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# ANNUAL REPORT

## CAMBODIA MSME PROJECT

Implemented by Development Alternatives, Inc.

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

FY 2007

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

BEE	business enabling environment
CFI	Community Finance Institution
CIDS	Cambodian Institute for Development Study
COSECAM	Coalition to Address Sexual Exploitation of Children in Cambodia
CWG	Community Working Group
DAI	Development Alternatives, Inc.
EDVP	Economic Development Support to Vulnerable and Trafficked Persons
FAO	Food and Agriculture Association of the United Nations
FI	Financial Institution
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation)
IFC	International Finance Corporation
IRL	Indochina Research Limited
IG	Interest Group
KPP	Khmer Product Promotion
MAFF	Ministry of Agriculture, Forestry, and Fisheries
M&E	Monitoring and Evaluation
MFI	Microfinance Institution
MSME	Micro, Small and Medium Enterprise
NBC	National Bank of Cambodia
SCR	Success Case Replication
TAF	The Asia Foundation
TIP	Trafficking in Persons
TradeSWAp	Trade Sector Wide Approach
USAID	United States Agency for International Development
UNDP	United Nations Development Program
VC	Value Chain
VLA	Village Livestock Agent (Veterinarian)

## FORWARD

The second year of the Cambodia MSME Project was exciting and filled with satisfaction and learning. The economic improvements being achieved by the roughly 1,200 enterprises that the MSME project considers clients were phenomenal and the project is well on its way to exceeding nearly all of its performance measurement indicators. USAID's independent evaluation clearly stated its overwhelming satisfaction with the project deliverables.

It is refreshing to observe how quickly leading firms place into practice what they learn. The value of the collection of interventions being promoted by the MSME project is evident, and as a system, they have proven able to achieve significant results. It is worthwhile to review parts of this system of interventions in this forward, as it sets the stage and assists the annual report reader to understand how integrated the activities have become and how critical the starting point is to the success of the project.

The project begins by selecting the leading firms across the supply chain and then linking them as well as possible to the market. The market is defined as the "end" market for a product. For swine and fish, it is the consumer or retailer. For the tile producer, the market is usually construction firms or home owners – those persons with the ability to define product needs. The end market defines product requirements. When the project began, most MSMEs had only vague notions of what their product requirements were. That lack of information, combined with low technical capacity meant that meeting market requirements, improving product quality, increasing revenues and volumes of products sold was especially difficult or impossible.

The project's value chain team are highly trained business development professionals with a keen sense of judgment about which entrepreneurs have invested in the past, will accept technical or business development advice now, and are willing to build relationships with other firms in the supply chain. To reduce poverty and increase incomes, one needs all of these and more. The first project intervention consists of selecting the districts in which to work and then entering a village or commune and asking the village or commune chief to direct the team to leading enterprises in the project-selected value chains. The team then meet the owner of each enterprise and assesses their ability to expand and improve their business. If there appears to be a critical mass of leading enterprises in a village or commune, the project organizes an informal interest group meeting, usually at a village building such as a school or pagoda.

The team engages the participants at this meeting, usually about 20 to 30 persons, and asks them about their technical or business problems. At this point, the trust level between the project team and the entrepreneurs is paper thin, so the problems mentioned usually center around the fact that almost all enterprises lose 50% or more of the piglets before they are marketable and 50% of their fingerlings. Therefore, all issues are technical in nature and no one mentions the more complex business environment issues such as high transport fees, regular demands for payments from government inspectors, the need for better labeling on products. It takes a full two years to establish trust.

The team informs the participants that the project provides no free products, such as piglets or fish fingerlings, no direct technical assistance from its team members, and no per diems. The team informs the participants that the project operates on a cost-share

basis and any technical support offered by the project must be matched either financially or through “sweat equity” by the participants. For instance, when the project facilitates an international technology or governance exposure mission to Thailand or Vietnam, participants are expected to pay for one-half of the cost of the passport and will receive no “pocket money”, although the project does pay for accommodations and meals.

What the team does offer is access to information and business relationships; the potential for improved incomes and expanded trade opportunities. But the project makes it clear that the impetus is on the entrepreneur to identify their needs and communicate those needs to the MSME team. The team then asks the participants if they would find benefit in meeting some leading input supply firms and receive some free technical training, compliments of the supply firm. The input supply firms provide the training as an embedded service, which is recovered when trainees purchase their products.

A technical training is then planned in the not-too-distant future. In the beginning of the project, the team would invite 40 persons to a training and 45 would show up. By the time the project was approaching the two year mark, the team would invite 50 leading enterprises and 150 persons would show up. This was just proof of the demonstration effect and acknowledgement that neighbors of the leading firms were emulating what they were observing in their villages and communes. The input supply firms consistently observe their sales climb considerably shortly after a training occurs, so they are always interested in these opportunities. Some of these leading input supply firms are now copying the project models, going to villages that are not in the project-selected provinces, identifying the leading enterprises, and then providing free training. In this way, project activities have become sustainable. One of the important benefits to the project from this training is that the team can more easily and efficiently assess potential new clients.

After the first training, the team re-visits the enterprises. At this point, the team observes which enterprises accept and implement new ideas quickly, and which ones do not. The team identifies the best of the leading firms from this “trainee” contingent and invites them to a cross-provincial technology and process exposure mission. The cross-provincial mission brings about 25 persons from various villages, and sometimes various districts and provinces, together to observe far-more advanced firms in nearby provinces, usually near Phnom Penh, but also in Kampot or as far away as Battambang.

For the cross-provincial missions, the project invites new traders who are better linked to more lucrative markets and can share market information and product requirements, and financial firms, such as MFIs or banks, who can learn about the industry and also identify firms who are good risks for financial lending. The project provides invitations to a variety of leading value chain actors and sets the atmosphere for business magic to occur. Generally, that magic consists of improved relationships across the value chain, more opportunities to sell products, and better access to information and credit.

During the mission, the project team shows *Business Edge* and other market-oriented videos and engages everyone in discussions about how to improve their businesses. This is as close as the project team comes to providing direct technical advice. These missions are exceptionally effective at building relationships across supply chains – input suppliers ↔veterinarians ↔producers ↔traders ↔wholesalers ↔processors ↔retailers ↔consumers.

After the cross-provincial missions, the project team again visits participants and identifies the best of the leading firms. Usually the project team witnesses many entrepreneurs quickly investing their newfound knowledge and finances in their businesses. From this contingent, the team chooses the best of the best and invites them on an international technology or governance mission to a regional country, such as Thailand or Vietnam. These participants will observe new technologies and processes at a much more advanced stage of development. Most importantly, these missions are where entrepreneurs begin to build lasting business relations across the supply chain and across provinces. The team always invites leading firms from different provinces for these tours. One of the more dramatic achievements of these missions is the willingness of the entrepreneurs to purchase technical assistance from the foreign firms, who later come to Cambodia to provide services and improve businesses.

These three events – interest group forming, provincial exposure missions, and international exposure missions – have become a foundation for growth since the beginning of the project. In addition, the project has promoted business forums, business and advocacy trainings, association meetings, and developed provincial swine working groups consisting of firms across the supply chain who can engage with the government for improvements to the business environment. Of course there are many other interventions in our project’s bag of tricks with which the team engages the leading firms, but these three set the stage for high enterprise investment and economic growth.

The lessons learned are shared throughout this report. The Project team is proud of its accomplishments. The project follows a carefully designed and thoughtful, culturally and socially acceptable model of development and resists quick-hit opportunities that can have short-run rather than long-run sustainable results.

One of the most difficult problems the project team has faced during the past two years is overcoming the negative effects of well-intentioned donor-funded project interventions that actually inhibit and oftentimes diminish private sector development. In Svay Rieng province, for example, the province currently faces a collapsed fish value chain with no private sector value chain actors. Why? Because a livelihood development project used incentives such as giving away free piglets, fingerlings, technical assistance, per diem payments and a host of other ineffective incentives to develop the fish sector.

The NGO in Svay Rieng that managed the donor funds most probably met project goals by checking off the boxes for “number of enterprises raising pigs or number of families with fish ponds.” But in following their model, that of taking all private sector market positions – seller, buyer, technical skills provider – their longer term result is almost nil. Most pigs have been sold or eaten and the fish ponds, without fish buyers or technical support, are dry. When the project ended, there were no long term business relationships by which market information, technical or business assistance could be provided. Nearly every single enterprise associated with that project has now forfeited all their investments in the fish value chain – or more appropriately, they have forfeited the investments of the well-intentioned donor agencies.

The Cambodia MSME Project is especially careful to engage value chains in a sustainable manner and the team prides itself on carefully crafting every intervention with this objective in mind. We hope you enjoy reading this FY 2007 Annual Report.

## I. INTRODUCTION: EMPOWERING CAMBODIANS TO EXPAND THEIR BUSINESSES AND ADVOCATE FOR CHANGE

The U.S. Agency for International Development is supporting the Cambodia MSME Project to bolster economic growth in some of Cambodia's poorest provinces. The target provinces—Kratie, Kampong Cham, Svay Rieng and Prey Veng—lie along the border with Vietnam in the southeastern corner of the country. They are predominantly rural. Agriculture and related activities lie at the core of provincial economic life. To achieve maximum impact within the three-year project time frame, Cambodia MSME has chosen to concentrate efforts on four value chains offering the highest potential for economic growth, revenue generation, job creation and increased opportunities for women and other underserved groups across the four provinces.

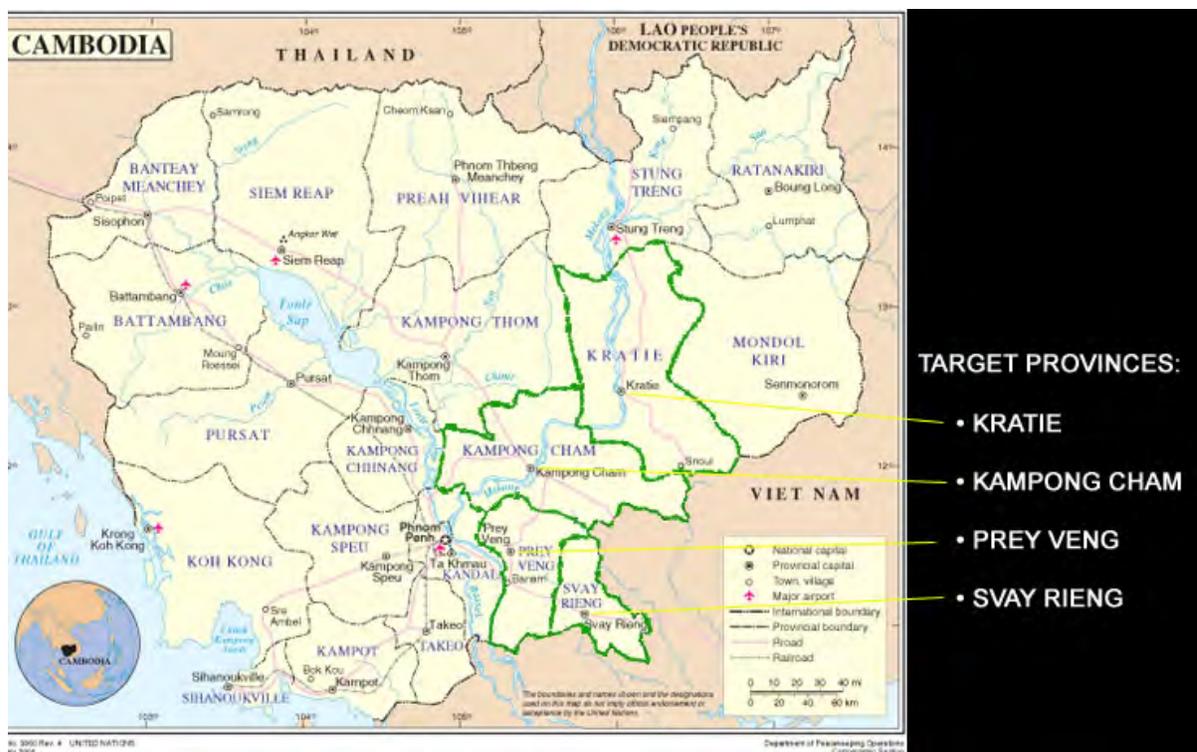


Figure 1 - Map of Cambodia MSME Target Provinces

The Cambodia MSME project employs a grassroots approach to identify sustainable private sector solutions to entrepreneurs' problems in each of the selected value chains. In year 1, the project engaged MSMEs in three primary value chains: swine, aquaculture, and clay roof tiles. At the beginning of Year 2, the project began working with leading firms in the agriculture equipment manufacturing value chain. At the end of Year 2, the project determined that it was not beneficial and cost-effective to continue to support the agriculture equipment manufacturing value chain; therefore, in Year 3, the project will return to working in only three value chains.

