



USAID
FROM THE AMERICAN PEOPLE

**Private Sector Competitiveness
Enhancement Program**



FY 2010 FIRST QUARTER REPORT

OCTOBER - DECEMBER 2009

February 11, 2010

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PRIVATE SECTOR COMPETITIVENESS ENHANCEMENT PROGRAM

Quarterly and December Report

FY 2010 Quarter One (October - December 2009)

I. ACTIVITIES AND ACCOMPLISHMENTS IN FY 2010, QUARTER ONE (OCTOBER – DECEMBER 2009)

In this quarter of operation, PSCEP key activities included sector strategic support and direct support to enterprises in PSCEP's selected sectors through the Business Development (BDS) providers, continuing key steps to establish associative relations and partnerships in selected value chains, and moving aggressively to enhance access to finance. The activities undertaken in the Q1 2010 (October - December 2009) are detailed below.

A. ADMINISTRATIVE ACTIVITIES

A1. Changes in Key Personnel

- **October:** PSCEP requested approval in September for changes in key personnel. In October, PSCEP's technical team saw the departure of one value chain specialist whose contract was not renewed.
- **November:** Danilo Cruz-De Paula departed and the new Chief of Party, Harvey Schartup arrived to assume leadership of the project.
- **December:** PSCEP Deputy Chief of Party, Matthew Weber moved to the Chemonics Home Office in Washington D.C., and Senior Advisor Barbara Yale assumed the DCOP position including oversight of the monitoring and evaluation system and capacity building of the BDS. Furthermore, PSCEP began recruitment of a local Finance Value Chain Specialist to replace Ramal Jafarov who submitted his resignation effective January 1, 2010.

A2. Home Office Support

- **December:** In December 2009, Chemonics provided PSCEP with the short-term services of a Communications Specialist and a Monitoring and Evaluation Specialist at no cost to the project. These assignments focused on developing project Success Stories and assisting with the development of the Annual Monitoring and Evaluation Report, including accompanying PSCEP's M&E Specialist on monitoring visits to Jalilabad and Lankaran.

A3. Site Visits

- **October:** PSCEP traveled with USAID to meet with clients and showcase project activities in the northwestern regions of Azerbaijan. The team met with six clients in Sheki, Zagatala and Balakan, as well as participated at a certificate awards ceremony for representatives of three companies who had completed USAID/PSCEP sponsored HACCP training in the fourth quarter.

- **November:** PSCEP also traveled to Ganja with USAID to see project activities in the area; and then with USDA and USAID in December to meet with representatives of the Ganja Agricultural University and the Agro Information Center (AIM) to (1) assess possible assistance for a feed-testing laboratory and extension training opportunities and (2) participate in discussions on possible USDA interventions.
- **December:** In December 9, 2009, PSCEP and USAID Country Representative Scott Taylor visited Elman Mehraliyev trout farm in Gusar to observe the hands-on training provided by PSCEP aquaculture expert Tom Ort in the tempering and incubation of the 150,000 trout eyed-eggs received from US supplier Trout Lodge. On December 18, 2009 PSCEP traveled to Sheki with USAID Mission Director Jock Conley to showcase the results of the consolidated Trout eyed-egg order, facilitated by the Sheki BDS. The team visited Girkhbulag trout farm, where the incubated eggs from the order had just begun to hatch – total hatch rate at Girkhbulag exceeded 98 percent.



Jock Conley, USAID Mission Director viewing newly hatched eyed-trout eggs at Girkhbulag Farm. Dec 2009

A4. Monitoring and Evaluation

In **November and December**, PSCEP completed baseline assessments with clients in Guba, Ganja, Sheki, Lankaran and Jalilabad. PSCEP’s Annual Monitoring and Evaluation report will be submitted to USAID in January, including initial data on sector trendlines for sales and employment.

