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**Semi-Annual Report # 9
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**Submitted to the United States Agency for International Development
Cluster Access to Business Services (CABS) Program in Rural Azerbaijan
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Table of Contents

- I. Summary of main activities**
- II. Progress on performance targets and indicators**
 - A. Performance Targets Table
 - B. Narrative Explanation
- III. Implementation issues**
- IV. Progress on learning agenda**
 - A. Strengthening Mercy Corps' knowledge and use of BDS market development approach
 - B. Review of cluster development
 - C. Managing public-private partnerships to benefit rural farmers
 - D. Experimenting with new inputs in serving dairy value chain
- V. Human Interest Anecdote**

I. Summary of main activities

In the current quarter, the CABS team continued its successful expansion to the Central and Northern Regions of the country. Here the program concentrated its efforts on empowering recently formed clusters, as well as developing new clusters; introducing new dairy production inputs as well as updating support service providers skills. During the implementation period from July to December 2006, key focal points for the Mercy Corps team were:

- Monitoring the performance of the farmer clusters
- Developing clusters in a new geographical Region in the North: Gusar
- Providing additional guidelines and connections with service providers for the clusters and veterinary networks.

The following program achievements were achieved over this semi-annual period:

- Four new farmer clusters were initiated in the new program area of Gusar, where livestock breeding was identified as one of the primary sources of household income. The program team facilitated formation of the cluster initiative groups, trained leaders and commenced the facilitation of veterinary education campaigns.
- This reporting period saw the CABS team training 4 new artificial insemination (AI) specialists in the Central and Northern Regions. This activity was greatly supported by local government structures. At the same time, CABS supported the farmers having calves born after using AI techniques, through facilitation of ongoing technical advice from veterinarians. Significantly, these pioneering farmers have opened the door for the CABS program to facilitate an increase in artificial insemination techniques throughout the clusters in the Central and Northern Regions.
- The program continued monitoring and evaluating the performance of previously formed clusters and veterinary networks. The farmer clusters were primarily evaluated on their ability to independently carry out action plans developed. Where necessary, the CABS team provided additional guidelines on how to better serve community animal health needs. Monitoring of the veterinary networks was mostly focused on their outreach, change in sales and ability to address common priorities.
- In the prior semiannual period, the program worked with the communities to attract more raw milk collectors. In this reporting period, one additional milk collector committed itself to purchasing milk on a daily basis from the program targeted villages – this resulted in stimulating a healthy competitive environment amongst the existing collectors.
- During this period, the CABS team continued to work with the 78 existing clusters and facilitated development of *29 new client groups*. Four of these client groups were developed in the new Region of Gusar. Currently the program reaches *107 clusters, thus already exceeding the stated life of the program targets*. Out of these farmers, 17,609 are micro-entrepreneurs, whilst the remaining 178 are small-scale farmers. Women-only operated farms comprise **31%** of the micro-enterprises served by the program.
- With the purpose of improving local cattle breed genetics, in this reporting period CABS also identified four new veterinarians and trained them in AI techniques – something of which they had no previous knowledge. All of them acquired new skills and in a very short period of time successfully reached breakout points in this new business activity. In November 06, new calves were being born to 1,280 cows in both Regions, and by the end of December 06, cattle belonging to CABS clients had already given birth to 78 newborn calves, with one cow delivering twins.



The result of a CABS animal husbandry business receiving artificial insemination advice from a CABS-supported veterinarian.

Reporting Period Success Story:

Pioneering AI and gaining community buy-in

During a meeting with the Head of the Agriculture Department of in Barda Region, references were made regarding the pioneering role CABS has played in developing AI in the Region. The Head support the team’s plan to organize demonstration activities of new born calves as a result of AI techniques (from AI cows) to other farmers, in addition to developing a seminar on AI in the Region. At the same time, a huge increase in the interest of farmers on AI was documented by the CABS team, with all inhabitants of the villages people coming to see newborn calves.

Over the program period the CABS program has met and exceeded all its program targets for the total number of farmers served. In addition, the program has successfully partnered with other service providers such as AI technicians, milk collectors and credit organizations. In the next semiannual period the team plans to:

- Continue monitoring and evaluation activities of previously formed clusters and help to form develop new clusters in the Region of Guba
- Monitor developments of the AI service market and facilitate awareness-raising as well as cross-visits on AI amongst dairy and animal husbandry producers and existing veterinarians.
- Focus on linking clusters with the ACDI/VOCA

complete feed producer, near to Ganja.