During Year 1, the project concentrated on improving inter-firm business relationships and providing technical training and knowledge across the value chain. These increased firm productivity and product quality and led to investments in new technologies and processes. Access to credit during Year 1 was mostly promoted through MFIs and banks without considerable success. Finally, the project began to assist firms to identify constraints in their business environment. This task was slowed because many of the leading firms were not highly market linked. That would change in Year 2.

In Year 2, increased productivity and improved market linkages encouraged the project to concentrate on facilitating more market development, higher-value capital investments, access to credit through the value chains, and facilitating community working groups and associations to address business environment issues through private-public dialogue.

An array of daunting challenges face rural MSMEs. Some—such as poor infrastructure and low levels of education—are beyond the scope of the project to address. Cambodia MSME concentrates on solutions where the project can make a significant impact. These include MSMEs’ expanding business understanding and technical expertise, strengthening market relationships, improving access to credit, and improving advocacy to transform the business environment.

To improve economic conditions in, the project promotes not only technical and financial solutions to these constraints, but also new ways of thinking and acting among local business people that emphasizes cooperative “win-win” interactions among target MSMEs.

## **Choosing Clients Across the Value Chains**

MSME project clients are carefully chosen from among the hundreds of firms within a geographic territory. The MSME field teams begin by introducing the project to local provincial, district, commune and village officers who help identify the currently most capable firms in the territory.

The teams then visit the identified enterprises and determine 1) interest in the participating in the MSME project, 2) current level of activity and interest in further investing in the business, 3) willingness to meet and share with others. Once selected, clients are asked about others within the vicinity who they consider leading firms. After at least 10 firms are selected in a relatively small geographic area, the team suggest a brief meeting where all firms can better understand the project’s principles. This represents the formation of interest groups, wherein firms can share best practices, share concerns for constraints inhibiting development, and other important issues.

Figure 2 presents a simple value chain and the three points of importance to the project. Before any work begins, the firms must understand the product or service requirements that are to be met by the firms. The project selects leading firms across the supply chains in which it works. One of the key objectives is to increase the level of information exchange across the value chains and between individual participants. This includes market information related to price, delivery options, product quality, and product quantity.

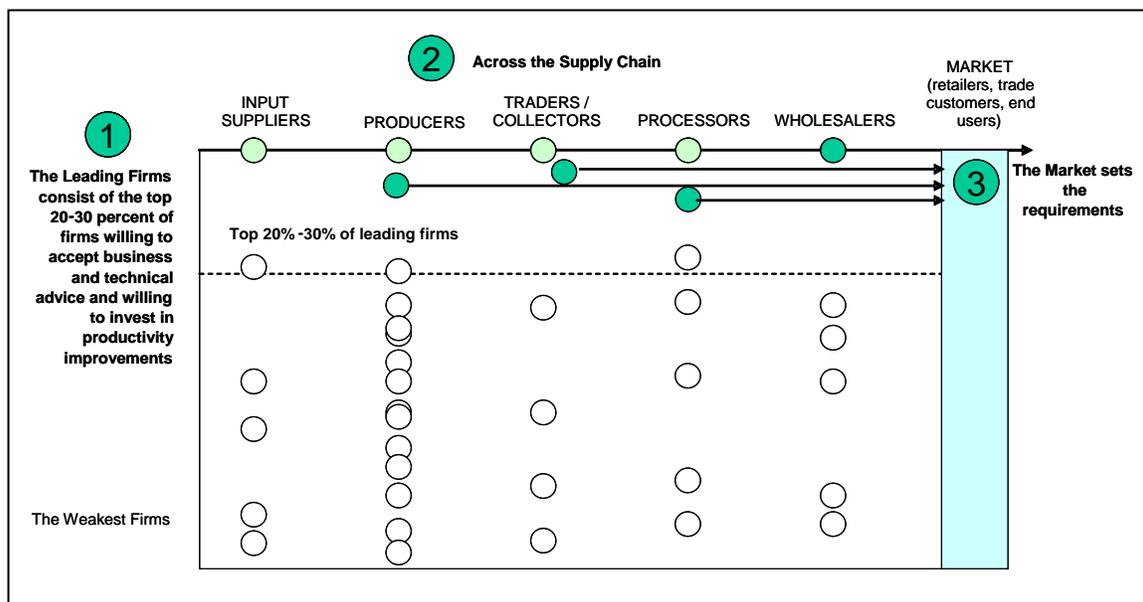


Figure 2 – The Project Selects Clients Across the Supply Chain

To achieve optimum impact, the project works only with the leading 30% of Cambodian firms. Experience working with Cambodian small business people has taught project's technical staff that these firms are the most entrepreneurial and therefore the most likely to benefit from business advice, introduction to new technology and advocacy for an improved business environment. As the project progresses into Year 3 and demonstration effects of successful interventions are observed, experience demonstrates that more firms in the remaining 70% will begin to engage new practices as observed of the leading enterprises.

## Interventions

To assist Cambodian entrepreneurs, the project designed a range of interventions, including the following actions to strengthen target value chains and upgrade participating MSMEs:

- To support sustainability, the project is promoting mutually beneficial relationships among private sector participants in each value chain. This begins by facilitating the organization of leading MSMEs in relatively small geographic areas, such as one or two villages, into small, informal Interest Groups (IGs). This allows the project to work with and collect information about the level of production, linkages with markets, existing relations between the private and public sectors, and the constraints facing the MSMEs. By understanding the constraints, the project is better able to design effective activities to improve productivity and market development.
- To meet the demands for improved productivity, the project has had great success in facilitating MSME trainings by private sector input and technical

- service providers in the use of products such as medicines and animal feed, which have boosted supplier sales and outreach while improving livestock mortality, quality and market price for MSMEs.
- The Cambodia MSME project seeks to expand entrepreneurs' awareness of market opportunities and available services through local, provincial, and international exposure tours and trade fairs and improve commercial provision of technical and business products and services demanded by MSMEs.
  - Acquiring financing is always a challenge for growing firms. The project has improved access to credit primarily by improving credit available through value chain actors. More importantly, by improving productivity and market linkages, the MSME project has reduced the risk profile of the value chain actors, which makes them more attractive and borrowers. During Year 2, Cambodia MSME determined that the main source of credit for MSMEs was among actors in the value chain, such as input suppliers, as opposed to financial organizations like microfinance institutions. Through activities that continue to create linkages within and across value chain, the project improved these embedded credit relationships, increasing these loan transactions and access to investment and working capital. The Project also continued to work to assist MFIs and banks to build capacity and better understand and serve the needs of MSMEs, while simultaneously building the demand side by helping MSMEs to become more knowledgeable and creditworthy customers.
  - The project has learned considerable about the constraints in the business enabling environment. The most important lesson is that MSMEs will only advocate for changes to the regulatory environment when they have an economic benefit for doing so. During Year 1, the issues raised were primarily soft issues about electricity prices and fuel costs. After the firms were better linked with the market and has higher commercial excess of products, the firms raised more relevant issues such as trader licensing fees and lack of transparency in the issuing of slaughterhouse concessions.

Project activities during FY 2007 are encapsulated in five components, corresponding to Intermediate Results (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 VC competitiveness by building the knowledge, capacity and skills of MSMEs within the selected VCs.

*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 VCs.

*Component 3:* Improved MSME Access to Finance. Fostering the "bankability" of MSMEs and promoting new and more appropriate financial products for enterprises within target VCs.

*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.

*Component 5: Economic Development Support for Vulnerable and Trafficked Persons (EDVP).* These activities were intended to assist Trafficking in Persons-affected populations by integrating them into project-assisted value chains, though this approach was revised over the course of Year Two.

Although achieving lasting impacts in the challenging environment of provincial Cambodia is a gradual process, the Cambodia MSME Project has carefully chosen interventions at key leverage points in the selected value chains. The “demonstration effects” already achieved in the project’s work with leading firms and entrepreneurs during Year 1 have lent momentum to program activities in Year 2, as Cambodia MSME broadened and deepened its interventions and replicated successes achieved.

## **Challenges Encountered**

**Unresponsive MSMEs.** At the end of Year 2, the project decided discontinue support to the agriculture equipment manufacturing value chain due to a continued lack of interest by the 20 leading MSMEs to engage in activities essential to improving their industry. Without this willingness to engage in accept business advice, information about improved technologies, services, marketing methods, and, most importantly, without the willingness to invest in their enterprises, it was unproductive for the project to continue funding technical support.

Our work on the agriculture equipment manufacturing value chain began in October 2006, at the beginning of Year 2. There were an estimated 52 firms in the four project-assisted provinces. During initial discussions with the firms, only about 20 MSMEs met the project-designed criteria to be recognized as leading firms in the value chain. During one year of engaging with these 20 MSMEs, the project promoted introductions to new technologies and processes, relationship building by introducing the firms to each other, and engaged in discussions about improved credit services, marketing, and technical improvement. In reviewing the results of these efforts, the project concluded that the cost to benefit ratio of further engagement was insufficient for the following reasons:

- The MSMEs indicated they were unwilling to invest any of their own financial resources in new equipment, leaving the project to assume all risks.
- None of the MSMEs were interested in developing a fully-functional interest group or other more permanent working group or association.
- Few of the firms were interested in participating in technical assessment missions to learn about new technologies and production processes, even when the trips were almost fully subsidized.
- Finally, and most importantly, a agriculture machinery productivity improvement expert determined that advancing the fledging industry would require considerably more time and resources that went beyond the scope and timeline of the project.

Altogether, Cambodia MSME concluded that greater benefit would be realized by concentrating project resources on the other three value chains.

**Redefined Success Indicators for Component 3.** During Year 1, the Project had measured its performance in Component 3 by how many firms obtained loans from registered MFIs and banks. However, in FY 2007, project-commissioned research conducted by Brett Matthews, Access to Credit Specialist, determined that the overwhelming source of MSME credit was among actors in the value chain, such as input suppliers, as opposed to MFIs. Most of the firms seeking investment funds obtained them from unofficial sources, such as through family, friends and local moneylenders. These realizations lead to defining more appropriate success indicators for Component 3 that were better aligned with market realities and better measure project impacts.

**Shift in Strategy for Component 5.** The activities outlined in Component 5 of the Year 2 work plan were redesigned because of a change in strategy on how the Economic Development for Vulnerable Persons (EDVP) program component would be implemented. The original strategy aimed to find employment within the four Cambodia MSME assisted value chains. Research by Jan Orsini concluded that this was not a viable option and that the program should instead focus on identifying vulnerable beneficiaries for Success Case Replication training, then provide them with small amounts of seed money to set up their micro-businesses. This change in strategy led to delays in implementation, but resulted in the subcontractor quickly exceeding the expected number of firms assisted.

**Termination of the Monitoring and Evaluation Subcontract.** The MSME Project has performed two monitoring and evaluation exercises. The first exercise, conducted by subcontractor Center for International Development Studies (CIDS) in late 2006, identified baseline data. Because of several factors, including poor firm to firm communications about the scope of the project and unclear direction by CIDS of their project team, only about two percent of the enterprises selected by CIDS for baseline data later became clients of the project. This and other issues compromised the research data and, as a result, the contract between the project and CIDS was terminated in early 2007. Indochina Research Limited subsequently contracted to conduct a monitoring and evaluation survey and impact assessment.

**Termination of the Policy Advocacy Subcontract.** The Asia Foundation (TAF) was selected to manage Component 4. TAF's work met expectations and their approach was reasonable and manageable. At the beginning of Year 2, TAF determined that performing the assigned tasks would require a resubmission of the budget and work plan. Once submitted, the project determined this would not be acceptable. The contract was subsequently terminated amicably by mutual agreement.

**Chief of Party Staffing Change.** The Chief of Party, Garrett Menning, was replaced by Mr. Curtis Hundley in April 2007. Between April and June 2007, Curtis operated without the benefit of a deputy to manage the administrative affairs of the project and was therefore over-extended in technical program design and implementation, which lead to delays in fulfilling some of USAID reporting requirements, such as monthly reports.

