

CAMBODIA'S DEVELOPMENT CHALLENGE

Despite years of economic growth, millions of rural Cambodians remain poor. Rice, or “white gold” as some people call it, is a promising potential gateway out of poverty for thousands of farmers still struggling to eke out a living despite growing demand and advantageous natural and climatic conditions for rice-led growth.

To increase their income, farmers need to increase the quantity or quality of the rice and vegetables that they produce. To do this they need to understand modern techniques, have more information, and reliable access to inputs such as water, seeds, fertiliser and pesticides, and have better opportunities for selling their produce. Unfortunately this is not yet the case in Cambodia. As a result farmers are reluctant to try new and better ways of farming.

CAVAC improves farmers' access to inputs, techniques, information and selling opportunities by working with the public and private organisations that supply these now and in the future.

GROWTH DRIVES POVERTY REDUCTION

For decades many Asian countries suffered from chronic poverty. Starting with the “Asian Tigers”, countries across Asia have experienced spectacular growth that has pulled millions of people out of poverty. More recently, we have seen some countries in Latin America and Africa are starting to follow a similar path to prosperity.

These countries with such vastly diverse cultures, histories and political systems all have one thing in common: private sector-led growth that has driven poverty reduction.

“SUPPORT MARKETS”

In CAVAC, we refer to the interactions between public and private organisations that provide products and services to farmers as support markets. We refer to the public and private organisations that interact with farmers as ‘providers’.

BUSINESS ENABLING ENVIRONMENT

A conducive business enabling environment with fair and accountable regulators, functional dispute resolution mechanisms, even-handed enforcement, effective property rights, well-developed financial and labour markets, good infrastructure, ready access to relevant information as well as transparent and reasonable compliance requirements are key conditions for private-sector led growth. A supportive business environment encourages companies to innovate, invest and take risks. Cambodia is not yet able to offer this environment for the companies that farmers rely on, which has led to low investments and little appetite for risk-taking.

Development programs have found that attempting to improve the business enabling environment by directly engaging with host governments and lawmakers can be a very long and wearisome process. Success stories are rare and as a result there is little poverty reduction effect from these programs. For this reason CAVAC focuses on helping companies in this uncertain environment to innovate and take risks. In countries with a more robust business environment this would not be necessary. However, in countries with a harsh and unpredictable business environment some level of appropriate risk sharing can stimulate companies to innovate, invest and create the growth needed for poverty reduction. That said, where an opportunity has been identified, CAVAC does support improvements to specific business environment issues.

FOCUS ON SMALLHOLDER FARMERS

CAVAC's main aim is to generate lasting increases in income for poor households by stimulating systemic changes in support markets.

A distinguishing feature of CAVAC is that it does not work with farmers directly, but instead works with businesses and public sector players who supply key products and services to smallholder farmers. These market players include for example seed producers, fertiliser retailers, rice millers, traders, exporters, media, research institutions, farmers' associations and government agencies. This might seem counter-intuitive or inefficient, but CAVAC has begun to demonstrate that when businesses have the right incentives to improve support to farmers and when early adopters champion the change, more productive farming practices take root and lift more and more people out of poverty.

Systemic change means fundamental and lasting improvements in how existing support markets work.

Giving poor, smallholder farmers high-quality seeds, fertilizer, insecticides or equipment would help them increase their yields today, but the system that they rely on for inputs for the next season will remain unfit for their purposes and the cycle of poverty could start again. Together with farmers, government officials and businesses, CAVAC identifies the root problems keeping farmers from producing more rice and vegetables. These might include limited access to irrigation, outdated farming methods, low-quality seeds or inappropriate fertiliser. CAVAC then devises schemes in which all players benefit from adopting innovations that eliminate the constraints to growth.