- Enhance women participation in newly developed clusters, through a targeted effort in raising the woman’s profile in joint family-run dairy and animal husbandry businesses. Examples of this would be to hold women-only workshops in exploring ways to increase the quality and quantity of milk and dairy product sales.¹
- Implementing an aggressive strategy to link marginalized dairy farmers into the raw milk market value chain
- Facilitate the introduction of new business skills to focus groups, such as business plan development, marketing and additional skills on access to credit, essentially through forging contacts with existing local BDS providers.

¹ In the CABS implementation areas, women largely for cultural reasons are typically involved in 70% of milk/milk products/animal husbandry production, processing and sales, in contrast to the men, who are only give 30% of their labor to these family-run micro-businesses.

Weidemann Associates impact assessment:

In December 2006, USAID sub-contracted Weidemann Associates, an independent consulting company to conduct an assessment in order to determine impact of the CABS activities carried out in the Southern Regions of Masalli and Lenkoran cities in 2003. The research focused specifically on business development and services for veterinarians and the impact that these services had on the farmers.

The survey focused on the following topics to achieve the key goals:

- To measure the level of business activity between veterinarian and production advice providers and farmers before and after the conduction of the project and identify the improvements (if any) as result of the project.
- To evaluate the business situation of the target population (rural poor farmers and women farming micro-entrepreneurs) and production advice providers.
- To identify the weak and strong points of CABS
- To explore the contributions of the BDS market development approach to strengthening micro-and small enterprises (MSEs) and the amelioration of poverty.
- To define characteristics of the linkages forged between business services and the animal and poultry raising sector in the CABS project areas

This evaluation was conducted together with Bilesim Research Center Ltd, a Turkish consulting company and re-registered as a private Azeri company in April 2000, ERA Marketing Center. The results of the evaluation will be available in February 2007.

Challenges faced over the reporting period:

1. Unfortunately to date very few complete animal feed producers exist in the Central and Northern Regions of Azerbaijan. Although the CABS team helped to facilitate the establishment of a complete feed producer in the South a year ago, it does not intend to replicate this, since one of the goals of the cost-extension has been to encourage the clusters to access fee for services. The nearest producer, set up by ACDI/VOCA, although outside the CABS target areas will be encouraged to buy feed from the CABS clusters in the next reporting period; however reaching the target of 4 complete feed producers by the end of the program may prove to be challenging, because of the non-existence of feed producers throughout Azerbaijan.
2. Farmer clusters continued to face constraints in gaining real profit in their raw milk and dairy products sold to milk collection points, because of the latter's unwillingness to pay on time and/or give the farmers a market price for their produce. Ways in which the CABS team will tackle this challenge in the next reporting period will be to focus on the formation of smaller milk collection points that are part of the producers' communities and thus have more of an incentive to give the farmers a fair price.
3. Even though women carry out most of the chores in family-run dairy businesses, they are very often left out of the business decision-making process. A concerted effort will be made to empower these women so that they are included in working towards achieving greater profits
4. Mercy Corps has found that in reality, government-appointed veterinarians located in key markets such as in Goychay or Barda are not well equipped in skills nor equipment. In the next reporting period, Mercy Corps will make efforts to include these veterinarians in their awareness-raising and linking workshops; in addition, the team will encourage government vets to lobby relevant government structures in the allocation of resources.

II. Progress on performance targets and indicators

A: Performance Targets Table

PERFORMANCE TARGETS AND TABLE 1								
In US\$								
		Progress to date	Planned with no-cost extension	Planned in new areas with cost extension	Total Planned			
Applicants targeting a specific sub-sector	ASSESSING THE MARKET FOR GOODS & SERVICES (Final Sales)							
	MARKET-LEVEL							
	1.	Annual value of sales (in US\$)	74,012,000	17,000,000	43,000,000	60,000,000		
	PROGRAM-LEVEL							
	2.	Annual value of sales (in US\$)	14,534,000	6,900,000	10,780,000	17,680,000		
All applicants	ASSESSING THE DEVELOPMENT OF THE BDS MARKET							
	MARKET-LEVEL							
	3.	Total number of BDS providers	329	144	185	329		
		a.	Service 1: Veterinary Services	275	135	140	275	
		b.	Service 2: Embedded Production Advice	329	144	185	329	
		c.	Service 3: Cattle AI service	9	4	8	12	
		d.	Service 4: Milk collection & storage points	9	3	9	12	
		e.	Service 5: Complete feed producers	3	1	3	4	
	PROGRAM-LEVEL							
	4.	Number of BDS providers participating in the program	164	61	60	121		
		a.	Service 1: Veterinary Services	138	54	57	111	
			i.	Percent private, for-profit providers	100%	100%	100%	100%
		b.	Service 2: Embedded Production Advice	145	61	60	121	
			i.	Percent private, for-profit providers	100%	100%	100%	100%
		c.	Service 3 Cattle AI service	14	4	8	12	
		Percent private, for-profit providers	100%	100%	100%	100%		
	d.	Service 4 Milk collection & storage points	12	3	9	12		

III.

