertical integration, such as producers or input suppliers going into feed production; and investment in new ponds for fingerling production and outgrowing. An additional positive element was how the aquaculture value chain overcame the perception that farm-raised fish are not clean and increased consumer acceptance.

To assists aquaculture value chain actors to change this perception, the MSME Project included market vendors in project activities and worked specifically to improve the way locally raised fish are presented in the markets. In the markets where MSME facilitated assistance, vendors no longer present fish on the dirty concrete floor, but have instead build above grown booths with ceramic tiles and clean stainless steel containers. The project there truly worked across the entire supply chain so that consumer requirements could be communicated and understood by all actors in the supply chain.

BRICK AND CLAY TILE VALUE CHAIN

The brick and clay tile value chain is different from the swine and aquaculture value chains in that there are fewer and much larger enterprises. MSME worked with around 45 firms during its 7 years. Significant investment is required to install and operate the best technology to make bricks and tiles. MSME's impact on the brick and clay tile value chain has been significant. In the beginning, brick and tile producers were smaller and risk adverse (in making investments), used outdated technology, produced bricks and tiles of low quality, and competed with the Vietnamese low-quality tile makers who had a significant economy of scale advantage. After international and local study tours, and meetings with construction firms in Phnom Penh, brick and tile makers were able to see better production techniques and technologies, and were able to develop their visions and strategies to invest and grow their business. The MSME 1 Project calculated that the 14 brick and tile firms who received assistance between 2006 and 2008 invested more than $5 million in their businesses; and amount equal to the investment by USAID.

There have been significant improvements in the brick and tile business. First, significant investments have been made in new technologies - moving from physical compression to mechanical brick-making to hydraulic manufacturing - and expanding their productive capacity (for example building additional and much more efficient kilns and purchasing high-quality molds). These investments have had gains in the quantity that a producer can make from 30,000 bricks per month to over a million in 20 percent of the time. The quality of the product has greatly improved - machine made bricks have an increased density and quality compared the hand-compressed bricks. Second, significant efforts have been made to increase the quality of the bricks and tiles (for example one producer has hired a Vietnamese expert to help him develop better dyes for his tiles).

SUSTAINABILITY OF ACTIVITIES INITIATED UNDER MSME

OVERALL ACTIVITIES

MSME has done, especially in the last year of the project, several activities that will support the solidification of progress made and lead to the sustainability of these activities.

First, MSME has developed a comprehensive directory of all local business organizations, such as cooperatives, Community Working Groups, Water Service Providers, Honey and Resin Producers, Input Suppliers, Forest Communities and others that MSME assisted. This directory provides a hardcopy representation of contacts in each of the provinces for each value chain. It will be a useful reference of value chain actors within a province and across provinces (as these contacts were made on visits out of the country and within Cambodia). While this directory will be static, it will provide a useful reference of current contacts and relationships. The developer of the directory, Manich, Ltd., a Cambodian firm also developed the Cambodian yellow pages. They are putting the MSME directory online and are planning an annual update. During the publication of the first directory, several of the vendors placed $250 and $500 display advertisements in the directory. Manich designed the layouts and developed client relationships.

Second, MSME produced and widely distributed, a 10-DVD box set that captures the business books, posters, technical manuals, economic and sector profiles, newsletters and value chain reports, radio and technical video productions, television reporting, and roundtable discussions and overseas mission that were completed with USAID funding to the project. Different parts of this box set will have different utility to the various value chain actors and government.

Four thousand copies were distributed to provincial and national level technical government officers, universities, NGOs engaged in economic and agriculture development, and hundreds of others. The contents will be relevant as longs a DVDs is a reference medium. Third, Strategic Communications Trainings were held in 6 provinces. The MSME team provided the skills training and tools to Cambodians to build the confidence to approach government officers with issues they are facing in establishing and growing their enterprises.

Finally, MSME conducted Graduation Ceremonies in all 12 provinces to celebrate the successes that individuals have had through the assistance from the USAID MSME project and to once again reinforce the contacts and relationships that have been established within provinces. All these activities will play a useful and contributing role in achieving sustainability of the private sector and government capabilities implemented under MSME.