**Other Staffing Changes.** A shortage of competent human resources to facilitate project activities resulted in slower than expected delivery of assistance to MSMEs. The Project has overcome this by hiring and training mature staff, and the Project became fully staffed in Year Two. In addition, the Project's Finance Manager suddenly resigned in August 2007. Fortunately, the Project was able to recruit and train a replacement candidate rapidly and thereby minimized disruption of Project activity implementation.

## **Lessons Learned**

- Relationship building is critically important to the development of sustainable business development services and technical assistance between actors in the value chain.
- A key element in promoting sustainable rural private sector development is for donor-funded projects to avoid providing subsidies to value chain participants. Examples of bad practices include, providing direct technical assistance, providing inputs free of charge, and buying final or intermediate products directly from producers. Generally, many donors enter into the actual business transactions reserved for ongoing business. This intervention tends to distort business information and business decision making.
- Introducing producers to multiple traders and new markets helps them understand market needs for quality and quantity of product and ensure they get the best price for their commodities. In the past, many producers had only one trader option; having multiple options provides for better pricing and service delivery. The MSME project tries to improve competition at each transaction point in the value chain.
- It is essential to develop relationships with provincial level government officials and encourage them to work with the private sector to improve the business climate at the provincial level.
- It is important to work with a range of firms and actors in each value chain to achieve maximum impact.

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

### **Interest Groups and the Evolution into Community Working Groups**

In Year 2, Cambodia MSME continued its efforts to facilitate Interest Group (IG) formation among leading firms in the selected VCs, with a special focus on reaching out to more participants in the aquaculture VC in the target provinces. The Project has drawn upon these IGs to facilitate the major activities of Components 1 and 2—namely, the VC Technical Assessment Missions and the Embedded Input Provider Trainings. These active IGs have subsequently evolved into more formalized Community Working Groups, which have organized to improve the business environment through policy advocacy activities.

In the Interest Group model, informal organizations of about 10 to 25 leading firms (entrepreneurs) form for an indefinite term. The groups can consist of firms across the VC (e.g., inputs, producers, traders, processors, transporters, retailers) or firms fulfilling one function in the VC (e.g., all traders or all producers). A Cambodia MSME Value Chain Coordinator is assigned responsibility for each IG. That Coordinator's duty is to understand the needs of each IG 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 commitment of the associated MSME members. Some interest groups have already organized more sophisticated input supplier trainings on their own. The primary object of Cambodia MSME is to link VC actors in new ways to facilitate mutually beneficial commercial relationships that will sustain themselves after the project is finished.

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

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

Interest Group meetings promote trust-building, knowledge-sharing and networking among entrepreneurs while providing a vehicle for other project technical assistance.

IG members commit to:

- Taking part in regularly scheduled meetings;

- Sharing information about investments, lessons learned, and practical experiences;
- Inviting Cambodia MSME to perform business analysis on substantial investments and then sharing non-confidential information with other members of the IG. Firms have the ultimate decision whether or not to share information they may consider confidential; and
- 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.

Cambodia MSME commits 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 VCs (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; and
- Assisting the firm to measure 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 VC 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.

Given the fruits borne by their participation in project activities under Components 1 and 2, a number of IG members have formalized and transformed their groups into Community Working Groups. As firms have improved productivity and become more competitive, they have begun to face business environment issues such as increasing requests for official and unofficial fees, unfair competition with foreign firms, business registration and taxation issues, and the need to obtain credit.

As a result, the more formalized Community Working Groups have been organized to improve the business environment by enabling dialogue with the local and national governments. These CWGs have served as the critical driving force behind the policy advocacy activities under Component 3.

In FY 2007, the project expanded its service territory in search for more leading firms, defined as those willing and able to accept business development services, invest in their enterprises, and engage in project activities to achieve increased incomes and sales volumes. Through cross-provincial and international technical assessment missions conducted by the project team, project-assisted MSMEs demonstrated their willingness to invest in technological and quality improvements, resulting in appreciable gains in

performance and competitiveness. The project team facilitated trade and promotional events to open new market channels for project-assisted MSMEs. In Year 2, the Project developed and administered business development trainings to MSMEs to help them understand how to assess investments, determine profitability, market their products and services and meet business growth goals.

## **Organizing Technical Assessment Missions**

The MSME project encourages more business transactions and higher quality contractual relationships between VC participants that improve income and overall value received by enterprises. This relationship building requires improving the confidence and knowledge of entrepreneurs and promoting relationships among VC participants. Experience demonstrates that existing relationships between VC participants are weak.

Few mechanisms exist to define and improve business relationships in a meaningful way. For example, producers have few options for marketing their products; information about opportunities to sell their products more competitively isn't readily available or is relatively expensive to obtain. Input suppliers rarely take a market development approach that includes business outreach to increase their numbers of customers and better understand and meet buyer requirements. Promoting relationships between value chain participants appears simple, but in post-conflict Cambodia, value chains are often fragmented and entrepreneurs are apprehensive about making initial contacts with others. Experience also shows that once this initial apprehension is overcome, business and personal relationships grow quickly and business transactions multiply shortly thereafter.

Inexpensive technical assessment missions have proven to be an effective way for the project to foster closer business relationships, introduce value chain participants to each other, demonstrate technical and process improvement, and promote improved incomes. Benefits to MSMEs from technical assessment missions to other provinces or to foreign countries include:

- Observing improved production technologies and practices;
- Recognizing various forms of operating and discussing how different forms might apply to them;
- Contacting input suppliers for goods and services;
- Identifying their own and others' competitive weaknesses;
- Determining how to improve their products, sales, and marketing;
- Developing lasting business relationships and contacts with similar entrepreneurs, in either their own IGs, other provinces, and other countries; and
- Sharing what they have observed with each other during and after the mission.

Technical assessment missions are conducted in relatively small groups of 10 to 25 leading firms either within a specific industry (e.g., pig or fish producers) or across value chains or industries (e.g., suppliers, producers, traders, processors, and so on), depending on the interest groups participating. Participants are members of an existing interest group and have demonstrated their ability to accept technical and business advisory

services and improve their enterprise performance. Project staff meet with MSMEs before the trip to discuss what they want to observe and what they expect to learn, accompany the MSMEs to all meetings and highlight important information, debrief them at the end, and follow up afterwards to determine how the technical assessment may have affected participants' business operations.

**Cost-Sharing with Participants.** A key project requirement is that MSMEs share costs to ensure that entrepreneurs are committed to the activity. This encourages self-selection to ensure only those willing to invest financially from the start are included. In addition to sharing the cost of passports, some costs are in the form of "sweat equity," wherein the entrepreneur commits time and resources to mission planning and implementation, as well as to sharing lessons learned once they return. The project does not have a rigid formula for cost-sharing, but adheres to the principle that it must be fair to all participants.

## Summary of Activities

Technical assessment missions are of two basic types:

**Cross-Provincial Technical Assessment Missions** create strong business-to-business relationships between value chain actors within and outside the interest groups. Participants are drawn from different provincial districts and are usually members of different interest groups. This mix encourages new relationships and has resulted in improved provision of technical services and market information. These missions have been relatively inexpensive to fund, consisting mostly of local transportation, inexpensive local meals, and double-room lodging.

In Year 1, Cambodia MSME conducted its first cross-provincial technical assessment mission in September 2006 for members of the swine value chain from Svay Rieng to visit some of the most advanced enterprises in Prey Veng and Kandal provinces. Encouraged by the success of this pilot trip, Cambodia MSME conducted cross-provincial technical assessment missions throughout Year 2 for members of the swine, fish, and agriculture equipment value chains.

The trips promoted cross-provincial relationships between all levels of value chain participants to encourage idea sharing and business deals, deepening business relationships between leading value chain participants and hosting firms. Participating value chain actors included producers, veterinarians, input suppliers, traders, and financial institutions. By touring more advanced MSMEs, trip participants were exposed to higher quality inputs, practices, and technologies to improve yields and MSME performance. Highlights of these cross-provincial trips in Year Two included new input supplier relationships that enabled access to higher quality medicines and feed and improved understanding of market requirements provided by large-scale traders in Phnom Penh.

To cite a representative example, Cambodia MSME facilitated a cross-provincial technical assessment mission for 28 MSMEs in October 2007, including twelve women, from Kampong Cham province to Kandal and Takeo. This visit resulted in expanding the network of enterprises in the swine value chain between the three provinces. Participants

reported learning about improved pig raising techniques including how to shorten the pig-raising cycle through better pig breed selection, proper administration of feed and medicine, better sanitation of pig sties and artificial insemination technologies.

**International Technical Assessment Missions** are much more complex and require significant planning on the part of the participants and project team, especially for initial trips to particular countries.

In Year 2, Cambodia MSME conducted its first international technical assessment mission for 12 tile manufacturers from three provinces. After several months of cooperating with interest groups, the Cambodia MSME determined that the best way to encourage Cambodian tile businesses to envision the future and develop relationships with technical experts and firms in the region who may be seeking joint ventures would be to expose them to tile manufacturers in Vietnam. The mission visited a variety of enterprises and established relationships with similar-sized and larger firms and suppliers in Vietnam. Discussions included purchasing technical assistance in kiln design and alternative fuels from Vietnamese technicians.

Following the success of the first international technical assessment mission, the project conducted international technical assessment missions for participants in the swine and fish value chains to Vietnam and Thailand throughout Year 2. Highlights of these trips included:

- Enhanced technical knowledge of swine and aquaculture management to meet market requirements for high quality products.
- Observation of the level of support from the Vietnamese Government for the aquaculture sector and the Thai government's support of the swine sector through providing information on production techniques, disease prevention and treatment, and subsidized infrastructure support.
- Identification of future technical and business training needs on pig raising techniques and requests for additional information on prevention, diagnosis and treatment of PRRS disease.
- Introduction to new systems for accessing credit within the value chain; for example, 50% of loans for fish producers come from manufacturers of fish feed in Vietnam.



*Cost-shared technical assessment trips provide inexpensive opportunities for MSMEs to observe new production methods, meet and do business with entrepreneurs from other areas, learn about new markets, and gain a broad understanding of the value chains in which they work.*

## Significant Outcomes of Exposure Missions

**Technological and Quality Improvements.** Aside from the benefits cited above, the 21 cross-provincial and international technical assessment missions that the Project facilitated in Year 2 have made the greatest impact on enterprise investment. Upon returning from these missions, firms have quickly adapted new technologies and processes and hired technical assistance from abroad. By identifying higher return investments and better products, these firms have raised their productivity and competitiveness through these technological upgrades and quality improvements.

Throughout FY 2007, hundreds of project-assisted MSMEs have readily invested in improved production processes and technologies because of the project interventions. The changes range from process changes, such as increasing the cleanliness of pig sties and hygiene, to large scale investments such as building new kilns, installing biogas digesters, purchasing new fish feed pellet makers, improvements in pig raising practices, and purchasing new molds and conveyor belts in the tile workshops. Participants also reported that they have improved sanitary conditions of their pig sties and regularly administer vaccines and medications, where before they did not.

**Formation of Long-Term Business Contacts and Partnerships.** The technical assessment missions have facilitated information sharing and networking between leading enterprises across different process and between Cambodia, Vietnam, and Thailand, creating new business opportunities for partnerships and trade. Following the first exposure tour to Vietnam by the tile value chain, seven leading tile firms developed partnerships with Vietnamese firms to whom they were introduced on a project-sponsored mission and hired technical assistance from them to build kilns and improve tile quality. Firms in other value chains that have attended international technical assessment missions have engaged Vietnamese technicians to provide consulting services in Cambodia and have negotiated with or returned to Thai firms to purchase goods.

**Improvements in Quality Inputs.** The Project decided at the beginning of Year 2 to promote improved quality by linking value chain participants to higher quality input suppliers and training providers because this would increase sustainability at project's end. Through technical assessment missions, as well as business forums and embedded technical training sessions, the Project promoted improvements in quality by linking value chain participants to higher quality input suppliers and training providers.

**Sustainable Business Development.** One of the most significant outcomes of the Project's approach has been the adaptation by input supply firms to use the MSME models as a business development tool. The larger Phnom Penh based firms can now be observed entering villages, organizing interest groups of leading firms, and providing technical training to these enterprises. This result will ensure the project activities will be sustainable at the end of the project in September 2008.

