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## **FINAL REPORT**

### **MID-TERM EVALUATION OF THE RURAL ENTERPRISE COMPETITIVENESS (RECP) PROJECT AND THE AZERBAIJAN BUSINESS ASSISTANCE AND DEVELOPMENT (ABAD) PROJECT**

**Prepared for USAID/Azerbaijan**

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## EXECUTIVE SUMMARY

This is the report on the evaluation of the Rural Enterprise Competitiveness Project (RECP) and the Azerbaijan Business Assistance and Development (ABAD) Project (originally called the Rural Azerbaijan Business Development - RABD Project). The purpose of this evaluation was to assist the USAID/Baku Office to evaluate the design and performance of these two, large, multi-year projects designed to grow the rural economy. The evaluation was to identify deficiencies in the design of the project and weaknesses in implementation, including the large grant components of each project. This report also addresses twelve specific questions relative to the evaluation that are listed in the Statement of Work for this evaluation.

RECP started in September of 2003, with a Life of Project (LOP) of five years and is scheduled to run through August of 2008, with a total budget of over 12 million dollars. The RECP project was to focus on two primary tasks – improving domestic product quality and expanded focus on competitive products. ABAD started in August of 2004, with a LOP of five years, and is scheduled to run through July of 2009, with a total budget of close to 7 million dollars. The ABAD project was also to focus on two tasks – building the productive capacity of targeted communities and establishing rural information services and outreach campaigns for targeted communities. Both projects include large grant components, with RECP having a total of \$1.5 million and ABAD having a total of \$1.15 million.

The evaluation team noted that the USAID staff interviewed and the Scopes of Work for the two projects held three key assumptions:

- ABAD was established to focus on production through processing, whereas, RECP was to focus on processing through to markets. Although this is a commonly held viewpoint today by both USAID staff and project implementers, other parts of the SOWs of both projects stated that each would work with producers, processors and buyers.
- The SOW for ABAD clearly expressed that the project would have a community development focus, stating that “The above objectives would be realized through a participatory approach in which communities would assist in the process of identifying the interventions that would best address community-specific impediments to economic growth and the business sectors that would have the greatest community-level impact on employment generation.... Efforts would be focused on identifying interventions that would create market linkages across communities.”
- The SOWs of both projects stated that they would work with business associations to accomplish many of the tasks envisioned. The SOWs mentioned previous work done by the Land O’Lakes project and other projects in business association development and stated that RECP and ABAD would build on their work.

### Key Findings

- The RECP and ABAD Projects are basically engaged in the same activities, using the processor as the key intervention point and working forward to markets, although some activities involve backward linkages as well.
- Both projects are engaged in rural enterprise development with a focus on firm-level assistance. Although the majority of enterprises are agriculture-related, many are not.
- The NGOs through which ABAD works (with the exception of the Guba corridor where field staff are hired directly by IRC) present an additional layer of organization that does not appear to add any additional value to the project.
- RECP and ABAD staffs have had substantial difficulties working together as envisioned by the original project design for ABAD.
- Very little work has been done by either project in the area of policy and regulatory reform or in the area of business association development.
- Attempts to determine how many clients each project business consultant or business center can handle appear to have been limited.
- Some of the grants currently being provided by both projects appear to be both distorting the credit market and having limited impact in terms of either increased employment or assisting multiple enterprises.
- The Performance Monitoring Plans submitted to the evaluation team for the RECP project are largely narrative documents providing some minimal overall quantitative targets. The document submitted for the ABAD project is more consistent with standard USAID procedure regarding PMPs, since it includes a chart with indicators that are related to Intermediate Results of the Strategic Objectives for USAID/Baku. However, it lacks targets for those indicators.

### Key Conclusions

- There is no significant relative difference in project results, even though the RECP project is now in its 3<sup>rd</sup> year and ABAD is in its 2<sup>nd</sup> year. The critical assumption by project designers that the ABAD and RECP projects could work together in a seamless manner, accepting different roles in the development of value chains, did not take into account the naturally competitive nature of consulting firms and U.S. PVOs in competing for donor resources.
- Although there have been considerable changes in key management staff in both projects, the impacts of such changes have been largely those of slowing down the progress of the projects, rather than significantly changing the impacts of the projects.
- Project staff visited during the field trips of the evaluation team revealed that most are young, energetic, market-oriented business consultants, with the exception of the ABAD staff in the Lenkoran corridor. Those staff members are older and many appeared to be still rooted in a Soviet mentality regarding business development.
- Current best practices on BDS development focus on facilitation rather than direct provision of services. However, that is based on the assumption that business service providers (BSP) currently exist in the targeted areas. In the former Soviet Union, donors have had to establish BSPs and train them in how to provide BDS. This resulted in the proliferation of business centers throughout the region. In some countries, and this is definitely the case in rural areas in Azerbaijan, business service providers exist in urban areas, but are extremely limited in rural areas. In such cases,

there is nothing wrong with building the capacity for BSPs through direct provision of services. The services being provided by RECP and ABAD do not really exist to any extent in the areas in which they are working, so their methodology is consistent with best practices in BDS.

- The current criteria being used by both projects to make grants appear to be both confusing and creating distortions in the credit market. Project staff explanations of the rationale for grants were strained and unconvincing.

### Recommendations

- **Comparison of the Effectiveness of the RECP and ABAD Projects:**

Neither project has a predominant capability over the other, so it is too early to suggest that one project be closed down and that the other continue. Both are achieving success using their respective approaches. However, there is a problem with duplication of effort, having both projects work in the same areas. USAID should use the next year to make changes to the projects to eliminate duplication and to make each project compete with the other for results. We suggest a way to do this below by making each project responsible for different economic corridors and expanding their services within those corridors. With the declining budget of USAID in Azerbaijan, this strategy will provide USAID with a rational means of deciding what action to take regarding each project in 2007.

- **Project Management/Staffing:**

**RECP:** Current plans are to replace the current Deputy Director with a proposed candidate working on another Pragma contract in the Central Asian Republics. This position could be eliminated and the Chief of Party could assume the responsibilities for supervision of the Administrative staff. Current plans are to replace the expatriate Grants Manager with a local counterpart in January 2007 and the expatriate Director of Client Services with a local counterpart 6 months before the end of the project in 2008. We recommend that qualified local counterparts replace these positions earlier.