B. PROGRAM ACTIVITIES

B1. Sector Support

B1a. Access to Finance

B1a1. Debt/Commercial Bank Financing

- Short-Term Working Capital Financing: **In October**, PSCEP’s debt financing consultant Richard Currie returned to Azerbaijan to continue implementation of the SME-lending program by:
 - Reviewing and updating implementation plans with each partner bank.
 - Providing on-the-job training and mentoring loan officers at PSCEP’s partner banks from initial stage of the credit application through credit analysis and onto loan approval.
 - Designing and drafting a “Credit Grading and Scoring System” for the partner banks. This new banking tool will permit banks to classify risks by economic sectors, clients, and business type. This will help banks to maintain the quality of loans in their portfolios by enabling them to take preventive actions to guard against various identified risks. The system is currently under final review by the PSCEP financial team, will then be translated and distributed to the six partner banks for their final review and approval. The financial team expects to incorporate the document into all six partner banks’ systems when approved.

- PSCEP’s finance specialist continued to work with partner commercial banks and provided on the job training to loan officers at the banks for SME lending. As a result of these activities, two of the six partner banks have already exceeded their 5 million AZN commitments for year one in less than 6 months of assistance (see Annex A).
- Facilitation of debt financing through support by PSCEP BDS providers:
 - **October:**
 - Ganja BDS assisted Elba LLC to source financing for its new meat processing facility by assisting with the preparation and submission of all the necessary documents for a 650,000 AZN loan from Damir Bank (formerly Azerdemiryol Bank) in September. In October, representatives of Damir Bank made a due diligence visit to the newly acquired 1ha of land in Dashkasan region, where the processing facility is to be located. In December, collateral for the loan was defined by the bank and the loan will be processed shortly. In the meantime, the Ganja BDS identified the Concord Company as a reputable equipment supplier. Concord then signed a contract with ELBA for providing a slaughtering line and related equipment.
 - **November:**
 - Per the request of a cold storage owner in Shemkir, Ilgar Mammadov, the Ganja BDS also applied to Para Bank for a working capital loan of 20,000 AZN to purchase 40 tons of grapes during the harvest for storage and export to Russia later in the year. The BDS also linked the entrepreneur with a local farmer, Mr.Suliddin Aliyev, who will supply Mr. Mammadov with high quality grapes as soon as the loan is approved.
 - Cold storage client VUGAR contracted the Ganja BDS to develop and submit loan applications to Para Bank for 220,000 AZN for the construction and installation of a packaging line at the company, and a display shop at the farm entrance where the farm’s agricultural products will be displayed for wholesale and retail sales.
 - The Jalilabad BDS and PSCEP FVCS Ramal Jafarov prepared and submitted a 22,000 AZN credit application to the Bank of Azerbaijan for a regional potato producer in November. The loan is currently under review by the credit committee, with a due diligence visit to the client’s farm planned for December.
 - **December:**
 - In December, Ganja BDS consultants met with the representatives of Demir Bank, Ganja Bank, and Xalg Bank to submit the Suludere Company’s 430,000 AZN loan application. This financing will assist the company to purchase 200 head of cattle, cheese making equipment, and the installation of a new water pipeline.

B1a2. Leasing

- **October/November:** PSCEP fielded leasing specialist Mr. John Bengel to launch activities to improve and/or develop leasing operations with PSCEP’s partner banks and other interested financial institutions. Mr. Bengel met with senior management at all six PSCEP partner banks, and with Unileasing, Joint Leasing, the Azerbaijan Leasing Companies Association, EBRD, IFC, and TIRSP/USAID to develop an action plan for the industry.



PSCEP/TIRSP Leasing Workshop, December 21-22, 2009

- **December:** In December, Mr. Bengel returned to conduct individual roundtable meetings with each partner bank and the leasing companies to design leasing strategies, lease templates and procedures and to finalize MOUs for the leasing component of the PSCEP program. In addition, in coordination with TIRSP, a two-day seminar on leasing was held on December 21 – 22, 2009 with participation of representatives from 15 banks operating in the country, 2 leasing companies, the leasing association, EBRD, IFC, and a representative from one of the Big 4 accounting companies. Issues of corporate governance, legislation reform, refinancing, accounting, and risk management were presented and discussed.

