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Development *Alternatives*, Inc.

3RD QUARTERLY REPORT

CAMBODIA MSME PROJECT

Implemented by Development Alternatives, Inc.

USAID Contract No. GEG-I-00-02-00014-00, Order 02

APRIL-JUNE 2006

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

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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.

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ABBREVIATIONS

ADB	Asian Development Bank
AQIP	Agriculture Quality Improvement Project
BDS	Business Development Service
CADF	Cambodia Agribusiness Development Facility
CDC	Council for the Development of Cambodia
CEB	Cambodian Entrepreneur Building
CEDAC	Centre d'Etude et de Developement Agricole Cambodgien
CIDA	Canadian International Development Agency
CIDS	Cambodian Institute for Development Studies
CIPE	Center for International Private Enterprise
CIS	Credit Information System
CIEDC	Cambodia-India Entrepreneurship Development Center
CMA	Cambodia Microfinance Association
CRS	Catholic Relief Service
DAFF	Department of Agriculture, Forestry and Fisheries
DAI	Development Alternatives, Inc.
DIME	Department of Industry, Mines and Energy
DOC	Department of Commerce
EIC	Economic Institute of Cambodia
FI	Financial Institution
GIS	Geographic Information Systems
GPS	Global Positioning System
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation)
HEDC	Human Earth Development Center
IDE	International Development Enterprises
IDLO	International Development Law Organization
IFC	International Finance Corporation
IG	Interest Group
ILO	International Labor Organization
KPP	Khmer Product Promotion

M&E	Monitoring and Evaluation
MFI	Microfinance Institution
MSME	Micro, Small and Medium Enterprise
NAI	Nathan and Associates, Inc.
NBC	National Bank of Cambodia
OGD	Office of General Development, USAID/Cambodia
PACT	PADCO/Pact Cambodia Program
PADEK	Partnership for Development in Kampuchea
PfD	Partners for Development
PSP	Private Sector Promotion
PUAC	Peri-Urban Agricultural Center
SME	Small and Medium-size Enterprise
TAF	The Asia Foundation
TAMIS	Technical and Administrative Management Information System
TPC	Thaneakea Phum (Cambodia)
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VC	Value Chain
VCA	Value Chain Assessment
VLA	Village Livestock Agent (Veterinarian)

FOREWORD

Pursuant to the requirements of the Strengthening Micro, Small and Medium Enterprises (MSMEs) in Cambodia Contract No.GEG-I-00-02-00014-00, Order 02, Development Alternatives, Inc. (DAI) is pleased to submit its third quarterly report, covering April-June 2006. DAI brings 30 years of development experience and an outstanding team of international and Cambodian technical staff to the Cambodia MSME Project, which employs a market-driven, grassroots strategy aimed at alleviating poverty and fostering economic growth in eastern Cambodia.

The project works in selected value chains in some of the country's poorest provinces: Kratie, Kampong Cham, Prey Veng, and Svay Rieng. During the first year, the project is focusing on the aquaculture, pig raising and tile manufacturing value chains; additionally, cashews and agricultural technology are being considered for year two.

This report tracks activities identified in the Cambodia MSME work plan and documents outcomes and achievements arising from those activities. The report also describes significant meetings and events, project publications, problems encountered and problems resolved. A final purpose of this report is to document activities planned for the fourth quarter of the fiscal year.

In the third quarter, DAI's Cambodia MSME Program continued the project rollout activities begun in February and March, facilitating meetings with MSMEs in Prey Veng, Svay Rieng and Kratie provinces to complete one project launch activity in each province. Cambodia MSME field staff also began working with MSMEs in all four provinces to facilitate the formation of interest groups consisting of lead firms in the pig, fish and tile value chains.

Garrett Menning
Chief of Party
Cambodia MSME Project
July 2006

I. INTRODUCTION:

“EXPANDING THE RICE BOWL” FOR CAMBODIAN MSMEs

The Cambodia MSME Project is funded by the U.S. Agency for International Development to foster economic growth in four of Cambodia’s poorest provinces: Kratie, Kampong Cham, Svay Rieng and Prey Veng, located in the southeastern corner of the country. To achieve maximum impact within the three-year project time frame, Cambodia MSME will focus on a limited number of value chains that are judged to have the greatest potential for market growth, revenue generation, job creation and increased opportunities for women and other underserved groups. For the first year, the project has chosen to work in the fisheries, pig raising, and ceramic tile value chains. The project strategy is to identify key constraints and opportunities in these value chains and then facilitate the services, inputs and other forms of support necessary to address them. DAI’s demand-driven strategy emphasizes a grassroots approach to working with MSMEs to find sustainable private sector solutions to entrepreneurs’ problems in each of these value chains.

Currently, entrepreneurs face a range of difficult challenges. Some—such as poor infrastructure and low levels of education—are beyond the scope of the MSME Project to address. The most important problems for MSMEs that the program does address include limited business understanding and technical expertise, weak market relationships, and access to capital. DAI’s strategy is to expand entrepreneurs’ awareness of market opportunities and available services through local and international exposure tours and trade fairs, and to improve commercial provision of technical and business products and services demanded by MSMEs. To promote sustainability, DAI is facilitating mutually-beneficial relationships between private sector participants in the value chain, such as introducing producers to input suppliers and traders or processors with MFIs.