		Percent private, for-profit providers	100%	100%	100%	100%
	e.	Service 5 Complete feed producers	1	1	3	4
		Percent private, for-profit providers	100%	100%	100%	100%
	5.	Number of firms acquiring BDS from program-supported providers	17,787	5,974	9,800	15,774
	a.	Service 1: Veterinary Services	17,787	5,974	9,800	15,774
	b.	Service 2: Embedded Production Advice	17,787	5,974	9,800	15,774
	c.	Service 3: Cattle AI service	2,486	1,500	3,000	4,500
	d.	Service 4: Milk collection & storage points	3,017	1,000	9,800	10,800
	e.	Service 5: Complete feed producers	65	500	1,500	2,000
	6.	Number of micro enterprises acquiring BDS from program-supported providers	17,609	5,696	9,800	15,496
	a.	Service 1 Veterinary Services	17,609	5,696	9,800	15,496
	b.	Service 2 Embedded Production Advice	17,609	5,696	9,800	15,496
	c.	Service 3: Cattle AI service	2,436	1,500	3,000	4,500
	d.	Service 4: Milk collection & storage points	2,957	1,000	9,800	10,800
	e.	Service 5: Complete feed producers	65	500	1,500	2,000
	7.	Micro enterprises as percent of total firms (line 6/line 5)	98%	95%	100%	98%
	8.	Number of women-owned micro enterprises acquiring BDS from program-supported providers, by service	6,277	2,278	4,312	6,590
	a.	Service 1: Veterinary Services	6,277	2,278	4,312	6,590
	b.	Service 2: Embedded Production Advice	6,277	2,278	4,312	6,590
	c.	Service 3: Cattle AI service	731	200	400	600
	d.	Service 4: Milk collection & storage points	767	700	4,312	5,012
	e.	Service 5: Complete feed producers	27	200	400	600
	9.	Women-owned micro enterprises as percent of total micro enterprises (line 8/line 6)	36	40%	44%	42%
All applicants	ASSESSING THE FACILITATOR'S COST-EFFECTIVENESS (PROGRAM-LEVEL INDICATORS)					
	10.	Program costs (in US\$)	1,489,242	1 027 469	1,273,320	2,023,320
	11.	Program costs per micro enterprise served (line 10/line 6) (in US\$)	100	180	130	130
Only for direct providers of BDS	ASSESSING THE BDS PROVIDER					
	12.	Total earned revenues (do not include any grants or donor contracts)	NA			
	13.	Total expenses	NA			

	14.	Return on operations (line 12/line 13)	NA			
For all other applicants (other than direct providers)	15.	BDS Providers' sales (in US\$, Annually)	1,950	1,800	1,800	1,800
All applicants	ASSESSING THE IMPACT ON THE MICROENTERPRISE CLIENT (Program Level)					
	16.	Annual value of sales by micro enterprises participating in program (in US\$)	14,534,000	6,200,000	10,780,000	16,980,000
	17.	Micro enterprise client satisfaction				
	a.	Service 1: number of repeat clients	17,609	5,411	9,310	14,541
	b.	Service 2: number of repeat clients	17,609	5,411	9,310	14,541
	c.	Service 3: number of repeat clients	NA	NA	NA	NA
	d.	Service 4: number of repeat clients	2,957	1,000	9,800	10,800
	e.	Service 5: number of repeat clients	65	500	1,500	2,000
All applicants	OTHER INDICATORS					
	18.	Exchange rate used to calculate US\$ figures	\$1 = 4357AzM	\$1 = 4900AzM	\$1 = 4900AzM (projected)	\$1 = 4900AzM (projected)
	19.	Estimated percentage of micro enterprises on line 6 who have poverty loans from any source	12%	10%	10%	10%

B. Narrative Explanation

Indicator 1

During this semiannual period, the program continued targeting support services and market linkages in both meat and dairy production value chains in Southern, Central and Northern Regions of the country. The figure of \$72,000,000 represents a state statistical production value of live meat and raw milk in the program target areas.

