

Agri-Input Market Development in Azerbaijan

**Third Annual Report
April 2004 – January 2005**

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Acronyms and Abbreviations

AKTIVTA	Azerbaijan Agri-Input Dealers Association
AMDA	Agri-Input Market Development in Azerbaijan
CPP	Crop protection products
EC	European Commission
GOA	Government of Azerbaijan
GTZ	German Agency for International Cooperation
IFDC	An International Center for Soil Fertility and Agricultural Development
MOP	Muriate of potash
Mt	metric ton
NGO	Non-governmental organization
PSES	Private Sector Extension Service
RABD	Rural Azerbaijan Business Development
RECP	Rural Enterprise Competitive Program
SO	Strategic Objective
STC	Short-term consultant
TSP	Triple superphosphate
TTC	Technical Training Center
USAID	United States Agency for International Development

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Executive Summary

This report covers the period from April 2004 to January 2005. For consistency and ease of management, the report follows the format of the work plan submitted to the United States Agency for International Development (USAID). The work plan for Year 3—April 2004 to January 2005—is attached. Progress is reported for each of the four main program areas: (1) business development; (2) access to credit and finance; (3) technical training, transfer, and private sector extension services (PSES); and (4) association building.

The vision of the project “Agri-Input Market Development in Azerbaijan” (AMDA) is to increase production and productivity in the Azerbaijan agricultural sector, reduce rural poverty, and contribute to social stability in the region.

The mission of AMDA is to develop a business trade association and establish respective upstream and downstream sector linkages. The development concepts and strategic tools that were used include customer relationship marketing, information exchange, networking, supply chain management, value-added market chain, cluster building, and institutional development. In technical terms, emphasis is placed on delivering appropriate and high-quality inputs (including farmers’ best practices) and knowledge transfer through a private sector extension service (PSES) to the farming population through the agri-input dealers.

The goal is to properly position the Azerbaijani Agri-Input Dealers Association (AKTIVTA) in order to provide educational and training programs and facilitate communication exchange with related sector actors such as the farmers, international and national agri-input suppliers, fresh product traders, and the processing industry. In addition, advocacy and lobbying activities with Azerbaijani public authorities are conducted to enable growth of private

agricultural sector enterprises. Through these activities, AMDA directly contributes to USAID Caucasus SO 1.3: *Accelerated Growth and Development of Private Small and Medium Enterprises in Targeted Areas*.

AMDA began in February 2002 and developed working relations with all relevant actors, including private and public sectors as well as other donor projects and non-governmental organizations (NGOs) active in agriculture. The AMDA project was notified in March 2003 of its registration backdated to December 31, 2002. AMDA closed on January 30, 2005.

The Business Development Unit created a database of 85 agri-input dealers who are AKTIVTA members. These dealers regularly attended AMDA meetings and training programs. Dealers are networking and exchanging information and goods among themselves (importers, wholesalers, and retailers). Best farmers' practice demonstrations, on-farm trials, and a targeted approach towards customer marketing relationship building from AKTIVTA members to farmers tremendously improved business relationships. In 2004, AKTIVTA members provided services to more than 42,000 regular farmer clients. Lean supply management and demonstrating best farmers' practices resulted in an increased sales turnover for the major inputs such as fertilizer (50%), seeds (100%), and crop protection products (CPPs) (100%). In the fertilizer sector, 75% of all fertilizer is sold by AKTIVTA members to farmers. At the import level, AKTIVTA associated dealers import 95% of all fertilizers applied as no fertilizer is manufactured in Azerbaijan.

During 2004, the Credit, Financing, and Marketing Unit supported AKTIVTA members in granting six loans amounting to US \$111,500. Dealers' demand for AMDA support regarding loans decreased because in 2003 and 2004 a sound foundation was laid concerning the independent collaboration and cooperation between dealers and financing agencies. Until December 2004 no AKTIVTA member failed in credit repayment.

Total investment by AKTIVTA dealers using their own capital amounted to US \$109,750 in 2004. Through AMDA project activities, the business environment and investment climate improved in such a way that self-invested capital nearly equaled credit granted. Self-finance was

mainly used to build new or rehabilitate old shops, purchase agriculture machinery, and diversify and open such business activities as incubators, wheat mills, and cold storage facilities.

Trade missions to Turkey and Russia resulted in the introduction of new agri-inputs (fertilizers, CPPs, seeds, and machinery). Individual marketing campaigns for selected agri-inputs were designed and respective products promoted among farmers in collaboration with AKTIVTA members and importers. New import supply sources for fertilizer in Russia increased imports by 50% or 20,000 mt.

The technical training, transfer, and private sector extension service unit conducted 66 seminars, workshops, training, demonstrations, on-farms trials, and field days attended by 4,131 participants. The PSES approach is based on building a lasting customer marketing relationship between agri-input dealers and their farmer clients. In collaboration with farmers, agri-input dealers identify problems related to productivity increase faced by farmers. Individuals or a group of AKTIVTA dealers request AMDA advice on how to overcome these technical problems. At an agreed day and time, AKTIVTA members invite farmers to meet at the dealers' shop to attend technical training sessions. To introduce new input demonstrations, trials are conducted on the fields of farmers. Results are made public at open field days.

Emphasis was placed on crops having a comparative advantage at domestic or export markets such as potato, tomato, onion, cucumber, cabbage, apple, wheat, corn, alfalfa, and various vegetables.

In addition, leaflets, booklets, posters, and media campaigns (newspapers, TV) are used to promote respective recommendations to a larger audience. In total, 4,650 publications were disseminated by AKTIVTA dealers in 2004. AMDA became known as an innovative source for modern agronomic practices evidenced by requests from other agricultural development projects, private companies active in cotton growing, local consulting companies, and public offices. Public media such as TV (10 broadcasting) and newspapers (eight newspaper articles, three AKTIVTA newsletters, and six agriculture commodity reports) are regularly broadcasting and publishing information about agri-inputs and best farmer practices.

Four new greenhouses were erected and started production in 2004 using imported technology such as “intelligent” plastic covers, drip irrigation, and fertigation fertilizers.

The Association Building Unit maintained a database of 85 registered agri-input dealers at the end of December 2004. In April 2004, AKTIVTA was officially registered by the Azerbaijani Ministry of Justice. AKTIVTA is the first and only registered agriculture association since USAID set up offices in Azerbaijan. In total, nine seminars and workshops were conducted aiming at organizational sustainability of AKTIVTA. The AKTIVTA Business Plan for 2005 focused on financial, organizational, and institutional sustainability. The AMDA close out in January 2005 communicated in October 2004 to AMDA did not allow much time to secure this ambitious goal, especially when taking into consideration that AKTIVTA was registered officially in April 2004.

Customer relationship marketing, networking, information exchange, supply chain management, and organization building are AMDA core strategies to promote AKTIVTA and increase collaboration among members. Member dealers started business transactions among themselves based on farmers’ demands. A survey conducted in 2004 revealed that AKTIVTA dealers service more than 42,000 regular farmer customers. Trade missions to Turkey and Russia opened markets for new agri-inputs and provided additional supply sources.

