

Year One Annual Report

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**USAID Rural Enterprise Competitiveness Program
(RECP)
Baku, Azerbaijan**



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This Annual Report describes in detail the achievements, work plan, and operational and programmatic results for Year One.

Table of Contents

<u>EXECUTIVE SUMMARY</u>	3
<u>INTRODUCTION & BACKGROUND</u>	4
<u>YEAR ONE ACHIEVEMENTS</u>	5
<u>REVIEW OF YEAR ONE ACTIVITIES</u>	7
ADMINISTRATION AND STAFF DEVELOPMENT	8
GRANTS	8
INFORMATIONAL RESOURCES AND MATERIALS	9
INTER-PROGRAM COOPERATION	9
CLIENT OUTREACH, TRAINING & BDS	9
AZERBAIJAN AGRIBUSINESS MARKETING COUNCIL	10
AAC MARKETING PROGRAMS	10
VALUE CHAIN DEVELOPMENT	10
MARKET ANALYSIS AND TRADE DEVELOPMENT	11
TRADE FAIRS	11
INSTITUTIONAL AND FOOD SERVICE CLIENT COMPANIES	12
INVESTMENT AND ACCESS TO FINANCE	12

Executive Summary

The goal of the Rural Enterprise Competitiveness Program (RECP) is to raise rural incomes and agriculture productivity in Azerbaijan by improving domestic product quality and expanding the focus of the agribusiness sector on competitive products. Through the Azerbaijan Agribusiness Center, the RECP delivers a wide range of services designed to accomplish these tasks.

The AAC made substantial progress towards these goals in Year One. In addition to putting in place an operational framework for efficient and effective delivery of services, 10 account managers provided services to 37 companies, of which 24 became AAC clients. These companies achieved over \$400,000 in new trade and invested over \$90,000 in plant improvements as a result of AAC assistance

The Year One work plan was designed by its very nature to be dynamic to react to new information. Although Year One now ends on September 30 instead of December 31, the substance of Year One activities remained the same: identifying and clarifying needs and opportunities; identifying and developing potential clients; and winnowing opportunities to those with the greatest potential.

Many Year One activities laid the groundwork for service delivery. An AAC network was established with offices in Baku and Lankaran, a work station in Mingachevir, and a representative in Guba. Client and grant management procedures were developed and instituted, and a client and agribusiness database was developed. A financing manual was published, while an investment manual has been drafted for release early in Year Two.

Account managers began one-on-one business consulting in mid-March. In addition, the AAC supports G&R BSU, GABA, and the newly created AAMC as important agribusiness support organizations. Increasingly, the AAMC will take on responsibility for sector wide agribusiness activities. The project works to strengthen value chain linkages and has chosen the meat value chain as the first pilot effort. The AAC is actively involved in seeking out market opportunities and participating, with clients, in food exhibitions and other trade events. In Year One, the AAC and its clients participated in InterFood, Azerbaijan; InterFood, Saint Petersburg; Chicken King, Moscow; World Food, Moscow; Inter Meat, Düsseldorf; and Fach Pack, Nuremberg. Investment activity included drafting an *Azerbaijan Agribusiness Investment Manual*, assisting clients to draft business plans, and establishing relations with a local agribusiness investment firm.

The following sections provide background on the project, detail the primary AAC achievements to date and describe the major activities of Year One.

Introduction & Background

The goal of the Rural Enterprise Competitiveness Program (RECP) is to raise rural incomes and agriculture productivity in Azerbaijan. The program will increase the volumes and quality of fresh and processed agricultural product so that the volume of value added products sold in domestic and export markets increases, providing income benefits for a broad range of producers and processors, and will enable Azeri agricultural products to displace imports and reach export markets by introducing the competitiveness paradigm in the agricultural and agri-business clusters of Azerbaijan's economy.

In order to achieve these objectives, the project will focus on two primary tasks, as envisioned by USAID:

- RECP Task # 1: Improving domestic product quality; and
- RECP Task # 2: Expanding the focus of the agribusiness sector on competitive products.