**ABAD:** Current plans are to replace the expatriate Grants Manager and Business Services Advisor with local counterparts in twelve and eighteen months, respectively. ABAD should be held to this schedule and steps taken to develop local counterparts to take on these roles should receive high priority. ABAD should cancel its arrangements with local NGOs to direct field efforts and should hire field officers directly, as they have done in Guba.

- **Grants:**

The evaluation team recommends that the total amount for grants for each project be cut at least in half, that maximum grant levels be set at \$20,000 and that both projects be encouraged to limit average grant sizes from \$5,000 to \$10,000. If all grants under \$20,000 do not require USAID review, this would help to reduce USAID project management responsibilities for this area as well. We also recommend that USAID require that future grants under RECP and ABAD utilize the following criteria:

- Grants should benefit multiple enterprises, not just improve the productivity or product quality of one enterprise.
- Grants should not replace owner equity to be able to qualify for credit.
- Grants should promote innovation or technology that does not exist in Azerbaijan.
- Grants should not fund more than 50% of the costs for participation in trade fairs by specific enterprises and should not provide any cost share to any enterprise for more than one trade fair.

RECP and ABAD should work in collaboration with the new CHF projects to maximize opportunities for community involvement in the selection of local projects promoting economic development using CHF grants.

- **Best Practices:**

Both projects are utilizing best practices in terms of using a market focus in determining which enterprises/sectors to assist and in providing interventions to facilitate better production and services to meet market requirements. The two projects are developing the capacity of local staff to be able to provide business services when the projects end. The long-term financial viability of the Azerbaijan Agribusiness Centers under the RECP Project and the Business/Marketing Centers under the ABAD Project are uncertain. However, what is more important than the viability of those institutions is the development of the local capacity of individuals to provide those services through whatever vehicle may make sense in the future, be it through individual or private firm consulting services or as other public or not-for-profits NGOs. USAID project officers should require that both projects prepare an exit strategy for their business centers that addresses the financial viability issue.

- **Geographical Focus:**

In order to promote competition between the two projects without the current duplication of efforts, RECP and ABAD could be responsible for two economic corridors each. We suggest that RECP could be responsible for the Lenkoran and Ganja/Tovuz corridors and ABAD could be made responsible for the Guba and Zagatala corridors. However, the final decision should be based on the strengths of the project staff on the ground and the potential for further business development activity within each region. This geographical focus would permit greater penetration of each area with a larger number of business consultants in each region and shorter traveling times for each business consultant. We also recommend that offices should be established for each corridor, since an office provides both greater opportunities for interaction among the business consultants as well as greater credibility of the business consultants in the eyes of potential and existing client firms.

- **Business Association Development/Policy and Regulatory Reform:**

In view of the evaluation of the LoL PAPA Project and comments from project staff, USAID/Baku should re-evaluate if it is feasible for either project to work on business association development and policy/regulatory reform. If not, the project agreements and results should be modified to reflect that decision. If potential work in this area is

determined to have reasonable prospects, the project implementers should be asked to either conduct such activities, as required under the current agreements, or be held responsible for nonperformance.

- **Contract and Cooperative Agreement Amendments:**

The two agreements should be amended to both reflect de facto changes in SOWs and to accommodate any changes coming as a result of this evaluation and consequent USAID/Baku decisions. Although the ABAD project was amended some months ago to reflect changes in project implementation agreed upon by USAID and IRC, discussions between USAID and Pragma regarding revisions to changes in the SOW have not yet been reflected in any project amendments. USAID/Baku should take advantage of this opportunity to effect the appropriate changes in both projects as soon as possible.

- **Performance Monitoring Plans:**

USAID/Baku should take actions to have the project implementers develop and agree with USAID on appropriate PMPs with standardized indicators and methodologies for collection and analysis of data for both projects. This is particularly true if changes, and corresponding amendments to the project agreements, are made to the projects as a result of this evaluation and subsequent USAID decisions.

## **I. INTRODUCTION/BACKGROUND**

### **A. Purpose of Evaluation**

This is the report on the evaluation of the Rural Enterprise Competitiveness Project (RECP) and the Azerbaijan Business Assistance and Development (ABAD) Project (originally called the Rural Azerbaijan Business Development - RABD Project). The purpose of this evaluation was to assist the USAID/Baku Office to evaluate the design and performance of these two, large, multi-year projects designed to grow the rural economy. The evaluation was to identify deficiencies in the design of the project and weaknesses in implementation, including the large grant components of each project. This report also addresses twelve specific questions relative to the evaluation that are listed in the Statement of Work for this evaluation.

### **B. Origins of the RECP and ABAD Projects**

RECP started in September of 2003, with a Life of Project (LOP) of five years and is scheduled to run through August of 2008, with a total budget of over 12 million dollars. ABAD started in August of 2004, with a LOP of five years, and is scheduled to run through July of 2009, with a total budget of close to 7 million dollars. Both projects include large grant components, with RECP having a total of \$1.5 million and ABAD having a total of \$1.15 million.

The Scope of Work (SOW) for the RECP was issued in a Request for Proposal (RFP) and the goal of RECP was to raise rural incomes and agriculture productivity in Azerbaijan. The program was to increase the volumes and quality of fresh and processed agricultural products sold in domestic and export markets, providing income benefits for a broad range of producers and processors. The project was designed to enable Azeri agricultural products to displace imports and reach export markets by enhancing the competitiveness of the agricultural and agri-business clusters of Azerbaijan's economy. In order to achieve these objectives, the project was to focus on two primary tasks – Improving domestic product quality and expanding the focus of the agribusiness sector on competitive products. The Pragma Corporation was selected as the prime contractor for the project, with subcontracts with FLAG International and the International Executive Service Corps (IESC).

The SOW for the ABAD Project was issued in a Request for Assistance (RFA) and was entitled, "Business Development for Communities," but was later referred to in the SOW as the "Rural Azerbaijan Business Development (RABD)" project. The second name was used in the initial stages of the project, but was later changed to the Azerbaijan Business Assistance and Development (ABAD) project due to considerations concerning the positive connotations of the word "ABAD" in Azeri. The SOW called for the project to have a term of three years, but was subsequently awarded for a term of five years.