### **Case Study: Lead Tile Maker Sets an Example for Others**

In November 2006, the Project facilitated its first cost-shared international technical assessment mission to Vietnam for 13 leading Cambodian tile firms. The trip introduced tile makers to the highly competitive Vietnamese tile market and demonstrated how investments in new technologies and production processes help Vietnamese firms lower costs and improve quality.

The investments by one manufacturer highlights the impacts the Project intends to make across the tile value chain. Mr. Eng Phalla has run his family-managed brick and tile manufacturing business for more than 15 years. After participating in the international technical assessment mission to Vietnam, Mr. Eng began upgrading production technologies and processes at his plant. The upgrades were assisted by a Vietnamese technician hired by Mr. Eng to provide technical assistance in Cambodia.



Mr. Eng's first investment related to cost reductions and included a new kiln that produced bricks and tiles at a 30% energy savings over the old kiln and the installation of a bio-gas digester, which will allow some production machinery to operate on methane gas instead of expensive, imported diesel fuel. To reduce the cost of loading his tile kilns and reducing tile breakage, Mr. Eng built a conveyor belt similar to one he observed being used in Vietnam.

Mr. Eng's next investments related to production quality. To better compete with imported Vietnamese tile and obtain a higher price, he invested in higher-quality compression molds and redesigned his machinery to produce more quality tiles in less time. To ensure consistent quality, Mr. Eng began softening and mixing his clay prior to production, something he had observed in Vietnam.

Currently, Mr. Eng is also considering investments in pig raising, to provide manure for the bio-gas digester and fish raising and to make more productive use of his clay pits.

## Facilitating Commercially Viable Trade and Promotional Events

The purpose of promoting trade fairs is to encourage business introductions, promote products by local firms, especially MSME client firms, introduce persons who attend to more products and services, and to have an enjoyable experience in doing all of this. Moreover, the project hopes to demonstrate to private event promotion firms that it is worthwhile to facilitate trade fairs in the four project-assisted provinces.

In FY 2007 the project supported, at a very modest level, the Phnom Penh Trade Promotion Event which was attended by about 100,000 thousand persons during the water festival. The effect for the rural-based MSME clients was minimal. In late FY 2007, the project competitively bid a contract to provide trade fairs in each of the two project-assisted provinces. After receiving four bids, the project engaged a private events promotion company to promote trade fairs in Kampong Cham and Prey Veng provinces. Due to the lack of confidence on the part of all the bidding events promoters in facilitating successful events in Svay Rieng and Kratie provinces the project agreed to fund these events at about one dollar per person per event, which meant that the project will cover the entry costs of visitors. These events will be facilitated in early 2008.

The potential benefits to businesses engaging in trade fairs go far beyond profits from goods sold at the fairs. Exhibitors are able to advertise their products and get feedback from buyers and potential customers about their needs and preferences. The swine and fish associations represented are able to sell memberships and engage in discussions that should lead to the development and provision of money-making services. Participants—including both exhibitors and attendees—get a chance to see and compare a variety of products that might not be normally available to them or that they might not otherwise be aware of.

Particularly among rural MSMEs, many of whom have small networks of day-to-day contacts and limited or no access to media, local trade fair events present a rare opportunity to broaden exposure to potentially valuable goods and services, and to understand the other market participants of whom they might be only vaguely aware. Although events like trade fairs and product exhibitions are commonplace in many countries, both rich and poor, they are not well established in Cambodia. Many entrepreneurs have never taken part in such events. Therefore, these entrepreneurs neither appreciate the potential benefits nor understand how to market their goods at these events.

In 2005 and 2006, GTZ and ILO organized trade fairs in Battambang, Phnom Penh and Siam Reap designed to promote Cambodian products. These events have attracted large numbers of participants, generated considerable revenue for exhibitors, strengthened links among Cambodian MSMEs, and generated greater awareness among consumers of Cambodian companies and their products. The Cambodia MSME project contributed to the promotion of some of these events also, on a very limited scale.

The main shortcoming associated with these events has been limited sustainability due to high levels of subsidy and heavy donor/NGO presence. In many cases, the role of donors, government bodies and NGOs in supporting, promoting and implementing the fairs has had the effect of overshadowing and crowding out the private sector rather than

encouraging companies' involvement and initiative. The experiences of MSMEs with these trade fairs have led them quite reasonably to regard donors and government as the natural initiators and organizers of such events, and MSMEs now often expect subsidies for their participation.

The Cambodia MSME Project is pursuing a fresh approach that builds on earlier efforts to support Cambodian trade fairs, but attempts to involve local Cambodian business persons more actively, both as participants and organizers. This new strategy is designed to promote greater sustainability and achieve greater outreach to smaller, more rural enterprises. The approach attempts to minimize donor and NGO involvement and boost participation by the private sector in organizing, participating in, and profiting from trade fairs. Advertising and promotion of the fairs will emphasize the role of companies and business associations, not donors, NGOs, and government, in supporting these events. By supporting them in implementing trade fairs, Cambodia MSME aims to build their capacity to organize such fairs independently in the future.

## **Business Development Training Courses**

As part of its market-based development philosophy, Cambodia MSME seeks to encourage sustainable training provision through fee-based training. Many rural business people want and need practical business training in a range of fields, from bookkeeping to marketing, to help them expand their enterprises. Unfortunately, the most of the courses currently available do not sustainably address entrepreneurs' needs for practical skills development while respecting their time constraints and ability to pay.

Courses currently available for business development training in Cambodia average \$70 to \$100 per day and are usually only available in Phnom Penh through NGOs, colleges, or private firms. Many universities and training institutions do provide a variety of business courses designed for non-business operators, mostly college-age students who lack practical experience. These courses are those one would generally find in secondary and college-level courses that take two or three years to complete. Neither the NGO-type nor current college-type courses are designed for small, rural enterprises and their practical needs. MSME is confident that business owners will willingly pay a reasonable fee for training that directly improves their businesses.

With this aim in mind, in FY 2007, the project developed affordable, tailored training short-courses with training institutions. After hiring a Business Training Curriculum Development Specialist, the Cambodia MSME team worked to develop specialized short courses for rural MSMEs that require attendance for 2 or 3 days at 2 to 3 hours per meeting. The primary focus of the coursework is to provide easy-to-understand tools to the rural businessperson to assess and increase profitability, identify markets and customers, improve enterprise performance, and assess investments and related productivity.

Cambodia MSME has developed and administered four business trainings modules during FY 2007:

- |                                 |                            |
|---------------------------------|----------------------------|
| “Am I Making A Profit?”         | “What Should I Invest in?” |
| “How to Care for the Customer?” | “Marketing”                |

**The Concept.** The project does not plan to become a training organization, nor compete with private sector providers of business training services. Instead, the project plans to design relevant courses for small business development and market test them. The testing is intended to provide feedback about the quality of the coursework and gauge the interest of private small businesses to pay for the courses. Assuming the courses are acceptable and businesses are willing to pay for them, the project will then attempt to market them to training institutions, input suppliers, and others in the supply chain who have an economic incentive to improve the performance of enterprises. The project will provide the coursework free and assist in the initial training in an on-the-job training method to demonstrate to the acquiring firm how the active-participation training is to be organized and conducted.

In mid FY 2007 four courses were completed and three additional, more advanced courses, were designed. To test the courses, beginning in July 2007, Cambodia MSME offered 8 trainings in Kampong Cham, Kratie, and Prey Veng provinces, with a total of 155 participants (including 70 women) who paid USD \$0.50 each to participate in each training course. The modules on how to make decisions regarding investment and calculating profit encourages MSMEs to keep simple financial records. These trainings confirmed the original premise and the project will begin marketing these courses in earnest in early FY 2008.

**Other Trainings.** In November 2007, the Project organized a business diagnostics mini-workshop for 12 fish producers in Prey Veng. The objectives of the workshop were to facilitate discussion on the potential for business expansion and technical improvement; strengthen group activities through mentoring, and identify aquaculture businesses that can be used as benchmarks. This training and diagnostic improved understanding of the profile of aquaculture firms in Domrei Poon Commune, technical training needs, and business training needs to help develop business plans to guide investment decisions and meet business growth goals.

Cambodia MSME continues to promote provision of additional types of fee-based services by the private sector. With this end in view, Cambodia MSME established a relationship with a testing facility in Vietnam to assist the tile manufacturers to test their clay. If these producers find the service useful, it is hoped that they may begin to pay for these testing services in future on a regular basis, or perhaps set up their own testing facility inside Cambodia. In Year 3, the Project also plans to conduct business diagnostic exercises for firms in the brick and tile value chains.

### **III. Component 2 Activities: Enhancing Value Chain Competitiveness**

In Year Two, Cambodia MSME demonstrated that the technical assistance required to raise productivity, sales value and volumes, and investments is available from service providers who were already integrated within each of the supply chains. The term for this type of training is “embedded” services because the cost of the training is actually embedded in the price of the other products and services provided.

Through the first two years of the project, these input suppliers have provided technical training free of charge or embedded in their products and services, reaching more than 1,236 enterprises and more than 5,000 persons in FY 2006 and FY 2007. These embedded trainings have provided private sector solutions to some of the major constraints identified in local service markets, including:

- swine medicines and vaccines;
- fish and pig feed;
- tile manufacturing technologies;
- information on the delivery requirements for roof and floor tiles;
- training in proper pig- and fish-raising techniques;
- gaps in available technical assistance on kiln design and firing techniques; and
- deficiencies in marketing services across the target VCs.

As input supply, trading, and other value chain firms engage with the project, the Project has observed improved competition between them. The improved competition means that their technical training courses improve and swine value chain participants gain ever more value. Through larger-scale business forums and other activities, Cambodia MSME has also introduced new traders into the local market systems and linked provincial producers and traders with buyers in urban centers. Such horizontal and vertical linkages have also enhanced value chain competitiveness for project-assisted MSMEs.

#### **Value Chain Objective for Cambodia MSME for FY 2007**

The Cambodia MSME Project Team works to improve competitiveness of MSMEs by facilitating activities that assist them to better understand what customers require of their products and, by improving quality, to expand their markets. In this way, the Team assists MSMEs to increase their sales income and sales volumes in a sustainable way.

By the end of Year Two, the project team began witnessing significant productivity improvements in MSMEs across all three value chains. Like flowers emerging after the first spring rains, MSMEs began to bloom with new infrastructure, putting into practice the technical and business techniques and processes they were learning about and observed during technical trainings, cross-provincial and international technical assessment missions, and business advocacy trainings. MSMEs were leveraging their

newfound relationships with more advanced firms, traders, processors, and input suppliers and improving volumes and values of sales.

## **Input Provider Trainings for MSMEs**

The Cambodia MSME Project works with existing private sector business service providers to facilitate delivery of those services most demanded by target MSMEs. The project found that other donors appeared to have supported technical trainings in the fisheries value chain in recent years, leaving very little private sector training capacity. The most promising intervention therefore appeared to be working with input providers already providing embedded trainings as part of their sales efforts in the swine value chain and to encourage them to expand.

Throughout FY 2007, Cambodia MSME facilitated trainings by several national-level companies selling livestock feed, medicines, and vaccines: Medivet, Thom Thom, Best Cure, and Worldvet. Trainees include not only MSME representatives, but also veterinarians, village livestock agents, and input distributors in the target provinces.

**Traditional Embedded Technical Training.** Most trainings facilitated by the project are embedded technical training provided by firms within the value chain. This approach has the dual advantage of providing technical training and building permanent linkages between value chain participants.

In FY 2007, members of the swine and aquaculture VCs attended technical trainings facilitated by input suppliers in four provinces. The trainings have emerged out of the Project-organized interest groups that discussed common problems and possible solution to improve production and market access. Discussions revealed that many MSMEs lost 50% of piglets and 50% of fish fingerlings prior to maturity, due primarily to poor quality agricultural inputs.

Each of the input suppliers provided IG members with high-quality training and exposure to multiple input suppliers. For example, in November 2007, a Medivet-facilitated training in Svay Rieng Province covered topics including pig breed selection, hygiene and sanitation, selection and preparation of pig feed, prevention, diagnosis and cure of pig diseases, and proper administration of vaccinations and antibiotics. The training, attended by 84 participants, also helped networking between a range of firms and different actors in the swine value chain.

An added benefit is that most local input suppliers upgraded their product lines and replaced the poor-quality, expired products with high-quality products that have Cambodian language instructions. After providing regular embedded technical trainings, input suppliers like Medivet experienced a 30 to 50 percent increase in sales before the trainings began. The intense competition between the input suppliers attracted the attention of several international input supply firms during Year Two.