COOPERATIVE AND MEMBER-BASED ORGANIZATIONS

Based on discussions with the MSME team and clients, it is clear that development of the cooperatives and member-based organizations that was achieved under MSME will continue. Members in each of the levels of member-based organizations—interest groups, associations, community working groups (pre-cooperatives), and cooperatives—clearly understand the role of their organization and are committed to continue to operate.

What is not clear is whether the progression of member-based organizations—interest groups (IG) to community working groups (CWG) to cooperatives to a national association—will continue on the same trajectory as was achieved under MSME. While the current member-based organizations are strong, it is not clear who will fill the void in the future promotion and nurturing of broader development. As trust issues remain, it is an open question as to whether or not the relationships as currently stand are strong enough to allow a natural progression (IG to CWG to Cooperative to a national association) to transpire organically.

SWINE VALUE CHAIN

Based on discussions with the MSME team and clients it is clear that existing levels of activities within the swine value chain will continue. There are several reasons for this assessment. First, there are strong relationships in the provinces of swine value chain actors. Second, the promising level of specialization within the value chain has resulted in strong piglet producers; increased availability of inputs (feed, medicine and vaccines); increased accessibility of artificial insemination services; embedded extension advice in input providers is available; several examples of vertical integration (e.g., instances of producers or input suppliers going into feed production); and investment in processing (slaughterhouses).

An additional positive element was how the swine value chain rebounded after significant losses during the floods of 2011. Finally, both producers and the other actors in the sector are investing in additional pig sties and technologies to make animal feeds, demonstrating that they feel that the future of the swine value chain in their area will remain a viable and profitable enterprise. There are several threats (see section below) that could derail the industry's growth are real and need to be addressed.

What is not clear is if the swine industry will continue to expand, both within provinces that MSME worked and in the entire country. There are several treats to this growth (see section below). Still, the swine value chain has some of the strongest cooperatives and member-based organizations and relationships in the provinces where MSME has worked imply that the growth initiated under MSME will continue. It is less clear, and maybe less likely, that growth in the swine value chain in provinces not supported by MSME will occur.

AQUACULTURE VALUE CHAIN

Based on discussions with the MSME team and clients it is clear that existing level of activities within the aquaculture value chain will also continue. There are several reasons for this assessment. First, there are strong relationships in the provinces of aquaculture value chain actors. Second, the promising level of specialization within the value chain has resulted in strong fingerling producers; increased availability of feeds designed for different stages of fish development; embedded extension advice in input providers is available.

An additional positive element was how the aquaculture value chain overcame the perception that farm-raised fish are not clean and the fish tainted in some manner. Finally, both producers and the other actors in the value chain are investing in additional ponds and technologies to make fish feed (pellets), demonstrating that they feel that the future of aquaculture in their area will remain a viable and profitable enterprise.

What is not clear is if the aquaculture industry will continue to expand, both within provinces that MSME worked and in the entire country. There are several treats to this growth (see section below). It is less clear, and maybe less likely, that aquaculture growth in provinces not supported by MSME will occur without a catalyst to spark development.

BRICK AND CLAY TILE VALUE CHAIN

Based on discussions with the MSME team and clients it is clear that existing level of activities within the brick and clay tile value chain will continue. There are several reasons for this assessment. The main reason for this assessment is that there are fewer value chain actors and those that are active producers have greatly increased the scale of their operations and quality of bricks and clay tiles through significant investment in new technology or expanded operations. The dramatic increase in the scale of production allows these Cambodian producers to be competitive in terms of price and quality with imported bricks and tiles. There are several threats to this growth (see section below).

THREATS TO SUSTAINABILITY

While MSME has assisted significant progress in developing and strengthening cooperatives and member-based organizations and strengthening the swine, aquaculture, and brick and clay tile, and other supply chains, there are several threats that could derail this progress.