The RECP project has created a local entity, the Azerbaijan Agribusiness Center (AAC), through which to implement its activities. This was done to ensure the future provision of support activities to the agricultural sector – the AAC will continue to provide services to the Azerbaijan agribusiness community on a sustainable basis after the RECP project has ended.¹

The AAC states its service offering as follows:

- **Production:** High value production (greenhouse, High Value Horticulture); machinery service supply; extending market windows through innovation; introduction of new products; improving links to processors; formalization of market linkages; and modernization of production techniques and inputs.
- **Marketing:** Market research (domestic & export); market surveys, plans and strategy; market identification & introduction; competitive product identification; participation in trade shows and market events; and introduction of stable contracts for sustainability.
- **Processing:** Linkages to supply; improvement of raw materials; improvement of process efficiency and equipment; food safety & quality, HACCP; packaging; competitiveness compared to imports; and targeted value addition (e.g., cut chicken, fruit yogurt, baby food, processed nuts, tanning).
- **Logistics:** Collection and distribution centers; terminal wholesale markets; catering and institutional food supply; airline and cargo company infrastructure; transport and machinery custom service; and transport standards and pooled transport service supply.
- **Finance and Credit:** bankable deals; agribusiness development foundation; alliances or partnerships for development; facilitation of leasing; trade and contract finance mechanisms; asset registration; and machinery and facility targeted credit and investment.

Above all, the project's aim is to provide demand driven services, focusing not only the production aspect, but on the needs of the marketplace. In other words, all products and services will be designed based not on what the Azeri agribusiness sector can produce or process but what the customer wants. While these topics will be detailed in subsequent sections, it is important to note the focus on marketing, market linkages, and value addition along the chain, in keeping with the demand-driven philosophy that guides all AAC activities.

The project's three key goals are to create jobs, attract domestic and foreign investment, and increase domestic and export sales. The official PMP (Performance Monitoring Plan) parameters to measure project performance are based on these goals and are: increases in value added productivity, number and value of trade deals and sales increases, and value of investment into agribusiness.

¹ From here on, AAC will be used to refer to the team and implementation, while RECP refers to the USAID project.

Year One Achievements

In Year One, 10 account managers provided services to 37 companies, of which 24 became AAC clients. These companies achieved over \$400,000 in new trade and invested over \$90,000 in plant improvements as a result of AAC assistance.² In addition to these quantitative results, the Rural Enterprise Competitiveness Program has achieved successes that merit additional attention. Some of these are key illustrations of the kind of projects that the AAC undertakes with clients, while others are not client-specific, but strengthen the Azerbaijan agribusiness sector as a whole. The following are some examples:

Agribusiness Sector Development

- ✦ The Azerbaijan Agribusiness Center released *The Complete Guide to Financing in Azerbaijan* on May 15, 2004, and has printed 450 copies in English and Azeri. This is the first comprehensive financing resource available to the Azerbaijan business community.
- ✦ The Azerbaijan Agribusiness Center designed and launched a promotional campaign, BUY AZERI, to stimulate interest in domestic food products. After 6 weeks, 41% of respondents were aware of the campaign and could remember where they had seen the promotion.

Trade Linkages

- ✦ Miri Grand generated signed contracts totaling \$80,000 with 12 leading Russian trading companies following InterFood Saint Petersburg. Two additional container shipments totaling \$66,000 were later arranged.
- ✦ Azer Pak imported and sold \$45,000 worth of new processing equipment. This will help two entrepreneurs in Sheki and Baku to produce and package macaroni and to process fruits.
- ✦ Nur-M tomato processing factory bought \$2,020 worth, or 55 tons, of tomatoes from the Liman Farmer Community, increasing Liman's total tomato revenue for the season by 14% and allowing Nur-M to continue production at a time when no other raw materials were available in the market.

