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AZERBAIJAN AGRIBUSINESS CENTER
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Table of Contents

<u>EXECUTIVE SUMMARY</u>	<u>3</u>
<u>1. INTRODUCTION AND BACKGROUND</u>	<u>5</u>
<u>2. YEAR '03 HIGHLIGHTS</u>	<u>7</u>
<u>3. YEAR '03 ACHIEVEMENTS</u>	<u>9</u>
<u>A. OBJECTIVE 1: INCREASE DOMESTIC AND INTERNATIONAL SALES OF CLIENTS; INTERMEDIATE RESULTS, PERFORMANCE INDICATORS, AND ACHIEVEMENTS</u>	<u>9</u>
<u>B. OBJECTIVE 2: INCREASE DIRECT AND FOREIGN INVESTMENT; INTERMEDIATE RESULTS, PERFORMANCE INDICATORS, AND ACHIEVEMENTS</u>	<u>11</u>
<u>C. OBJECTIVE 3: INCREASE THE NUMBER OF JOBS IN THE RURAL SECTOR; INTERMEDIATE RESULTS, PERFORMANCE INDICATORS, AND ACHIEVEMENTS</u>	<u>12</u>
<u>D. OBJECTIVE 4: CROSS-CUTTING OBJECTIVES; INTERMEDIATE RESULTS, PERFORMANCE INDICATORS, AND ACHIEVEMENTS</u>	<u>12</u>
<u>4. ADMINISTRATIVE AND STAFF DEVELOPMENT</u>	<u>13</u>

EXECUTIVE SUMMARY

The Rural Enterprise Competitiveness Program's (RECP) primary goal is to help "Azerbaijan's agricultural sector to reclaim its earlier leadership role in domestic and regional markets..." Specifically, the project's aim is to add value to Azerbaijan's agricultural products by assisting its agro-processors¹. To help accomplish this, RECP's three key objectives are to:

- **OBJECTIVE 1:** Increase domestic and export sales;
- **OBJECTIVE 2:** Attract direct and indirect investment; and
- **OBJECTIVE 3:** To create jobs.

Year '03 of the project also witnessed the inclusion of an additional objective: assisting USAID in its Avian Influenza mitigation activities.

Year '03 began with an aggressive work plan that called for a dramatic "ramping up" of project activities. These included:

- Doubling the number of clients being served by RECP;
- Shifting RECP's geographic focus to include regions that were underserved by the project;
- Broadening the client base to include non-food processors;
- Undertaking market research to determine the potential of a number of new products;
- Launching a program of clustering clients and providing targeted supportive seminars, workshops, and other training opportunities;
- Promoting an enlarged grants program; and
- Broadening our client outreach with a number of new support publications.

Virtually all these initiatives were achieved; many were exceeded. Shortly after the mid-year, however, USAID informed us that significant worldwide budgetary modifications were being considered and that our project would not escape being affected by these anticipated cuts. In fact, our budget was reduced by 28 percent, effective mid-May, 2006. This necessitated that we make a number of immediate and painful reductions.² Hardest hit were our grants program, travel support to trade fairs, and technical assistance activities. Grants management and office administration activities were indigenized. With the remaining short-term technical assistance LOE, we proposed and USAID

¹ Agro-processing refers to those enterprises that utilize food, wood, and fiber products raised in Azerbaijan, or process products whose ingredients may come from abroad, but whose processing in Azerbaijan adds significant value to an end product which is sold and consumed in Azerbaijan.

² The reduction in resources resulted in the project reducing its LOP by one entire year, making RECP a four-year activity.

accepted a program that husbanded our remaining resources to focus on business development services and quality assurance efforts.³

Despite the dampening effects of these reductions, RECP is proud of its Year '03 achievements. With respect to Objective 1, for example, we anticipated that we would increase overall sales by \$10 million, and facilitate trade deals worth \$1 million. In fact, we increased overall sales by \$19,043,630, and trade deals by \$ 8,361,156. Regarding Objective 2, we anticipated facilitating \$1 million in direct and indirect investment. By year's end, however, we had assisted in helping our clients to invest \$2,793,022. Finally, we expected to generate some 500 new jobs during Year '03. The actual number reached 827.

This report will detail these achievements as well as discuss other activities that were undertaken and challenges faced during Year '03.

³ These modifications will be treated in the Year '04 Work Plan.