Climate shocks. Climate shocks in Cambodia have had a disruptive impact on some value chains supported by MSME, especially swine and aquaculture. The 2011 floods, for example, had a devastating impact on both of these value chains in a few provinces, inflicting large losses on both suppliers of piglets and fingerlings and out-growers. During the field visits some swine farmers who had experienced heavy losses in 2011, many had taken steps—such as building up the land to have some pigpens on higher ground and selling stock to reduce the number of pigs they keep—to mitigate the risk of having too many pigs as the rainy season approaches. Still, despite the heavy losses during 2011, both the swine and aquaculture value chains have made a strong recovery as a result of the strength of relationships and specialization within the value chains.

Policy decisions. Policy decisions by the government are a significant risk to the sustainability of activities that were implemented under MSME. Policy decisions do not generally have the input from others outside the government officials, including the private sector. Examples of recent policy decisions that might significantly impact the short-term profitability of the swine and aquaculture value chains include release of concessions to fish in the Tonlé Sap Lake (which has increased the availability of wild fish in the market, and since they are preferred over farm-raised fish, the price of farm-raised fish has substantially dropped) and permitting unlimited and below production cost pig imports (which has lowered the market price for locally produced pigs). Under MSME, policy dialogue between the private sector—including producers and other small and medium enterprises that provide inputs or provide wholesaling, trading, processing, or retailing—has been promoted in general, and intensified when specific issues have arisen.

Predatory government behavior. During the implementation of MSME, numerous examples of predatory behavior by the government were observed. For example, a client of MSME after undertaking an international visit to Vietnam returned to Kampong Cham and decided to make a significant investment in a state-of-the-art slaughterhouse. When he requested the authorization from the government, he was told that he had to agree to a contract that required high annual fees and that the slaughterhouse be turned over to the provincial government after only 17 years. There appears to be no laws or legal justification as a basis of this contractual requirement, but the client was required to sign this contract before being able to continue with the construction.

While it is possible that the investor will be able to petition to have the end date of the contract extended, this predatory behavior limits the potential amount of investment in value chains.

Government willingness to support the growth and development of the private sector. The willingness of the government to support the growth and development of the private sector is suspect, as witnessed by the inconsistency in policies, regulations, and enforcement and incessant predatory behavior (see above). For the success achieved under MSME to continue and expanded clear signals are required by the RCG that they understand the importance of the private sector and that they support its development.

Weak or absent supporting institutions. The government and local organizations present in Cambodia that are needed to support the continued development and expansion of cooperatives and member-based organizations and value chains appear either too weak or do not exist to play this function. While relationships in the cooperatives and member-based organizations and value chains are sufficiently strong for the continuation of activities at the present levels of performance, institutions to continue the progress under MSME do not appear either strong enough or present.

Private sector willingness to trust the government. Given the capricious behavior of the government at all levels, the private sector's willing to trust government officials and to willingly take risks to invest and create employment is limited. As demonstrated by the significant investment in the slaughterhouse in Prey Veng, the returns to the investor will be very small given the potential level of risk. Many investors might decide that this risk is too great.

Activities funded or implemented by the government, donors, international organizations, and NGOs. As Cambodia continues the transition from a largely subsistence level agricultural system to one where the incentives to engage in market-based agriculture are present, the focus of international assistance should also to transition from providing humanitarian assistance to promoting inclusive market-based solutions. Poor Cambodians have consistently demonstrated under MSME that when provided with a market-based pathway out of poverty they will seize that opportunity and take risks and expand production and link to markets.

MSME found, for example, when it was starting in Prey Veng province in 2005 that few if any households they met had more than two pigs and a single, small pond. Both the pig production and aquaculture were more oriented for home consumption and was poorly managed (and therefore had very low productivity and high mortality rates). MSME's experience is that working at all levels of the value chain—including input supplier, producer, wholesaler, trader, processor, and retailer, as well as working on the policy issues and cooperative and member-based organization development—allowed poor households to move from a mindset of subsistence level production to farming as a business, and to benefit from Cambodia's market economy. Activities that do not take a market-oriented approach—even to address poverty—belie an understanding of the entrepreneurial spirit and capacity of Cambodians.