B1b. Agribusiness (Fruit and Vegetables)

B1b1. Cold Storage

- **November:** At the request of CIIC, the Ganja BDS developed the scope of work for a consultant to assist NAA Company with a fruit and vegetable drying operation. The BDS linked CIIC/NAA with the PUMA Company which identifies and provides consultants in this field. The Ganja BDS also provided contacts with the Multivac and Shaller companies for the purchase of equipment to dry vegetables and fruit, and to peel pomegranates.
- **December:** PSCEP identified a cold chain post-harvest handling specialist, Dr. David Picha, to assist with post-harvest handling, cold storage maintenance, and cold chain systems for selected fruits and vegetables for the next phase of PSCEP’s action plan implementation. The assignment was planned for December 2009, to coincide with the end of the persimmon season. However due to the holidays and the consultant’s availability, it was decided to delay the assignment until April to prepare cold storage providers and suppliers for the 2010 harvest, storage and marketing cycles.

B1b2. Greenhouses

- **December:** PSCEP identified a greenhouse specialist, Bruce Hicks who will arrive in Azerbaijan in early January to assist client companies in Ganja, Shemkir, Zagatala, and Lankaran with analysis and recommendations on cost-effective heating and temperature control systems, horticulture and best practices in greenhouse production.

B1c. ICT

- **October:**
 - PSCEP sub-contractor and GDA Specialist Dan O’Brien returned to Baku to focus on development and expansion of the four selected ICT GDA strategies. Dan O’Brien and PSCEP VCS Yashar Farajov participated in workshop meetings with GDA partners to draft basic agreements with implementing partners—including Microsoft, Softline, Azercell, Cisco, MOE ICT Innovation Center, Azel, Ultra, Sinam and AzEduNet—as well as to meet with more industry players to expand coverage area and leverage more resources. As a result, PSCEP is close to finalizing the MOUs with partners for three of the Alliances. For the fourth GDA, the Ministry of Education’s ICT Innovation Center, PSCEP has transferred it to the USAID Democracy and Governance group for funding and implementation.
 - October 29-30, 2009, PSCEP’s VCS for the ICT sector, Yashar Farajov, participated in the Georgian IT Innovation Conference. The conference was organized by the ICT

Business Council of Georgia, and USAID/RCI, and was sponsored by Microsoft, HP, and other local IT companies. The conference focused on the benefits of integrating innovative information communication technologies to streamline government, business and social procedures and their development, which are highly relevant to develop the ICT sector in Azerbaijan.

- Contacts made during the conference have resulted in interest by Microsoft and Softline to launch an anti-piracy program in Georgia, similar to the PSCEP proposed PC Software Piracy Alliance. Both companies requested that PSCEP share information on alliance progress with USAID Georgia to promote the possibilities for a similar operation there.
- **December:** On December 10th, potential GDA partner Azercell opened the Barama technology and business innovation center in Baku. In Azerbaijani Barama means cocoon and conveys the meaning of innovation, aspiration and entrepreneurship. There are currently two young innovators at the center developing their ideas. The Center is expected to have 15 people by the end of the first quarter of this year. Since students at Barama are expected to take their innovative ideas and products/services to the market, PSCEP is working with Azercell and Cisco to finalize an MOU (through one of the above mentioned GDAs) to develop a Cisco Entrepreneurship Institute at the center to provide business and marketing training to these young entrepreneurs.