Another important focus for the MSME Project is to improve the business enabling environment. Cambodian MSMEs operate in a commercial system where the rule of law is weak, leading to arbitrary enforcement of regulations and contracts and a widespread atmosphere of insecurity and distrust. In most areas, formal private sector associations are underdeveloped or non-existent. This environment creates a type of “vicious circle” that perpetuates poverty and slows economic growth. This challenging commercial environment has bred widespread attitudes of distrust and “zero sum” thinking, in which entrepreneurs tend to see all others as competitors for a tiny, finite amount of resources.

To improve economic conditions in the four target provinces, the Cambodia MSME Project promotes not only technical and financial solutions to value chain constraints, but also new ways of thinking and acting among local business people that emphasizes cooperative “win-win” interactions among target MSMEs. DAI’s approach is to “expand the rice bowl” (equivalent to the Western idea of “expanding the pie”), which comprises four components, corresponding to IRs in the Mission’s Strategic Objective 3 (Improved Political and Economic Governance). They are:

Component 1: Improved Performance of USAID-Assisted Enterprises in Targeted Value Chains. Upgrading value chain competitiveness by building the knowledge, capacity and skills of MSMEs within the selected value chains.

Component 2: Enhanced Capacity of Value Chain Firms and Service Providers to Support Value Chain Competitiveness. Improving the capacity of providers of both stand-alone and embedded services and linking these providers with MSME customers within target value chains.

Component 3: Improved MSME Access to Finance. Fostering the “bankability” of MSMEs and promoting new and more appropriate financial products for enterprises within target value chains.

Component 4: Improved Business Environment. Building institutional and inter-firm trust, improving the capacity of MSMEs to engage in local policy advocacy and talk to government, fostering the development of provincial business associations, and making the local business environment more conducive for MSME growth.

DAI recognizes that it will not be easy to reach the targets in any of these components within the relatively short program timeframe. Success will require carefully chosen interventions at key leverage points in the selected value chains and early “demonstration effects” achieved by working with leading firms and entrepreneurs.

II. THIRD QUARTER ACTIVITIES

A. Interest Group Development as an Intervention Strategy

To insure the effectiveness and sustainability of program activities, it is important that clients trust project staff—and each other—and that project interventions are in line with MSME capacities and demands. Given the limited time and resources available, it is not practical in many cases for project staff to work extensively with individual firms. On the other hand, there are very few, if any, viable formal organizations of business people in the provinces of Kratie, Svay Rieng, Kampong Cham and Prey Veng. Therefore, project activities during the Third Quarter of 2006 have concentrated on helping the most entrepreneurial and open firms to form Interest Groups (IGs) in hopes of building stronger MSME networks and strengthening trust between field staff and entrepreneurs. Equally importantly, IGs are designed to provide a platform for MSME advocacy and dialog with government as well as a practical vehicle for project interventions and technical assistance.

In the interest group model, informal organizations of about 10 to 25 leading firms (entrepreneurs) form for a one-year term. The groups can either be firms across the value chain (inputs, producers, traders, processors, transporters, one step from the market consumers) or consist of firms in one function of the value chain (all traders). A value chain field activities coordinator is assigned responsibility for each interest group. That coordinator has the responsibility to understand the needs of each interest group and then provide or arrange provision of technical assistance, business assessments, organize and record meetings, and measure and report results. Whether or not the IG continues when the project intervention is over depends on the interest of the MSME members. The primary object of DAI is to link value chain actors in new ways to facilitate mutually beneficial commercial relationships that will sustain themselves after the project is completed.

Cambodia MSME Project field staff facilitate interest group formation following a two-step process. In the first step, a DAI Value Chain Coordinator, supported by other DAI field staff, identifies leading firms in a particular area and proposes to them, individually or collectively, the idea of forming an interest group (roles and activities detailed below).

The second step involves an informal agreement between the coordinator and the MSMEs in the interest group. The agreement, developed over the course of the first meetings, identifies what is expected from the entrepreneurs and DAI. Fundamentally, the agreement implies that firms will commit to investing in their value chain activities, contribute to IG meetings, provide feedback to the DAI coordinators, and be willing to share non-competitive information. As trust is gained within the IG, firms will be encouraged to share their practical lessons learned and discuss their investments with others at regular group meetings.

Interest Group members will commit to:

- Taking part in regularly scheduled meetings.
- Sharing information about investments, lessons learned, and practical experiences.
- Inviting DAI to perform business analysis on substantial investments and then sharing non-confidential information with other members of the interest group. Firms have the ultimate decision whether or not to share information they may consider confidential.

- Setting business strategies and goals related to the firm's investments, such as locating new markets, learning new skills, meeting more traders, and so on.

DAI will commit to:

- Facilitating regularly scheduled meetings.
- Understanding the issues faced by the entrepreneurs and obtaining agreement within the group as to priorities for addressing them.
- Facilitating meetings and discussion with industry experts or other actors in the value chains (such as Medivet, CP Group, Lucky Market, Ministry of Commerce, Singapore Chamber of Commerce representatives, and so on)
- Providing firm level technical visits, upon request of the enterprise, to discuss topics identified by the firm as important. These visits will be used to introduce the firms to private sector providers of technical services.
- Assisting the firm to measurement results and demonstrate progress to achieving their strategies and goals.