1. Introduction and Background

The goal of the Rural Enterprise Competitiveness Program (RECP) is to raise rural incomes and agribusiness productivity in Azerbaijan. The program has sought to increase both the volume and quality of processed agricultural products thereby increasing the volume of value added products sold in domestic and export markets and, concomitantly, increase income benefits of processors and their employees. By introducing the competitiveness paradigm, the project has sought to displace heavy reliance upon imports and to reach export markets.

RECP created a local entity, the Azerbaijan Agribusiness Center (AAC) through which to implement project activities. Staffed by local professionals who are assisted by long- and short-term expatriate experts, the AAC has been providing the following services:

- **Production:** Extending market windows through innovation; introduction of new products; improving links to processors; formalization of market linkages; high value horticulture; machinery service supply; and modernization of production techniques and inputs;
- **Marketing:** Market research (domestic and export); market surveys, plans and strategy; market identification and introduction; competitive product identification; participation in trade fairs and marketing events; and introduction of stable contracts for sustainability;
- **Processing:** Linkages to supply, improvement of raw materials; improvement of process efficiency and equipment; food safety and quality control; HACCP and ISO certification; packaging; packaging competitiveness compared to imports and targeted value addition (e.g., cut chicken, fruit yogurt, baby food, processed nuts);
- **Logistics:** Collection and distribution facilitation; 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 alliances or partnerships for development; facilitation of leasing; trade and contract finance mechanisms; asset registration; and machinery and facility-targeted credit and investment; and
- **Business Development Services:** Strategic planning; automation of accounting systems; Inventory control; personnel development; human relations; staff training; and cost accounting.

Since its inception, RECP has sought to provide demand driven services, focusing not only on the production aspect, but on the needs of the marketplace. In other words, all products and services have been designed based upon what the customer wants as opposed to what the Azerbaijani agribusiness sector can produce.

The project's three key goals remain 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 the number and value of trade deals and sales increases, value of direct and indirect investment in agribusiness firms, and number of jobs created.⁴

Finally, in the course of Year '03, USAID embarked upon a number of activities aimed at supporting the Government of Azerbaijan in its efforts to mitigate the impact of Avian Influenza (AI). The AAC was already involved in AI awareness efforts with its poultry clients, and when approached by USAID and asked if it would undertake a broader role, focusing on the “animal side” of this disease, the implementation team agreed to do so.

⁴ When originally designed, RECP was conceived as a project that would address both production and processing. Aspects of Azerbaijan’s agribusiness sector. RECP’s original Scope of Work, therefore, included numerous activities that focused on improved and increased farm production. The SOW also included a number of activities whose realization had not been thoroughly researched prior to release of the RFP competing the project. Over Year '03, a series of meetings between the USAID and the implementation team addressed these issues resulting in a substantial modification of the SOW.

2. Year '03 Highlights

By the end of RECP's third year, the project's 10 Account managers, aided by the project's permanent expatriate staff and augmented with 19 person-months of short-term technical assistance, provided a broad array of services to 83 clients⁵. New clients (as was the case with their predecessors) were selected on the basis of identifying potential businesses⁶, after which a detailed SWOT analysis was done as part of a firm's inclusion/non-inclusion decision. Once included, a strategic action plan was developed which identified both the objectives of our relationship and how we intended to meet these objectives.

As the result of RECP's assistance, Project clients achieved total sales of \$79,948,320. This represented an increase in sales of \$19,043,630 over Year '02. Individual trade deals engineered by AAC Account Managers amounted to some \$8,361,156 (an increase of \$5,359,666 over Year '02⁷). Direct and indirect investments increased by \$2,793,022, cumulatively amounting to \$7,878,678. Year '03 employment increased by 827 employees (for a cumulative total of 4,752), 46 percent, or 2.182 of whom were women.⁸ In the table below, the extent of RECP's cumulative effectiveness is demonstrated.

**TABLE 1
RECP CUMULATIVE ACCOMPLISHMENTS AS OF 9/30/06**

ACTIVITY	START ⁹	YEAR '03	PERCENTAGE INCREASE
SALES	\$39,664,966	\$79,948,320	102%
RECP TRADE DEALS	\$400,000	\$11,584,666	280%
INVESTMENT	\$90,000	\$7,878,678	870%
EMPLOYMENT	1,617	4,752	194%
NUMBER OF CLIENTS	24	80	233%

Below are some highlights of accomplishments of clients in Year '03 as a result of assistance from AAC Account Managers and expatriate specialists:

⁵ By year's end, the project had serviced some 127 clients cumulatively. Year '03 witnessed the replacement of 47 clients, some of which had "graduated", i.e., met the assistance targets called for in their respective strategic plans, while others, in the process of our attempting to provide assistance, proved unable or unwilling to carry out their plan obligations and were therefore dropped. As of September 30th, the Project was servicing 79 clients.