B1d. Poultry

October:

- In October, PSCEP poultry expert Dr. Tom Fattori returned to Azerbaijan to continue implementation of the poultry action plan, including providing technical assistance for a number of potential investment opportunities:
 - Assisting AIC in the technical due diligence for an upcoming investment in a poultry farm in Shemkir. The equity investment is currently estimated at \$40 million. AIC requested PSCEP assistance from Dr. Fattori to identify a partner for the construction of the broiler production complex. Five broiler construction companies were short-listed. The consultant participated in the interviews with these companies and provided AIC with selection recommendations. The selection was expected to be completed in late December. AIC requested additional assistance from Dr. Fattori during their project start-up.
 - On a previous assignment Dr. Fattori assisted CIIC with technical input to evaluate the investment possibility in Samuhk Broiler in Ganja. Based on Dr. Fattori's assessment of this operation as "high risk" for CIIC, the company began reviewing alternative poultry investments—selecting Imishli Broiler. In October, at the request of CIIC, Dr. Fattori visited Imishli broiler to assess their production facility, marketing ability and the company's growth potential. The consultant developed an integrated business model for the company and trained CIIC's finance specialist to use the model to evaluate company risks, profits, and management elements for a technical review of this and other investment opportunities. CIIC expects to finalize their decision on the possible \$4-5 million investment in Imishli Broiler by the end of December¹.
 - Facilitating an ownership transition plan between Davachi Broiler and OZ-AK Azerbaijan. On a previous assignment, Dr. Fattori had worked with the two companies to design and develop the transition plan. In October, the consultant

¹ CIIC has decided not to invest in the poultry sector due to risk factors.

worked with the clients on a Performance Evaluation System (PES) and timeline for the hiring and training staff. Dr. Fattori helped to smooth the negotiation process and bring the clients to agreement on the objectives and terms of the sale of shares, timing for the hand-over of deliverables, schedule for staff training, and performance penalties under the transition plan.

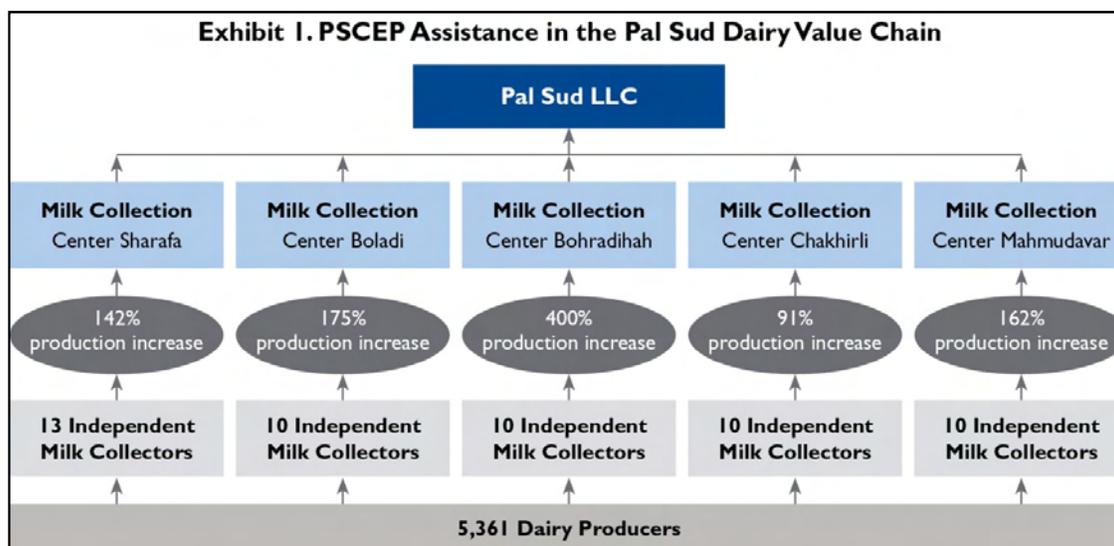
- The Ganja BDS has been working with PSCEP client Ganja Meat-Milk (GMM) to refurbish their broiler production facilities. In October, the Young Agrarians linked GMM with “Gilazi Broiler,” a large broiler breeder company in Baku to facilitate the purchase of 30,000 six-day-old broilers. A further 150,000 AZN investment in slaughtering line equipment through a leasing agreement is under consideration.