Investment in Infrastructure and Product Improvements

- ✦ M&T LTD invests an additional \$25,000 to buy materials to make their new, \$1 million processing facilities HACCP-compliant
- ✦ Davachi Broiler took a trip to the Netherlands to examine equipment, valued at \$1.5 million, for its new processing facility.
- ✦ Mardakan-Broiler invested \$55,000 in flash freezing equipment and sanitary improvements, increasing poultry sales by 4.5 tons daily during the warm weather, leading to an expected \$1,540,000 sales increase annually.

Production and Processing Improvements

- ✦ Qafqaz Cannery planted 35 hectares of test plots, introducing new varieties of peas, sweet corn, and tomatoes, and experimenting with new cultural practices and methods of fertilizer application. This will allow Qafqaz to select higher yielding varieties and extend the processing season.
- ✦ Khachmaz Sud invested \$185 in repairs, improving the quality of its soft white cheese and leading to a 31% increase in sales.
- ✦ Agro-Yurd introduced composting into its lettuce producing techniques leading to improved germination from 50% to 65%, and to a 20% increase in productivity in open field production!
- ✦ Kristal Company increased production from 3,000 jars of pickles a month to 3,000 jars a day; 241,000 jars of pickles will be produced in the second half of the season, compared to 6,000 jars in the first.

² The achievements of Year One, as prescribed by the Performance Monitoring Plan, will be formally submitted as a separate document.

Access to Finance

- ⊕ Company in Gusar Region obtained \$5,000 in credit financing, invested in production equipment and raw materials inventory, and increased production more than five-fold, creating 7 new work places.

Review of Year One Activities

The work plan developed for Year One was designed by its very nature to be flexible and dynamic to react to new information. This flexibility allowed the RECP CTO and COP to make changes in the work plan, stop activities that were clearly not competitive, expand those areas proven to have immediate opportunity, and generally react to the needs and demands of the marketplace, in keeping with the project's philosophy. The work plan is based on an in-depth SWOT analysis³ of the essential elements constraining agribusiness development, as well as the strengths and weaknesses of each of the key sub-sectors of agribusiness in Azerbaijan, which was conducted in the first three months of the program.

Due to the dynamic nature of the AAC's work, and the fact that Year One now concludes on September 30 instead of December 31, the work plan shows several modifications from the original version. However, the substance of Year One activities remains the same: identifying and clarifying needs and opportunities; identifying and developing potential clients; and winnowing the client and product opportunities to those with the greatest potential. Client assistance was focused on improving competitiveness through proactive technical and business assistance in market chain analysis, market development, trade and investment facilitation, and production and processing technologies.

Each broad category of activities is discussed in the subsequent sections, while the following outlines the key dates for operational and programmatic activities:

2003	October	1	Project initiated
	November	1	Baku office established
			SWOT analysis of the key sub-sectors of Azerbaijan agribusiness
December		Completed Azerbaijan agribusiness SWOT analysis	
2004	January		Developed AAC name/logo for the commercial face of the RECP project
		27	SWOT results presented to USAID
	February	13	SWOT results presented to Ambassador
	March	12	Account management procedures adopted
		15	Grant procedures approved by USAID and adopted by AAC
		15	Account managers trained on procedures
		22	Account managers begin to meet clients
		22	<i>Buy Azeri</i> posters distributed
		31	General marketing brochures created
			Grant approved for GABA
	April	1	Work plan submitted and approved by USAID
		2	<i>Buy Azeri</i> promotional campaign launched (light box)
		5	Interim North West regional office established
		8	Lankaran office established
		12-15	Exhibited at <i>Saint Petersburg InterFood</i> trade fair
	May	3-11	<i>Business Plan Preparation ToT</i>
		4	<i>Market Research ToT</i>
		15	Complete Guide to Financing in Azerbaijan ready in English
		23-28	Attended <i>Chicken King</i> trade fair in Moscow
	June	28	<i>Complete Guide to Financing in Azerbaijan</i> ready in Azeri
	July	1	Lankaran office fully staffed
		9	First Meeting of Azerbaijan Agribusiness Marketing Council
		10	Interim North West regional office changed to Guba AAC representative
12		Mingachevir workstation opened	
15		Web site launched	

³ Strengths, Weaknesses, Opportunities, and Threats.