Technical staff from all four project components are involved in the IG development process. While Value Chain Coordinators seek to assist IG members to improve production, marketing and processing of their goods, Component 3 and 4 staff help assist IGs to access finance and improve business advocacy activities, respectively.

Ultimately, the development of each IG must be organic, depending on the nature of the links between its members and the goals and ambitions of the constituent enterprises. The direction that IG activities will take, whether or not the agreement continues after the first year, and the growth and possible formalization of the IG through time will ultimately depend on the enthusiasm of its members and the practical and perceived value of the IG activities. While the growth of long-term, sustainable business organizations evolving out of IG activities after the MSME Project is over would certainly be a positive development, this is neither a requirement nor an expectation of DAI.

During the Third Quarter, DAI field staff actively facilitated the formation of IGs among MSMEs in all four target provinces and in each of the three value chains chosen for Year 1. Thus far, 13 IGs have been formed, with a total membership of 173 MSMEs. Forty-eight (28%) of the member entrepreneurs are women. Table 2.1 shows the number of interest groups in each value chain and province:

TABLE 2.1: INTEREST GROUPS FORMED

FISHERIES VALUE CHAIN

No.	Province	District	Commune	ID	No. of Members
1	Kratie	Kratie	Krakor	KRT IG-1	29
2			Ko Loat	KRT IG-2	7
3	Kampong Cham	Batheay	Tang Krang	KC IG-1	20
4	Prey Veng	Prey Veng	Chea Klang	PV IG-2	17
Total					73

SWINE-RAISING VALUE CHAIN

No.	Province	District	Commune	ID	No. of
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					Members
5	Kratie	Kratie	Oroeusay	KRT IG-3	15
6	Kampong Cham	Kampong Siem	Ampil	KC IG-2	12
7	Prey Veng	Kampong Leav	Takor	PV IG-1a	4
8				PV IG-1b	7
9	Svay Rieng	Svay Chhrom	Kantout Prorng	SR IG-1	19
10		Svay Teap	Sam Buo	SR IG-2	19
Total					76

TILE MANUFACTURING VALUE CHAIN

No.	Province	District	Commune	ID	No. of Members
11	Kratie	Kratie	Thmor Kre	KRT IG-4	7
12	Kampong Cham	Cheung Prey	Sromor	KC IG-3	9
13	Prey Veng	Kanh Chhreach	Chong Ampil	PV IG-3	8
Total					24

The Project launch meetings and initial IG meetings have allowed MSME technical staff to understand the problems faced by the MSMEs, to identify and refine how best to remedy constraints identified and prioritized, and to explore the nature of these constraints. The main constraints identified include the following:

TABLE 2.2. KEY VALUE CHAIN CONSTRAINTS

	PRODUCTION	PROCESSING	MARKETING
FISHERIES	<ul style="list-style-type: none"> Insufficient investment and lack of information about chemicals, fish feed, improved fish varieties and sources of capital to boost quality and quantity. 	<ul style="list-style-type: none"> Insufficient knowledge, investment and technology for fish processing, packaging, storage and transport. 	<ul style="list-style-type: none"> Producers lack integration with and knowledge of markets outside local areas.
SWINE	<ul style="list-style-type: none"> Insufficient investment in and knowledge of appropriate technologies, vaccines, medicines and feed limits capacity. 	<ul style="list-style-type: none"> Insufficient technological know-how and investment limits pork processing capacity. 	<ul style="list-style-type: none"> Fragmented supply chains and uncompetitive business practices limit market access. Limited market information reduces pork industry investment, productivity and profits.
TILE	<ul style="list-style-type: none"> Producers under invest in technology for molding, grinding, and firing clay, reducing competitiveness with Thai and Vietnamese tile. 		<ul style="list-style-type: none"> Manufacturers and retail agents lack information about demand, including quality and price requirements. Marketing and product differentiation is minimal, resulting in price-based competition.

Although most of the IGs formed so far have consisted of producers, project staff are actively seeking to broaden IG membership to include other value chain actors. Discussions with input suppliers, traders and veterinary livestock agents (VLAs) are currently underway and

project staff are gauging their interest in forming specific IGs or joining existing IGs. DAI has already negotiated training agreements with Medivet and Thom Thom, two leading veterinary and animal feed supply firms. According to this agreement, these input providers agree to provide trainings at no cost to MSMEs as a way of promoting their products, improving their rural market penetration and boosting sales among MSMEs. DAI's role is only to facilitate and coordinate the meetings between the suppliers and the IGs and, when required, to provide a meeting space. Medivet and Thom Thom will begin training interest group participants in each of the target provinces in July. Input suppliers already provide these types of trainings; DAI is simply helping them to expand these activities by reducing the risks and costs of developing new business.

B. Component 1 Activities: Improving Performance of Project-Assisted Enterprises in Selected Value Chains

The most important overall activity for the Cambodia MSME Project in the Third Quarter was to introduce DAI and the project philosophies to the MSMEs and other organizations with which the project technical team would work in the coming months. The first step in this process was to hold a launch meeting in each of the target provinces to introduce the project to MSMEs, government officials, NGOs and business organizations, and to encourage them to share information and work together. Following on the launch meeting held in Kampong Cham in March, project staff organized third quarter meetings in the remaining target provinces of Prey Veng, Kratie and Svay Rieng. These meetings included entrepreneurs and input/service providers in all three value chains as well as representatives of MFIs, including the leading firms, AMRET, ACLEDA, PRASAC and TPC, local officials representing the Ministries of Agriculture, Energy, and Commerce. To insure that all key project components were addressed at the meetings, TAF and CIDS also participated when possible.