AMDA initiated and conducted meetings aimed at tomato cluster building in the Lenkeran district involving agri-input dealers, farmers, and the agro-processing companies. Improved quality standards, increased production volumes, and output consistency of tomatoes form the basis for the cluster-building process related to both upstream and downstream sectors. AMDA invited the USAID-financed Rural Enterprise Competitive Program (RECP) and Rural Azerbaijan Business Development (RABD) programs, providing both with a practical introduction of cluster-building processes for future coordination and collaboration.

During the third year of project implementation, AMDA gained a high degree of trust with agri-input dealers and the progressive farmer communities. Increasing demands for AMDA

and AKTIVTA services provide a valuable indicator for the technical assistance offered. Information supplied by AMDA is based on demands from dealers and farmers regarding productivity increase, market information, economies of scale, and knowledge transfer. AMDA addressed aforementioned requests, increasing dealers' sales of fertilizers, seeds, CPPs, and other production inputs.

Agri-Input Market Development in Azerbaijan

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Highlights of Program Achievements

The main aim of AMDA is to develop a reliable and efficient private sector distribution system for appropriate agri-inputs and embodied technologies. This is accomplished by establishing an agri-input dealers' association supported by business development advice; credit, finance, and marketing facilitation; association building; technology transfer; and private sector extension services to dealers, farmers, and related institutions and organizations.

Operation and Management

AMDA started project implementation in February 2002 and was officially registered in December 2002. From the very beginning, contacts with other USAID-financed SO 1.3 partner projects, various donor projects active in the agriculture sector, as well as public and private organizations and institutions were developed. International and local short-term consultants (STCs) contributed to problem solving of selected topics such as association building, introduction of greenhouse production and drip irrigation technology, cluster building, and private sector extension services (PSES). AMDA closed out January 30, 2005.

Work Plan 2004/2005

The annual work plan is provided in Appendix 1 as a project planning matrix. All AMDA activities aim at supporting SO 1.3.

Business Development and Training

Indicators

1. Identification of potential customer clients.

During 2004 more than 120 dealers were contacted, and 85 agri-input dealers were registered AMDA members in the four project regions. AMDA members are very active

and contribute to cost-sharing activities such as demonstrations and private sector extension services. The dealer database is regularly updated and open for new candidates.

Contacts were developed and maintained with the five largest agri-input importers. These importers are associated AKTIVTA members. In this way they are allowed to gain access to a nationwide distribution network; however, they are not able to dominate the association or develop monopoly supply chains. Many AKTIVTA members are representatives of the associated importers thus allowing price and product competition in rural areas for inputs.

2. *Presentation of project support.*

Regular visits to the four regional AKTIVTA subgroups aimed at technical training to increase sales turnover and create basic conditions of an open market economy. AKTIVTA dealers became known as trusted supply sources for agri-inputs and agricultural advice by international donor projects, Azerbaijani public offices, local NGO projects and, most importantly, the farming population.

3. *Training customer clients.*

Technical (42), association (15), and business management (9) training sessions were held in the four project regions (see as well Association Building, Technology Transfer, Access to Credit and Finance). Major foci were the improvement of supply chain management providing agri-inputs in time, demanded quality, competitive prices, and customer relationship building.

4. *Development of a business plan.*

Requests for assistance in preparing business plans declined compared with previous years. In total, 101 dealers attended nine training units. Causes for the decline are that financing agencies—the primary source requesting business plans—prefer developing their own business plans for credit. This is a success of the business relationship building initiated by AMDA in previous years.

5. *Collection of agri-input market information.*

On a monthly basis, the collection and distribution of agri-input prices were accomplished. Each monthly bulletin had a circulation of 550 copies. Furthermore, trade missions to Turkey and Russia resulted in a better overview of products and prices at international markets. Regular AKTIVTA meetings in the regions promoted information exchange and networking among AKTIVTA members. This promoted the underlying principle of transparency in an open market economy.

6. *Processing of international importation price requests.*

Trade missions to Russia increased the supply of different kinds of fertilizers and new supply sources were identified. Interested importers received weekly international price information. Since AKTIVTA moved to its own office in December 2004, such requests have been dealt with directly by AKTIVTA.

7. *Arrangement of imports.*

During 2004 a total of 60,000 mt fertilizers was imported by AMDA members and associated dealers. Some AKTIVTA members are regional wholesalers; however, most are retailers. About 85% of the total imported fertilizers are distributed by AKTIVTA members to end users.

Vegetable seed imports realized by AKTIVTA members are estimated at 45 mt. In addition, 1,300 mt of seed potatoes were imported from Russia.

CPPs are regularly imported by three large firms (Asif, AgroKimya, and EMA) and a group of smaller importers mainly from Turkey and Russia. According to AMDA estimates, CPP imports doubled from US \$1.5 million in 2003 to US \$3 million in 2004. No quantitative tracking was possible because records from the main importers were not made available. The above figures were mentioned by supply sources in Turkey during the trade missions.

8. *Accomplishment of training workshops.*

In total, 42 technical training sessions on various topics were conducted by the project and attended by 3,812 participants. In addition, 20 dealers participated at two trade

missions to Turkey and Russia. Through the Cochran Fellowship Program, two dealers participated in training in the United States, which emphasized the introduction of new production technologies, supply chain management, and customer relationship building in the agriculture sector.

Access to Credit and Finance

Indicators

1. *Developing a compendium of providers for agricultural credit.*

An overview of agricultural financing and credit organizations/banks was developed and distributed to AKTIVTA members in 2003. In 2004 USAID financed the RECP program, which published a report listing all credit and loan agencies and credit conditions in Azerbaijan.

2. *Identification of credit tools.*

AMDA actively promoted credit services offered by CredAgro, a USAID-financed SO 1.3 partner project. AMDA and CredAgro collaborated to develop a common approach regarding credit access for AKTIVTA members.

3. *Conducting training workshops.*

In all four project regions, meetings were held in collaboration with CredAgro to introduce and set up a regular credit information exchange between agri-input dealers and CredAgro.

4. *Preparation of credit applications in collaboration with dealers.*

In total, 16 individual meetings were held with agri-input dealers to prepare credit applications.

5. *Number of credits awarded to clients.*

Six agri-input dealers were granted credits amounting to US \$111,500. At the end of December 2004, no AKTIVTA member had defaulted in credit repayment.

A survey revealed that AKTIVTA members invested US \$109,750 in 2004 using their own capital to improve business infrastructure. This is a good business indicator demonstrating that dealers are committed and appreciate the advice received from AMDA. Funds are commonly used to renovate shops and warehouses as well as to diversify into activities such as chicken egg hatching, cold storage facilities, and purchase of agricultural machinery used for contract work. Creating a positive vision and a sound business environment led to investments, thereby creating new jobs and improving the socio-economic stability in rural areas. In addition, it contributed to the reduction of the present rural-urban migration of people and attracted needed capital investment in rural areas.

Marketing—Information exchange, networking, and customer relationship building are commonly used tools improving marketing activities. Emphasis was placed on creating a lean supply chain from importers via wholesalers to retailers. Four training courses provided the base to increase sales to farmer customers. At the same time, safety regulations for CPPs were updated.

Technical Training, Transfer, and Private Extension Service

Indicators

1. Increased types of input products available through dealers.

In all three input areas (fertilizers, seeds, and CPPs) increased availability and sales were observed. There are two major reasons for this. First, AMDA/AKTIVTA organized international trade missions to identify new supply sources and foster existing supply relationships. Second, results of open field and greenhouse demonstrations convinced farmers and dealers that applying different factor combinations increases output by using new inputs and the technology.