NEXT STEPS TO SUPPORT SUSTAINABILITY AND FUTURE GROWTH

COOPERATIVE AND MEMBER-BASED ORGANIZATIONS

The approach used by MSME to promote, strengthen, and develop cooperatives and member-based organizations is a process that takes time and organizational, management, and technical facilitation. This process requires regular engagement until the member-based organization is strong enough to stand on its own. Additionally, agriculture-based cooperatives can be registered and recognized by the government and can therefore receive tax and other government-sanctioned benefits. This is not true for Interest Groups (IG) or Community Working Groups (CWG), and not true for IGs that want to become CWGs or CWGs that want to become cooperatives. MSME demonstrated that these member-based organizations could play a positive role in support inclusive participation and growth in value chains. But this is not to say one can fast-track the process and move quickly to a formal organization. The trust and skills learned operating as an IG and CWG are necessary to obtain before moving into a more formal organization structure. Experience in Cambodia has demonstrated that communities will be quite quick to form associations and cooperatives, but 100% of them will fail if the underlying skills and trust in relationships is not mentored beforehand. Moving forward, here are some suggested next steps to continuing to support and leverage cooperatives and member-based organizations.

Identify who or what organization can assist and strengthen these organizations at the provincial and national level once MSME ends. Given the potential of cooperatives and member-based organizations and the need to nurture their development, MSME should continue to actively dialogue with USAID (and relevant projects funded by USAID), other donors, NGOs, international organizations (e.g., United Nations organizations), Chambers of Commerce, and the government to identify who could support these organizations in the future. A mapping of potential institutions—including their mandate, capacity, and locations of activities—should be conducted by MSME in consultation with the organizations and institutions.

Leveraging these organizations for other activities. As new development projects and programs are designed and implemented in Cambodia, the lessons learned under the MSME project in promoting, strengthening, and developing cooperatives and member-based organizations should be leveraged. These organizations are useful for the delivery of support (especially technical training) and as a means to giving voice for advocacy. MSME has shown that these types of organizations can be used not only to support agricultural activities, but also non-agricultural activities such as biodiversity and potable water issues.

SWINE VALUE CHAIN

As a result of MSME and partner efforts, there are a lot of the key building blocks in place to have a strong and viable swine value chain. Still, there are several aspects of the swine value chain that continue to need assistance, including:

Identify which institution(s) can assist and strengthen this value chain. Given the potential of cooperatives and member-based organizations and the need to nurture their development, MSME should actively dialogue with USAID (and relevant projects funded by USAID), other donors, NGOs, international organizations (e.g., United Nations organizations), Chambers of

Commerce, and the government to see who could support the future development of the swine value chain.

Identify who can continue to facilitate policy advocacy and dialogue between the government and the value chain actors. While progress has been made to have a strong swine value chain, several issues remain, including poor policies and corrupt practices (e.g., allowing cheap pig imports, restricting movement of animals across provincial boundaries). The public-private dialogue that MSME supported to address issues as they arose needs to be continued, and another organization or institution should take on this role until the balance of power or a national forum (e.g., a national swine association that is inclusive) is put in place. USAID could perform a policy threat analysis of current policies that could undermine the growth and development of the swine value chain.

AQUACULTURE VALUE CHAIN

As a result of MSME and partner efforts, there are a lot of the key building blocks in place to have a strong and viable aquaculture value chain. Still, there are several aspects of the aquaculture value chain that continue to need support, including:

Identify which institution(s) can support and strengthen this value chain. Given the potential of swine value chain and the need to nurture its development, USAID and MSME should continue to actively dialogue with USAID (and relevant projects funded by USAID), other donors, NGOs, international organizations (e.g., United Nations organizations), and the government to see who can support the future development of the aquaculture value chain.