TABLE 2.3: 3RD QUARTER PROJECT LAUNCH MEETINGS

Location	Date	Total Participants		
		Men	Women	All
Prey Veng	April 27	29	5	34
Kratie	May 18	25	2	27
Svay Rieng	May 31	34	9	43

Meetings and discussions related to Component 1:

- Discussed ways of promoting commercial input delivery to pig and fish raisers with Village Livestock Agents (VLAs) across the four target provinces.
- Explored ways to facilitate service provision to the fish VC with Farmer Livelihood Development (a fisheries training organization).
- Discussed the potential of cooperating on development activities involving fish producers with Partners for Development, a Kratie fisheries development project, and including its clients into MSME activities.
- Presented and discussed the project with 11 NGOs in Prey Veng and Kampong Cham provinces, including:
 1. Catholic Relief Services
 2. CEDAC
 3. Operation Hope Foundation in PV (aid to farmers).
 4. Cambodian Entrepreneurs Organization in KC.
 5. Legal Aid for Children and Women in PV.
 6. Charity for Children in KC (anti-trafficking and pig-fattening activities).
- Discussed how to incorporate project activities with program managers of the European Union, GTZ, and CIDA. The EU will begin a \$15 million SME promotion program in early 2007, GTZ is in its second year of a nine-year SME Promotion program, and CIDA will begin implementing an Agriculture Market Information

Program in July 2006. The project is inviting program managers from each of these programs to accompany staff during upcoming field activity visits.

Other significant activities in Component 1 included the following:

- DAI developed and submitted \$300,000 PRIME funding proposal and implementation plan for AMAP consideration related to MSME- Value Chain development support for trafficked persons in the four provinces.
- The COP worked with DAI's VNCI and STAR Programs to plan for a 4th Quarter exposure trip for Cambodian tile manufacturers to Vietnam. The MSME Project has firm commitments from more than 10 tile manufacturing firms that they will commit to sharing costs of the trip. The MSME team is uncertain of the manufacturing firms' interest in upgrading production capacity, molds and kilns, but will gauge their interest to invest after returning from the exposure mission.

TABLE 2.4: MATRIX OF ACTIVITIES FOR COMPONENT 1

INTERMEDIATE RESULTS	PERFORMANCE INDICATORS	ANNUAL PERFORMANCE TARGET	ACTIVITIES	Apr	May	Jun
Improved performance of USAID-assisted enterprises in targeted value chains	1. Volume and value of sales of program-assisted enterprises	50% increase in volume of sales	1.2. Upgrade value chain competitiveness by building the knowledge, capacity and skills of firms within those value chains			
		50% increase in value of sales	1.2.1. Identify and establish relationships with NGOs, donors, authorities and business and producer networks operating in the fish, swine and tile VCs.	Ongoing		
	2. Volume and value of sales of program-assisted rural-based MSMEs	25% increase in volume of sales	1.2.2. Grow relationships with women entrepreneurs in the fish, swine and tile VCs willing to invest resources in market development activities.	Ongoing		
		25% increase in value of sales	1.2.3. Identify leading firms in fish, swine and tile VCs to engage with to promote initial interventions.	Ongoing		
	3. Volume and value of sales of program-assisted value chains	100% increase in volume of sales	1.2.4. Facilitate horizontal links among tile producers to meet larger orders.	X	X	
		100% increase in value of sales	1.2.5. Explore feasibility of pairing expert(s) from Vietnam or Thailand with local experts in the tile industry to develop technological capacity in compression molds and kilns.	X	X	
	4. Number of enterprises which have increased sales of program-assisted commodities/ products	500 Enterprises	1.2.6. Coordinate with Component 4 to pilot attempt to circumvent or remove slaughterhouse monopolies in the swine VC.	Ongoing		
			1.2.7. Coordinate with Component 4 to organize pilot regional exposure trips and attendance and participation in regional trade fairs to improve market understanding, create awareness of opportunities, and encourage long term relationships in the fish,	Ongoing		
			1.2.8. Identify and train trusted traders and/or extension agents selected by producer groups in marketing to strengthen market channels and access within the fish and swine value chains.	Ongoing		
			1.2.9. Roll out most promising pilot activities in the fish, swine and tile VCs to other target districts.			Ongoing

C. Component 2 Activities: Enhancing Value Chain Competitiveness

A major focus through April, May and June was to continue work begun by Component 2 staff in the Second Quarter to develop interventions to improve services to address constraints in the fish, pig and tile value chains identified during the in-depth VCA. Technical staff used launch meetings and IG for to determine how the project can improve MSME access to and awareness of needed services.