B1e. Aquaculture

- **November:** PSCEP’s VCS for Aquaculture, Yashar Farajov worked with the Sheki BDS to finalize the consolidated eyed-trout-egg order from Trout Lodge in the US. This included securing all permits and documentation needed for customs clearance.
- **December:**
 - PSCEP aquaculture specialist, Thomas Ort, arrived in Azerbaijan in early December to ensure that the order of eyed-eggs were properly received, handled and incubated at the farms to optimize the hatch rates for the fertile eggs. Mr. Ort worked with the four fish farms to prepare their hatcheries to receive the eggs, and then provided hands-on training to the farmers in handling and incubating the eggs.
 - After working on the consolidated eyed trout eggs order for almost six months, 500,000 eyed-trout-eggs arrived in Azerbaijan on December 8, 2009. The eggs hatched approximately 2 weeks later with all farms reporting hatch rates between 90-98 percent – well above industry norms (maximum 60 percent) for locally sourced eggs.
 - In addition, Mr. Ort also worked with Kamaladdin carp farm in Zagatala to restructure the design for their carp hatchery to hatch 2 million fingerlings per year. The Zagatala aquaculture association is also working with Kamaladdin farm to build an association-based hatchery which can supply carp fingerlings to the farmers in the region.

B1f. Dairy

- **October – December:** PSCEP’s BDS provider, the Lankaran Business Center continues to expand their work with the PalSud Collection Centers working with farmers and collection agents to improve conditions for keeping animals, choosing appropriate animal feed, and achieving increases in milk quantity and quality. The results are impressive.



- December:** In addition, LBC has expanded these trainings to “Yusif Farmer” a milk supplier for ProM, another large dairy processor located in the southern regions of Azerbaijan. Yusif works with over 2500 dairy producer in the south. In December, LBC organized trainings and workshops for farmers in Takna and Gizilagac villages to increase the quality of milk produced. As a result of these efforts, the company has already increased sales by 84,000 AZN.

B2. Competitiveness Innovation Grant Fund

November: On November 25, 2009, the first meeting of the Grant’s Evaluation Committee (GEC) was convened to review the six grant applications submitted and short-listed under the ICT Innovation Grant RFA issued in April 2009. Since none of the six proposals reviewed met the minimum evaluation criteria levels, it was decided not to award any grants at this time. One of the potential grant proposals on e-commerce development and e-payment systems, however, was shared with the TIRSP project for possible future collaboration.

The GEC is expected to reconvene in February 2010 to evaluate the three pending GDA proposals and the AIM feed analysis laboratory proposal.

C. PROGRESS AGAINST PROGRAM COMPONENTS

The following summary comments on progress made against project indicators through December 2009. (For more precise and detailed information, please see Annex B – Mid-Project Indicator Table and the PSCEP *Annual Monitoring and Evaluation Report, January 15, 2010*.)

C1: Enhance Access to Finance

Over \$42 million in new investment was generated by PSCEP activities through the project's six targeted banks (\$18.8 million), partner equity companies (\$8.5 million), and BDS and PSCEP efforts with client companies, additional banks and non-bank financial institutions (\$14.9 million). An additional \$56 million is in process (pipeline): banks \$7.5 million; partner investment companies \$47.1 million; and GDA partners \$1.7 million.

Given the large amount of pipeline financing, mentioned above, forthcoming from partner equity investment companies, it is important to note that these equity companies do not base their investment decisions solely on business and financial criteria but operate through a mix of institutional, political and cultural realities which affects the pace and shading of their operations and investment decisions. PSCEP expects these investments to be realized in 2010 but is unable to determine the exact timing.