⁶ In Years '01 and '02, virtually all clients were selected by "smoke stack chasing;" i.e., by the project team members seeking them out and asking them to become clients. Year '03 has seen the start of a number of clients actually coming to the Project's door and requesting assistance.

⁷ The Year '02 cumulative trade deals figure was reported as \$2,326,303. This figure was recalculated. The actual year '02 trade deals figure is \$3,001,050.

⁸ These employment numbers are conservative in that they include only those clients who are current and/or continuing to work with RECP. If one were to include those "graduates", the increases would be closer to 6,000 full-time jobs. Part-time, often seasonal employment would add an additional 1,000 jobs attributable to project-led activities.

⁹ Sales "Start" refers to the start of RECP's relationship with a client, regardless of which year the relationship began. All other "Start" figures begin at the end of Project Year '01.

- ⊕ The AAC assisted a flour and pasta producer in Ganja with a \$301,750 expansion and modernization project. It will increase sales and production threefold and add 22 new full-time employees;
- ⊕ A Sabirabad-based juice company turned to the AAC for assistance with sales, labeling, marketing materials, and sanitation. Immediate results of these improvements included a deal of three containers of juice this year (approximately €100,000 per container) and a tentative agreement for 12 next year;
- ⊕ A furniture processor in Massali has followed a number of AAC recommendations including the purchase of six hectares worth of seedlings, implementation of ISO standards, and increased marketing efforts. In addition, the Account Manager involved helped the company to invest \$65,000 in new equipment which will allow the company to sell an additional \$240,000 worth of product this year;
- ⊕ AAC consultants have assisted a company in Lenkaran with processing technology, the development of new products, and labeling. As a result, sales for this year will increase by \$113,000;
- ⊕ A soft drink and mineral water bottler in Xanlar couldn't find a reliable source of ingredients for its products and had technical problems during production processing. AAC solved these problems and found new buyers for the company. The quality of its product and its sales have dramatically improved;
- ⊕ A sunflower processor in Tartar didn't have enough business to operate year round. An AAC Account Manager linked the company to the project's network of poultry clients, both increasing sales and allowing the company to continue to operate throughout the year;
- ⊕ As demand for pomegranate juice increases, the AAC has been helping processors to access new and more profitable markets. A Sabirabad-based company that had traded only with Russia, Ukraine, and Turkey, worked with the AAC to utilize the power of the internet. Ads placed on line attracted the attention of buyers from the U.S., the UAE, and Bulgaria. Talks are presently underway to sell six containers to a major American buyer; and
- ⊕ By using its network of contacts, the AAC found a number of buyers for a new snack company's product. This Ganja-based January, 2006 startup has tripled its production, has begun selling product in all the surrounding regions, and has increased its work force.

3. Year '03 Achievements

In order to facilitate its use, we have organized the Year '03 Annual Report into tables. Each table includes a specific objective, articulates an expected intermediate result, and provides one or more performance indicators, followed by measurable achievements.

A. Objective 1: Increase Domestic and International Sales of Clients; Intermediate Results, Performance Indicators, and Achievements

OBJECTIVE 1: Increase domestic and international sales and trade deals of agribusinesses	INTERMEDIATE RESULT	PERFORMANCE INDICATORS	YEAR '03 ACHIEVEMENTS
		\$10million in overall sales increases; \$1.5 million in trade deals	\$19,043,630 in increased sales \$8,361,156 in specific AAC directed trades
	Broaden opportunities for domestic and international sales	Number of trade fairs visited	Kiev, Sofia, Cologne, Baku, Moscow attended
		Number of clients & staff attending	61 clients and 22 staff attendees
	Broaden the client base	Increase the number of clients to 80	81 clients as of 9/30/06; 27 clients discontinued
		Hire two new Account Managers;	Two new Account Managers hired
		Redistribute AMs to 3 additional regions;	AMs now in Zagatala, Yevalx, & Sabirabad, in addition to Ganja, Lenkaran, Guba, and Baku.
		Cooperate with ABAD in identifying potential new clients	Worked together in identifying one new client ¹⁰
	Broaden the competitiveness/skill base of clients	TA provided by AMs & 11 expatriate specialists to 80 clients;	AMs and 17 expatriate TDYs have provided services to 80 clients

¹⁰ Like RECP, ABAD had its budget reduced. This resulted in the closure of several of its client centers and this in turn reduced the ability of the two projects to cooperate in expanding their respective client bases.