Four new greenhouses were erected in 2004 bringing the total AMDA-introduced modern greenhouses to seven. Locations are Tovuz, Ganja, Absheron, Natchevan, and Lenkeran covering all AMDA working areas. The greenhouse skeleton is purchased at local bazaars whereas the “intelligent plastic” covers and the gravity drip irrigation unit are imported. Moreover, 20 mt of fertigation fertilizer was imported and sold until

January 2005. Three dealers have indicated interest to continue importation from Israel and one associated dealer from Turkey.

Note: AMDA does not purchase or apply any CPP. All CPP use is at the discretion and under control of the landowners of the TTC.

2. *Field days for dealer clients.*

In 2004-05, a total of eight field days were conducted and attended by 424 dealers. The focus was on inputs such as different wheat, corn, and vegetable seed varieties; different kinds of fertilizer; and new CPPs applied on wheat, potato, various vegetables, and apple production.

The attention to increasing potato output productivity by AMDA/AKTIVTA during the last 3 years finally paid off, showing excellent results by increasing output to 930,000 mt in 2004. This is a 21% increase or 195,300 mt over 2003 (State Statistical Committee, January 2005). As a result, potato exports to neighboring countries increased.

3. *Field days for farmer clients.*

In collaboration with dealers, 13 field days for wheat, tomato, apple, and potato production were conducted and 2,679 progressive farmers attended.

4. *Introduce private sector extension concepts and techniques to dealers.*

All 85 registered AKTIVTA members participated at meetings explaining the private sector extension concept and strategies. The concept is based on organizing and inviting regular farmer customers by respective dealers at their shops. Dealers collect problems/complaints faced by farmers in field production. AKTIVTA and dealers prioritize technical training to address farmers' problems. Thereafter, AMDA and AKTIVTA trainers conducted training at dealers' shops. This concept introduced the idea to farmers that dealers are a reliable source of information and input supplies.

The underlining strategy of this concept is to show farmers that dealers are not only a reliable source of input supplies but also simultaneously an information source of how to use traditional and new highly productive inputs. In this way a supplier-customer

relationship is developed. Trust, reliability, competence, and availability are core topics when conducting business activities and sales. The aforementioned are basic guidelines stated in AKTIVTA documents. Addressing and developing customer marketing relationships are new concepts and strategies in post-socialistic countries.

The activities mentioned above were supported by providing different leaflets, brochures, posters, and information material produced by AMDA/AKTIVTA. Dealers exclusively distributed these publications to their farmer clients. Farmers not only purchased a product from dealers but also received product information explaining application and benefits of purchased inputs.

In 2004, 17 new publications (4,650 copies) highlighting topics such as fertilization, high-yielding seed varieties, and proper pest and disease control were written and distributed. National and local TV stations broadcast eight TV documentaries, each reaching an approximate audience of 500,000 farm families. Moreover, AMDA and AKTIVTA initiated two special TV broadcasts (60 minutes each). The popular AzTV1 series “Dialogue” paid attention to (a) services provided by AKTIVTA and its members to the farming population and (b) addressing improved ways to control pest and disease in plant production. It is estimated that the national total farm crop output is reduced by one-third every year due to improper control measures.

During this reporting period, eight newspaper articles, three AKTIVTA newsletters, and six agriculture commodity reports were published. The total readership is estimated at 50,000 primary readers. The secondary readership may reach as many as 150,000 persons when multiplying by factor three.

5. *Introduce safety training in handling, storage, and application of CPPs.*

One booklet (1,000 copies), two newspaper articles, and four seminars addressed safety training, storage, and application of CPPs. Some dealers reacted by developing new safety applications. AKTIVTA dealers were especially noted for their high national standards in a GTZ report researching agriculture input supply policies, including pesticide and pesticide safety regulations.

Association Building

Indicators

1. Association organizational meetings.

Five meetings addressed issues regarding strategic planning; one seminar was conducted on roles and duties of regional vice presidents; one workshop targeted public relations; and the general annual assembly took place in May 2004. The main emphasis was placed on enabling AMDA officials to take their own initiative and responsibility for AKTIVTA business affairs.

2. Association registration and elections.

Local elections for regional vice presidents, working committee members, executive council members, and the AKTIVTA President were conducted in 2003. Candidates had been elected for a period of 2 years until May 2005. The 12 executive council members and the 5 regional vice presidents called for the constituent assembly of AKTIVTA in April 2003.

In April 2004, the Azerbaijani Ministry of Justice officially registered AKTIVTA. AKTIVTA is the first and only registered association in the agriculture sector by a USAID partner project. This unique success for AKTIVTA, IFDC/AMDA, and USAID was announced at the annual assembly in May 2004. All other “associations” supported by USAID partner projects or other donor projects in previous years are called associations; however, none are registered. The difference between officially registered associations by the Azerbaijani Ministry of Justice and other organized groups simply referred to as “associations” is enormous with regard to formal and informal status, active participation concerning policy issues, and access to grants.

3. Association advocacy, media events, and position papers.

After official registration, AKTIVTA contacted the Ministry of Economic Development and the Ministry of Agriculture to present AKTIVTA and its role concerning the development of the agriculture sector and contributions to rural development. Both ministries recognized the importance of an officially registered association and agreed to collaborate. During 2004, AKTIVTA was contacted by the Ministry of Agriculture and

the Ministry of Finance for advice concerning supply of agri-inputs and control measures for a disease in wheat production (financed by the European Commission [EC] through the Ministry of Finance as direct state budget contribution destined for the Ministry of Agriculture).

The general assembly announcement of the official registration was nationwide and broadcast by AzTV1 and published by several newspapers. Moreover, AzTV1 broadcast two round table discussions initiated by IFDC/AMDA and AKTIVTA (60 minutes each). The first round table discussion addressed the registration of AKTIVTA and organizing groups in the agriculture sector realizing economies of scale. The second round table discussion centered on efficient pest and disease control measures in agriculture production. It is estimated that about one-third of field crops are lost every year due to lack of knowledge and improper utilization of CPPs in field production. Participants were AKTIVTA members, AKTIVTA associated import companies, technical directors from the Ministry of Agriculture, and directors from state committees.

At later meetings, workshops, and seminars in the rural regions, interested private persons and officials praised AKTIVTA for addressing and broadcasting problems, issues, and topics related to agriculture. For the time being, AKTIVTA is the only association that critically addresses problems related to the agriculture sector.

For example, registration helped a great deal to solve problems with the national customs office regarding the importation of seed potatoes from Russia by AKTIVTA dealers. The Customs Office in Baku demanded US \$300/mt imported seed potato as an import duty but rules and regulations for that demand could not be provided. The AKTIVTA Executive Director and the Senior Agronomist had a meeting with high customs officials on this issue. First, Customs did not want to attend the proposed meeting; it took place only when Customs learned that AKTIVTA was asking for the meeting. It appeared that the Customs Vice President remembered the broadcasting of AKTIVTA round table discussions. As a result of the meeting, only AKTIVTA members were excused in paying the "import duty." In 2004 AKTIVTA members imported 1,300 mt of seed potatoes from Russia. Accordingly, AKTIVTA members saved about US \$390,000.