Cambodia MSME negotiated with CP Group on their possible contribution to project activities. This company, which originally informed the project that they were not interested in taking part in program activities, contacted Cambodia MSME to request information about how they could participate. Project staff were informed that CP has

suffered sales declines as a result of the increased knowledge of consumers of product lines distributed by current project partners.

In addition, the project facilitated discussions between leading swine value chain firms in Cambodia and Cargill Animal Feeds of Vietnam. The discussions focused on a joint venture to support Cargill's market entry in Cambodia. Cargill announced their intent to establish a representative office in Cambodia in early 2008. They have asked MSME to continue to collaborate with them and they are interested in working actively in the MSME project-assisted provinces.

**Emergence of Local Value-Added Training Services.** By attending these embedded technical trainings, village livestock agents (VLA) and local input suppliers have been able to increase their knowledge and understanding of high quality feed, vaccines, medicines, and storage techniques. The embedded training has helped the VLAs and local input suppliers to gain a better understanding of the needs of MSMEs, targeting their training and product and service delivery to meet these needs.

In Svay Rieng province, swine and fish MSMEs increasingly sought out the services of VLAs after receiving embedded technical training about animal diseases and animal care. The embedded trainings have prompted MSMEs to seek out additional long-term technical assistance. Recognizing this development, firms like Medivet began offering separate technical trainings for local VLAs.

**Non-Traditional Technical Assistance.** The Project also facilitated non-traditional sources of technical assistance available through technical experts by facilitating marketing plans and providing indirect subsidies for first introductions and delivery of services.

During Year 2, the Project facilitated non-traditional trainings for 123 MSMEs in the Swine Value Chain (including 29 women) and 60 MSMEs in the fish value chain (including 29 women), introducing value chain participants to local experts as service providers. The expectation is that after these initial introductions, MSMEs can access the input suppliers independently for future technical assistance needs, such as reducing production costs by mixing the proper ratio of domestic feed with commercial feed without compromising the quality of the output. The success of these trainings motivated Cambodia MSME to facilitate two additional non-traditional technical trainings in FY 2007.

Project staff also regularly met with leading tile producers to provide technical information about bio-gas systems, competing products and processing techniques, and sources of mechanical workshops that can make tile moulds. Cambodia MSME encouraged leading tile firms to expand their businesses and invest in the swine and fish value chains.

Finally, Business Strategy Expert Merrilene Peramune facilitated four workshops on how to develop localized business strategies for 43 entrepreneurs in the Aquaculture value chain, in Kampong Cham and Prey Veng provinces.

## Case Study: Improved Technical Knowledge Leads to Profits

Ms. Kong Sitha operates a small farm enterprise in rural Kampong Cham province where the average diversified MSME income is about \$50 per month. With limited access to technical training, Ms. Sitha often watched helplessly as 50 percent of her piglets died. The local input supplier stocked outdated medicines and could offer no advice on which medicines were most appropriate, since local input suppliers are generally simple retailers, selling medicines alongside other farm chemicals and hardware items. Most of the medicines and chemicals are outdated and of low quality with foreign language directions for use rather than directions for use in Cambodian language.



The Cambodia MSME Project first facilitated the organization of interest groups to bring MSMEs together to discuss common problems. High mortality rates were a common problem. Shortly thereafter, the Project facilitated technical training provided by high-quality input supply firms with a local presence. Training was provided free and without subsidies from the Project. Ms. Sitha went to two trainings, one provided by the Medivet Animal Health Company and the other by the Best Cure Company. She participated in a cross-provincial tour to observe new technologies and processes in swine raising.

Shortly after these trainings, a nearby farmer, who chose not to participate in Project activities, offered to sell Ms. Sitha a litter of 10 piglets that the seller believed were dying as a result of chronic diarrhea. Ms. Sitha recognized the disease, bought the pigs for \$7 each, roughly a 70% discount, took them to her farm and healed them. Four days later Ms. Sitha sold the piglets for \$15 each piglet, providing for a healthy profit. Shortly thereafter, another swine raiser, hearing that Ms. Sitha bought sick piglets, offered to sell her 8 sick piglets, which Ms. Sitha healed and resold. This business model has become an additional profit-making opportunity and during a recent discussion, Ms. Sitha smiled and said to Project staff, “Your Project helped me to understand how to identify diseases and how to cure my animals. I can now make more money for my family.”

## Building Vertical Linkages Through Business Forums and Other Events



*Business Forums link producers with traders, processors, and wholesalers.*

A primary constraint to economic growth for Cambodian rural enterprises is the lack of relationships across value chains. Three of the Project-assisted provinces are exceptionally poor and not located near major population centers or markets willing to pay premium prices for quality products. During FY 2007, the Project facilitated more than 81 activities to link actors across their entire value chains, oftentimes introducing MSMEs to new traders capable of supplying major population centers and higher value markets.

**Business Forums.** In Year Two, Cambodia MSME organized three high-profile business forums where MSMEs met, discussed market requirements and made deals, with leading traders, construction firms, and leading entrepreneurs. These forums linked producers with traders, processors and wholesalers. Producers, in particular, were able to learn more about quality requirements to meet market needs. By introducing new traders into the market systems, the project improved competition between traders, which resulted in higher prices for producers.

A Tile Business Forum held in Phnom Penh introduced tile producers to new markets for tile products. This forum included construction companies and distributors. In July, the Project facilitated a Fish Business Forum—the first of its kind in Cambodia—in

Kampong Speu province, attended by 35 fish producers, input suppliers, processors, and traders.

Another business forum was held in Siem Reap for pig producers and traders from Kampong Cham. This event was also significant in highlighting the issue of informal charges in transporting swine from Kampong Cham to markets in Siem Reap and Phnom Penh; a \$2 per animal fee is charged for all animals that pass through Kampong Cham provinces, effectively taking 20% of the profit from each animal transported and sold.

Regional Value Chain Workshop. The Project co-sponsored a regional value chain workshop funded by AMAP and co-hosted by USAID-Cambodia. The workshop included participants from projects as far away as Africa as well as from Thailand, Indonesia, Bangladesh, and Timor-Leste. The highlight of the workshop was a cross-provincial tour in Cambodia MSMEs selected provinces, and the Project was recognized as demonstrating best practices in rural economic development.

### **Increased MSME Productivity and Product Quality**

As a result of Component 2 Project-facilitated trainings and business forums, in addition to technical assessment missions and other Project activities, MSMEs in the swine, fish, and tile VCs experienced substantial increases in productivity and product quality during FY 2007.

In the swine value chain, swine mortality declined from 50% to 10% or less, and swine production cycles were reduced from 6 months to 4 months. There was an improved availability of quality feeds and medicine, and swine raisers were linked to new markets in Siem Reap and Phnom Penh. In the fish value chain, fish mortality decreased by 90% and production increased through year 2 by about 500%. Fish feeds and pond water management were improved, and volumes for the April 2008 harvest are expected to increase by 500% in some areas. Both swine and fish value chains are incorporating different species of animals and fish to improve productivity. In the tile value chain, new kilns and new designs were built. Tile quality improved, and tile producers are focusing on higher-scale markets, increasing prices by 50%.

By the end of Year 2, MSME sales volumes and values had shown significant improvement. Enterprise capital investments in productive assets, an accurate measure of expected future business performance, exceeded targets by 400 to 600 percent. Based on the level of capital investment, improved firm productivity, product quality, and the ability of firms to serve higher-quality markets, the project is confident these achievements will be sustained after the project ends in 2008.

<b>Return on Investment based on New Capital Investments</b>			
<b>Value Chain</b>	<b>Average New Capital Investment</b>	<b>Number of MSMEs</b>	<b>Total Value</b>
Swine	\$ 3,570	1,028	\$ 3,669,960
Fish	\$ 8,164	183	\$ 1,494,012
Tile	\$ 37,620	25	\$ 940,500
<b>Total Estimated Return</b>		<b>1,236</b>	<b>\$ 6,104,472</b>

<b>Return on Investment based Increased Value of Sales</b>			
<b>Value Chain</b>	<b>Average Increase in Income</b>	<b>Number of MSMEs</b>	<b>Total Value</b>
Swine	\$ 1,570	1,028	\$ 1,613,960
Fish	\$ 4,323	183	\$ 791,109
Tile	\$ 23,451	25	\$ 586,275
<b>Total Estimated Return</b>		<b>1,236</b>	<b>\$ 2,991,344</b>

TABLE 2.1: RETURN ON PROJECT INVESTMENT BETWEEN 10-05 AND 9-07

#### **IV. Component 3 Activities: Improving Access to Finance**

Access to finance is a critical constraint across all value chains in Cambodia. MSMEs across the fisheries, swine raising, tile manufacturing and equipment manufacturing sectors all report that they are hindered by an acute shortage of capital and a lack of viable, affordable loan products. By improving access to finance for the enterprises, Cambodia MSME will be able to help them improve their products as well as the business services they require. While sorely needed by many of the project-assisted MSMEs, facilitating access to finance presents a big challenge for Cambodia MSME.

Because the issue of access to finance is so closely tied to other issues facing project-assisted MSMEs, Component 3 staff work closely with staff from the other components, to improve both the supply and demand sides of the access-to-finance equation.

**Supply Side:** Working with current and potential suppliers of finance and credit inside and outside the value chain, including:

- MSME suppliers and buyers inside the value chain; and
- MSME Interest Groups.
- Banks and MFIs;
- Community Finance Institutions (CFIs);

The project works with these individuals and organizations to help to promote the following:

- New sources of supplier/trader credit for MSMEs;
- Ways of mobilizing capital inside MSME Interest Groups; and
- Better understanding of MSME financial needs and demands.
- Development of financial products that make sense to local enterprises, on terms they can meet;

**Demand Side:** Working with MSMEs to:

- Understand the value of financial record keeping and improve bookkeeping;
- Improve their understanding of the sources of capital available to them;
- Build their capacity to meet the requirements of FIs;
- Strengthen their ability to negotiate with FIs, buyers and suppliers to obtain better credit terms; and
- Explore new ways of mobilizing capital (e.g., pooling funds within MSME IGs).

In FY 2007, Cambodia MSME determined that the main source of MSME credit was among actors in the value chain, such as input suppliers, as opposed to MFIs. Previously, the Project had been measuring itself by how many firms obtained loans from registered MFIs and banks. However, most of the firms seeking investment funds obtained them from unofficial sources, such as through family, friends and local moneylenders. In some cases, the moneylenders were providing lower cost loans than the registered MFI and

banks. These realizations lead to defining more appropriate success indicators for Component 3 that are better aligned with market realities and better measure Project impacts. Through activities that created linkages within and across value chain, the Project improved these embedded credit relationships, substantially increasing these loan transactions during FY 2007.

Additionally, Cambodia MSME determined that MFIs did not have the right products or services to engage with the MSMEs. In Year Two, the Project continued to link MFIs to Project-assisted MSMEs, facilitating introductions to and business understandings of loan officers that resulted in more loans at lower interest rates and for longer terms.

### Linking MSMEs and Sources of Credit

Determination of MSME Access to Credit. Cambodia MSME worked with Brett Matthews, Access to Credit Specialist, to develop a research study to determine the flow of credit within and between the swine and fish value chains. The research demonstrated that the majority of credit for enterprise investment emanates not from MFIs and formal credit providers, but from friends, family and suppliers, and that this amount of credit is substantial.

PURPOSE	TERM	SOURCE	FREQUENCY
Enable or facilitate a transaction	a few days up to 2 weeks	supplier or producer	common
Fatten animals to speed up time to market	a few weeks up to 2 months	supplier or relative	moderate
Raise pigs or fish	up to 6-12 months	relative or MFI	moderate to rare
Acquire equipment or improve	up to 24	relative or	rare

**TABLE 2.2: TYPES OF EMBEDDED CREDIT OBSERVED IN THE PIG AND FISH VALUE CHAINS**

The Project-commissioned study found that most MSMEs in Cambodia today fear formal sector indebtedness because they cannot control animal diseases and pre-mature animal mortality; MSMEs with superior animal health practices have larger businesses that are vulnerable to fluctuations in market prices. Altogether MFIs have little technical capability to lend to this niche market, leading MSMEs to depend on embedded credit within the value chain. To this end, it was recommended that the Project focus its attention on working with directly involved in the target value chains to increase access to credit, rather than focus on engaging with MFIs.