Significant activities in Component 2 included the following:

- Technical staff initiated meetings with input providers and sought to arrange for them to provide TA to project IGs. Input providers contacted included:
 1. DAI initiated a linkage with Cargill feeds in Vietnam and Thailand. The project discussed Cargill's interest in providing embedded services and training to MSMEs in the pig and fish value chains and explored ways to promote market linkages Cargill Vietnam and Thailand.
 2. DAI initiated a linkage with Medivet, Cambodia's premier swine input and medicines dealer. MSME was invited to present the MSME Project to Medivet customers receiving technical training from the company. The meeting facilitated introduction of the project to more swine raisers in the Kampong Cham area and improved staff understanding of their problems. MSME signed an MOU with Cargill.
 3. The Value Chain Coordinators initiated a linkages with Thom Thom Pharmaceuticals to discuss training partnerships with swine producers. Thom Thom, like Medivet, provides technical advice as an embedded service of its pharmaceutical business and is keen to work with DAI to provide technical information to the MSMEs in all four target provinces. MSME signed an MOU with Thom Thom.
 4. DAI initiated a linkages with the CP Group, a large agri-business firm supplying animal feeds and nutritional supplies to provide technical training to project IGs.
- Discussions with input suppliers indicate an interest in participating in cross-provincial exposure trips, which will help to build relationship across the value chain and provide examples of best agricultural and manufacturing practice.
- MSME staff initiated a discussion with the leading veterinary agent in Kampong Cham who is also involved in the development of biogas digesters with SNV, the Dutch NGO, operates a large agricultural input supply firm near the local market, and trains village livestock agents. He is interested in working with the Project to provide volunteer VLAs. This would allow the VLAs to earn practical experience, and provide the Project with technical assistance for swine and fish producers.
- Staff presented a proposal to local training organizations to develop and deliver courses in business development for all of the VCs. MSME would not subsidize training given by these organizations, but would support curriculum development and initial marketing efforts, especially within the MSME Project value chains.

Significant issues and problems identified:

- After considerable research, the value chain coordinators determined that one of the most critical product quality improvements for ceramic tiles is the introduction of earth grinders and sifters, both of which require expensive energy investments to operate. Currently, clay mixed by hand (feet) and no sifting takes place. This leaves Cambodian tiles with pits, grooves, and an uneven surface, which results in mold growth in a relatively short time.
- Another critical tile-related issue concerns the analysis of clay used in production. There is an apparent lack of analysis in Cambodia. Floor and roof tiles need a 50 percent higher clay content than ceramic bricks, yet no tile makers contacted conduct any analysis other than by sight. Identical clay is used for all bricks and tiles. The project will examine these issues with the producers before and during the Vietnam exposure mission.
- Identifying locally-priced technical or business training has been difficult; most providers are priced at \$70 to \$100 per day per person, which is out of range for the majority of MSMEs to afford. These training providers are donor-dependent and unsustainable without continuous donor support. Discussions with donors indicate dissatisfaction with these high-priced providers, and their courses are not well received by entrepreneurs. Local private education institutions, of which there are several good universities, provide longer term courses in business development for about \$1 to \$2 per one-hour course. The courses at these institutions are designed for 20-year old students, not entrepreneurs. These institutions are located in the project-assisted provinces and have expressed a willingness to redesign their courses to meet the needs of entrepreneurs.

TABLE 2.5.: MATRIX OF ACTIVITIES FOR COMPONENT 2

INTERMEDIATE RESULTS	PERFORMANCE INDICATORS	ANNUAL PERFORMANCE TARGET	ACTIVITIES	Apr	May	June
Enhanced capacity of value-chain firms and/or stand-alone providers to support competitive value chains	1. Number of MSMEs obtaining commercially provided business services, technical assistance services, and/or after-sales services resulting from program activities	500	2.1. Identify Necessary Services, Current Providers, and Service Gaps			
			2.1.1. Identify and establish relationships with local NGOs, donors, authorities, existing businesses, producer networks and associations providing services to MSMEs in the fish, swine and tile VCs.	Ongoing		
			2.1.2. Engage in roundtable discussions and conduct focus groups with MSMEs in fish, swine and tile VCs to explore most feasible options for improving value chain services based on constraints and opportunities identified in VCA and early implementation activities	Ongoing		
			2.1.4. Identify clay input providers and compression mold/extruder design service providers in tile VC who DAI may support to improve technology for tile VC	X		
			2.1.5. Identify commercially viable input suppliers in the swine and fish value chains who can provide needed feed, medicines, vaccines and cold storage technology.	X		
	2. Number of MSMEs producing new, higher-value products, and/or using improved production practices, inputs, or	500	2.2. Upgrade the Skills of Service Providers and Link Buyers and Suppliers to Address VC Constraints and Opportunities			
			2.2.1. Upgrade the capacity of commercially viable input suppliers in the swine and fish value chains to improve producer access to feed, medicines, vaccines and cold storage technology.	Ongoing		
	3. Number and value of new investments by MSMEs in products/ product development, marketing efforts, skills upgrading, improved irrigation and/or other equipment, inputs, and/ or transport	75% Increase	2.2.2. Conduct awareness building among MSMEs in fisheries, swine and tile VCs to inform them about available business services that can help them upgrade, produce higher-value products and use better inputs/technologies	Ongoing		
			2.2.3. Facilitate trainings to service providers in the fish, swine and tile VCs where necessary to upgrade their skills and help them to market their services	Ongoing		
			2.2.4. Coordinate with Components 1, 3, and 4 to ensure availability of appropriate services for fish, swine and tile MSMEs.	Ongoing		

D. Component 3 Activities: Improving MSME Access to Finance

Throughout the third quarter, Component 3 staff worked actively with other technical staff in project launch meetings. When the Access to Finance Manager left the project in May, the AF Specialist worked with Component 1 and 2 staff in IG meetings with MSMEs in the target provinces. At these IG meetings, a number of MSMEs requested further information about financial services in their areas, and the AF Specialist is currently preparing a financial information packet for distribution. The AF Specialist also made presentations at these meetings about the financial recording template. DAI is currently searching for a replacement for the Access to Finance Manager, who left the project in May.