AKTIVTA members submitted two position papers to the Ministry of Agriculture concerning the improvement of rules and regulations for seed imports. As a result, AKTIVTA was invited by the Ministry of Agriculture to participate at the EC-initiated Seed Policy Regulation Seminar chaired by the EC High Commissioner. In November 2004, the Ministry of Agriculture requested AKTIVTA to provide further details and explanations regarding international seed policy standards.

AKTIVTA asked other associations and informal groups working in the agriculture sector (including those supported by different donors) to collaborate on common topics and start a general information exchange. Unfortunately, such collaboration was denied by all contacted. This indicates very clearly that collaboration among domestic registered organizations and international donors is still at a low level.

4. *Association business plan.*

In total, seven meetings (five by IFDC/AMDA and two by STC Ed Beaman) were conducted addressing the AKTIVTA business plan; 82 executive council members, working committee members, and regional vice presidents attended the meetings.

Due to the close out of IFDC/AMDA, the budget and related expenditures in 2005 were critically analyzed. In January 2005, AKTIVTA capital reached US \$40,000, which is sufficient to cover operating costs until February 2006. During 2005 new sources of capital need to be identified. Unfortunately, neither the USAID partner program RABD (supporting processors) nor RECP (supporting farmers) will provide grants to AKTIVTA, although both are working under SO 1.3.

5. *Trade missions to Turkey and Russia.*

One trade mission visited Turkey and two trade missions were made to Russia. The trade missions were aimed at identifying new supply sources, building business relationships, networking, receiving information concerning new products, and allowing international price comparisons. The trade mission to Turkey focused on seed supply, agricultural machinery, and CPPs. The trade missions to Russia emphasized potential importation of fertilizers.

Imports for crop protection products from Turkey doubled in 2004 from US \$1.5 million to US \$3 million. Moreover, participating dealers purchased four motorized sprayers. After demonstrating these sprayers in the field during AKTIVTA technical training units, the Azerbaijani representative of the Turkish supplier imported 100 sprayers.

Smaller amounts of new fertilizer products totaling 5,000 mt (NPK, MOP, and SOP) were imported from Russia. Visiting an agricultural fair in Moscow resulted in the identification of new supply sources particularly for AN and P. A total volume of 45,000 mt of AN was imported by associated AKTIVTA dealers. A total of 10,000 mt of AN was supplied from Georgia. From a previous trade mission to Israel, 20 mt of fertigation fertilizer was imported.

Leveraged Support and Cooperation

Since inception of the project, AMDA has maintained regular relationships with SO 1.3 partners, international donor projects, public offices, and national and international private companies.

- Continuously developed international contacts and fostered relations with the private sector for seed and fertilizer supply such as *Europlant*, potato seed, Germany; *Seminis*, vegetable seed supplier (Asgrow, Petoseed, Royal Sluit, Bruinsma), The Netherlands; *May Agro Tec*, seed producer, Turkey; *Jecot*, fertilizer supplier, Switzerland; *Rustavi Chemical Plant*, fertilizer supplier, Georgia; *Uralkaly*, fertilizer manufacturer, Russia; *Phosagro*, fertilizer manufacturer, Russia; *Asterix*, fertilizer supplier, Russia; *Azot Corp*, fertilizer manufacturer, Russia; *Haiifa Chemicals*, fertilizer manufacturer, Israel; *Safa Tarim*; *Hektash*, *DuPond*, *Koruma*, crop protection products supplier, all Turkey.
- Close collaboration with the ACDI/VOCA-supported CredAgro financing organization to increase credit availability to dealers. Nearly all credits granted to AKTIVTA members were provided by CredAgro.

- Maintained regular contacts with the European Commission (EC) Food Security Program and the German Agency for International Cooperation (GTZ) on issues pertaining to agricultural policies.
- Regular contacts with ADRA, USAID partner project SO 1.3, resulted in a contract to build two greenhouses including gravitation drip irrigation units.

Cost-Sharing Contribution

Cost-sharing contributions are a critical factor in ensuring the financial and organizational sustainability of AKTIVTA, including networking, information exchange, advocacy, lobbying, and business promotion. Cost sharing is divided into direct and indirect contributions by dealers. During this reporting period, total cost sharing amounted to US \$380,629 (details of the contributions can be found in past monthly and quarterly reports). The overall total for the 3 years of AMDA implementation amounts to US \$1,117,959 with US \$380,629 in 2004.

Dealers and farmers participating in demonstrations contributed in kind by providing land, labor, and machinery. Moreover, IFDC/AMDA discussed with international suppliers and importers of agri-inputs to pay for the introduction of new agri-inputs at the field level using AKTIVTA technical demonstrations. It may be concluded that all field preparations and inputs are paid for; only the supervision of demonstrations was paid by IFDC/AMDA.

Creating an incentive-based market business environment relating dealers to competitive international supply markets, linking farmers and dealers through customer relationship building approaches, and implementing product marketing campaigns resulted in increased self-investments by dealers totaling US \$109,750 in 2004. Building new shops, renovating existing shops, purchasing of agricultural machinery, building a cold store with a capacity of 350 mt, as well as developing new income generation activities such as chicken egg hatching, flower mills, and decorative flower growing were main investment targets.

Self-investments by dealers are a true indicator of improvement in market-based business. The underlying marketing tool used was the customer relationship building between dealers and farmers based on real demand.

AKTIVTA members were awarded credits amounting to US \$111,500 in 2004. Complaints about high interest rates continued. However, the increasing number of AKTIVTA members being approved for credit and the diversification of investments support the general trend of rural economic growth potential in Azerbaijan.

Membership dues and fees were paid during the last 2 years of project implementation. Although members are willing to pay for trade missions, they are still hesitant to pay cost-covering contributions for AKTIVTA business services. This is partly related to the fact that dealers do not immediately realize direct benefits resulting from advocacy or lobbying activities and technical demonstrations.

AKTIVTA applied for grants with several projects and grant-providing programs; however, no proposal was approved. Reasons for rejections were that AKTIVTA is not a profit-oriented organization and does not especially address Internal Displaced People or gender guidelines. Moreover, grant programs believe that it is better to provide grants to individual farmers stimulating production and output marketing. Unfortunately, grant providers do not realize the economies of scale inherent of AKTIVTA work.

Appendix 1—Project Planning Matrix 2004/2005

<p>Overall Goal: SO 1.3: Accelerated Growth and Development of Private Small and Medium Enterprises in Target Areas</p>			
<p>Goal: Agricultural productivity sustainable increased and rural poverty reduced in selected rural regions through private agri-input entrepreneurs association</p>	<p>Farmers applying recommended agronomic practices realize a higher yield per hectare as compared with others Development of an association has a positive effect on increased availability of agri-inputs <i>Note: goal indicators describe national trends</i></p>	<p>⇒ Annual results from sample plots ⇒ Customs Office data and AMDA dealers survey</p>	
<p>Project Purpose: Agri-input dealers are organized in an association and develop lasting up and down stream sector linkages</p>	<ol style="list-style-type: none"> 1. National private membership association developed and registered 2. At least four issue-based working committees are organized and provide advocacy 3. Sales of agri-inputs are doubled in volume between 2002 and 2005 4. Dealers gain access to credit being loaned US \$560,000 in 3 years 5. Market responsiveness of enterprises increased in technical, marketing, and agronomic fields by adopting private sector extension approach 	<p>⇒ Reports by AMDA + Ministry of Justice ⇒ Reports of association Working Committees ⇒ Annual survey of association members on business activities ⇒ Technical AMDA reports</p>	<p>Complementary activities in the field of farm output marketing are supported by GOA or donor projects. Public polices promote registration of associations.</p>