		15	First issue of newsletter released
		16	<i>Business, Culture, and Customs</i> training
		30	<i>Trade Fair Planning</i> ToT
	August	1	Mingachevir workstation staffing complete
		2	AAMC \$50,000 grant approved
		9	Davachi BSU \$50,000 grant approved
	September		Provided Grant to Golden Beehive Association to exhibit honey products
		10	<i>Time Management</i> training
		17	<i>Risk Management and Advanced Excel Skills</i> ToT
		19-25	Attended <i>World Food</i> trade fair in Moscow
		20	<i>Azerbaijan Agribusiness Investment Manual</i> draft complete
		24-30	Attended <i>Intermeat</i> trade fair in Düsseldorf
	26-3	Attended <i>Fachpack</i> trade fair in Nuremberg	

Administration and Staff Development

Regional office and work station locations were evaluated and determined. The original north-west regional office was moved from Guba to Mingachevir and changed to a work station after extensive analysis. Coverage in Guba was maintained through an AAC representative dedicated to and located in the area. The AAC has offices in Baku and Lankaran, a work station in Mingachevir, and a representative in Guba. The staff of AAC, both expatriate and local, worked collaboratively to design procedures and processes to facilitate the client management process. Staff skill building and mentoring is an on-going process and a strong foundation has been built. However, more aggressive staff development efforts such as internships, on-the-job training, and trade and investment tours, have been postponed until Year Two. The first account manager graduated, beginning work in the accounting department of a major oil firm.

Grants

Grants were not designed to be a separate work plan element, but to further the goals of the RECP project. Grant procedures were developed to manage the disbursement of RECP grant monies by FLAG International, LLC and were approved by USAID and adopted by the AAC on March 15. The grant program will facilitate organizational and marketing activities of targeted business groups, support improved marketing and trade opportunities, and provide other support to agribusiness enterprises.

The following is a complete list of grants provided or approved in Year One. All of these grants have been wholly or partially disbursed, or approved for disbursement. The total for Year One is \$237,700, although this could change slightly as the receipts for the last three travel grants are submitted.⁴

Organization or Event	Location	Sector	Type of Grant	Grant Size
Davachi BSU	Baku	Food Processing	BSU	\$ 48,000
Azeri Agribusiness Council	Azerbaijan	Competitiveness	Capacity Building	\$ 50,000
Ganja Agribusiness Assoc.	Ganja	Capacity building	Capacity Building	\$ 48,000
SIAR Marketing Survey	Lankaran	Fruit and Vegetables	Market Research	\$ 15,000
Honey Producers Exhibition	Baku	Honey production	Trade Fair	\$ 9,000

⁴ Grants developed for events in Year 2 are listed in Year 2, although the grant money has been committed.

Intermeat 2004	Düsseldorf	Food Processing	Travel grant	\$ 14,000
Fachpack 2004	Nuremberg	Food Processing	Travel grant	\$ 11,000
InterFood Travel Grant	St. Petersburg	Trade	Travel grant	\$ 15,000
Moscow Meat Forum	Baku	Food Processing	Travel grant	\$ 12,000
Bak Fem Trade Facilitation	Azerbaijan	Fruit and Vegetables	Travel grant	\$ 2,700
World Food Trade Fair	Moscow	Food Processing	Travel grant	\$ 13,000

Informational Resources and Materials

To aid in program coordination, a client management system was established with a database for tracking clients and identifying industry resources. Market information, statistics and surveys are being collected and maintained and a professional library has been established. While some customs and logistics information has been collected, the bulk of this effort has been postponed until Year Two.