Identify who will facilitate policy advocacy and dialogue between the government and the value chain actors. While progress has been made to have a strong aquaculture value chain, several issues remain, including poor policies (e.g., allowing cheap fish imports or the release of concessions to fish in the Tonlé Sap Lake). The public-private dialogue that MSME supported to address issues as they arose needs to be continued. USAID should do a policy threat analysis of current policies that could undermine the growth and development of the aquaculture value chain.

BRICK/TILE VALUE CHAIN

As a result of MSME's efforts, the limited number of firms in the brick and tile value chain are strong. Still, there are several aspects of the brick and tile value chain that continue to need support.

Identify how new ideas can be brought into the value chain activities. One of the key success factors on the brick and tile value chain growth was the access to new technology and vision that was gained during the international and local study tours. These study tours allowed significant leaps in technology that dramatically increased the production, quality, and profitability of brick and tile enterprises. To continue the development of the value chain enterprises, firms will need to continue to innovate and learn. Relationships developed under MSME between Cambodian brick and tile enterprises and those in Vietnam and Thailand will allow some of the necessary access to new technology and techniques. I t is an open question of

whether or not these relationships are strong enough to allow this innovation to happen organically, or whether additional support (and by who) will be necessary.

Identify who will facilitate policy advocacy and dialogue between the government and the value chain actors. While the brick and tile value chain is strong, the arbitrary and predatory policies and practices of the government could potentially derail the growth that has been made in this value chain. It is worth exploring who could continue the public-private dialogue. MSME and USAID could undertake two activities. First, MSME should assess potential organizations and institutions (e.g., Chamber of Commerce) that could continue this public-private dialogue. Second, USAID should do a policy threat analysis of current policies that could undermine the growth and development of the brick and tile value chain.

ANNEX 1. STATEMENT OF WORK

CAMBODIA MSME PROJECT

Statement of Work

Name:	Chuck Chopak
Position:	Sector Advisor - Community and Membership Based Organization in Value Chain Activities
Task Order Name:	Micro Small and Medium Enterprise 2/ Business Enabling Environment
Contract Number:	EEM-I-00-07-00009-00, Order No. 04
Labor Category:	Sector Advisor, Level I
Period of Performance:	July 16-30, 2012
Level of Effort:	14 days (including 2 travel days)

BACKGROUND

The USAID Cambodia MSME Project is being implemented by DAI. The Project improves the performance of firms in nine value chains, supports public-private dialogue and strengthens the public sector through targeted technical assistance.

OBJECTIVE

The overall purpose of the assignment is

1) to assess progress on activity implementation related to sustainability of community working groups, associations, and other community and membership based organizations in the swine, aquaculture, tile, honey, and water value chains;

2) review the MSME Year 4 Workplan in the activities and tasks associated with strengthening community and membership based organizations;

3) advise the team leaders and the broader team members on possible adjustments to activities or additional activities that could lead to a higher propensity for sustainability after the MSME Project ends;

4) develop a short briefing paper with ideas/recommendations on where USAID could consider supporting additional activities to improve changes for sustainability of existing or new community and membership based organizations based on international experience and best practices in value chain development;

5) The briefing paper should include an analysis of how different levels of the RGC could be included in these activities that does not inhibit private sector ownership and include ideas on lessons that can we extract that might help USAID as it looks at potential future sustainable food security, climate change, health and education activities.

TASKS

Specific tasks to be accomplished by consultant include:

- Meet with MSME Management Team and perform some initial field activities to assess results to date and identify areas where time remains to make additional progress and where sustainability questions remain.

- Assess accomplishments to date for community and membership based organizations facilitated by the Project, relative to the Year 4 workplan.

- Advise the MSME team leaders and supporting members on international best practices and ideas that have worked well on other DAI-implemented value chain projects in countries similar to Cambodia in terms of development and governance.

- Advise on additional sustainability-raising activities that the team could undertake.

- Develop a short briefing paper with ideas/recommendations on where USAID could consider supporting leveraging the existing community and membership based organizations in other USAID activities, especially those related to food security, climate change, health, and education.