Results: 1 Private membership association for agri-input dealers developed and organizational base solidified	1.1 At least 80 agri-input dealers join the association as members 1.2 Association Executive Council and President elected 1.3 Association strategic plan and budget approved by members	⇒ Quarterly/annual AMDA/association reports	Developing an association is of high priority for agri-input dealers
2 Working Committees on selected issues are set up, in operation, and provide policy statements	2.1 Four Working Committees are set up and start advocacy activities 2.2 Every Working Committee develops one annual policy statement 2.3 Ministry of Agriculture collaborates with association as representative of the private sector	⇒ Reports from working committees ⇒ Ministry of Agriculture	Willingness of agri-input dealers to provide sound policy statements does not change significantly between planning and implementation
3 Access of loans granted to agri-input dealers and self-investments in physical infrastructure increased	3.1 Number of loans granted to association member agri-input dealers and non-members. 12/02 12/03 12/04 3 6 12 3.2 Amount in US dollars on self-investment in physical infrastructure 12/02 12/03 12/04 60,000 90,000 100,000	⇒ Reports from financing agencies and AMDA ⇒ Annual survey of association members	Credit agencies grant loans to agri-input dealers, farmers, and processors
4 Dealers responsiveness for demand-oriented products raised	4.1 Doubling the baseline volume or value of commercially traded fertilizer, high-yielding seed varieties, and CPPs over the project period 4.2 Number of new agri-inputs introduced 12/02 12/03 12/04 2 4 4 <i>(Calculation of quantitative targets based on farmers' demand)</i>	⇒ Annual survey of association members ⇒ Technical AMDA reports ⇒ Annual reports from Customs Office	Farmers are gaining increased access to product output markets
5 Agri-input dealers' business skills are raised responding to supply and demand oriented markets	5.1 Six trade missions and study tours conducted 5.2 At least 10 training courses conducted 5.3 Dealer group approach to importers established	⇒ AMDA reports	Cooperating agri-input dealers remain active in the field of input supplies

6 Dealers adapt private sector extension service approach by conducting demonstrations, introduce innovations, and respective messages are published/broadcasted	6.1 Fifty technical publications and 15 TV broadcasts 6.2 Introduction and adaptation of private sector extension service 6.1 Number of agronomic meetings/open field days/on-farm trials 12/02 12/03 12/04 10 30 40	⇒ Newspaper articles, TV broadcasts ⇒ AMDA technical reports	Farmers are having increased access to credits and farm output markets
	6.4 Dealers sell agri-inputs to 30,000 farmers 6.5 Progressive farmers increase yields by 20% 6.6 Four greenhouses are set up and in operation 6.7 Three training courses on greenhouse operations and drip irrigation	⇒ AMDA dealer survey ⇒ AMDA reports	

1.1	Conduct regular Executive Council meetings including reporting of Working Committees										Farid (F), Ylli (Y), Committee Chairmen (CC), President (Pr),
1.2	Conduct workshop on strategic planning for Executive Council and regional subgroups										Jim Stanelle, Pr, F, Y
1.3	Review Executive Council duties and association election procedures										
1.4	Conduct Annual General Assembly to approve strategic plan, standard operation procedure manual, and business plan										Pr, EC, F, Y
1.5	Register association										Pr, F, Y
1.6	Develop association capacity providing fee-based services to members										EC, F, A, O, Y, M
1.7	Conduct seminar for Executive Council on writing grant applications										Pr, EC, F, Y
2.1	Develop and support all Working Committees										Working Committees (WC), F, Y
2.2	Credit + Finance: Collect, assess, and disseminate information on credit conditions/lines and prepare proposals for association financial sustainability										WC, F, Oleg (O) Y
2.3	Marketing: Identify demand for new products and initiate respective marketing campaigns										WC, F, O, Y
2.4	Membership + Ethics: Develop membership base and provide guidance to business conduct/ethics										WC, F, Anar (A), Y
2.5	Technical Development: Develop, recommend, and disseminate farmers best practices										WC, Nizami (N), Nazakat (Na), Kenul (K), Shahin (Sh), Yosi (Yo), F, Y
2.6	Government Liaison: Building public-private partnership relations										Pr, F, Manfred (M), Y,
3.1	Collect and analyze credit line conditions for dissemination to association members										Oleg (O)
3.2	Advise dealers on preparing business plans for credit approval										O, Anar (A)
3.3	Monitor and evaluate repayment of dealers credits										O
3.4	Support relationship building between association and credit agencies										O, WC
3.5	Monitor and document dealer self-investments in physical infrastructure and other agriculture related activities										O
3.6	Analyze and recommend economic/credit viability for greenhouse investment										O, Sh, Yo, M
4.1	Prepare seasonal demand forecast for fertilizer imports										O, A, Y, M
4.2	Initiate marketing campaigns for selected agri-inputs										O, A, MC, TC
4.3	Conduct training courses for dealers on marketing of agri-inputs										O, A

Appendix 2—Cost-Sharing Contribution

End of December 2004 Value of Cost Sharing in U.S. Dollars

No.	Activity	Jan	Feb	Mar	Apr	May	June	July	August	Sep	Oct	Nov	Dec	Total
1	Association meetings/member visits	1,220	450	720	780	7,905						2,410	1,190	14,675
2	Field days/advisory visits	360	3,690	210	1,150	8,120	14,300	4,020	940	5,140	1,100	10,380		49,410
3	Seminar/business counseling		2,265			1,875	21,500			650	9,920		5,850	42,060
4	International supplier presentation		7,000			1,190	4,950							13,140
5	Transportation													
6	Trade missions/study tours		1,100				3,600							4,700
7	Media coverage	600	300	500	350	10,450	300	600		1,800		100		15,000
8	Credit obtained		10,500	5,000				6,000	82,000			20,000	3,500	127,000
9	Grants obtained													
10	Investment by dealers						50,170						59,580	109,750
11	Membership fees and dues			30	90	150				2,920				3,190
12	Association Service Fees		604	1,100										1,704
	Total US \$/Month/Year	2,180	25,909	7,560	2,370	29,690	94,820	10,620	82,940	10,510	11,020	32,890	70,120	380,629
	Accumulated total from February 2002 to last month reported: US \$1,117,959													

Appendix 3—Collaboration of USAID Partner Projects in the Azerbaijan Agriculture Sector

Integration of Horizontal, Vertical, and Cluster Activities

As foreseen in the USAID Strategic Plan 2004–2009 for Azerbaijan, the focus in the agriculture sector will be on developing the product market chain by integrating activities of the actors forming the market chain. Presently, there are three major agricultural USAID partner projects: AMDA—providing support to agri-input dealers; RABD—providing support to farmers; and RECP—providing support to agro-processors and traders. In addition, CredAgro (providing credits in rural regions) and the Farmer-to-Farmer Program (providing technical assistance) are in place. These two latter projects are to provide services (not exclusively but targeted) to all three mentioned partner projects: AMDA, RABD, and RECP. An attempt is made to outline the supporting partner projects and their target groups on (a) the market chain with sequential horizontal activities; (b) the key elements of vertical technical assistance for respective individual target groups of each partner project; and finally, (c) identification of common overlapping activities beneficial for both USAID partner projects and their relevant target groups resulting in cluster building.