		Recruit & secure MBAEC Finance & Accounting specialist;	MBAEC Volunteer Norman Capistrano in place for one year
		Provide third country training for fruit & vegetable and juice processors	Two third-country trainings; 9 fruit & vegetable producers; 5 fruit juice processors
		Four seminars in business planning, cost accounting, and sanitation attended by 100 clients & staff	12 Seminars held with 136 clients & staff
	Provide clients with improved market research	5 market research studies to be undertaken dealing with pomegranates, flour/confectionary, processed meats, transportation & distribution	Market research studies undertaken for the pomegranate, flour/confectionary, and processed meat processors; transport study under way
	Provide clients with improved informational resources	Publish newsletter of a quarterly basis;	Four quarterly newsletters published in English & Azeri
		Prepare a series of 8 brochures on topical issues	8 Brochures produced
	Strengthen the capacity of Account Managers to facilitate sales	Acquisition of and training in Business Plan Pro software for AMs;	AI AMs received and were trained in the use of this BDS software package. The package was used to assist five clients prepare business plans in order to secure bank loans
		11 topical seminars	10 topical seminars were held ¹¹
	Facilitate client access to raw product	Cooperate with ABAD to identify and secure resources	Working together to provide product to a juice processors in Guba and Sheki, and tomato paste processors in Lenkaran.
	Use Grants Program to facilitate competitiveness	Five grants to clients to improve competitiveness	7 grants were made to clients during FY '03

¹¹ The budget reductions, which occurred in May, 2006, resulted in a decision to reduce the use of technical assistance and to cut back on activities such as the number of topical seminars.

B. Objective 2: Increase Direct and Foreign Investment; Intermediate Results, Performance Indicators, and Achievements

OBJECTIVE 2: INCREASE DOMESTIC AND DIRECT FOREIGN INVESTMENT	INTERMEDIATE RESULTS	PERFORMANCE INDICATORS	YEAR '03 ACHIEVEMENTS
		Facilitate \$1 million in investments	\$2,793,022 in investments facilitated during FY '03
	Provide clients with relevant technical assistance to enable them to make sound investment decisions	Technical assistance provided by 11 expatriate specialists and AMs;	15 expatriate specialists, 10 Account Managers, and 5 long-term expatriates provided technical assistance to 80 clients
		10 Seminars that detail the role of investment as part of business planning ISO/HACCP certification, and Total Quality Management will be held	12 seminars held in four regions. 120 client attendees
	Use Grants Program to leverage domestic investment	Six grants approved to leverage investments at no less than 2:1 client to RECP Grant amount ratio	7 grants totaling \$104,081 were approved and implemented, ¹²
	Provide international investors with information on FDI and investment opportunities in the agribusiness sector in Azerbaijan	Update & publish 3 rd edition of Financing Manual	Completed
		Update & publish 3 rd edition of Investment Manual;	Completed
		Update & enhance project website;	Ongoing
		Update & publish new introductory brochure	Completed

¹²

N	Organization	Location	Sector	Type of Grant	Grant Amount
1	Aygun Carpet Factory	Guba city	Carpet Industry	Equipment	9,750
2	Elba, LLC	Ganja city	Meat Processing	HACCP	25,000
3	Inter-Pak, LLC	Ganja city	Juice Production	Equipment	40,000
4	Ganja Regional Consulting Center	Ganja city	Consulting	Flour Market Research	3,945
5	ERA Marketing Center	Baku	Consulting & Research	Meat Market Research	14,786
6	ANCO	Baku	Juice Production	Kosher Certification	2,100
7	TAJ-AQUA VITA	Baku	Water & beverages	HACCP	8,500
Total					104,081

C. Objective 3: Increase the Number of Jobs in the Rural Sector; Intermediate Results, Performance Indicators, and Achievements

OBJECTIVE 3: INCREASE THE NUMBER OF JOBS IN THE RURAL SECTOR	INTERMEDIATE RESULTS	PERFORMANCE INDICATORS	YEAR '03 ACHIEVEMENTS
		500 new jobs created as the result of RECP interventions	827 new jobs created
	Promote gender awareness among clients and create opportunities for female employees when possible		2,182, or 46% of employees are women