Indicators 2 and 16

The total sales figure of \$14,534,000 projected in indicators 2 and 16 is calculated by multiplying the total number of enterprises participating in the program with the average annual income in all two areas as monitored by the CABS staff. Average incomes for the Central and Northern areas funded by the cost extension were identified through a baseline survey conducted by the team in February 2006.

Indicator 6

Indicator 6 represents micro-enterprises acquiring support livestock and other business services through program-supported clusters only; including access to markets, cattle AI services, veterinary services and feed mills. This figure represents approximately 6,000 micro-enterprises participating in the program in the Southern areas, and 11,609 new micro-enterprises in the Central and Northern Regions. *This figure does not include the non-cluster clients served by the program-supported veterinary and other livestock services and inputs suppliers².*

Indicators 8 and 9

Women comprise approximately 31% of the total micro-enterprise level program clients. This percentage constitutes women-operated farms that benefited from services through cluster-based initiatives, as the clusters facilitate services to the entire whole community including men, women, youth, and the elderly, as well as access to the raw milk market, artificial insemination, and veterinary services. This figure includes Women's direct participation in the cluster governing bodies, decision-making process, and veterinary informative sessions increased to approximately 21% of the cluster initiative group members, versus 30% over the prior semiannual period. Additional efforts will be made in the next reporting period to increase the number of women-led micro-enterprises through awareness-raising and industry-specific trainings, aimed specifically at the women in the household dairy businesses. In addition, Mercy Corps has recognized that due to cultural reasons single-women led-enterprises are very rare in the CABS Regions; therefore jointly-run businesses where the male-female labor ratio is typically 40-60% will be added into this indicator in the Final Impact Assessment.

Indicators 10 and 11

Estimated program costs of US\$ 1,489,292 until the end of December 2006 include all program-related expenses and the program match (the clusters' in-cash and in-kind contribution and program-supported service providers' sales, as specified in the award agreement.) The cost effectiveness indicator is identified by dividing the total program cost (including match) by the number of micro-enterprises.

² This information will be drawn out of the CABS Final Impact Assessment in the next reporting period.

Indicator 15

The program team tracks the service providers' income and clientele based upon monthly reports submitted by a number of veterinarians participating in the program. Based upon these reports, the program identified keeping average annual sales on the level of \$1,950 within the remainder of the CABS program. This figure represents the average income of service providers in the two current program target areas. The same reporting system is used for the targeted clusters to track their monthly spending on animal health services and other in-kind contributions, which is registered and submitted to USAID in the quarterly program match reports.

Indicator 19

The percentage of micro-enterprises holding poverty loans includes credits obtained as part of routine business operations (such as from input suppliers, service providers); informal and formal lenders, including FINCA; the local microfinance organization, AGROCREDIT; and World Bank's Program on Rural Lending, with which the CABS program connected the farmer clusters.

III. Implementation issues

During the reporting period, Mercy Corps focused its activities on strengthening supporting services and market linkages in the dairy and meat value chains in two geographical areas of Azerbaijan. Program activities in Central and Northern Regions have been implemented to date for 1 ½ years.

New Region introduced to the program

One of the most exciting and challenging activities carried out in this reporting period was the establishment of 4 new clusters introduced in a new Region in the North: Gusar. Another twenty five new clusters were developed in existing areas. At the same time team continue to monitoring the performance of existing client groups and veterinary networks and identifying activities to ensure the sustainability of clusters and networks. Another important activity during this period was developing a supplier for cattle AI services and conducting extensive client education campaigns. One hundred seven clusters have already selected their initiative groups, been connected with area vets and participated in animal health education sessions. Each cluster has prioritized their one or two animal health problems, pooled resources and successfully addressed the issues.

Further linkages created between farmers and live animal markets

Recognizing the opportunities that improved animal health presents in terms of animal productivity, the CABS team worked with clusters to explore connections with other high-potential services and markets. In addition to creating linkages to raw milk buyers, the program identified increasing opportunities in the live animal market through linking producers to live animal traders in urban settings.

Facilitating improvement of services of government laboratory at live animal market site

Another key activity in the Central Region during this reporting period was improving animal health through the identification of a laboratory in the largest live animal market in the Barda Region. This live animal market deals in live animals and supplies these onwards to most of the country markets as well as to the biggest market in Baku. This government-run laboratory has existed formally, however the CABS team try to facilitate practical day-to-day work in the laboratory. Ways in which CABS tried to do this was holding joint-meetings with market owners, government vet service representative and local government leaders to encourage offering services to the farmers through the laboratory. In addition, laboratory staff were given animal health education sessions. In the next reporting period, the team will work with this staff to increase awareness amongst animal husbandry farmers of the necessity for cattle blood testing crucial due to cattle blood testing being a key way of preventing the spread of animal infection diseases from one Region to another.