The Horizontal Market Chain

The market chains need to be demand driven with identified demand information flowing from consumer markets to processors, producers, and farm input suppliers. For ease of understanding, the market chain starts with the agri-input dealers supported by the AMDA project. Without qualitative inputs such as seed, fertilizer, crop protection products (CPPs), irrigation, machinery, and other equipment, farmers will not be able to start market-oriented production. Hence, a real demand-oriented relationship needs to be developed from input dealers to farmers as to forecast quantities, quality, and input products requested by farmers. Moreover, contacts need to be developed with the processors to learn which seed varieties, product quality, and product availability are required by processors from farmers. This is important regarding technical advice to farmers from both sides—agri-input suppliers and demand from processors/traders.

The next actors on the market chain are the farmers supported by RABD. Farmers require appropriate inputs according to the demands of processors and the fresh products traders. There are distinct differences if producing for fresh product or processor markets. This mainly concerns the choice of respective agronomic practices, production economics, technical requirement in terms of marketing for the individual product grown, and the marketing relationship building between the actors concerned.

Traders are taking the role of intermediaries between farmers and fresh product markets and/or processed product markets. The importance of their roles for the fresh product markets and the processed products markets still needs to be surveyed and analyzed.

The next actors on the market chain are the processors (and traders of fresh products) supported by RECP. Processors are required to keep relationships with both farmers and agri-input dealers. Whereas the relationship towards farmers as suppliers of demanded raw material is quite obvious, the relationship needs to be extended to agri-input dealers in cases where processors do not provide the agri-inputs to farmers as it is for the majority of crops, fruits, and vegetables with the exception of industrial crops such as cotton.

To complete the market chain, a column of wholesale/retail/traders is added to provide an overall picture before products reach the consumers. Which role these wholesale/retail/traders presently play is unclear and needs to be surveyed and analyzed.

Figure 1 shows the market chain and the sequential position on the market chain for each partner project.

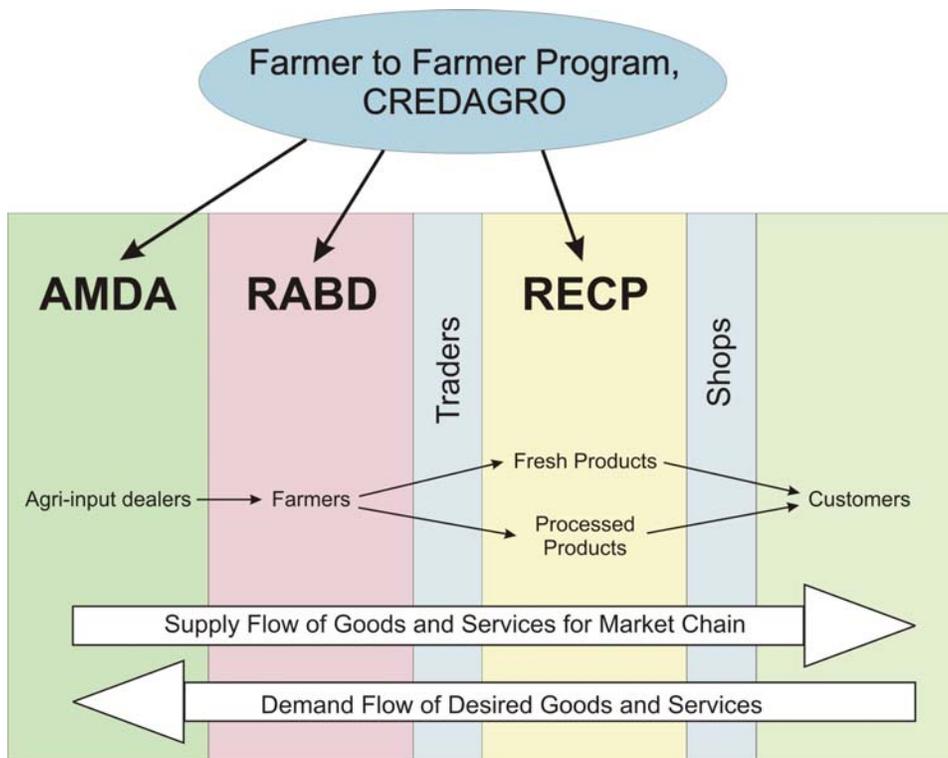


Figure 1. Simple Chart of Market Chain for Agricultural Products

Partner Projects and Vertical Target Group Support

All partner projects collaborate with their specific target group; e.g., agri-input dealers, farmers, and processors/traders. Parameters for identifying target groups may vary according to volume of production, geographic location, products, comparative advantage, etc. However, it should be kept in mind that, for developing a market chain, it is of utmost importance that pre-succeeding target groups match the economies of scale of the following partner on the market chain. All determined project target groups may receive the same key elements of assistance such as organizational support, knowledge transfer, market information, access to appropriate technology, financial assistance, etc. Although the key elements of technical assistance can be identical, in practice, however, the financial support to farmers or processors differs tremendously in numbers and individual amounts required. The organizational support to farmers vis-à-vis processors differ in dimension, logistics, and attitude. This is to say that all target groups of individual partner projects require specific technical assistance according to the nature of their economic activities—trading, production, and processing. Details of supporting activities by each partner project are specified in the respective annual work plans.

Figure 2 shows the vertical integration of technical assistance for each of the project partners' target groups. No claim is made for complete bulleting of support measures provided to individual targets groups by their partner projects.

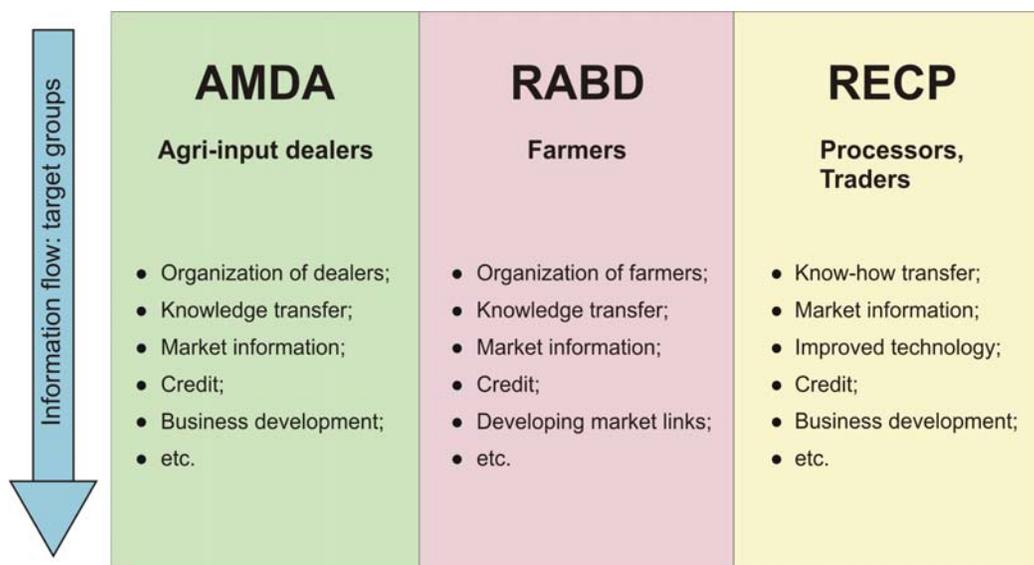


Figure 2. Technical Project Assistance and Vertical Integration

Identification and Development of Cluster Building

Recently many discussions have been held on the definition of clusters. For ease of understanding in this paper, clusters are *groupings of supporting and related businesses that are interlinked through customers, suppliers, and other relationships that work together to support, innovate, and upgrade the quality of a given product or service*. Traders and outlet shops are not considered in Figure 3 for ease of understanding and their present unclear role with regard to technical assistance being provided.