C2: Promote Increases in Sales, Exports and Employment

PSCEP directly assisted 176 companies through December 2010 and estimates indirectly impacting at least another 5,654 in the Lankaran and Jalilabad areas². One hundred thirty-one of the 176 directly assisted companies reached the contract target sales level of 50% over their industry trend lines.

A subset of the sales growth target is the export growth indicator of an increase in annual export sales revenues by a minimum of 50 percent within identified subsectors. PSCEP only advocates exporting when it makes business sense for the supported firm or sector. PSCEP and its BDS providers take a business and industry perspective by looking at overall market demand and taking into consideration opportunity costs, competitive advantage, profitability, risk, investment and cash flow factors, as well as high barriers to entry due to factors beyond the project or private sector's control. It would be unwise and potentially detrimental for PSCEP to promote exporting when it is not warranted. PSCEP does support some firms within the cold storage and greenhouse subsectors where products have been exported prior to project assistance. These sectors include goods such as potatoes and apples (held in cold storage) and fresh fruits and vegetables such as cucumbers, tomatoes, and eggplants (greenhouse production)—the majority of which is destined for Russian markets. Project assistance to improve production quantity and quality, extended market windows through improvements in cold storage, as well as enhanced BDS assistance to strengthen linkages to outside buyers has allowed the project to strengthen export opportunities in these subsectors.

An additional project growth focus is employment creation. Given the labor-intensive nature of the targeted agricultural sectors and sub-sectors, PSCEP transformational assistance in the

² Please note that at the time of writing indirect impact data was not available from the PSCEP Sheki, Ganja and Guba BDS providers and only partial information was available from Lankaran and Jalilabad. A fuller complement of data will be available during the January through March 2010 period.

form of newer technologies—often substituting investment and equipment for labor—can result in instances of negative tradeoffs between employment levels and the adoption of higher profitability, cost savings, investment, and new technology methods. It can be the case therefore that the adoption of newer transformational technologies, by making labor more efficient, will not increase but in fact reduce employment levels³ or will result in longer “fuller-time” work hours rather than new jobs.

C3: Enhance Social Capital/Build Associative Relationships

The main PSCEP associative relationship building activities during the quarter involved the aquaculture sector’s multi-producer order for internationally supplied trout eyed trout eggs and the eggs implantation through international and local technical assistance. The success of this operation fostered producer (and BDS) realization that future eyed trout egg orders are necessary to improve fish stock; that to be effective such future orders should and could be done in a similarly combined manner; and that this group arrangement would also be useful for supplying quality fish feed and technical assistance. An analogous group purchase arrangement is being put together for the importation of agricultural inputs by greenhouse producers, BDS providers and PSCEP in several of the project’s regions.

A second associative relationship strengthening activity undertaken during the period, with substantial involvement by the TIRSP project, involved the leasing industry (leasing companies, bank leasing departments and the Azerbaijan leasing association) coming together to draft recommendations and lobby for changes in the Azerbaijani laws affecting financial and operational leasing arrangements. This activity will continue into 2010.

C4: Build Capacity for Business Development Services to Client Firms

During the quarter, the BDS providers continued to be actively involved in the determination of the scopes of work, scheduling and field visits of the PSCEP short-term technical experts (STTA). BDS staff accompanying project STTA on site visits were able to update their technical knowledge; and the short-term technical experts also provided briefings and recommendations to the BDS providers, specifically in poultry, aquaculture and greenhouse technologies.

The PSCEP project also developed and circulated a sustainability plan template to serve as a guiding long-term strategic planning tool for the BDS providers. PSCEP will review BDS comments and work with each of the subcontracted BDS providers during our planned January BDS sustainability workshop in Ganja. Since reporting on results is a key element in any program, the workshop will also focus on improvements to the monitoring and evaluation systems, reporting and M&E presentation. This will serve the BDS providers well in future efforts with donors. Potential collaborating organizations (AIM, UMID, and the Ganja Agriculture University) will be invited to the BDS workshop to foster development of contacts and formal business relationships.