Local dairy chain development

In the way of continuing development of the local dairy chains, the CABS team selected new farmer groups based upon their potential to produce high quality and high volumes of raw milk. In the next reporting period the team will link these clusters with milk buyers in order to provide embedded services that will enable producers to meet common milk quality standards and specifications. The team also will also organize the clusters to implement village pilot projects, such as developing of community animal drug stores, especially for those communities which are

too far from towns. These small- scale project activities will assist farmers build their initial problem identification skills and organizational capacity.

Facilitating cattle markets

On the supply side of the live stock services market, the program continued facilitating the evolution of the market for cattle AI and animal health services. Whilst the team observed the performance and progress of these services on the demand side and capacity of the service providers and their relationships with the input suppliers, the team at this point decided to considerably lower facilitation intensity for this service at the supplier stage of the chain, since a consensus was reached that this may hamper a potential for private sector incentives within these services.

Combating the threat of avian influenza

During the last two months of the reporting period the CABS team, drawing on its previous experience in the South, made great efforts to address the very real risk of avian influenza³. Specifically, the team worked on developing two leaflets on avian influenza, with both CABS field offices distributing leaflets to the CABS communities, as well as amongst program-supported and non-supported vets and vet networks. Approximately 5,000 leaflets in both Central and Northern Regions were disseminated to poultry farmers.

***Reporting Period Success Story:
Creating awareness on avian influenza amongst CABS clusters***

Most of the vets from Khachmaz Region thanked the CABS team for developing and distributing leaflets on Avian Influenza, with many farmers approaching vets for information about this dangerous disease. Mercy Corps found that distribution of leaflets explaining in clear, simple terms preparedness and prevention techniques against avian influenza has been very effective in awareness creation and hence mitigation of an epidemic in the CABS areas.

³ For instance, the Xachmaz CABS office is based near the Caspian Sea, which is in the high risk category; the demand for information in this region both from vets and farmers was very high.



Distribution of avian influenza leaflets in Khachmaz Region to female veterinarians

Important to note is that the CABS team is coordinating closely with the FAO on the avian flu danger, as well as highlighting the USAID world-wide preparedness and prevention strategy in its awareness-raising material.

IV. Progress on learning agenda

A. Strengthening Mercy Corps' knowledge and use of market development and value chain approaches

During this reporting period, Mercy Corps undertook the following major actions to educate, promote understanding on and application of the business services markets and value chains development approach in its micro-enterprise and economic development activities portfolio:

- In October 2006, the CABS team organized a cross visit of Mercy Corps Kyrgyz two team members. During visit this people visited all three CABS offices, where they received information about CABS activity in the Regions, met with vets and program beneficiaries At the last day was organized information shearing discussions between Mercy Corps Azerbaijan and Kyrgyz team members;
- In September 2006, the CABS Program Director participated in BDS seminar “Developing Service Markets and Value Chains” in Thailand. During this workshop presentation of experience in the different countries was done, participants informed, and brought up to date, on new initiatives, materials and analysis in the field of private sector development.

B. Review of cluster development

Mercy Corps is committed to empowering communities to drive sustainable social and economic development through building the groups' organizational capacity as well as facilitating better access and use of business opportunities and active participation in civic life. Presently, Mercy Corps is successfully striving to apply the same community development approach, used in the southern Regions in the central and northern areas. Since the beginning of program implementation in the Southern Regions and then expanding to the Northern and Central Regions, Mercy Corps facilitated villages undertaking a number of "micro" projects addressing both the needs related to their core income generating business – dairy farming and social, infrastructure and access to inputs problems. Examples of these village projects include mobilization on avian influenza threats, organizing veterinary supply distribution points and transportation issues.

***Reporting Period Success Story:
Technical training on animal husbandry***

One of the farmers from the Central Region, who simultaneously works as a teacher in the local school, specifically mentioned the importance of receiving special training on animal husbandry. Animal husbandry is the second but very important source of diversified income for his family.