Significant activities and events:

- ACLEDA Bank, Village Bank, TPC and AMRET all participated at project launch meetings.
- The MSME Project is currently considering whether promoting the Credit Information System (CIS) is a viable strategy in the target provinces. The CIS has been designed by ADB in collaboration with Cambodian FIs to facilitate the sharing of negative credit information on borrowers in order to reduce FIs' risk in making loans.
 - The COP attended a presentation on credit information systems around the world while in Bethesda in May.
 - DAI disseminated the ADB Credit Information System proposal to the Chairman of CMA for further dissemination to microfinance institutions. This assisted MFIs in understanding how the system works.
- Project staff brought together MSMEs, NGOs and FIs at IG meetings to explore ways to improve financial services to MSMEs.
- The Access to Finance team engaged the financial institutions to obtain feedback on the DAI-proposed simplified recordkeeping template distributed during the Kampong Cham Project Launch. The template is designed to help MSMEs improve their internal bookkeeping and make it easier for them to secure formal loans.
 - ACLEDA, AMRET, Credit, PRASAC, and CEB strongly supported the proposed format
 - TPC (Thaneakea Phum), a prominent MFI, suggested some changes to the template.
 - Canadia bank proposed to have a more sophisticated template to reflect larger entrepreneurs.
- The Access to Finance team met with credit service managers in Kampong Cham and Prey Vent to obtain information on credit services available and this information was distributed to MSMEs at the launch meetings.
- Among the FIs that the AF Team worked with, ACLEDA was particularly responsive, taking part in project launch meetings in all four target provinces. Partly as a result of these project activities
 - ACLEDA's Kampong Cham branch further reduced their interest rate from May on certain product and introduced flexible mode of repayments.

- ACLEDA requested the list of participants and sent their marketing agents to contact MSMEs directly to grasp lending opportunities.
- ACLEDA informed Branch Managers to consider increased lending to the three subsectors being supported by the MSME Project.

Significant conferences and meetings:

- Component 3 staff met with ACLEDA Bank staff in Kratie to talk about improving financial services ACLEDA provides there, including extending repayment period and decreasing collateral requirements.
- Component 3 staff met with Thaneakea Phum's (TPC) staff in Svay Rieng to discuss loan products for MSMEs in Svay Rieng, including ways to increase capital for lending.
- Component 3 staff met with branch manger for ACLEDA Bank in Svay Rieng to talk about the MSME Project and discuss ways to expand ACLEDA's service areas in the province.
- Component 3 staff met with branch manger for PRASAC in Svay Rieng to invite him to participate in workshop and inquire about PRASAC's operations in project target areas.
- The Access to Finance Specialist attended the Annual Meeting of the Cambodian Community Financial Institution Network (CCFiN) in Phnom Penh on June 27-28 and made a brief presentation on the Access to Finance Component of the MSME Project. CCFiN is an organization of 34 NGOs, including members from all four target provinces of Cambodia MSME

Significant issues and problems identified:

- DCA loan guarantees to MFIs are considered unlikely during LOP. Canadia Bank currently receives a loan guarantee but considers on-lending to MFIs too risky. Based on information from USAID, it also seems unlikely that the loan guarantee funds to Canadia could be deobligated or that a second loan guarantee would be extended to another FI.
- Qualified applicants for the position of Access to Finance Manager have proven difficult to find. DAI re-advertised online for the position of Access to Finance Manager due to the limited number of qualified respondents to earlier ads placed in *Cambodia Daily* and *Rasmey Kampuchea* newspapers. Announcements placed in Bongthom.com and Devzone.com elicited a number of promising candidates, who will be interviewed in July.

TABLE 2.6.: MATRIX OF ACTIVITIES FOR COMPONENT 3

INTERMEDIATE RESULTS	PERFORMANCE INDICATORS	ANNUAL PERFORMANCE TARGET	ACTIVITIES	Apr	May	June	
Ongoing improved MSME access to finance	1. Number of MSMEs able to obtain new loans	100% increase	3.1. Increase “bankability” of MSMEs in selected value chains				
			3.1.1. Coordinate with Components 1, 2 and 4 to identify and establish relationships with local NGOs, donors, provincial Chambers of Commerce, authorities, existing	Ongoing			
			3.1.3. Coordinate with Components 2 and 4 to identify potential trainers and facilitate basic trainings to MSMEs in the fish, swine and tile VCs to meet the demand of FIs on bookkeeping and financial management	Ongoing			
				3.1.4. Coordinate with Component 4 to link producer and self help groups in the fish, swine and tile VCs with MFIs for group credit			
	2. Number of financial instruments available to different sizes and types of enterprises in selected value chains	100% increase	3.2. Strengthen FIs to better serve the needs of MSMEs in selected value chains				
			3.2.1. Introduce Credit Information System to MFIs in the 7 target districts	Ongoing			
			3.3. Promote financial services for MSMEs in selected value chains				
			3.3.2. Develop and refine profiles of client cash flow and financing needs in each segment of the fish, swine and tile VCs (producers, traders, processors, wholesalers, retailers)	Ongoing			
			3.3.3. Approach financial institutions (FIs) to assess the capacity and feasibility of expanding financial products to MSMEs	X			
			3.3.4. Develop potential business models for new financial instruments for FIs that are suitable for MSMEs in the fish, swine and tile VCs	Ongoing			
	3. Volume of use of financial instruments described above	100% Increase	3.4. Facilitate intra value chain financing for MSMEs				
			3.4.1. Coordinate with Components 1, 2, and 4 to promote appropriate financial services, including trade credit, input credit and/or producer credit in the fish, swine and tile VCs.	Ongoing			
3.4.2. Strengthen the credit negotiating skills and power of MSMEs via roundtables, focus groups and networking with relevant stakeholders			Ongoing				
3.4.3. Improve information exchange between FIs and MSMEs into financial relationships			Ongoing				
			3.4.4. Assess feasibility of DCA loan guarantees to local FIs			X	