According to the SOW, the goal of the ABAD program was to improve business opportunities and provide economic incentives for micro and small rural enterprises. The

activity would utilize a community development approach to economic development, by mobilizing community members to take an active role in determining market interventions through a two-fold approach (discussed later in the SOW as “Tasks”):

- Building the productive capacity of targeted communities through creation of business development centers and business associations; establishment of market linkages, market-related training, technical assistance, and grants for production and processing equipment and rehabilitation of infrastructure that supports economic growth; and
- Information and outreach component to inform rural entrepreneurs about the benefits of 1) forming associations, the availability and utility of services offered through the business development centers; and 2) collectively identifying market constraints by bringing all stakeholders: community groups, associations, and local government counterparts together to propose and manage the community-identified market solutions.

The International Rescue Committee (IRC) was selected to implement the RABD project with Chemonics and FLAG International as subcontractors.

### **C. Key Project Assumptions**

The evaluation team noted that the USAID staff interviewed and the Scopes of Work for the two projects held three key assumptions:

#### **1. Focus on markets versus production**

Various USAID staff interviewed stated that ABAD was established to focus on production through processing, whereas, RECP was to focus on processing through to markets. In fact, the ABAD SOW reflects this distinction where it states; “The RABD (former name of ABAD) program builds the ongoing programs of the Mission that are annotated in Attachment 2. It is complementary to the on-going programs and non-duplicative. RABD will serve as forerunner of the soon-to-begin RECP, which picks up and carries the RABD results and outputs to the next level. RABD will also leverage assistance and benefit from RECP in areas such as improved production techniques, fertilizer regimes, quality control, safety and handling of produce that would be among the activities to be implemented by the RECP. As better quality farm production is available from the RABD beneficiaries, RECP will facilitate the marketing of these higher quality products to interest processors and wholesalers and distributors.”

Although this appears to be a common viewpoint today, other parts of the SOWs of both projects state that each will work with producers, processors and buyers.

## 2. Community focus

The SOW for ABAD clearly expresses that the project would have a community development focus. It states,

The BDFC (ABAD) program would assist in alleviating market constraints by filling productivity gaps; improving market-related infrastructure; creating market linkages between producers, processors, and buyers; imparting market skills on entrepreneurs; providing technical assistance; and creating business associations. The above objectives would be realized through a participatory approach in which communities would assist in the process of identifying the interventions that would best address community-specific impediments to economic growth and the business sectors that would have the greatest community-level impact on employment generation. Therefore, through the BDFC program, communities would have access to a multi-faceted inventory of interventions that may be applied to any business sector that is determined to have the potential to create far-reaching economic impacts for the target area. Efforts would be focused on identifying interventions that would create market linkages across communities.

The SOW also states that, “Unlike the AHAP (a previous USAID project involved in community development), however, which will begin to phase out this year, the BDFC program would focus strictly on the private sector, whereas the AHAP focuses on the social sector.”

## 3. Business association development

The SOWs of both projects stated that they would work with business associations to accomplish many of the tasks envisioned. The SOWs mentioned previous work done by the Land O’Lakes project in business association development and other projects and stated that RECP and ABAD would build on their work.

The evaluation team investigated these assumptions and our findings below deal with how these assumptions have proved to be correct (or not) during project implementation.

### **D. Methodology**

The methodology of this evaluation included a literature review, interviews with project staff at their headquarters in Baku, and visits to project sites to interview project field staff and selected clients of the project field staff. Staff members of other relevant projects and programs were also visited at their offices in Baku and interviewed.

The literature review included the review of the scopes of work for both projects and various project reports, including annual workplans, grant manuals, performance

monitoring plans, sample client action plans, sample client development plans, sample client business descriptions, and evaluations of other USAID projects relevant to the two projects.

Project staff at all levels were interviewed. Initial visits with RECP and ABAD project management staff at their headquarters took place shortly after the evaluation team's arrival in country. Field trips were made with Anar Khalilov to visit RECP and ABAD staff in the Lenkoran corridor, Sheki and Zagatala in the Zagatala corridor, and Guba in the Guba corridor.

Questions asked included their perception of the program; their daily, weekly, and monthly activities; their client(s) business and why selected; the type of support they perform personally and the ones they sub-contact to specialists; their understanding of when to recommend a grant and when not to; example of cooperation with counter agency (ABAD and/or RECP), if they have one; and their educational, experiential, and work experiences.

Visits to a sampling of local clients were also undertaken for in-depth interviews and to observe facilities, equipment, and products produced. Examples of questions asked included such topics as: when was the business established; what did the owner/manager do before; how have the project staff assisted the business; what are the results of that assistance; chief competitors and the market share of the business; revenues, production, quality of production, and number of employees before and after project interventions; and any particular constraints to further growth, either by government policies/regulations or other internal/external constraints.

Other relevant agencies/organizations (USAID-supported and others) visited included: USAID's SME Financial Strengthening Project, implemented by ACDI/VOCA; CredAgro, a local rural finance company which was spun off from a previous ACDI/VOCA project; MercyCorps, Inc, who is operating a rural veterinary services project; FINCA, one of the largest local microfinance organizations; CHF, AKTIVA (Azerbaijan Agri-Input Dealers Association), which was established with IFDC assistance under a USAID project; and GTZ, ADB and World Bank representatives.

## **II. DESCRIPTION OF THE RECP PROJECT FROM PROJECT DESIGN DOCUMENTS**

The project description presented below was derived from the SOW from the RFP for the project.

### **A. Project Purpose**

The SOW for the RECP stated that the project purposes were:

- To increase the volumes and quality of processed and/or fresh agricultural product volumes 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
- To enable Azeri agricultural products to displace imports and reach export markets by introducing the competitiveness paradigm in the agricultural and agribusiness clusters of Azerbaijan's economy.