To improve access to financing information and assist entrepreneurs in choosing the right financing mechanisms for their businesses, the AAC released the 1st Edition of its *Complete Guide to Financing in Azerbaijan*. It was prepared under the sponsorship of the USAID on the basis of information supplied by the financing organizations themselves. Both English and Azeri versions are available. In the end of September the draft investment manual was completed and ready to go to print. This will be available for distribution early in Year Two.

Inter-Program Cooperation

MBAEC volunteers were utilized in Year One starting from May, and in Year Two one MBAEC volunteer has been selected to work with the AAC for the full project year. While the RECP project anticipates close cooperation with RABD, this relationship must wait until RABD project is fully staffed and begins activities.

Client Outreach, Training & BDS

The AAC Account Managers provide services “on demand” to clients as they develop business plans, marketing plans, financial strategies, and company improvement programs. In addition, the AAC staff focuses on educating agribusinesses, lenders, buyers and others on the value and importance of long-term sustainability and competitiveness of agribusiness.

Account Managers are serving a portfolio of agribusiness clients throughout Azerbaijan, providing services directly and with the help of long- and short-term paid and volunteer consultants. In addition, technical assistance is being used to mentor Account Managers, strengthening their business and technical skills, and providing them with a strong knowledge base to draw on while consulting clients.

In addition to direct provision of services by the AAC, the AAC has entered into two grant agreements to achieve the client outreach and BDS portions of the work plan.

In order to ensure that the benefits of agribusiness development reach as much of the population as possible, the AAC assists the entrepreneurs of remote rural areas of Azerbaijan to enter the mainstream agribusiness sector by developing and providing them appropriate programs, consulting and training. As with isolated rural communities, the AAC strives to bring the benefits of agribusiness development to IDP communities as well, supporting the existing activities undertaken by USAID and working to incorporate IDP communities into

the mainstream Azeri economy. Both of these target groups are served by GABA, a Ganja-based association providing services under a grant agreement with the AAC.

In addition, to foster the development of independent BDS providers, the AAC has given a grant to G&R BSU, which will be registered as a separate legal entity from its parent company, Davachi Broiler, and will begin providing BDS services once the formal registration process is complete. G&R BSU will provide consulting services to small, privately-owned agribusinesses in Azerbaijan with the mentoring of the AAC.

Azerbaijan Agribusiness Marketing Council

The Azerbaijan Agribusiness Marketing Council (AAMC) met on July 9 and the draft bylaws were submitted for consideration and review. The organization is in the process of becoming registered. The council consists of eight private sector members, one AAC staff member acting as secretary, and two council advisors – one from USAID and one from RECP project management. A grant for \$50,000 was approved on August 2 to register, form and coordinate the activities of the AAMC. The AAMC will be a registered association designed to facilitate the development of the agribusiness sector in Azerbaijan. The Council will emphasize common goals among stakeholders and present the view of the agribusiness sector to government and private decision makers, as well as the Azeri public. The AAC and RECP management will provide guidance and management for this core group, resulting in an effective and independent legal entity that will add value for its members and the agribusiness community at large.

The AAMC's mission is to support Azerbaijan's agriculture and food production industries in growth, competitiveness, profitability and sustainability, enabling industry members to engage one another, their markets, their consumers, the government and the public. This will help Azerbaijan's agriculture and food production industries to be globally competitive, profitable and sustainable.

AAC Marketing Programs

The AAC team designed a BUY AZERI Marketing Campaign (*Buy Local Products – Support Your Country*) to stimulate awareness of domestic products. The campaign focuses on promoting the local food industry through images that invoke a feeling of local pride and slogans that further foster this feeling such as *Help Your Country Grow*, thus engendering a sense of loyalty towards, and affinity with, domestic producers. On April 2nd, the Azerbaijan Agribusiness Center launched the BUY AZERI campaign on banners, light boxes and posters throughout Baku.