MARKETS ARE COMPLEX

Programs that promote the private sector often follow the sequence of: 1. Analysing constraints and opportunities; 2. Designing solutions; and 3. Executing solutions. While questioning why so many of these programs have not lived up to expectations there is growing recognition emerging that the problems these programs face result from underestimating the complex nature of the markets. 'Analysing, Designing, Executing' only works if the markets are simple, the conditions stable and the impact of interventions predictable. In reality most markets are uniquely complex socio-economic systems driven by unpredictable human behaviour and economic incentives, characterised by imperfect information and where small decisions on one side of the world can have major impacts on the other side. While understanding the existing 'static', underlying constraints to business growth is difficult, it is even more difficult to predict how markets might react to incentives to change.

Accepting the complex and unpredictable nature of markets is the starting point for CAVAC. This has three major consequences:

- Instead of following the traditional, linear process of 'Analysing, Designing, Executing', CAVAC uses a continuous learning and improving process where trial and error are central to activities.
- Market players know, sometimes intuitively, how to handle the complexity of the system and thus existing market players are critical partners in devising plausible innovations.
- Encouraging companies to innovate and take risks means that some failures are a normal part of market development.

All activities that CAVAC undertakes are aimed at improving "complex markets". Designing an irrigation canal, developing new seeds or listing recommendations for fertiliser use may be seen as "technical" and not related to complex markets. To be sustainable however, the innovations always must be embedded within the existing, complex socio-economic systems.

IMPROVING EXISTING SYSTEMS

CAVAC staff work together in small teams. They start by talking to farmers and companies to understand how the markets work, what constraints farmers and businesses face and what opportunities for growth exist. The teams then try to figure out how they can stimulate innovations.

Based on their initial mapping and analysis of the markets the teams then draft a strategy. The strategy not only gives direction as to what CAVAC should aim to achieve but it also specifies where CAVAC should not invest resources. For example: CAVAC's strategy on fertilizer highlights the importance of farmers' limited knowledge on the use of fertilizer, however the strategy also assesses that availability of fertiliser and addressing regulatory issues around fertiliser have less potential for impact, CAVAC therefore does not work on availability and regulations related to fertilizer. Overtime CAVAC's knowledge of the markets improves and as a result the strategies improve as well.

Armed with initial market knowledge and the strategies, CAVAC starts to engage with market players to look for opportunities for improvements and innovations. In most cases these market players are companies, but they might be others such as associations or government institutions. CAVAC tries to find common ground with the players by identifying innovations that help to improve their business and help

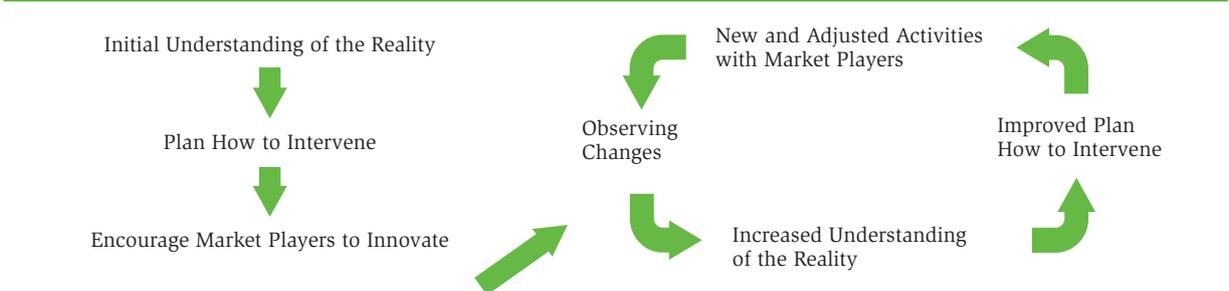


farmers to access better solutions for farming. From initial engagements between staff and partners to signing an agreement may take many months or even a year.

Sometimes CAVAC simply needs to bring different market players together or present information on business opportunities to stimulate businesses to innovate. In other instances, CAVAC offers financial assistance or other types of support that reduce the initial risk and give businesses more confidence to innovate. CAVAC’s agreements always require cost-sharing to assure genuine commitment while leaving it to the companies to lead the project through to completion.

It is rare that CAVAC’s role is over at the signing of a contract. Normally CAVAC’s specialists continue to interact with the market players to assure proper implementation and to adjust CAVAC’s support where required. CAVAC’s extensive Monitoring and Evaluation (M&E) system also helps to see if the intended impact is really taking place or if more action is needed.