### **B. Key Objectives**

A number of key objectives were listed in the SOW. They are as follows:

- To promote market expansion by stimulating competitive behaviors through interaction with the suppliers, related industries, and consumer markets in order to improve commercially oriented production and services in the sector;
- To increase competition and through the program's contributions (technical assistance, grants, market information) to stimulate greater efficiency, innovation and customer orientation of enterprises through competitive pressure;
- To improve business skills with particular attention to improving technological processes, environmental standards, quality control, and enterprise management and marketing;
- To test and demonstrate new ways of financing activities in agribusiness sector;
- Collaborate with other donor organizations and IFIs which are supporting activities that directly contribute to increased competitiveness of Azeri agricultural sector (e.g. promoting the private land ownership, agricultural finance, market information, and essential rural infrastructure roads and power);
- As the investment environment is improved, create important competitiveness support structures to provide guidance and oversight during the transition and assist in consensus building, product selection and support to sub-clusters of selected products; and
- It is anticipated that the program will increasingly focus on specific agricultural products that have displaced imports in the Azeri market and that can be competitive in clearly defined export markets.

### C. Main Tasks and Activities

**Task #1 of the RECP was “Improved domestic product quality.”** This was referred to in the fourth paragraph following the statement of this task in the SOW as the “policy component.” The SOW stated,

“The policy component will have two elements. The first will focus on policy and regulatory issues and constraints being faced by processors, other sub-cluster supporting businesses and producers as they seek to generate higher quality products and compete for a larger share of the domestic Azeri market. The second will focus on policy and regulatory reforms to expand processing capacity and meet requirements of export markets. Work on both parts of the policy component agenda for this program will promote market-augmenting rules, regulations and policies that complement and/or enhance market incentives. This can begin immediately as the contractor identifies needs, issues and opportunities.”

**Task #2 of the RECP was, “Expanded Focus On Competitive Products.”** The SOW described this task as follows,

“During the course of implementation, it is anticipated that the emphasis of the RECP will shift towards focusing on the institutional and structural elements that support competitiveness. As products are identified and researched that demonstrate the potential to be competitive, the contractor will suggest activity components, expected results, and a course of action to support those products. USAID/Baku, along with members of the Agricultural Product Competitiveness Council (described below) will decide upon these activity components and expected outputs no later than the end of the second year of the program.”

The SOW went on to say that, “The institutional and structural elements to support competitive products in the agriculture sector will include:

1. An Agricultural Product Competitiveness Council (AAPCC) consisting of reform-minded private sector leaders and government officials who are capable of advocating and leading the implementation of policy changes critical to the development of selected agricultural sub-clusters in the economy.
2. Consensus Building, Public Education and National Dialogue
3. Demand-Driven Selection of Agricultural Product Sub-Clusters
4. Sub-Cluster Support and Sub-Projects”

The following categories of illustrative activities to build the capacity of the agro-based processing sector were then stated. Detailed activities were listed under each category.

- Business and Association Development
- Vegetable and Fruit Processing and Marketing Improvement

- Animal and Animal products- Processing and Marketing Improvement
- Policy and Regulatory Environment Reform
- Expanded Focus On Competitive Products

#### **D. Deliverables**

Work Plans: The SOW required the preparation and submission of a Life of Project Work Plan to be submitted by no later than the end of the first year of the project. Work Plan for year-1 (preliminary) was to be submitted not later than 45 days after the arrival of the COP in the country. An updated Work Plan for year-1 was to be submitted not later than 90 days after the arrival of the COP in country. Subsequent Annual Work plans for each of the remaining years was to be submitted no later than 30 days into the year. Each Work plan, starting with year 2, was to be coordinated with the LOP Work plan. Deliverables in Years 2-5 was to be specified in the Annual Work Plans to be developed.

Progress Reports: Contractor was to provide semi-annual and annual progress reports during the life of the Contract. These reports were to be tied to the Annual Work plan. Semi-annual reports were to be submitted not later than 15 days of the end six-month period. The annual report was to be submitted no later than 30 days of the end of the year. The Contractor was to provide quarterly briefings to USAID on project implementation progress, accomplishments, problems-constraints encountered, and management actions required by USAID and Contractor's home office. These briefing were to be accompanied by a short briefing paper for record (not to exceed 2 pages) highlighting the main points of the briefing.

Program Monitoring Plan: Contractor was to prepare a Program Monitoring Plan (PMP) and seek USAID approval of the same. It was to consist of a Results Framework, indicators, and baseline for each indicator, annual targets, and data collection plan. The PMP was to be delivered at the end of the first six months and approved by USAID.

Results Report: The contractor was required to submit for each year a Results Report that was to correspond with USAID Annual Report requirements. Format and guidance was to be provided by USAID. This report was to be based on elements of the PMP and focus on project results. Date of delivery of this report was to be determined each year by USAID based on Agency guidance.

#### **E. Outputs and Results Anticipated**

Although the final outputs and results of the RECP were to be determined in conjunction with the program monitoring plan and results reports discussed above, a number of very specific expected outputs and results were listed in Section IV of the SOW. These tracked the same five categories of the illustrative activities listed under the main tasks and activities section above. These initial outputs and results can be found in Annex 5 of this report.

### **III. DESCRIPTION OF THE ABAD PROJECT FROM PROJECT DESIGN DOCUMENTS**

The project description presented below was derived from the SOW from the RFA for the project.

#### **A. Project Purpose**

While the SOW for the ABAD project does not specify a project purpose, per se, it does mention a number of objectives that are listed in the next section.

#### **B. Key Objectives**

The Project Description in the SOW from the RFA states the following regarding objectives to be achieved by the project.

“The BDFC (ABAD) program would assist in alleviating market constraints, by filling productivity gaps; improving market-related infrastructure; creating market linkages between producers, processors, and buyers; imparting market skills on entrepreneurs; providing technical assistance; and creating business associations.”

It goes on to explain the approach in achieving those objectives.

The above objectives would be realized through a participatory approach in which communities would assist in the process of identifying the interventions that would best address community-specific impediments to economic growth and the business sectors that would have the greatest community-level impact on employment generation. Therefore, through the BDFC (ABAD) program, communities would have access to a multi-faceted inventory of interventions that may be applied to any business sector that is determined to have the potential to create far-reaching economic impacts for the target area. Efforts would be focused on identifying interventions that would create market linkages across communities.

The program would allow for the creation of nine business development centers in those areas identified through the market analysis. Ideally, the business development centers would be dispersed throughout the country, so as to benefit a maximum number of rayons. Each business development center would provide services to several communities, and serve as the focal point for micro and small enterprise development.