DELIVERABLES

- Trip report on progress on each of the specific tasks outlined above.
- Short briefing paper on ideas/recommendations related Tasks 1 through 4 above.
- Short briefing paper on ideas/recommendations related Task 5 above.

ANNEX 2. ITINERARY AND PERSONS MET

July 16 Met with MSME staff, including Boreth Sun (Deputy Chief of Party), Kimhor Proum (Team Leader, Public-Private Sector Dialogue), Sophath Oeun (Value Chain Team Leader), Sambon Kong (Senior Advisor), Than Thoeum (Swine Value Chain Coordinator), Sovtiyea Sea (Business Association Development Specialist), Sokunthea Chan (Legal Advisor), and Vibol Theng (Legal Advisor).

July 17 Traveled to field with Kimhor Proum and Sophath Oeun.

Met with Aquaculture Interest Group (Batheay District, Kamping Cham Province)

Met with Mr. Veng Nam, Brick and Tile Owner (Prey Chhor District, Kampong Cham Province)

Met with Mr. Eng Chan Phalla, Brick and Tile Owner (Prey Chhor District, Kampong Cham Province)

Meet with Mr. Kiet Kheng, Fingerling Producer (Teuk Cha, Cheung Prey District, Kampong Cham Province)

Met with Ms Than Vanna Committee members of the Chamkar Leu Agriculture Cooperative (Svay Teap Commune, Chamkar Leu District, Kampong Cham Province)

July 18 Visited the Oraing Ov Market and a fish and pork retailer (Oraing Ov District, Kampong Cham Province)

Met with the Oraing Ov District Governor and the Oraing Ov Market Committee (Oraing Ov District, Kampong Cham Province)

Met with members of Aquaculture Producer Cooperative (Svay Antor District, Prey Veng Province)

Met with Committee members of the Prey Veng Krong Agriculture Cooperative (Prey Veng Province)

July 19 Attended USAID Cambodia MSME's Graduation Ceremony in Prey Veng

Attended the Strategic Communication Training for members of the Svay Rieng Swine Cooperative

July 20 Attended USAID Cambodia MSME's Graduation Ceremony in Svay Rieng

Met with Mr. Va Veasna, Swine producer (Baphnom District, Prey Veng Province)

July 22 Met with MSME staff, including Curtis Hundley (Chief of Party), Kimhor Proum (Team Leader, Public-Private Sector Dialogue), Sophath Oeun (Value Chain Team Leader), Ratana Try (Senior Aquaculture Value Chain Coordinaror), Sovtiyea Sea (Business Association Development Specialist), and Hoeun Oen (Monitoring and Evaluation Coordinator).

July 23 Traveled to the field with Traveled to field with Kimhor Proum and Sophath Oeun.

Met with Mr. Chhay Morn, Auaculture and fingerling producer, (Pursat town, Pursat Province)

July 24 Attended USAID Cambodia MSME's Graduation Ceremony in Battambang

Met with Mr. Chao Samnol, Swine producer (Ou Taki Commune, Thmar Kol District, Battambang Province)

Met with Committee members of the Snoeng Agriculure Development Cooperative (Snoeng Commune, Banan District, Battambang Province)

July 25 Attended USAID Cambodia MSME's Graduation Ceremony in Pursat

Met with Mr. You Heng, Swine producer and AI service provider (Pech Ban village, Leach commune, Phnum Kravanh District, Pursat Province)

Met with Mr. Kong Reatrey, Chief of Animal Health and Production Office, Department of Agriculture (Pursat town, Pursat Province)

July 30 Met with MSME staff, including Curtis Hundley (Chief of Party), Boreth Sun (Deputy Chief of Party), Kimhor Proum (Team Leader, Public-Private Sector Dialogue), Sophath Oeun (Value Chain Team Leader), Thoeum (Swine Value Chain Coordinator), Sovtiyea Sea (Business Association Development Specialist), and and Hoeun Oen (Monitoring and Evaluation Coordinator).