E. Component 4 Activities: Improving the Business Environment

Until DAI signed its subcontract with The Asia Foundation in May, technical staff from Components 1-3 had been working to promote interfirm linkages and identify enabling environment constraints, and analyzing ways to help MSMEs overcome problems in the business environment. TAF is currently in the process of hiring field staff, and is expected to be leading Component 4 activities during the fourth quarter.

Significant Activities and Events:

- Interm firm linkages promoted through launch meetings and IG meetings.
- DAI staff worked with MSMEs in launch events and IG meetings to discuss enabling environment constraints and solutions, including those in the finance sector.
- DAI staff met with TAF to begin planning public private dialogs among MSMEs and local authorities in all four target provinces.
- DAI staff met with lead firms in all 3 VCs to examine ways they might work to organize MSME advocacy efforts with local officials, particularly concerning issues of market access and market inhibitors. Specific constraints identified in Kratie included:
 - Official pressure on fingerling buyers to buy from one firm with a set price, rather than importing fingerlings from Prey Veng province.
 - Official pressure on fish raisers to sell their catches to a single monopoly buyer.
 - Informal payments to police to transport fish to market.
- Discussed plans to visit Vietnam with staff from Component 4 for a scoping mission for future MSME exposure trips.
- Hiring of remaining TAF staff began.

TABLE 2.7.: MATRIX OF ACTIVITIES FOR COMPONENT 4

INTERMEDIATE RESULTS	PERFORMANCE INDICATORS	ANNUAL PERFORMANCE TARGET	ACTIVITIES	Apr	May	June
Improved business environment	1. Advocacy skills of relevant self-sufficient associations and member-based organizations strengthened	30% improvement	4.1. Build the capacity of provincial MSMEs to engage in policy advocacy at local levels			
			4.1.1. Coordinate with Components 1-3 to identify current business associations, networks, and member-based organizations in the fish, swine and tile VCs and assess their advocacy interests, skills, and activities	X		
			4.1.2. Conduct focus group discussions among participants in the fish, swine and tile VCs to identify value chain constraints and explain how policy advocacy can assist resolving them (In concert with activities identified in Components 1 and 2)	X		
			4.1.3. Conduct inter-firm networking forums to build local skills for policy advocacy that resolve market development constraints		X	
	2. Number of project-assisted associations/ member-based organizations that lobby for improved industry-level policies, laws and/or regulations	30% increase	4.1.4. Follow through with tangible policy advocacy activities			X
			4.2. Facilitate MSMEs to work through local business networks			
			4.2.1. Carry out targeted to identify specific enabling environment constraints in fish, swine and tile VCs.		Ongoing	
			4.2.2. Assist MSME member-based organizations in the fish, swine and tile VCs to define advocacy needs.		Ongoing	
			4.2.3. Coordinate with Component 3 to facilitate MSME networking in the fish, swine and tile VCs to obtain new sources of finance.		Ongoing	
			4.3. Develop constructive dialogue between MSMEs and authorities for an improved business environment			
	3. Number of project-assisted associations/ member-based organizations (formal and informal) that participate in local and national policy	6% increase	4.3.1. Provide facilitation services for MSME member-based organizations to resolve advocacy issues with local authorities by demonstrating win-win solutions with meaningful results.		X	
			4.3.2. Conduct local, provincial, or cross-provincial dialogues that demonstrate win-win solutions to reducing or removing market constrains and distortions in the fish, swine and tile VCs, such as cross-border smuggling			X
	4. Increased no. of microenterprises graduating to SME status	25% increase	4.3.3. Coordinate with Component 1 to lobby authorities to remove or mitigate regulatory and market barriers and distortions in the fish, swine and tile VCs, such as pig slaughterhouse monopolies.		Ongoing	
			4.4 Improve the business environment to foster private sector growth in the selected provinces			
4.4.1. Demonstrate the value of constraint resolution through organization-based approaches by identifying firms who increased sales profits and employment as a				Ongoing		
		4.4.2. Coordinate with Component 1 to organize pilot regional exposure trips and attendance and participation in regional trade fairs to widen and deepen MSME		Ongoing		

F. Other Notable Events and Activities

MONITORING AND EVALUATION

- Finalized the Monitoring and Evaluation contract with CIDS in April.
- CIDS carried out baseline M & E activities in the four target provinces in May.
- CIDS completed data entry and began analysis on data gathered in the baseline survey in the four target provinces in June.