In addition, the AAC has created marketing materials to promote its own services through general informational brochures in English, Azeri, and Russian. In addition, an AAC website was launched on July 15th in English and Russian at www.aac.az. A bimonthly newsletter was first published in July; the English version comes out first, and the Azeri version is published as soon as translation is complete.

Value Chain Development

The project will work on value chain development in two ways. The first, more general approach is to address specific value chain linkages needing attention. This includes developing the input supply chain and post-harvest handling for fruits and vegetables in conjunction with the RABD project. Plant operations and processing improvements such as HACCP, ISO and Total Quality Management (TQM) training are also vital to value chain development, as are development of peripheral services such as transportation, warehousing, and logistics. All of these activities were started in Year One and will be intensified in Year Two.

In addition, the AAC will selectively research the value chain for selected product groups and then design interventions to strengthen these product value chains. This holistic approach will complement the company- and linkage-specific activities described above and is a long-term approach to development.

In Year One, analysis of the first product group – meat and meat processed products – has begun. A decision on which sub-groups and elements of the value chain (from feeding through marketing) will be made in October, and a strategy for how to address these products and value chain elements will guide work on the meat value chain during Year Two.

Market Analysis and Trade Development

The purpose of market analysis is to identify areas and opportunities where AAC can serve as a catalyst in working with the agribusiness sector, as well as to identify potential buyers in the domestic and export markets to enable commercial transactions. The AAC strives to gather market information to develop appropriate trade and market development activities.

Even in Year One, this analysis was complemented by targeted, proactive trade development activities:

- Identifying and developing potential partners and buyers for selected products
- Evaluating import competition
- Analyzing new markets for products
- Mapping distribution systems to identify areas of opportunity
- Attending and participating in food exhibitions and other trade events

Trade Fairs

While trade fairs have benefits beyond trade and marketing (such as technology know-how, access to inputs and equipment, competitive analysis, etc.), they are included in this section for ease of reference. Below are the names and descriptions of the trade events in which the AAC participated during Year One:

Dates	Show	Location	Participants	Highlights
April 12 – 15, 2004	Inter Food	Saint Petersburg, Russia	8 Agro-enterprises (juice, preserves, honey, meat, lettuce, services)	One client won quality awards, one invested nearly \$10,000 in equipment, and three companies made trade deals totaling \$427,000.
May 12 – 14, 2004	Inter Food	Baku, Azerbaijan	AAC Staff	Identified new clients; raised awareness of AAC activities in the agribusiness community
May 25 – 27, 2004	Chicken King	Moscow, Russia	9 Participants (feed, milling equipment, poultry, sausage, feedlots)	Companies learned of new technologies, and one is poised to make a significant investment in production and processing equipment
Sept. 21 – 24, 2004	World Food	Moscow, Russia	6 Participants (juice, preserves, hazelnuts, catering)	These fair were just attended, and while leads were obtained, no deals (trade or investment) have yet been concluded.
Sept. 26 – 29, 2004	Inter Meat	Düsseldorf, Germany	3 Meat Processing Participants	
Sept. 29 – Oct. 1, 2004	Fach Pack	Nuremberg, Germany	4 Packaging Materials Companies	

Institutional and Food Service Client Companies

In Year One, most of the work with institutional and food service companies was postponed. These companies have been identified, and one has been accepted as an AAC client. This work builds the foundation for more extensive activities in Year Two aimed at training companies to become suppliers of institutional and food service companies.

Investment and Access to Finance

General work is being done to identify products and sectors most attractive for investment and concurrently to identify investment funds and resources, both domestic and foreign, which may be interested in the Azerbaijan agricultural sector. Account managers have begun working with one local investment firm. This relationship building, combined with information gathering culminating in the draft of the Azerbaijan Agribusiness Investment Manual (mentioned previously), is laying the foundation for more intensive investment and finance activities in Year Two. In addition, account managers and expatriate advisors are working on client specific support such as business plan development, which will help individual agro-enterprises to access financing.