By including a range of firms and actors within the value chains in project activities, especially business forums and exposure visits, the Project fostered improved trading and credit relationships among value chain actors during Year Two. Through these Project-facilitated introductions between leading suppliers with leading enterprises, available credit has increased because firms are confident of being paid back. During Year Two, project increased investments by up to 397 percent in the swine value chain, 279 percent in the tile value chain, and 158 percent in the fish value chain.

**Linking MSMEs and FIs.** During Year Two, the Project continued to invite and include MFIs and bank staff in technical assessment missions, trainings and Community Working Group meetings that involve a range of firms in the value chain to enhance relationship building and understanding of the need for credit to expand businesses. Through such activities have given FIs opportunities to learn first-hand from participants about their financing needs and to form links with MSME entrepreneurs.

Despite a relatively low interest expressed by MFIs in participating in these activities, some of these activities have borne demonstrated success in terms of increased business for FIs and improved access to credit for project-assisted MSMEs (see box below).

#### **Exposure Tour Facilitates MSME Loans**

Cambodia MSME recognized that producers, traders, input distributors and Village Livestock Agents (VLAs) in the province of Kratie were not well acquainted either with value chain actors or sources of value chain finance outside their local area. Therefore, in October 2006 the project arranged for these MSMEs to visit and learn from larger swine enterprises and financial institutions operating in the provinces of Kampong Cham and Kandal.

During the trip participants learned about the advantages and disadvantages of obtaining finance through the formal sector. ACLEDA Bank provided an informal training to the MSMEs about their products and how they might benefit them. As a result, ACLEDA Bank staff reported that two participants subsequently applied for and were given loans from the bank to improve their businesses.

#### **Encouraging Cambodian MFIs to Bolster MSME Lending and Develop Suitable Products for MSMEs**

During Year One, Cambodia MSME staff devoted considerable effort to developing relationships with FIs in the target districts and learning more about their product offerings. Overall, considering that there are seven competing MFIs and banks in the project's targeted provinces, the lack of differentiation among financial products on offer to MSMEs is striking.

During Year Two, the project has tried to encourage FIs to develop new loan products by providing them with information about the financial situation of project clients. For

example, during the first quarter, the Access to Finance team presented information about seasonal agricultural products, leading some MFIs to consider modifying their financial products to better serve the agricultural sector (e.g., by allowing balloon payments). Other financial products that may have good potential for projected-assisted MSMEs include biogas technology—in which the equipment itself could be used as collateral—and deposit accounts, which could help MSMEs reduce risk by promoting secure savings while strengthening FIs by promoting greater financial intermediation and less reliance on external sources of capital for loans.

**Attempt to Secure USAID Loan Guarantee.** Cambodia MSME also met with both USAID and Cambodian FIs to discuss how Cambodia MSME might help to facilitate use of USAID loan guarantees to encourage on-lending to one or more MFIs serving MSMEs in the target provinces. Meetings about USAID’s loan guarantee were held with Canadia Bank as well as ANZ Royal Bank, ACLEDA Bank, TPC, CREDIT, and CEB. In December 2007, USAID decided not to extend loan guarantees to Canadia or any other Cambodian FI.

## **Participating in Public Sector Events to Promote MSME Finance**

**Rural and Agricultural Finance Workshop.** In December 2007, Cambodia MSME collaborated with the Mission to organize a Rural and Agricultural Finance (RAF) Workshop in Phnom Penh with support from USAID/Washington. Mary Miller from DAI’s Economics, Banking and Finance Practice’s BASIS project, which DAI has developed and delivered similar workshops in a range of countries and circumstances. The RAF Workshop brought donors, Cambodia MSME staff, industry/agribusiness representatives, FIs, government representatives, business associations, and others.

The workshop aimed to introduce and familiarize participants with current rural and agricultural finance and identify constraints that limit access to finance for rural and agricultural MSMEs. Equally important, the workshop forged links among government representatives, donors, NGOs, FIs, and MSMEs that the project will continue to foster in coming years.

**Improving the Regulatory Environment for MSME Finance.** Improvements to the regulatory environment are key for improving access to formal finance for MSMEs. Although the ability of Cambodia MSME to impact government regulations affecting the financial sector is limited, the project does focus on bringing the needs and concerns of MSMEs to the attention of public officials in order to inform and influence decision-making. With this goal in mind, AF staff attended the Regional Microfinance Summit on December 2007 in Kampong Cham. The summit included participants from the National Bank of Cambodia (NBC), the major MFIs operating in Cambodia MSME’s target provinces, and local government offices. The Governor of Kampong Cham also attended. The NBC, MFIs and various government officials expressed interest in improving the regulatory environment to promote greater access to credit and savings for MSMEs, and the Cambodia MSME Project will work to insure that the government follows up on these statements with actions.

## **V. Component 4 Activities: Improving the Business Environment**

Under the USAID/Cambodia's new Operational Plan, regulatory reform and anti-corruption activities will become increasingly central foci for the Cambodia MSME Project. As a result, in Year Two, the Project sought to intensify its work to improve the business-enabling environment in the target provinces. As USAID restrictions on working directly with the central government are lifted in the future, Cambodia MSME is also planning to interact more closely with officials at the ministerial level to push for changes in key areas of the enabling environment that are constraining activities of project-assisted MSMEs and VCs in the target provinces.

### **Business Enabling Environment Objective for Cambodia MSME**

The Cambodia MSME Project Team works to improve competitiveness by empowering entrepreneurs to confidently advocate for their business development needs and to encourage government officers to understand these needs and actively work with the entrepreneurs to facilitate improvements to the business environment.

Overall, Component 4 aims to identify enabling environment constraints and analyze ways to help MSMEs overcome problems in the business environment. Year Two proved to be the bellwether year for this component. The project activities associated with this component that were implemented during Year 1 and the first part of Year 2 paid great dividends in the form of a national swine embargo which considerably improved the chances of Cambodian firms to "catch up" with their highly subsidized competitors in Vietnam and Thailand, as well as the successful advocacy efforts of the Community Working Groups and the Slaughterhouse Trader Committee in Kampong Cham. In addition, the CWGs became active in the Government-Private Sector Working Group process. In late Year 2, the CWGs put forth three national proposals for business enabling environment improvement.

Important Component 4 activities in Year Two included the following:

### **Facilitating MSME Policy Advocacy and Public-Private Dialogue**

In Year Two, Cambodia MSME discovered the importance of organic community working groups and associations in leading MSME policy advocacy. Through such associations, MSME firms have a business reason for identifying issues that affect them and reasons to associate with other enterprises to resolve those problems.

During the first quarter of FY 2007, the Project had focused on facilitating provincial policy advocacy meetings to improve the business environment. The Project then recognized that working groups and associations would be more effective platforms for policy advocacy. For the remainder of FY 2007, Component 4 Staff shifted their focus to training MSME community working groups on advocacy techniques, identified champions to take issues forward, and used these groups to encourage public-private dialogue.

**Provincial Policy Advocacy Meetings.** As part of its continuing effort to support positive change in the business environment for its MSME clients, Cambodia MSME organized and facilitated a number of meetings across the target provinces during the first quarter of FY 2007. These meetings were designed to gather information from entrepreneurs about the most pressing issues, foster information sharing between the private sector and public officials as well as among MSMEs themselves, and encourage MSMEs to advocate for change. Cambodia MSME organized the following meetings during the current quarter:

Between October and December 2006, policy advocacy meetings for MSMEs from the pig value chain were held in Prey Veng, Svay Rieng, and Kratie provinces, and one cross-provincial meeting was also facilitated. Each meeting attracted up to 33 MSMEs from the pig value chain, as well as provincial-level representatives from the Departments of Agriculture and Commerce.

Key issues raised by the private-sector participants during these meetings included: the inflow of pigs from Vietnam; the lack of transparency surrounding slaughterhouse costs; the high price of pig feed and inappropriate packaging of pig vaccines; and the request for the participation of higher-level government representatives. Participants also expressed their desire to set up a pig association or working group to discuss all the issues related to their business and to raise these issues within the public sector. The general consensus of meeting participants was the need for collective action and better inter-provincial communication to address the issues discussed.

During Public-Private Dialogues attended by public sector representatives, officials responded to the private sector's concerns, stating that: the price of pork was consistent with quality and market demand; border checkpoints lacked proper monitoring and control; and provincial departments could help facilitate and assist in preparation of documents required to set up pig raisers' associations.

**Focus Shifted to Community Working Groups for Policy Advocacy.** In FY 2007, Cambodia MSME facilitated the formation of several working groups, which have subsequently engaged in the public-private dialogue at the national and provincial levels with great success. As firms have improved productivity and become more competitive—as evidenced by Component 1 and 2 activities—they have begun to face business environment issues such as increasing requests for official and unofficial fees, unfair competition with foreign firms, business registration and taxation issues, and the need to obtain credit. As a result, the firms themselves have formed working groups and associations to improve the business environment by dialoguing with the local and national governments.

These Community Working Groups have served as vehicles for MSMEs to advocate for themselves—identifying issues, developing positions and promoting solutions to the government to support the sustainability of their enterprises. During FY 2007, eight Community Working Groups were formed for the Swine Value Chain in the four Project-assisted provinces. After receiving advocacy training through Cambodia MSME, the CWGs proceeded to identify key policy issues affecting their enterprises, ranging from unofficial government fee collections to improving the quality of animal health products.

The CWGs have already made significant headway in their policy advocacy campaigns. The community-working group in Kampong Cham's Prey Chhor District, Kampong Cham collected 256 thumbprints from members of the commune and sent this petition to The Ministry of Agriculture. The successful resolution of this issue motivated them to request the assistance of the MSME Project in giving them information on how to formalize themselves into an Association under the auspices of the Cambodia National Pig Raisers Association. During a cross-provincial meeting facilitated by the Project in July 2007, traders in Kampong Cham, Phnom Penh and Siem Reap investigated the issue of high informal charges in Kampong Thom in transporting pigs to markets in Phnom Penh and Siem Reap.

The CWGs have also demonstrated their ability and willingness to request technical assistance from VC firms independently of the MSME Project. In May 2007, the Prey Veng Pig CWG requested that an input supplier, Best Cure, provide technical training independent of the MSME project. 70 participants attended the training. The Project is in the process of forming interest groups in the fish and tile value chains for Year Three. These groups will enable individual enterprises to act collectively in advocating for policy reform and in getting technical assistance from within the value chain after the Project ends.

**Government-Private Sector Forum.** The advocacy efforts of the Community Working Groups also made an impact on national level policy when the Project facilitated their introduction to the Government-Private Sector Forum. Through the Private Sector Forum, the CWGs highlighted three issues that were affecting the competitiveness of the swine sector in eastern Cambodia: unregulated pig imports/pig smuggling; informal road fees and illegal checkpoints; and high slaughterhouse fees. These three issues were then sent to the Ministry of Agriculture, Forests, and Fisheries (MAFF), in anticipation of the Government-Private Sector Forum.

The Project also facilitated a meeting between 29 MSMEs from CWG to come to Phnom Penh to meet with the IFC and understand how the Government-Private Sector Forum mechanism functions. This introduction enabled the CWGs to underscore the issue of unregulated pig imports at the Government-Private Sector Forum itself. Ultimately, the concerns raised by the Project-assisted MSMEs at the Forum led to a Proclamation by the Prime Minister banning unregulated pig imports from neighboring countries. The Swine Embargo has been in effect since mid-August 2007 and has been supported by MAFF.

**Further Policy Advocacy Facilitation.** Additional activities were undertaken in Year Two to facilitate policy advocacy training, capacity building, and links with provincial-level officials. The Project partnered with four local NGOs in each of the four Project-assisted provinces, introduced to Cambodia MSME through the PACT Anti-Corruption Program. In May 2007, business advocacy trainings were conducted with the four NGO partners to facilitate policy advocacy and capacity building within the provinces.

In addition, Cambodia MSME provided information—though no financial support—to swine value chain producers in Kampong Cham on how to form a representative provincial association. The Kampong Cham swine raisers association was subsequently formed, regular meetings are now being held without any project support.

## **Reducing Unofficial and Official Fees at Slaughterhouse Cartels**

In Year Two, the Project's facilitation of public-private dialogue at the provincial level reduced in a significant reduction in unofficial and official fees in the swine value chain in Kampong Cham province. The success of these efforts has led to the facilitation of similar advocacy efforts in Prey Veng province.