Both the horizontal market chain and the vertical technical project assistance provided by USAID partner projects to their respective target groups are being presented in one figure. The new areas are those circles in which overlapping activities are indicated. Although the primary intent of each project is to support its own target group, there is considerable overlap of interests and activities under the purview of AMDA, RABD, and RECP. It is not possible to meet part of each partner project objectives without significant interactions and collaboration of the partner projects. The activities of AMDA, RABD, and RECP are overlapping circles with the area in the overlap being “common territory” that requires collaboration. This ensures that cluster-building successes of the respective project will be advanced to the next link of the horizontal market chain. Relationship-building activities require close coordination and sharing of information between AMDA, RABD, and RECP to create lasting synergy effects.

Clusters in general are being defined as (a) work vertically and horizontally, (b) focus on a defined strategy, (c) include informal organizations, (d) are demand oriented, and (e) promote openness. Service areas considered to be of high interest for cluster activities are as follows: (a) competitive and high quality suppliers; (b) credit provision by the financing sector; (c) business development activities; (d) storage, transportation, and distribution; (e) ties with research institutes; (f) quality of private-public dialogue; and (g) quality of education and training providers.

Selected Cluster Strategies may focus on (a) market linkages, (b) standards and certifications, (c) work force development, (d) technology transfer, (e) infrastructure support, and (f) policy dialogue to enhance environment for business.

Final Remarks

This brief paper attempts to highlight major points in developing an agriculture market value-added chain in Azerbaijan including the vertical integration of technical support to selected target

groups, horizontal integration of up- and down-stream participants, and the building of cluster relationships. Deriving from this brief outline, details concerning the practical collaboration between AMDA, RABD, and RECP still have to be identified and agreed upon.

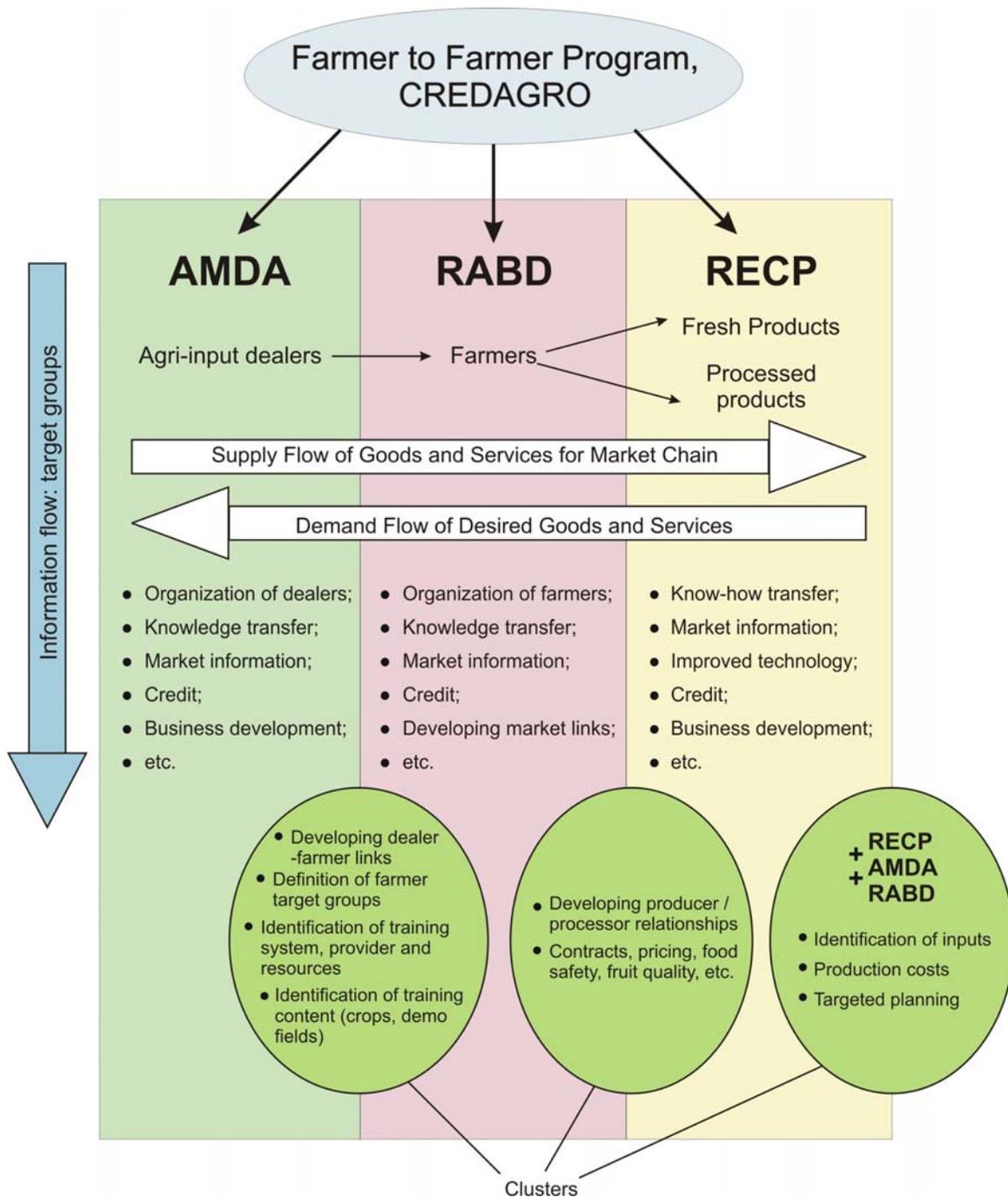


Figure 3. Cluster Building AMDA, RABD, and RECP

Appendix 4—Summary of Technical, Association, and Business Development Training Units

Appendix 4a: Summary of PSES Activities in 2004

Activity	Number of Trainings	Participants
Technical Training Units Dealers	8	83
Technical Training Dealers and Farmers	21	1,050
Field Demonstrations and Open Field Days	13	2,079
Association Meetings	15	218
Business Development	9	101
Total	66	4,131