## C. Main Tasks and Activities

### Task #1 Building productive capacity of targeted communities

The SOW stated that,

The BDFC (ABAD) has been designed to address many of the constraints faced by rural entrepreneurs, namely the need for technical advice at the farm level and the critical need for capital, appropriate for and accessible to the rural entrepreneurs. The access to grant funds by a wide range of rural enterprises including producers, processors and traders should help to ease these constraints, as will the availability of information and advisory services that are tailored to their needs as well. The above objectives would be realized through a participatory approach in which communities would assist in the process of identifying the interventions that would best address community-specific impediments to economic growth and the business sectors that would have the greatest community-level impact on employment generation. Therefore, through the BDFC program, communities would have access to a multi-faceted inventory of interventions that may be applied to any business sector that is determined to have the potential to create far-reaching economic impacts for the target area. Efforts would be focused on identifying interventions that would create market linkages across communities.

The SOW described a number of activities involved in the development of rural entrepreneurs, including:

- Business Development Centers: ABAD would create nine business development centers in those areas identified through the market analysis.
- Grants Program: The contractor was to propose an approach and criteria for awarding community grants based on successful examples from the Caucasus or similar regions.
- Leasing: The business development centers would serve as the leasing agent for farm machinery and other types of leased assets.
- Business Associations: The business development centers would place emphasis on creation of business associations.
- Technical Advice: Technical advice and technology demonstration would be offered to business associations sharing a common concern or interest, on the basis of an agreed program.

### Task #2 Establishing rural information services and outreach campaigns for targeted communities

The SOW stated that,

Inadequate access to timely and reliable information in rural areas is a major problem for the population's equitable inclusion in rural reforms and their

adaptation to a living style where household income is derived from household business as opposed to wage income. There are two main levels of information gaps in rural Azerbaijan. First, the general public needs reliable information about general rural policies, regulations and current events. Second, people working on farms and related operations need specific and focused technical training to manage their work properly.

.....One of the goals of RABD (ABAD) is to establish a system, comprised of the BDRC's (not defined in SOW – presumably "Business Development Rural Centers") and community groups, for the sustainable collection, exchange and dissemination, and application of market information.

The SOW described two basic activities involved in the development of a rural information system and technical training.

- Information Campaigns: The Information component was to deliver services tailored to requirements of emerging rural entrepreneurs where information was needed for rural entrepreneurs in general to: (1) understand their rights and duties and (2) protect public health and/or the environment. The project was also to build on earlier efforts by a former ACIDI/VOCA program providing information regarding agro-services, i.e. harvesting, planting, fertilizer/chemical applications, equipment, etc., through previously established business centers.
- Outreach: The outreach program was to inform entrepreneurs about the benefits of forming associations as a collective means for identifying and solving market constraints and the availability and utility of services available through the business development centers. In addition, the program was to establish a task force to link representatives from the various business development centers, associations, and municipal governments, thereby creating synergies across target areas and fostering cooperation between the private sector and the local government.

#### **D. Deliverables**

Work Plans: The SOW required a Life of the Project (LOP) Work plan, covering the duration of the project to be submitted not later than by the end of month 2 of the contract commencement date. The preliminary First Year Work Plan was to be submitted not later than 30 days after the arrival of the COP in the country. An updated First Year Work Plan was to be submitted not later than 45 days after the arrival of the COP in country. The work plan was to be comprised of the timeline for implementing specific activities, project staffing, commodity procurement and fielding of TA (LT and ST). Subsequent annual work plans for each of the remaining years will be submitted no later than 30 days into the year. Each workplan starting with year-2 would be coordinated with the LOP Workplan. The Contractor was to negotiate with USAID on the content and structure of the work plan and any changes to the major elements to the approved work plans.

Progress Reports: Progress reports were to be submitted on a semi-annual and annual basis during the life of the Contract. These reports were to be tied to the Annual Work plan. Semi-annual reports were to be submitted not later than 15 days of the end six-month period and the annual report were to be submitted no later than 30 days of the end of the year. The Contractor was to provide quarterly briefings to USAID on project implementation progress, accomplishments, problems-constraints encountered, and management actions required by USAID and Contractor's home office. These briefings were to be accompanied by a short briefing paper for record (not to exceed 2 pages) highlighting the main points of the briefing.

Program Monitoring Plan: A Program Monitoring Plan (PMP) was to be submitted to USAID at the end of the first three months for approval by USAID. It was to consist of a Results Framework, indicators, and baseline for each indicator, annual targets, and data collection plan. Reports on the progress toward activity indicators and benchmarks were to be submitted to USAID/Baku on a quarterly basis. A mid-term evaluation was to be conducted in the second year of the program to ascertain whether or not the business development centers are a viable way of generating private sector growth at the community level.

Annual Results Report: An Annual Results Report was to be submitted for each year that would correspond with USAID Annual Report requirements, with guidance to be provided by USAID.

#### **E. Outputs and Results Anticipated**

Although the final outputs and results of the ABAD project were to be determined in conjunction with the program monitoring plan and results reports discussed above, a number of very specific expected outputs, results and illustrative indicators were listed in Section IV of the SOW, related to each of the main tasks. These initial outputs, results and illustrative indicators can be found in Annex 6 of this report.

#### IV. EVALUATION ISSUES

The Scope of Work for this evaluation listed twelve issues to be addressed by the evaluation team.

1. Compare project design to generally agreed-upon international best practices and recommend changes.
2. Determine if internal project management problems have jeopardized or damaged or set back the projects and if so, make recommendations.
3. Address if there is duplication of activities, and/or if activities are working in sync or at odds with each other and recommend remedial actions if needed.
4. Address crosscutting themes. Are they incorporated to a serious extent?
5. Determine if project management is cooperating within SO, across SOs, and with other donor interventions, and working adequately with the GOAZ.
6. Determine if USAID is adequately addressing and furthering its strategic priority of growing the non-oil sectors of the economy through RECP and ABAD; and, if not, suggest better alternatives.
7. Recommend reading materials on best practices for market chain development and including best practices on financing ag processing and rural development for the Baku staff.
8. Comment on the criticism of the projects by an outside expert who reviewed USAID's whole portfolio and which is copied below.
9. Recommend how sound business proposals can be developed into bankable deals rather funded by grants.
10. Evaluate impact, if any, of grants on efforts to create sustainable rural lenders.
11. Evaluate effectiveness of the grant component of RECP and ABAD in promoting sustainable improvements to the rural economy and suggests ways in which the grant funds could be more effectively deployed, if appropriate.
12. Evaluate administration of grant component in RECP and ABAD for vulnerability to fraud and malfeasance and recommend appropriate changes.