FIGURE 1: THE CAVAC PROCESS OF LEARNING AND ACTION



After the first round of activities in a market and based on the initial results, CAVAC decides if more action is needed with the same partners. It also examines if it needs to act to get more players to adopt the same innovation ('crowding in') or if other changes are needed to make the market work better. These other changes could be related to regulation, demand creation or support function to the market players that interact with companies.

The work that CAVAC does is captured in: strategies, intervention plans, and M&E documents. Several times a year intensive review meetings are held to see if activities need adjustments and to evaluate the results and decide on next steps. For an example of a support market that CAVAC is working in please see Figure 2.

CAVAC's irrigation activities have much benefitted from CAVAC's knowledge and skills of developing support markets. It applies the same analysis tools and processes.

CAVAC works to construct or rehabilitate irrigation canals to increase rice production during the dry season and ensure consistent water supplies for wet season farmers. For the impact to be sustainable canals must be well-managed and maintained. Experience shows that this is best done by the people who depend on the canals for their livelihoods, including communities, farmers, fishermen and water sellers. CAVAC's approach to irrigation is similar to the other sectors it works in. CAVAC analyses the irrigation system closely to identify viable investments that optimise impact then works with the players to gain buy-in before constructing or rehabilitating the canals. Strong monitoring then shows where more support or improvements are needed.



FIGURE 2

CAVAC'S SUPPORT SYSTEM

- Seeds
- Fertiliser
- Insecticides, Herbicides
- Irrigation
- Rice export
- Information & Knowledge
- Media
- Business Enabling Environment
- Agricultural Tools

GOOD DEVELOPMENT PRINCIPLES

Before CAVAC decides to invest in a market system, it first assesses the investment in light of three principles:

1. VALUE FOR MONEY

Poverty reduction is the lens through which CAVAC assesses the value its investments generate. Like with any investment or business decision CAVAC requires that the positive impact on the poor or that the 'development return' of every initiative justifies the cost.

CAVAC assesses the potential impact and cost for all its activities and chooses those activities with the highest expected for value for money and therefore the highest efficiency. Though CAVAC mainly requires up-front co-funding from partners to assure commitment, the co-investments have the additional benefit of leveraging CAVAC resources. In some cases private sector partners have invested more resources than CAVAC.

2. SUSTAINABILITY

Insistence on sustainability starts with the design of initiatives and continues throughout implementation. No initiative is approved unless the results are likely to last. By working with existing service providers CAVAC ensures that it builds on the market systems already being used rather than setting up new ones. This is because changes are only likely to be sustainable if they are owned and driven by the players themselves.

CAVAC can never be sure upfront that an innovation will be sustainable overtime; however the Program can use indicators of the likelihood of sustainability in the design of an activity and throughout the process. Before CAVAC invests it does its own assessment of the sustainability of an innovation. This assessment is called this the ‘business case’. CAVAC also assesses the willingness of the insider (or support provider) to proportionally co-invest. Companies will only invest if they believe in the possible success of the activity. Both of these assessments form the basis for the sustainability analysis. CAVAC has also designed ways of monitoring signs of sustainability through the M&E system.

Sustainability for CAVAC is the availability of good and services farmers need now and in the future. For this the support system needs to have the ability to continue to innovate, to adjust to new conditions and to adopt new innovations from other parts of the world. Sustainability does not always mean that an institution must remain in place, the disappearance of services and institutions can be a good thing, if they are replaced by better ones. This type of sustainability therefore requires a systemic approach.

Sustainability also means that the key productive resources for agriculture, fertile land, water, biodiversity and natural crop protection remain as productive in the future as they are now.

3. NEUTRALITY

Markets are complex webs of competing interests, loyalties and players. Better production and higher sales for one group may reduce opportunities for another group. Especially if total demand for, let say vegetables, is unlikely to change much, it can be expected that more production in one vegetable producing area reduces market access and profits for another area. This risk can be reduced by carefully choosing those markets that have large unmet demand or those with small price elasticity.