D. Objective 4: Cross-Cutting Objectives; Intermediate Results, Performance Indicators, and Achievements

CROSS-CUTTING OBJECTIVES	INTERMEDIATE RESULTS	PERFORMANCE INDICATORS	YEAR '03 ACHIEVEMENTS
	Strengthen the associational capacity of agribusinessmen and women	The AAMC will be legally registered;	This did not occur
		The AAMC will have a membership base of 50 paid members;	The membership never exceeded 11. ¹³
		Cluster-based seminars and trainings will bring entrepreneurs together	Five clustering activities occurred. Two training activities were held in Bulgaria; one for fruit and vegetable clients, and one for juice processors. A workshop on trade finance for juice processors was held in Baku, and meat processors and flour/confectioner clients respectively participated

¹³ The Azerbaijan Agribusiness Marketing Council, whose mission was to support Azerbaijan's agriculture and food production industries in growth, competitiveness, profitability and sustainability, never moved far beyond its founding membership base. Supported by a grant provided in Year '01, the AAMC never developed its own vision or proved unable and reluctant to make itself financially or administratively viable. It sponsored a series of free luncheons featuring guest speakers in hopes of attracting new members, but these were sparsely attended. Its major events were conceived and largely implemented by AAC staff. When informed in April '06, that RECP funding was being cut and that when it had exhausted its grant funds, it would have to stand on its own, its Board instead voted to return the remaining grant money and terminate the organization. In discussions with CTO James Goggin as to whether to continue to try to coax life back into the organization, the Post agreed that it was best to accept the situation and terminate this component.

			in market research activities.
	Strengthen and evaluate the relationship between Account Managers and clients	Working sessions will be held with all clients both individually and at group meetings	6 Working sessions were held with clients and Account Managers
	Support RECP poultry clients, GOAZ MinAg/ Veterinary Services, and backyard poultry producers in their efforts to mitigate Avian Influenza	Provide services in identification, training. Public outreach, surveillance, use of PPE, rapid testing, culling and disposal to the veterinary services, poultry producers and the general public;	Services were provided to 175 Veterinary Service personnel in Baku and the 8 zonal laboratories in Lenkaran, Sabirabad, Guba, Barda, Gax, Goychay, Beylagan, and Xanlar. Sessions were also held with the 19 major commercial broiler/breeder operations, and a trial public meeting was held in Ismayilli. Three press conferences were held.
		Provide a series of general and professionally-targeted brochures aimed at awareness and actions to be taken.	3 general and 4 professionally targeted brochures were developed and distributed. Approximately 15,000 brochures were distributed.

4. Administrative and Staff Development

Significant changes in RECP's staffing and mode of operations have occurred over the course of Year '03. The reduction in resources accelerated the process of indigenization of roles that was anticipated for the final year of the Project. In March, it was decided that the Deputy COP would leave and his administrative activities become those of the incumbent Office Manager.¹⁴ This was implemented on 21 March, 2006. In April, a similar decision was made to indigenize the Grants Program activities, and this occurred July 1st. Account Manager operations were effectively made autonomous with the departure of the remaining expatriate staff member, Mr. Warren Becker at the end of February.

The expansion of Account Manager activities into additional, heretofore underserved areas, resulted in new postings of staff in Zaqatala, Yevlax, and Sabirabad. These regions were added to the existing regional representations in Ganja, Guba, Lenkaran, and Baku.

¹⁴ The executive elements of this position were assumed by Mr. Gideon Donoho, Director of Client Services.

The administrative staff underwent additional change, with the merging of project coordination, training, and publishing roles into one position, held by Ms. Elnara Mamedbekova.

The budget reduction called upon the AAC to consolidate its space. Accordingly, the Center gave up one-half of its work space and consolidated its workforce in smaller quarters.

Providing continuous training for the Account Managers was treated in Section 3 of the Annual Report. In addition, four Account Managers—Mr. Eldeniz Osmanov, Mr. Emin Dastiyary, Dr. Mobil Penjaliyev, and Mr. Fuad Agazade—were awarded Cochrane Fellowships to the United States. As Fellows, these AMs received advanced training in a variety of agribusiness-related subjects. Mr. Dastiyary, in addition, was awarded a scholarship to attend the Global Village Course at Leheigh University.