This report has grouped the evaluation team's responses to the questions above into four areas. The areas are listed below citing the numbers of the questions above that are dealt with in each area.

**Best Practices** – Compare project design to generally agreed-upon international best practices and recommended changes, suggestions for documents for USAID staff to read, proposal - bankable deals (Questions 1 & 7)

**Project Management** – Internal problems, duplication, cooperation, crosscutting issues (Questions 2,3,4 & 5)

**Comments and Conclusions** – Critique of outside expert comments, USAID's priorities via RECP/ABAD projects, alternatives (Questions 6 & 8)

**Grants** – Impact, effectiveness & administration (Questions 9, 10, 11 & 12)

We have addressed best practices, project management and grants program issues in the three sections below dealing with findings, conclusions and recommendations. Our critique of the outside expert's comments is presented in Annex 7 of this report. Other issues regarding how the projects are addressing USAID's strategic priority of growing the non-oil sectors of the economy through RECP and ABAD, and suggestions regarding better alternatives, are presented in the conclusion and recommendation sections below.

USAID/Baku staff informed the evaluation team that recent budget cuts will most likely necessitate some changes to the current LOPs and budgets of both projects. The team has suggested some ways to address the likely budget cuts in our recommendation section below.

## V. FINDINGS

### A. Key Overall Findings

- The RECP and ABAD Projects are basically engaged in the same activities, using the processor as the key intervention point and working forward to markets, although some activities involve backward linkages as well.
- Both projects are engaged in rural enterprise development with a focus on firm-level assistance. Although the majority of enterprises are agriculture-related, many are not.
- The NGOs through which ABAD works (with the exception of the Guba corridor where field staff are hired directly by IRC) present an additional layer of organization that does not appear to add any additional value to the project. Older field staff in the Lenkoran region have limited potential for behavior change from former Soviet mentalities and are nearing retirement age, so the training provided through the project will have limited future sustainability, even if the training can overcome the predilections of previous Soviet history. The effectiveness of the Baku-based staff in the Zagatala center was not entirely clear to the evaluation team. It appeared that the local staff in Zagatala could easily be hired directly by IRC and conduct their functions adequately without any assistance from the Baku-based staff.
- RECP and ABAD staffs have had substantial difficulties working together as envisioned by the original project design for ABAD.
- Very little work has been done in the area of policy and regulatory reform or in the area of business association development. Staff of both projects explained that the current political environment in Azerbaijan greatly limits the potential for this type of work, save for ad hoc opportunities to make entrepreneurs aware of their legal rights and taking actions on specific occasions with groups of entrepreneurs to effect changes in the enforcement of illegal and rent-seeking behavior of government officials. Project staff asserts that past evaluations (e.g., the evaluation of the Land-o-Lakes PAPA Project) have stated that individual entrepreneurs are very reluctant to join formal business associations that might challenge government and that the government has shown a reluctance to register business associations. (See insert from PAPA Project Evaluation in July 2003 below.)

#### **1.8 Appropriateness of Assumptions and Activities Relative to Operating Environment**

There has been a mismatch between the assumption that PAPA could rapidly organize and register associations and the official (or unofficial) policy environment that does not encourage the formation of industry associations. Additionally, the assumption that small provincial-based associations will develop the managerial and financial critical mass necessary to achieve sustainability is yet to be proven. The endeavor to develop such associations is commendable and complements USAID strategy of helping Azerbaijan become a more democratic society; however, it is likely that this will be a long slow process, when it comes to organizing small rural associations made up of individuals with limited financial resources.

The PAPA evaluation went on to say the following:

#### **4.4 Appropriateness of Approach in Organizing Associations to Serve as a Forum for Agri-Policy Dialogue With the Government**

USAID has made significant investments in association development in Azerbaijan and by its actions in this area, it has committed itself to working with groups of agribusinesses and producers. USAID should stand by the commitment it has made and continue actively working with the associations that it helped start. To fold up the tent and walk away from these associations at this time would send a strong signal to many rural communities that USAID is not a reliable partner. That said, USAID also needs to realize that the current government is at odds with them over the association issue and this has made moving forward difficult. Given this reality, it is recommended that future USAID activities such as RECP should not work to create new associations (until the government position on this matter changes), but rather should continue working only with existing associations. USAID and RECP can still strive to create organizations through which it can deliver technical and managerial TA and training in operations of democratic institutions, but these groups should not be created with the goal of applying for official association registration any time soon. USAID and its implementers may choose to call these groups something other than an association (i.e. alliances, societies, organizations, etc.) but in fact, these organizations can be the precursor to an association. When the government position on associations changes, these groups will be well positioned to apply for official recognition as associations. It's a long-term approach but with out the long-term prospective USAID could end up expending much of its goodwill with the GOA and accomplish very little for its efforts.

- Attempts to determine how many clients each project business consultant or business center can handle appear to have been limited. The evaluation team discovered that the number of clients handled by individual business consultants varied from one (in the Lenkoran corridor) to twelve. The RECP Project's 3<sup>rd</sup> Year Workplan states that project field staff will double their client base during the next year. The ABAD staff in Guba said that they currently handle about 10 clients per business consultant, but plan to double their client base to 20 clients per business consultant in the coming year.
- Some of the grants currently being provided by both projects appear to be both distorting the credit market and having limited impact in terms of either increased employment or assisting multiple enterprises. Although the Grants Manual for RECP states (on page 5) that all grants will be disbursed "to cooperatives, associations and other producer/business associations and or directly to members of agricultural cooperatives and associations," most of the grants to date have been given to individual enterprises. Some of the grants given under each program have provided equity for the enterprises to be able to qualify for credit.

- The Performance Monitoring Plans submitted to the evaluation team for the RECP project are largely narrative documents providing minimal overall quantitative targets. The document submitted for the ABAD project is more consistent with standard USAID procedure regarding PMPs, since it includes a chart with indicators that are related to Intermediate Results of the Strategic Objectives for USAID/Baku. However, it lacks targets for those indicators.