In Cambodia, several national and provincial government departments sell operating licenses to traders and slaughterhouse operators who thereby obtain monopoly-like production, pricing, and marketing attributes for their individual, but interdependent businesses. These cartels typically increase incomes for members by artificially increasing prices and reducing competition.

In the Cambodia swine VC, there appear to be many layers of cartel-like behavior, which has resulted in elevated fees imposed upon traders and slaughterhouse owners in some provinces. Slaughterhouses are government-managed facilities that are either operated by government staff or leased to private persons in a non-transparent manner. Swine producers cannot sell directly to consumers, but must instead sell to a trader who then contracts the services of a slaughterhouse. Further complicating this, many traders also operate retail pork selling stalls in local markets.

In FY 2007, local NGOs based in Kampong Cham who received advocacy training from the Project applied their skills by working closely with the Slaughterhouse Trader committee to advocate for a reduction in fees and elimination of unofficial fees. Cambodia MSME facilitated advocacy efforts by the Kampong Cham Slaughterhouse Committee and equipped them with data from research on regulations. These efforts led to successful negotiations between the slaughterhouse committee and the Provincial Governors Office and resulted in a reduction of more than \$75,000 in official fees and elimination of all unofficial fee payments in the Kampong Cham slaughterhouses.

Following this success, the Project conducted an assessment of informal charges affecting traders and slaughterhouse owners in Prey Veng in October 2007, explaining the success of the advocacy efforts in Kampong Cham. The Project then facilitated meetings with Provincial Government Officers and pig traders in Prey Veng to assess the problem of high slaughterhouse informal charge. Cambodia MSME found that government officials were willing to address this issue but the pig traders had not yet officially notified them of their grievances. The Project has decided to temporarily suspend this activity until the traders are willing to organize collectively and take initiative in advocating for this issue themselves without being dependent on Project staff to lead the advocacy effort on their behalf.

## **Other Component 4 Activities**

**International Technical Assessment Missions.** Linking Component 2 with Component 4, a select number of technical assessment missions encouraged the strengthening of policy advocacy groups and links between the public and private sector. In November 2007, the Project organized an exposure visit for 13 Provincial Government Officers from each of the 4 Project-assisted provinces to Vietnam. The objectives of the trip were to encourage government officials—drawn from Provincial Departments of Commerce,

Agriculture, and Provincial Cabinets—to work as champions in improving the business environment in Cambodia and learn ways in which the Vietnamese Government supports the private sector and stimulates economic growth.

In addition, some of the international technical assessment missions for MSMEs introduced Project-assisted firm to the functioning of business associations and public-private links within neighboring countries. For example, in a July 2007 exposure trip for 15 MSMEs in the swine value chain, participating firms gained a better understanding of how pig associations work in Thailand and how the Thai Government supports the swine sector by promoting technical training on pig disease prevention and encouraging the adoption of improved production techniques.

**Research into Market Dysfunctions.** In Year Two, Phil Silos from Indochina Research Limited (IRL) was commissioned to do a study on “Swine Marketing in Cambodia: Reducing Market Distortions, Improving Competitiveness, and Ensuring Safe Trade,” jointly funded by USAID and FAO. The report was intended to assess the competitiveness of the swine value chain, focusing on the impacts of illicit swine importation and regulatory distortions in the national and provincial business environment, and to assess the risks and possible responses to the significant threat of trans-boundary animal diseases facing Cambodia.

One of the key findings of the study was that the three issues of safe animal trade, disease prevention, and industry competitiveness are tightly intertwined. It linked the surge of illegal swine imports from Vietnam to an ongoing animal disease crisis in Vietnam that turned Cambodia into a dumping ground for diseased and potentially infected swine from Vietnam. The study concluded that the current high price environment and declaration by the Cambodian government to enforce a total ban on swine importation as a historic opportunity for sustained efforts at value chain upgrading, and the rationalization of trade and regulatory efforts.

**National Donor Coordination Workshop.** In September 2007, the Project assisted with a national value chain-donor coordination workshop on private sector development hosted by USAID/Cambodia. Working with FAO and MAFF on competitiveness research for the swine value chain, the team actively contributed to the design and implementation of the workshop, which included representatives from all development partners involved in private sector development activities in Cambodia. The workshop resulted in an improved understanding by development partners of the investment impact of their investments and agreements to improved coordination between development partners. The Project also continued to participate in other coordination forums among Development partners, including ones led by the UNDP on different models of promoting Public-Private dialogue at the Provincial level.

**Media Coverage and Dissemination of Results.** Many Component 4 activities have received significant media coverage during Year Two, as the Project has invited media representatives to public-private dialogues and other events and disseminated materials about the Project’s activities. The Community Working Group meeting with the IFC received wide media coverage in newspapers. The Kampong Cham slaughterhouse fee issue was also discussed on radio broadcasts and newspapers, and the Project’s activities have repeatedly been mentioned in connection with swine smuggling issues in the media.

Articles about the state of the fish and swine industries on the whole, with reference to Cambodia MSME Project, also appeared regularly in the Khmer language press. Finally, to promote the business training course on “Caring for Customers,” the Project met with local radio stations in Kratie, as well as local NGOs, input suppliers and pig raisers. To disseminate the results of activities throughout the year, the Project has continued to distribute Regular Activity Updates to Development partners and MSME clients, in both English and Khmer.

Issues Identified	Solutions Provided	Results to Date
1. Swine smuggling and dumping	Swine raisers association and community working group sign petition to the national private sector forum to stop smuggling. Community working group in Kampong Cham petition the government with 256 thumbprints on petition.	Swine Embargo since mid-August 2007 signed by Prime Minister Hun Sen and supported by Minister of Agriculture.
2. Government officers demanding unofficial payment from swine traders at slaughterhouses – money and pork meat.	Surveyed fees at comparable facilities in Phnom Penh. Examined legal framework and legislated fees. Advised trader committees on preparing petition to provincial governor and using local media to raise awareness of the issue. Advising trader committees in other provinces to follow the example.	Elimination of all unofficial fees – money and pork meat. All fees are now accompanied by an official tax receipt. Official fees reduced by more than 50%. Provincial fees reduced by \$75,000 per year. Traders in other provinces now organizing and negotiating licensing fees.
3. No mechanism for policy advocacy in the swine or fish industries.	Development of unofficial local interest groups and the swine community working groups to discuss common problems and facilitate the groups to define and act on solutions	Four community working groups active in addressing issues at the provincial and national levels. Fish interest groups identifying mostly technical issues, but beginning to address policy issues.
4. Provincial policy issues, especially for micro and small businesses, are not being addressed at the national level.	Introduced the community working groups to the national Government-Private Sector Forum process.	Community working groups immediately signed a petition to eliminate swine smuggling, attended three meetings, and sought action on 10 additional policy items.

Issues Identified	Solutions Provided	Results to Date
5. Prey Veng swine trader committees are uniformed about Kampong Cham actions and not confident of taking action.	Facilitated introductory meetings between advocates in Kampong Cham with the committee in Prey Veng.	Prey Veng traders demanded and obtained a reduction in unofficial licensing fees of 50% per trader. They are now seeking further assistance from MSME.
6. Road taxes in Kampong Thom province reduce opportunities to market swine from Kampong Cham to Siem Reap.	Facilitated a business forum between representatives of the swine value chain in both provinces to build business relationships, discuss the problems and identify solutions.	Community working groups are interested in taking action, but market demand in Phnom Penh now much greater than supply. In the meantime, another value chain project is forming working groups in Siem Reap so the Kampong Cham groups can maintain relationships and work on issues.
7. There has been no representative organization for swine value chain participants, especially producers at the provincial level.	Facilitated discussion with producers on how to form an association. MSME provided no financial support.	The Kampong Cham swine raisers association was formed, a building provided by a member and regular meetings are now being held without any project support.
8. The national swine raisers association lacked understanding of the swine industry and the ability to take decisive action.	Assisted the national swine raisers association by funding an international competitiveness survey that can be used to market the associations activities and promote advocacy for improved piglet imports, reduced smuggling, better feeds and improved animal care.	Competitiveness survey to be complete in February. Workshop in November attended by the Ministry of Agriculture and the national swine association representatives. MSME will support dissemination of survey findings as a tool for additional provincial associations to be developed.

TABLE 2.3: ISSUES IDENTIFIED AND SOLUTIONS PROVIDED FOR MSMEs IN POLICY ADVOCACY

## **VI. Component 5: Economic Development Support to Vulnerable and Trafficked Persons (EDVP)**

In addition to the Cambodia MSME Project, USAID is funding a program to reduce Trafficking In Persons (TIP). The TIP project's interventions are expected to include rural economic development activities such as microfinance, business development services, and business training, but with less emphasis on these than the MSME project. Discussions with the managers of TIP-associated NGOs in Cambodia indicate that while the importance of economic development activities to prevent and reintegrate TIP-affected populations is recognized, almost all activities to date have focused on urban rather than TIP rural prevention and integration.

In Year Two, Cambodia MSME and its primary partner, COSECAM (Coalition to Address Sexual Exploitation of Children in Cambodia), initially proposed an innovative strategy to assist TIP-affected populations in Svay Rieng, Prey Veng and Kampong Cham by helping to integrate them into project-assisted value chains. Targeted populations fell into two groups: 1) those families identified as being vulnerable to trafficking; and 2) those who have already been trafficked for labor or sex and have returned to Project-assisted districts. The initial approach intended to link Cambodia MSME's market-driven economic development approach with the activities of TIP-associated NGOs operating in these provinces. This component was meant to complement MSME Project's integrated, market-driven approach by trying to draw in and assist some of the vulnerable populations in VC activities.

However, following careful study and research conducted by SCR Expert Jan B. Orsini during the first half of 2007, it was concluded that there was little possibility for vulnerable persons to be linked to MSME's clients. The MSME enterprises within the Project four value chains were strongly against hiring TIP-affected populations as trainees or labor as they did not trust poor populations without personal acquaintances or reliable references; were uncertain about the commitment of these populations to remain on the job because of their history of migration; and were concerned about their low level of qualifications and their ability to adjust socially to the workplace environment. Moreover, the TIP-affected populations themselves were geographically dispersed, some located far from VC clients and unable to leave home due to family obligations. Many of them wanted to replicate other successful enterprises in rural enterprises that fell outside out of the project design, which is limited to Project-assisted value chains; given their impoverished status, many would require subsidies for training that were prohibited for the Project's MSME technical training programs.

Based on these findings, it was concluded that the original strategy to find employment for the target groups within the four MSME-assisted value chains would not be a viable option. Instead, SCR concluded that the program should first focus on identifying vulnerable beneficiaries for Success Case Replication training, then provide them with seed money to set up their micro-business.

The EVDP team decided to follow SCR's recommendations, adopting a change in new approach to implementing Component 5. Beginning in July 2007, EVDP staff facilitated job and life skills training for vulnerable persons from Kampong Cham, Prey Veng, and Svay Rieng Provinces. The EVDP team and COSECAM then conducted follow-ups to

monitor training progress and job placement and began to distribute micro-business seed money to beneficiaries in November 2007.

## **New Approach: Strategic Skills Training for Vulnerable Persons**

Following SCR's recommendations, EDVP team and COSECAM conducted two meetings to discuss strategies for identifying target groups for work and life skills trainings, designed to lead to jobs or self-employment for vulnerable persons.

Between May and December 2007, the EVDP team interviewed a total of 231 applicants to select Project beneficiaries from two TIP-affected groups:

**Resident Vulnerable Families and Individuals.** These families have a poor standard of living and may migrate to find a job to support their family. The criteria for determining inclusion in Component 5 skills training include: those families whose standard of living is poor; those families or persons who have previously operating small manufacturing businesses or farming, but whose enterprises have failed or are no longer productive; single parent families, especially those headed by a widow; families with a female majority who have a clear idea for a small business, but who lack the technical, financial, or other means to begin it; and families that consist of many children, especially female children.

**Returnee Families and Migrant Families & Trafficked Persons Originating From the Target Areas.** Returnee families have been repatriated, mostly from Vietnam, and have been returned to Cambodia through government agreement. Migrant/Trafficked families have been victims of trafficking and intend to return to earn a living in their hometown. The criteria for this target group include: those families whose standard of living is poor; those who intend to raise their standard of living through starting or expanding their own small business; and those who have had previous experience in small manufacturing businesses or farms.