Content farmer with new born calf, from an artificially inseminated cow

C. Managing public-private partnerships to benefit rural farmers

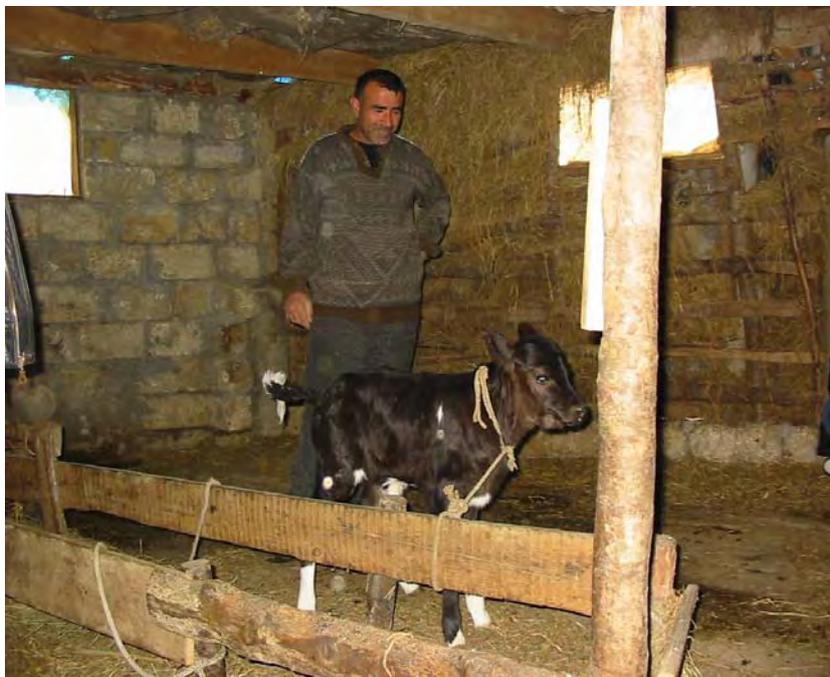
During this reporting period, Mercy Corps continued negotiating with two large dairy processors on the subject of investing into milk storage facilities in the remote villages. Mercy Corps believes that these investments can provide better market opportunities for remote milk producers. Mercy Corps organized visits of the milk collection point representatives to the villages, these as a result had a chance to meet with farmers face to face and answer all questions on quality, quantity and prices. Over the last 6 months, Mercy Corps began to work with one more milk storage point and is continuing to pursue opportunities to establish linkages between further milk collection points and dairy producers.

D. Experimenting with new inputs in serving dairy value chain

Over the last six months, Mercy Corps successfully prepared four more cattle artificial insemination (AI) service suppliers in the newly expanded target areas, which in a short time proved to become profitable businesses. Mercy Corps adopted all the lessons learnt during the program activities implementation in the southern area to start these new suppliers. The team believes that all lessons learned from its experience in the South were a key reason for success in making this type of service sustainable and simultaneously affordable to rural producers. Within the next six months, Mercy Corps is planning to continue its monitoring efforts of the AI service provision and will examine this closely in the Final Impact Assessment.

IV. Human Interest Anecdote: The rebirth of hope

Presently there are several families in Khachmaz Region that have improved their revenue and living perspectives through applying animal artificial insemination in their small farm businesses. Arif Mammadov is one of those farmers who lives in Hachimammad Oba village of Khachmaz and supports his family by breeding livestock consisting of four cows and dozens of chickens. Born in this village he left to study engineering but returned after graduation to his native village. A lack of job opportunities for a qualified engineer in the Region, coupled with the devastating economic climate Arif decided to become involved in cattle breeding activities in order to support his three children and wife. One day when he brought his animals from the high pastures in the summer time, he noticed the Artificial



Insemination advertisement on the wall of the local vet point, and discovered that this new service is provided by Mercy Corps under the CABS program. Arif asked the village vet about the newly introduced service, who invited him to an awareness-raising campaign provided by the CABS-supported vets for farmers, facilitated by Mercy Corps Programme Officers. Ultimately, this campaign motivated him to invite the Mercy Corps trained AI technician to his farm and inseminate his two cows. Thereafter, Arif invited the Mercy Corps Program Officers to his village of Hajimammad Oba to facilitate awareness raising campaigns on animal diseases and preventive measures. One year on, Arif has been accessing CABS-supported veterinarian services on a regular basis, and is a community leader in his village. As a result of this collaboration, Arif has improved his animal husbandry skills and owns two new pure breed calves from the AI service. *“Today I have four inseminated animals in my farm and it has opened up the path for high production in meat and milk”* says Arif, with a new hope in his eyes.