For CAVAC to get and maintain traction as a trustworthy partner, neutrality is crucial-- particularly because a key program goal is to ‘crowd in’ as many players as possible to maximise the impact.

CAVAC is careful to design its support to be attractive to the partner and meet CAVAC’s own value-for-money guidelines, whilst ensuring that the support is not so substantial that it causes other players to react adversely or be displaced. CAVAC’s first offer is always to all relevant companies. If they do not immediately accept, companies are welcome to later seek support and that is made clear to everyone from the outset. If other organisations subsequently seek support, CAVAC may ask them to commit a higher share of the cost to pay down the start-up risk taken by the initiator.

Some initiatives impact groups differently: men and women, small and large-scale farmers or businesses, or other groups in society. CAVAC has a number of safeguards in place to reduce the risk that any one group will be disadvantaged.

WORKING WITH GOVERNMENT

In addition to their role overseeing the program, the government is a market player at national, provincial and local levels and as such is a natural partner for CAVAC. CAVAC works with the Ministry of Agriculture, Forestry and Fisheries at all levels to coordinate activities and provide support in their public functions.

In irrigation CAVAC works with Provincial Departments of the Ministry of Water Resources and Meteorology (PDWRAM), who are involved in all steps from site selection to design and construction. They also help start Farmer Water User Committees (FWUCs) to manage the canals effectively and assure they are maintained over time. Throughout the process, CAVAC works closely with commune councils and village chiefs to secure local commitment. As a demand-led initiative, provincial officials also play a key role in site selection, technical design and in assisting local communities to mobilise farmers.

THE CAVAC TEAM

CAVAC has a team of 25-30 Cambodian and international specialists who were hired for their skills in irrigation and agriculture, for their analytical ability, their entrepreneurial insights and their ability to interact effectively with both public and private sector partners. Multi-disciplinary taskforces were formed to share learning and cultivate synergies between the main project components.

The unpredictability of the market systems in which CAVAC works means program activities must be constantly monitored, adjusted and re-evaluated. All CAVAC staff are tasked with managing this process supported by two full-time M&E specialists.

FURTHER READING

More information on poverty, gender, environment, the role of the host government, working with the private sector or CAVAC's M&E system can be found on CAVAC's website at www.cavackh.org.

KEY MESSAGES

- ▶ CAVAC's approach is a practical application of good development practices.
- ▶ Growth is a powerful tool for poverty reduction while the private sector drives this growth.
- ▶ Markets are too complex and ever-changing for linear off-the-shelf solutions.
- ▶ Initiatives are unlikely to get it right the first time, continuous monitoring, learning and adjusting ensure sustainable results.
- ▶ Understanding market realities and how innovations take place requires significant expertise and support from professional staff.
- ▶ Stimulating innovations in existing market systems works and has a high likelihood of sustainability.
- ▶ Securing buy-in from organisations for innovation and risk-sharing is difficult and time-consuming but is prerequisite for sustainability.

INFORMATION MARKETS

Probably the most important market for farmers is the one they rely on to make farming decisions and to innovate is the “market” for information.

The need for information changes continuously. New crop diseases emerge, new varieties require new farming practices, and new market demand requires new products, increased labour costs, or further mechanisation.

CAVAC distinguishes between (1) the early innovators, also called model farmers who try new ways of farming; (2) the early adopters, neighboring farmers who copy new ways of farming if the innovators are successful; and (3) the later followers who are the most risk averse farmers that only adjust their practices after being fully convinced.

The figure below shows public and private players that are important in assuring continuously updated information to farmers.

Presently the information market is not well developed in Cambodia. There is no culture of asking advice, nor a trust in the sources of information. That means that there are also limited incentives for the suppliers of information to improve this. CAVAC engages with all interested players to get this market going. It helps model farmers with basic skills to innovate; it brings model farmers and information sources together and it works with suppliers of information to improve their offer.

FIGURE 3: AN ILLUSTRATION OF ONE OF THE MARKETS IN WHICH CAVAC IS ACTIVE: THE MARKET FOR INFORMATION