Detailed Trainings, Seminars, Demonstrations, and Open Field Days

No.	Activity	Units	Region and Date	Participants
Technical Trainings				
1	Weed control in wheat	1	Sheki, May 07	20
2	Use of sprayers	1	Istanbul, June 07	9
3	Quality seed production	1	Bursa, June 08	9
4	Use of CPPs	1	Konya, June 09	9
5	Use of agric machinery	1	Nevshehir, June 10	9
6	Seed potato production	1	Nevshehir, June 10	9
7	CPP application	1	Koruma, June 11	9
8	CPP application	1	Istanbul, June 14	9
Subtotal: 83 Participants				
Seminars with Dealers Regular Farmer Customers				
1	Pest and Disease Control in Potato Production	1	Jalilabad, May 04	21
2	Foliar Fertilizer Application	1	Guba, May 20	66
3	Onion Production	5	Shamkir, Samukh, Barda, Sheki; May, June, August, Sept, Oct	179
4	Alfalfa Production	1	Ismailli, August 05	24
5	Maize Production	1	Ismailli, August 18	23
6	Wheat Production	11	Ismailli, Samukh, Sheki, Jalilabad, Agdash; Sept, Oct	419
7	Fertilizer Application	3	Jalilabad, Sheki; Nov. 03, 04, 09	185
8	Greenhouse Tomato Production	5	Shamkir, Absheron, Agdash, Lenkeran; Oct 05, 06, 07, 22, 25	133
Subtotal: 1,050 Participants				

Field Demonstrations and Open Field Days				
No.	Activity	Units	Region and Date	Participants
1	Farmers Best Practices in Wheat Production	1	Sheki, June 30	62
2	Farmers Best Practices in Wheat Production	1	Ismailli, July 09	91
3	Farmers Best Practices in Potato Production	1	Jalilabad, June 11	48
4	Farmers Best Practices in Potato Production	1	Jalilabad, June 17	42
5	Farmers Best Practices in Potato Production (EMA)	1	Jalilabad, June 23	33
6	Farmers Best Practices in Potato Production	1	Tovuz, July 16	50
7	Farmers Best Practices in Potato Production	1	Tovuz, July 20	53
8	Farmers Best Practices in Potato Production	1	Guba, Oct 07	45
9	Wheat Open Field Days	4	Ismailli, Sheki	540
10	Potato Open Field Days	5	Jalilabad, Tovuz	1,005
11	Apple Open Field Days	1	Guba	110
Subtotal: 2,079 Participants				
Overall Total: 3,212				

Appendix 4b: Summary of Association Meetings

No.	Activity	Units	Region and Date	Participants
1	Seminar Seed Policy	1	Baku, April 23	3
2	Council Meeting: Seed Policy, Annual Assembly, TV Round Table Discussion	1	Baku, April 23, 24	9
3	Training TV Round Table Discussion	1	Baku, May 06	6
4	Strategic Planning	5	Baku, Guba, Ismailli, Ganja, Masalli; May, September	48
5	Annual Assembly	1	Baku, May 23-24	82
6	Seminar Grand Writing Proposals	1	Baku, Sept 19	7
7	Association Budget	7	Baku, Sheki, Ismailli, Tovuz, Masalli	63
Total: 218 Participants				

Appendix 4c: Marketing and Business Development Meetings

Activity	Units	Region and Date	Participants
Promotion of networking and information exchange with farmers; credit and business development	4	Masalli, Guba, Ismailli, Ganja; April	57
From Conventional Shop to Advanced Business. Marketing Tools and Customer Orientation	5	Ismailli, Sheki, Ganja, Guba, Masalli	43
Total	9		101

Appendix 5—Media and Public Relations

No.	Title	Date	Number of Publications
Brochures			
1	Quality Standards in Potato Production	04/2004	500
2	Fruit and Vegetable Standards	10/2004	500
3	Fruit and Vegetable EU Standards	10/2004	1,000
4	Pests and Diseases in Arable Crops	09/2004	500
5	Pests and Diseases in Apple Production	11/2004	500
Guidelines			
1	Fertilizer Guidelines for Agri-Input Dealers	07/2004	
2	Input Subsidies and Agriculture Development	11/2004	
3	Observations and Recommendations Improving Current National Seed Stock Policy in Azerbaijan	08/2004	
Total: 3,220 copies			
Newspaper Articles			
1	Technical Innovation in Farm Production	30.04.2004	8,000 copies
2	Technical Innovation in Farming	30.04.2004	4,000 copies
3	Fertilizer Dealers Tasks and Targets	24.05.2004	300
4	Importing Role of AKTIVTA Integrating Azerbaijan Input Markets	25.05.2004	10,000 copies
5	Once Upon A Time in Guba Hall	26.05.2004	1,000 copies
6	Dealers as Extension Workers	01.06.2004	15,000 copies
7	Wheat Demonstration Program	09.07.2004	4,000 copies
8	Inauguration of Lenkeran Orphanage Vegetable Garden	16.08.2004	300
Total: 8 articles, 42,600 copies			
Project Newsletter			
1	Issue 6	March-April	550
2	Issue 7	May-June	550
3	Issue 8	Aug-Sept	550
Total: 1,650 copies			
Agriculture Commodity Report			
1	Issue 22	April	130
2	Issue 23	May	130
3	Issue 24	June	130
4	Issue 25	July	130
5	Issue 26	August	130
6	Issue 27	September	130
Total: 780 copies			

Number of Television Broadcasts	Subject	Date	Program Length
2	Fertilizer and their effective applications	08/09/2004	28 minutes
1	Control of Zabrus Tenebriodis in Wheat Production	04/2004	18 minutes
2	Pest and Disease Control in Potato Production	04/05/2004	29 minutes
1	Winter Wheat Planting	10/28/2004	21 minutes
2	AKTIVTA: Promotion of Agriculture Associations	06/07/2004	30 minutes
1	Round Table Discussions: AKTIVTA	5/14/2004	60 minutes
1	Round Table Discussion: Pest and Disease Control in Crop Production	10/01/2004	60 minutes
10	Total: 10 Broadcasts; 333 minutes; audience each broadcast: 500,000 persons		

Appendix 6—Results Statement of IFDC/AMDA Project, 2004

Results	Unit of Measure	Base	Annual Cumulative	Cumulative Since Inception of Project
Sales volume of fertilizers	Dollars	4,000,000	2,800,000	6,200,000
	mt	20,000	20,000	50,000
Sales volume of improved seeds	US Dollars	-	-	-
Vegetables	mt	40	45	180
Seed potatoes	mt	300	1,300	2,400
Number of farmers purchasing fertilizers	No. of farmers	400,000	100,000	300,000
Number of farmers purchasing improved seeds	No. of farmers	400,000	100,000	300,000
Number of farmers attending field days	No. of farmers	0	2,079	6,768
Credit: Total value of loans	Dollars	71,500	111,500	519,500
Number of borrowers	No. of borrowers	9	6	32
Number of new products or services introduced	No of enterprises	0	34 ^a	64
Number of enterprises that enter new markets	No. of enterprises	0	21	30
Number of people/enterprise employees trained	No. of people	0/0	4131/85	10,269/225
Number of people/enterprise employees who report applying training skills	No. of people	0	85	755
Number of enterprises adopting and complying with accepted standards	No. of enterprises	0	32	137
Number of new opportunities for receiving market information	No. of new opportunities	0	11	17
Membership of associations created	No. of members	0	69	85
Number of associations that collect membership fees	No. of fee paying members	0	1/85	1/85
Total dues, service fees and other association revenue	Dollars	0	19,800	30,290

Note: Reliable statistical figures are not available. Figures provided are based on project information and/or project estimates.

a. TSP, MOP, MAP, DAP, urea, NPK, micronutrients, 3 fertigation fertilizer, greenhouse, drip irrigation, 2 determined seed varieties, 18 high-yielding vegetable seed varieties, 31 different agro-chemicals, motorized CPP sprayers.