## **B. Project Management**

### Changes in Project Staff

#### **RECP:**

The RECP Project has had a number of significant project management changes over the life of the project to date. The current Chief of Party (COP) is the third COP since project inception. The first Marketing Trade Generalist served for about nine months. His successor served for about another nine months and was replaced by a third in February 2005. The Processing Specialist/DCOP served for about five months and was replaced by the current DCOP who is departing the project in April 2006. The Agribusiness Specialist served for about a year and was replaced by short-term consultants. The original Grants Manager (supplied by FLAG International) was replaced by a second who served half time as the RECP Grants Manager and half time as the ABAD Grants Manager. He was replaced by a full-time Grants Manager in January 2006. A High Value Horticulture Specialist served from March 2004 to March 2006, but has been replaced by short-term consultants.

The current management staff of the RECP stated that the changes in staff did impact upon project accomplishments, especially during the first year. They mentioned that the changes in USAID staff over the past two years have created some problems with consistency of project objectives as well.

#### **ABAD:**

The ABAD program also has had some changes in management staff, but not to the same extent as the RECP project, although the project started a year after the RECP project. The principal change was the replacement of the Director of Business Services/Deputy Director of the project earlier this year with Tracy Shanks from Chemonics. The Deputy Director of Business Services was replaced at about the same time. The project shared Grants Manager from FLAG International with the RECP project for the first year and then Tanner Chaiken was appointed as full-time Grants Manager a few months ago.

The evaluation team received reports that disagreements between the first Director of Business Services and the Chief of Party created some difficulties in project implementation during the initial year of the project, these appear to have been resolved with the appointment of Tracy Shanks in that position. The staff appears to be working well together and progress is being made toward the project objectives.

## Coordination with Other USAID Projects and Other Entities

There are significant issues related to project coordination between RECP and ABAD. Although there are now regular meetings between the staff of the two projects, they appear to have been recent and at the urging of USAID staff. As we have stated in the Key Overall Findings Section above, the problem related to the original project design concept for the separation of duties between the RECP and ABAD projects appears to have caused much of the difficulties in regard to this coordination function, since the projects are basically competing with each other and performing similar activities.

Although there is some coordination taking place with other USAID and other donor projects, the only substantive evidence of this was presented in the ABAD Semi-Annual Reports. ABAD also provided a grant to CredAgro, a rural finance institution established by another USAID project, to develop its leasing operations. Although the RECP has worked with the Government of Azerbaijan on some issues, RECP staff discussed the difficulties of assisting business associations to advocate for policy and regulatory changes within the government relating to an improved business climate. The recently prepared report on corruption within the government reviewed by the evaluation team also cited similar problems. ABAD staff contended that they expect to coordinate with the new CHF-implemented project since they are working in the same corridors and the community development aspects of the CHF project should fit well with the ABAD project. The GTZ advisor interviewed said that their project staff person working in the Zagatala region is coordinating with the hazelnut specialist in the ABAD center in Zagatala.

### **C. Comparison of Project Design with Best Practices**

#### Business/Marketing Centers

The design of the RECP and ABAD projects would appear to be consistent with best practices, with the proviso that the regional business centers – Azerbaijan Agribusiness Centers under the RECP and Marketing Centers under the ABAD – followed a practice of establishing business centers common to donor programs in Eastern Europe and the countries of the Former Soviet Union (FSU) after the collapse of the Soviet Union where private sector business support services were either nonexistent or extremely limited. The business centers were meant to fill that gap by training consultants and trainers at those centers to provide services to emerging enterprises in those countries.

The principal problem with business centers in the region has been that of financial sustainability. While donors put emphasis on having those business centers serve small and medium enterprises (and often microenterprises as well), when donor support ended, many of those centers either closed or moved up-market toward serving larger enterprises that could afford their services at full cost. Staff of these centers sometimes spun off for-profit or not-for-profit consulting/training firms after deciding that they could do better than the business centers. In other cases, when the directors of the business centers exhibited good entrepreneurial attributes, the business centers continued to thrive through

both fee-provided services and obtaining further donor support for specific activities supporting other projects. In these cases, the business services continued after the end of the specific donor projects establishing those centers.

However, the use of business centers as a general approach to enterprise development by donors has been discredited to some extent. It is important to realize that any project utilizing donor-supported business centers in the region now should have a sound exit strategy. That strategy should either expect the center to stop operations after the donor support ends (having achieved the project purpose of training enough local persons in how to provide business services without leaving a legacy institution) or to develop the capacity of project staff to either continue the business center or to start other companies to provide business services on a financially sustainable basis. While business centers exist in many Western countries, including the U. S., the typical sources of subsidies for these centers have been government, educational institutions, and foundations with some funding coming from user fees. In most of the countries in which USAID works, these sources of funding are either nonexistent or extremely limited, which creates a problem for long-term financial sustainability.

### Business Associations

Business association development has been another area in which donor programs have tried to build capacity for enterprises, primarily to perform functions of advocacy with government and to provide services to members. However, business associations in the FSU have been notoriously difficult to work with and often have served as temporal platforms for politically minded individuals. Although there have been notable exceptions, this has often led to a thin and superficial membership base that has not participated much in either the advocacy or services expected from the associations.

In Azerbaijan, the RECP SOW, under Task #1, stated the following regarding business association development:

“A network of strengthened processing and producer entities and organizations is critical to this process. Azerbaijan has a notably shallow layer of NGOs, business associations, professional associations, and other interest groups. There exists reluctance among many professionals to form associations that might catch the attention of the government. Identifying innovative approaches to this problem is essential to the success of this activity and the development of small enterprises. Respondents are encouraged to propose a comprehensive approach to association development.”

As the quotes from the evaluations of the PAPA activity implemented by Land-o-Lakes cited above under Overall Findings and the recent report by the outside consultant on corruption in Azerbaijan attest, this may not have been the most advantageous time for the RECP project to engage in business association development. While best practices in business association development appear to have been attempted by the RECP

implementer, the political situation currently existing in Azerbaijan does not seem to be amenable to many results in this area.