MISCELLANEOUS PUBLICATIONS/ REPORTS/DOCUMENTS

- GIS Needs Assessment and Trip Report.
- Draft Proposal for MSME Interest Groups
- Draft Proposal on Cross-Province and Foreign Exposure Visits for MSMEs
- Finalized the Value Chain Assessment Report and currently distributing.
- Strengthening MSMEs in Cambodia Project Baseline Research Design (June).

IT INSTALLATION AND TRAINING

- Completed setup of IT equipment. Linked project office server in Phnom Penh to the home office server in Bethesda.
- Installation and staff training on TAMIS (DAI's project management software), Lotus Notes and other key project software.

FURNISHING AND STAFFING OF PROVINCIAL PROJECT FACILITIES

- All provincial offices and guesthouses were fully furnished and being actively used during the Third Quarter.
- Provincial office manager for Prey Veng disappeared, taking with him a project laptop and \$500 in petty cash (see attached report). The Prey Veng office assistant was promoted to the position of office manager.

OTHER SIGNIFICANT EVENTS AND ACTIVITIES

- COP attended DAI Staff Conference on "The Changing Landscape of Development" (May 15-19).
- Robert Dressen, DAI Vice President of Economics, Banking and Finance, visited the MSME Project and met with USAID, CIDS and TAF.

III. NEXT STEPS

The Cambodia MSME Project has reached the stage where a significant number of MSME clients have committed to working with the Project, and it is now imperative that technical staff follow through with technical assistance that MSMEs find valuable. Given the program's approach, which emphasizes facilitation rather than direct subsidy, continually broadening the base of program clients will only be possible if Cambodia MSME can facilitate interventions that deliver rapid results and satisfy MSME demands. Therefore, DAI's strategy during the Fourth Quarter is to continue IG formation in all four provinces and all three value chains while insuring that IG members begin receiving appropriate TA. Planned TA includes embedded training and advisory services from private sector participants in the target value chains and cross-provincial and international exposure tours. This section lays out the major technical activities anticipated in the program over the next quarter, along with a brief summary of planned supporting administrative activities.

A. Planned Activities for Components 1 and 2

Increasing the number of clients:

- Formation of new IGs in each target VC.
- Expanding the size of existing IGs.

Expanding TA to clients:

- Beginning in July, Medivet will provide free 4-hour technical trainings in Prey Veng, Kratie, Svay Rieng, and Kampong Cham.
- Thom Thom will provide training sessions in Svay Rieng and continue every three weeks in each of the other provinces.
- Continue work with provincial training/educational institutes, including business schools in Kampong Cham and Prey Veng, to design curricula useful and affordable for MSMEs in target VCs.
- Seek business collaborations with additional input suppliers, traders, feed firms, equipment suppliers and others who can provide embedded technical assistance to our value chain clients.
- Expand the numbers of IGs in all four provinces and all three VCs.
- Exposure tour to Vietnam for roof tile producers in Kampong Cham and Kratie.
- Exposure tour to Thailand for Cambodian fish producers.
- Exposure tour to Vietnam for Cambodian pig producers.
- Cross-provincial exposure trips for fish, pig, and tile IGs, depending on demand.

Trade fair planning:

- Planning for "Buy Khmer Products" trade fair in Kampong Cham during the Water Festival with GTZ, KPP and the Kampong Cham SME Association.
- Identification of private sector promoters DAI may collaborate with to promote other trade fairs at the provincial, district and commune level.

- Planning for possible future exposure trips to Thailand and elsewhere.

Staffing:

- Hiring of fisheries specialist in July.

B. Planned Activities for Component 3

Increasing the number of clients:

- Formation of new IGs devoted to accessing finance.

Expand supply of finance to target MSMEs

- Continue work with FIs (especially ACLEDA) at HQ and branch level to develop and tailor products that fit MSME needs in each VC, such as loans with longer repayment periods and more flexible collateral requirements.
- Explore community finance options such as group lending with local/village-level organizations.

Expanding finance-related TA to clients:

- Information packet on financial products and services available from FIs in each target province developed and disseminated to MSMEs.
- Continue facilitating meetings between FIs and IGs.

Staff development:

- Hiring of new Senior Access to Finance Specialist by September.
- AF Specialist has applied to attend 2-week IDLO course in Australia on “Microfinance: Building Inclusive Financial Sectors & Supportive Legal and Regulatory Frameworks (as a Tool to Achieve Poverty Reduction) in the Asia-Pacific Region” in September (tuition and per diem to be paid by IDLO upon acceptance).

C. Planned Activities for Component 4

Organizing TA for Project MSMEs:

- COP will travel with TAF Project Officer on scoping mission to Vietnam in July to plan for future exposure tours to help MSMEs understand how Vietnamese business membership organizations (BMOs) function and how they work with government to improve the enabling environment for business.
- TAF will begin planning for public-private dialogs for VC participants in target provinces.
- TAF will work with DAI and the Kampong Cham SME Association to explore ways that the two may work together (especially in organizing the planned Kampong Cham trade fair later in the year).

Staffing:

- TAF will work with Cambodia MSME COP to hire three field staff.