## **Initial Results**

Through the interview and screening process, the EVDP team selected 69 beneficiaries for skills training in beneficiaries in skills such as ice-cream making, tofu making, mushroom growing, barbering, mushroom growing, soy bean milk production, and papaya salad preparation. The beneficiaries came from Kampong Cham, Prey Veng, and Svay Rieng provinces. After completing the skills training, 49 of the 69 selected beneficiaries were given grant support to start up their micro-businesses, which ranged in value from \$25 to \$200. The remaining 20 beneficiaries will be provided with another opportunity to confirm their motivation to begin their businesses and thereafter receive a grant.

Select beneficiaries also received small business counseling on these visits. These people had previously been involved in a variety of small businesses but had lacked the capital to continue. These businesses had included the sales of a wide range of products and services such as meat and vegetables, fish and fishing tools, sugar cane juice and stationary and Khmer cakes and desserts to operating bicycle repair shops and small grocery stores. Over the course of the reporting period, 20 representatives from NGOs

were trained in Success Case Replication methods to support Component 5 activities and the future sustainability of the project.

During this time, EDVP team and COSECAM also implemented strategies for monitoring and follow-up on these trainings. Follow-ups have been subsequently been conducted 2 or 3 times every month by the COSECAM project team in collaboration with the NGOs and government partners based in each area. In addition, USAID and Cambodia MSME team visited 19 beneficiaries in Prey Veng and Kampong Cham in September 2007. Finally, 5 program participants have successfully passed on their skills to 19 new beneficiaries in Kampong Cham, Prey Veng and Svay Rieng provinces. The Success Case Replication has involved five skills sets in ice cream production, tofu production, mushroom growing, papaya salad preparation and barbering.

## **Summary Conclusions**

The Project's new approach of SCR training has succeeded in making a discernable impact on the beneficiaries. Many of the 46 participating beneficiaries (excluded two who have dropped out and one who has fallen ill) have learned to save part of their net profit in order to expand their further investments such as: business capitals, reserving depreciation cost of equipment and tools or to use for emergencies/medical costs, and they are as well aware of how to sustain their businesses.

Through the training, they have developed important skills, have secured of a regular income and have a business venture in their original area. All beneficiaries also have an adequate nutritional intake, look healthy and have enough food to feed their families. Furthermore, they are able to join community society activities and events such as: contribution to maintain village road, primary school construction, join the wedding or religion ceremonies, and sending their children to school. Moreover, participants have demonstrated their ability to pass on their new skills to new beneficiaries, highlighting the sustainability of the Success Case Replication Model.

## **Constraints**

Due to Project restrictions, funding provided to COSECAM for Component 5 was distributed through fixed price purchase orders rather than grants, which would have allowed COSECAM to give sub-grants to implementing partners. COSECAM typically works more as a coordinating institution and was required to implement the project itself because of these funding constraints.

Within Component 5 Activities, increasing fuel costs have resulted in rising prices on all types of goods at the market, constraining the profitability of some of the beneficiaries' enterprises. For example, the initial grant support of \$200 has proven to be insufficient to start up an ice-cream making or sugar case juice selling enterprise. Transport costs have also risen, which has increased the prices of goods like soybeans for tofu, making it difficult for beneficiaries to earn more than a subsistence wage. Start-up businesses have also been interrupted due to illness.

In Year Three, the EDVP Team will continue to discuss the best approaches for identifying target groups, monitoring and following up with beneficiaries, and

collaborating more effectively with partner agencies. It will continue to identify new target beneficiaries from these three provinces and identify new success case replications. It will also monitor and follow up with the existing beneficiaries, providing business or job counseling advice where necessary.

### **Case Study: Lim Huong's Story**

Lim Huong (a pseudonym) is an 18-year-old boy who lives in Kampong Cham Province with his handicapped father, 58, and his mother, 53, who has mental health problem. He has two siblings, a sister and brother, who both dropped out of school. His brother is blind.

Lim Huong's family difficulties forced him to migrate to Patany, Thailand in 2006, where he found unsafe work as a fisherman. He worked in Thailand for almost two years before escaping back to Cambodia with nothing because of late pay, gangs, and other hardships.

Before EDVP's intervention, Lim Huong had been working as a construction worker. Together with his sister, who grew vegetables, the family's daily income on average was \$1.75. After being selected for inclusion in the EDVP project, Lim Huong received a \$200 grant support to start up a small bicycle repairing shop with the technical advice from his father, who has intensive experience in fixing bicycle despite his handicap. With this grant money, the family bought an air pump, some bicycle spare-parts, and repair tools.

With his new business, Lim Huong and his father now earn daily profit of around \$7.50. Besides supporting their family, they have begun to invest in buying old bicycles to upgrade and sell. In just one month, they far they have saved about \$150 that they can now use to expand their business.

Lim Huong and his family are grateful that they have a means to support themselves now. As his family's living conditions have improved, he says he has no need to migrate once more from his home village.

## **VII. Project Monitoring and Evaluation (M & E) and Impact Assessment**

The MSME Project has performed two monitoring and evaluation exercises since the project's launch in October 2005. The first exercise, conducted by CIDS in late 2006, identified baseline data. Due to several reasons, only about two percent of the enterprises selected by CIDS for baseline data later became clients of the project. The contract between the project and CIDS was terminated in early 2007.

The Project contracted with Indochina Research Limited (IRL) to design and implement another longitudinal survey, which it completed in March-April 2007, as well as a follow-on survey in the fish and agriculture equipment manufacturing value chains. Both surveys resulted in markedly better data that better reflected what field teams were observing as they engaged with enterprises.

### **Monitoring and Evaluation**

After the MSME Project terminated the CIDS contract, two relevant questions were whether the baseline survey was still useful and whether it was worthwhile to conduct a follow-up survey. The answer to these questions depended on the extent to which the baseline treatment group includes Project clients. The CIDS survey was implemented before the Project had selected its client MSMEs. A review of the CIDS database found that only about 17 of the 520 MSMEs in the baseline survey are active Project clients. Unfortunately, this meant that the CIDS survey was not of much use to the Project, and it made no sense to conduct a follow-up survey.

The Project contracted with IRL to design and implement another longitudinal survey, which differs from the CIDS survey in three ways:

First, it is shorter and less comprehensive than the CIDS survey. Second, it was administered solely to identified Project clients; it did not include a control sample of producers outside of Project provinces, as did the CIDS survey. A control group is a necessary condition to assert claims of attribution, or causality. Thus the lack of a control group in the IRL survey means that it cannot be used to assess Project impact. It can be used to draw conclusions regarding changes over time among the Project clients, but it cannot be used to determine whether observed changes were actually caused by the Project.

Third, the IRL survey includes a near census of Project clients. According to IRL, every client who could be found and who agreed to participate responded to the survey. As such, the baseline survey presents comprehensive information of the status of Project clients.

### **Assessment of Monitoring and Evaluation System**

In lieu of causal models prepared by the Project itself, the Consultant worked with the Project's managers to construct a series of causal models for each of the five primary Project components. Information to construct the causal models for the five components came from three sources: (1) internal Project documents; (2) the Project second year

Work Plan, which includes the Operational Plan matrix; and (3) discussions with Project managers and staff.

According to IRL's findings, the M & E system at Cambodia MSME is adequate as is. As seen above, it captures most of the key performance indicators identified in the Project's causal models. Key output indicators are captured in the performance monitoring system, while key outcome and impact indicators are captured by the IRL survey.

The MSME project routinely collects disaggregated output indicators, and it has the capacity to report them with whatever frequency is deemed appropriate. The exception is performance indicators related to Component 3, which can be found in staff narrative reports, but which the Project does not summarize nor store in a database.

### **Impact on Fish Producers and Agriculture Machinery Enterprise Baseline**

In April 2007, IRL was commissioned to carry out a study of the project's impacts. 525 project-assisted MSMEs were interviewed to find out more about their businesses and evaluate the project's impact on their business activities. Surveys were conducted with swine, fish and tile producers and veterinarians and input suppliers servicing the swine value chain.

Unfortunately, the data collected on fish producers was incomplete, as it did not take into account the average production cycle for fish, and some of the project indicators for fish producers could not be accurately calculated. To update the affected indicators, IRL was commissioned to carry out a second round of surveys with fish producers, using an updated questionnaire that would capture the correct information on harvest figures. In addition, IRL was asked to interview agriculture machinery manufacturers. These MSMEs were not included in the initial study, as they had not yet received project assistance.

**Fish Producers.** Overall, respondents have reported that they have received positive benefits from the project. They have increased their technical knowledge about improving their fish production techniques. They have also seen improvements in the weight of the fish they sell and decreases in mortality rates, both of which will have a positive impact on their incomes.

While the project has not met its mid-term goals on sales and capital investments, this is likely due to the fact that many of the enterprises have only recently begun to participate in the project (which lowers the averages across all enterprises). Over the longer term, these enterprises are likely to increase their sales and investments, which will raise the averages and bring them more in line with the project targets.

The new project indicators on credit and accounting are well on their way to being met. 30% of the enterprises have accessed credit before, and these enterprises are accessing multiple sources of credit. As some of the smaller enterprises start to expand, the project can assist them to understand how accessing credit can be an asset to the development of their business and what sources of credit are available.

**Agriculture Machinery Enterprises.** Twelve agriculture machinery manufacturers were contacted by the MSME project: 3 in Kampong Cham, 3 in Kratie and 6 in Prey Veng, and 2 in Svay Rieng. All twelve businesses were contacted for this study, and interviews were held with the owners of the business. At the time of the survey, the project had only contacted the agriculture machinery manufactures; no additional activities had been carried out. The survey provided an opportunity to ask the enterprise owners what types of benefits they would like to receive from the project. Two-thirds of the owners would like to improve their marketing skills and receive technical training on production processes, use of technologies, etc. About one-third of the owners said they would like to improve their management skills and participate in technical assessment missions to see other manufacturers. Two owners also said they wanted the project to provide capital.

The MSME Project decided in early September 2007 to discontinue support to the agriculture equipment manufacturing value chain due to a continued lack of interest by the 15 leading MSMEs to engage in activities essential to improving their industry.

### **Impact on Swine and Tile Value Chains**

In the swine value chain, swine mortality declined from 50% to 10% or less, and raising cycles were reduced from 9 months to 5 months. There was an improved availability of quality feeds and medicine, and swine raisers were linked technical assistance and to new markets in Siem Reap and Phnom Penh. In the tile value chain, new kilns were built and new designs were developed. More cooperation between enterprises meant that tile business clusters, such as the one found in Prey Chor district could collectively take on large orders from Phnom Penh construction firms, something that kept them out of that market before. Tile quality improved significantly due to investments in new molds and more careful handling processes. Finally, tile producers are focusing on higher-scale markets, increasing prices by 50% or more and maintaining high volume growth as well.

By the end of Year 2, MSME sales volumes and values had shown significant improvement. Enterprise capital investments in productive assets, an accurate measure of expected future business performance, exceeded targets by 400 to 600 percent. Based on the level of capital investment, improved firm productivity, product quality, and the ability of firms to serve higher-quality markets, the project is confident these achievements will be sustained after the project ends in 2008.

## IV. APPENDIX

### Short Term Technical Assistance Visits During FY 2007

Last Name	First Name	Date(s)	Purpose
Gaitan	Juliette	Sept 3 - 12, 2007	Operations and Management Assistance
Grall	James	Jan 5-Feb 9, 2007	Technical and Management Assistance
Matthews	Brett	Apr 19-May 7, 2007	Microfinance Consultant
Orsini	Jan	June 2007	Success Case Replication (SCR) Expert
Peramune	Merrilene	Jun 11-23, 2007	Aquaculture Value Chain and Strategic Development Expert
Peramune	Merrilene	Aug 19 - Sept 1, 2007	Aquaculture Value Chain and Business Strategy Development
Powell	Michael	May 1-June 30, 2007	Business Training and Curriculum Advisor
Powell	Michael	Jul 1 - Aug 31, 2007	Business Training and Curriculum Development
Schmidley	Alfred	May 27-Jun 7, 2007	Agriculture Equipment Manufacturing Expert
Schmidley	Alfred	Jul 29 – Aug 6, 2007	Agriculture Machinery Technical Assistance
Sullivan	Greg	Jun 8-30, 2007	Swine Value Chain Development Expert
Weeke	Helle	Apr 23-27, 2007	Regulatory Issues Strategic Planning Advisor
Woller	Gary	Mar 5-24, 2007	Monitoring and Evaluation Expert for Impact Assessment Activities