³ Please note that industry trend figures for 2009 were not available at the time of writing.

II. ACTIVITIES SCHEDULED FOR FISCAL YEAR 2010, QUARTER TWO

A. ADMINISTRATIVE/MANAGEMENT ACTIVITIES

B. PROGRAM ACTIVITIES

B1: Sector Level Activities

Access to Finance

- In February, finance expert Richard Currie will return to Azerbaijan to continue assistance to the project's pilot banks in the expansion of their trade finance program and short term credit portfolios.
- In conjunction with Richard Currie's assignment, PSCEP will also field Stewart Cole an expert in Letters of Credit (L/Cs) and Letters of Guarantee (L/Gs) to begin the next phase of the trade finance program.
- In February, John Bengel, PSCEP's Leasing expert will also return to Azerbaijan to provide hands-on assistance to partner banks and leasing companies for structuring new leasing deals. Furthermore, he will continue collaboration with TIRSP, IFC, EBRD and PWC on recommendations for legislative changes needed to support and expand leasing operations in Azerbaijan.

Agribusiness (Fruits & Vegetables)

- In January, PSCEP will field a greenhouse specialist, Bruce Hicks, to work with producers and BDS providers in Ganja, Shemkir, Zagatala and Lankaran on greenhouse heating and temperature control, production methodology and best practices in greenhouse horticulture. Mr. Hicks will also make a presentation to the Ganja State Agrarian University on greenhouse production.
- PSCEP was planning to source a cold storage specialist in December to work with the cold storage operators at the end of the persimmon and apple seasons, however due to the holidays the assignment needed to be postponed. Instead, it was decided to bring the consultant to Azerbaijan in April/May to work both with fruit producers on harvesting and post-harvest handling as well as with the cold storage operators on post-harvest handling and storage to maximize product quality and storage potential.

ICT

- In late January or early February, the Grant Evaluation Committee will convene to review and approve/disapprove GDA grant applications for the PC Software Piracy Alliance, Azercell Innovation Center and the Cisco Networking Academies. Should the grant applications be approved, the GDA MOUs will be signed with the partnering organizations in March.

Poultry

- AIC and CIIC are working on a number of poultry-related investments. PSCEP poultry specialist Tom Fattori has provided both institutions with due diligence and concept reviews of the deals. PSCEP would re-field Dr. Fattori should these multi-million dollar investments come to fruition.

Aquaculture

- In February, PSCEP Aquaculture specialist Tom Ort will return to Azerbaijan to monitor client's progress and development with the imported eyed trout eggs as well as to assess new clients in Salyan, Zagatala, and Xizi who are planning large investments in construction of new trout farms.
- PSCEP will also work with a local specialist, Inshallah Abbasov, a trout farmer from Nakhchivan. Mr. Abbasov will shadow Mr. Ort during his assignment to observe new technical practices in trout farming. In addition, Mr. Abbasov will provide assistance to Gusar trout farm with design and construction of the raceways and recommendations on best practices in fingerling feeding and water temperature control for improved fry development.
- As the aquaculture sector expands there is a growing need for quality feed sources not currently available in Azerbaijan. In January, PSCEP's Aquaculture VCS will provide assistance to the Sheki BDS in developing a distributorship contract with Dogan Feed from Georgia.
- In addition PSCEP will review a grant application from Girkhbulag trout farm in Sheki to reconstruct and operationalize their feed mill to produce fish feed for local aquaculture association members.

Dairy

- LBC, PSCEP's BDS provider in Lankaran will continue to work with dairy farmers and milk collection centers in the south. In addition, PSCEP will invite UMID—the recent recipient of a USAID Development Grant in Dairy—to the upcoming BDS workshop in Ganja in late January to meet with representatives from LBC and other BDS providers and guest organizations, and to see the results achieved through PSCEP initiatives. It is hoped that UMID can use the lessons learned from the PSCEP program, as well as possibly contract with LBC to provide similar trainings either to their staff or directly to the collection centers with which they will work in central Azerbaijan.

B2: BDS Sustainability Activities

- On January 27-28, 2010, PSCEP will hold a two-day capacity building workshop for its five regional BDS providers, as well as representatives from UMID and the AIM in Ganja. The workshop is designed to promote greater cooperation among the partner BDS organizations and regional NGOs. By holding the workshop in Ganja, BDS providers will be able to observe the Young Agrarians' office and work environment, and receive more in depth information on the business environment in Ganja and upcoming business opportunities with AIM and UMID.

The workshop will focus on the results achieved in 2009, the program targets for 2010 under the revised project timeframe; and the monitoring and evaluation techniques to improve reporting and recording of their achievements in the field as a way to more realistically present their wide-ranging impacts on their direct clients and indirect beneficiaries. BDS providers will share lessons learned from the first year of implementation. PSCEP will address development sustainability strategies with the BDS providers to ensure their growth and profitability as project support begins to decline over the coming year.

PSCEP's DCOP and VCS will continue to work directly with each BDS both on technical implementation as well as on developing business plans and development strategies for each individual BDS in the coming months. A further regional BDS workshop is planned for Sheki later this year.

B3. Grant Fund and GDAs

- Grant Evaluation Committee (GEC) will convene in early February to review grant applications for three GDA proposals, the AIM feed analysis lab, and Girkhbulag fish feed mill.
- Should the GDAs be approved at the GEC meeting, MOUs with GDA partners will be signed in March and implementation can begin.

III. FINANCIAL REPORTING

PSCEP spent approximately 49% of its total budget in the project's first year (September 30, 2009), and close to 62% by December 2009. Given this rate of expenditure, it is estimated that the project has enough funds to continue through December 2010.

Contract No.	Total Contract Value	Authorized Expenditures	Actual Expenditures	Balance (as of 12/31/09)	Contract Completion Date
PSCEP-AID-112-C-08-00002	\$6,588,557.00	\$5,712,935.00 (obligated amount)	\$4,074,857.52 <i>(61.8%)</i>	\$2,513,699.48	September 2011

IV. ISSUES

A. ADMINISTRATIVE ISSUES

- The Ministry of Foreign Affairs (MFA) is currently issuing 90 day / one-year multi-entry visas, to foreigners working on humanitarian projects, with requirements that expatriate staff and consultants on long-term assignments exit the country every three months to keep their visas valid. This adds additional costs to the project budget both in terms of travel expenses for expatriate staff, as well as registration costs to obtain new ‘pink cards’ every 3 months.

B. PROGRAMMATIC ISSUES

Budget and related project assistance

- Due to the high budget expenditure burn rate in the project’s first year there are only enough remaining funds to continue project assistance through December 2010, nine months short of the contract ending date. The sustainability of project activities and reaching LOP contract indicator targets are of concern due to the shortened implementation period.

**ANNEX A: LOANS DISBURSED UNDER PSCEP'S SME/DEBT FINANCING COMPONENT
AUGUST-DECEMBER, 2009**

N	Bank Name	Value of Loans disbursed since August 1, 2009	Number of SME customers	Sectors
1	Bank of Baku	3,200,000 AZN	115	Agriculture, Production, Trade, Processing etc.
2	Demir Bank	5,625,000 AZN	32	Agriculture, Production, Trade, Processing etc.
3	Bank of Azerbaijan	1,784,660 AZN	9	Agriculture, Production, Trade, Processing etc.
4	Royal Bank	400,600 AZN	37	Agriculture, Production, Trade, Processing etc.
5	Mugan Bank	not reported	not reported	not reported
6	RabitaBank	7,800,000 AZN	176	Agriculture, Production, Trade, Processing etc.
TOTAL		18,810,260 AZN	369	

As of January 6, 2010