Other project activities utilized for enterprise and market development by both the RECP and ABAD projects appear consistent with best practices and the evaluation team is satisfied that those activities have been bearing fruit, with the exception of the grants which are dealt with below.

#### **D. Project Accomplishments to Date**

##### Establishment of Regional Business/Marketing Centers and Trained Staff in the Economic Corridors

Both projects have established business/marketing centers and hired and trained local staff in each of the corridors for which they are responsible. A key issue involves the fact that both projects are working mostly in the same corridors and that staff are duplicating efforts to a large extent. Although the projects are working with different clients for the most part, there is no clear delineation between the efforts of the regional staff of the two projects. In Lenkoran, both project offices are located within a block of each other. All of these centers appear to be operated in an efficient and cost-effective manner and represent a good use of USAID funds to promote rural enterprises. The use of local NGOs/firms to implement the ABAD project in the region appeared to create an additional layer of organization between the project management and the field staff. The directly hired ABAD staff in the Guba corridor appeared to be more effective than the staff of the NGOs/firms utilized in the other regions. Otherwise, there were no significant differences between the regional staff of the two projects.

##### Enterprise Client Services

*Optimum Number of Clients per Business Consultant:* The business services being provided to the clients of the two projects are intensive, firm-level consulting services in the areas of production and marketing. The average number of clients assisted by the local business consultants (called business advisors by ABAD and account managers by RECP) is about six at any one time. Some served fewer. For example, the evaluation team was informed that one of the business consultants in the Jalilabad Center served only one client. The ABAD business consultants in Guba currently assist about ten clients each, but plan to increase their numbers of clients assisted to about twenty each per year. RECP management stated that they are currently in a drive to increase the average number of clients per business consultant from five to between ten and twelve per year. Clearly, there are no real standards in either project dealing with the optimum number of clients with which each business consultant should be working.

*Utilization of Offices for Business Consultants:* All of the business consultants in the ABAD project work out of offices in each region. The RECP business consultants in Lenkoran and Guba work out of offices, but those in the rest of the country work from their homes. It was clear to the evaluation team that those business consultants that work

out of offices appear to have more credibility than those working out of their homes or apartments. For the nominal cost of those offices in the rural areas compared to project costs in Baku, the regional offices appear to be a bargain.

*Impacts on Clients Served and Performance Monitoring Plans:* The RECP, in its Year Two Annual Report ending in September 2005, claimed, “since the inception of the RECP project, clients have achieved \$2,326,303 in trade and invested \$4,862,750 in plant improvements or expansion with AAC assistance.” The report goes on to say that, “A rough guide used by many organizations to show the impact that trade and investment has on employment is that for every \$10,000 dollars of trade/investment, one job is created. Based on this guide the project’s rate of job creation well exceeds what might be expected from the level of trade/investment achieved by clients.” During a meeting with senior RECP management, the evaluation team was informed that these figures have increased now to over \$6 million in trade and \$5.2 million in investment, and that using the “rough guide” for job creation, the project has created about 900 jobs. While the evaluation team did not investigate the veracity of the claims regarding trade and investment, we did question the “rough guide” used by the project to estimate job creation. The team contacted a noted economist who has been a dean of a noted agricultural economics faculty and president of a major agriculture consulting organization on this issue. He questioned this calculation and wrote,

“In the diverse sectors across any given economy there is a wide range of capital-labor ratios. In some industries those ratios may be fairly fixed, while in others they vary immensely across countries in response to differences in wage rates and the cost of capital. Economists sometimes use input-output analysis to calculate employment multipliers from expansion of a given section of an economy. By this means one can simulate the effect on employment of making an investment in a given industry and then relate the total capital investment made to the number of jobs created (both directly and indirectly). By dividing the amount invested by the number of jobs created, one could back into a measure of the capital investment per job created. I would expect that to vary widely across sectors of an economy, as well as with different vintages of technology.”

Clearly, a more effective means is necessary to judge jobs created by the RECP project and, if USAID desires this, a better methodology should be agreed upon when the project reviews its Performance Monitoring Plan (PMP).

The ABAD project has not made any claims to date regarding its impact on its clients. Rather, its reports have largely dealt with achievement of targeted outputs. The evaluation team was given an undated, draft Performance Monitoring and Evaluation Plan by ABAD staff. The title of the file was the RBAD M&E Plan so it would appear to have been drafted prior to the change in the name for the project. This draft has some

proposed client impact indicators. An M&E specialist from Chemonics headquarters was visiting the ABAD project offices while the evaluation team was in country. A Pragma Senior Counselor prepared a draft report on an M&E system for RECP in August 2005 that has some suggestions for impact indicators and could provide the basis for a PMP for the RECP project.

Project staff from both projects stated that they have no agreed upon Performance Monitoring Plan with USAID. Both projects have drafted documents to address this deficiency. This issue should be addressed by USAID soon if it is to be able to measure progress in the next year of the two projects.

### Policy/Regulatory Reform

While the RECP project is the only project with specific deliverables related to policy and regulatory reform, both projects were supposed to work with business associations to provide advocacy for local enterprises and ABAD was supposed to work with the Executive Committee in the local areas where it worked. Very little has been accomplished in this area by either project. Staff from both projects discussed the problems of promoting advocacy within the current political environment in Azerbaijan and the recent report on corruption by another USAID consultant would appear to verify their claims. It is clear that options are limited for both projects to impact upon this area.

### **E. Grant Programs**

The grant programs of both projects have substantial issues relative to the proper use of grants in rural enterprise development projects such as these.

### Program Procedures and Manuals

Both projects appear to have effective procedures in place to administer the grant components. The same subcontractor for both projects, FLAG international, developed these procedures and manuals. These procedures provide for review of the grants and approvals by headquarters staff to assure that these grants are justified and are supervised. Nevertheless, there are some issues that deserve attention to avoid any potential misuse of funds.

### *Grants to Groups/Organizations or Individuals:*

The RECP SOW states the following under the Project Description regarding grants,

In all efforts, a key will be to provide incentives for participation and involvement in project activities, and to align these incentives with domestic and international market incentives. Certainly the opportunity to gain knowledge and skills that will enable higher productivity and incomes is one type of incentive for processors and producers. The project will also be willing to do a limited amount of creative cost sharing when necessary to encourage participation. However, the

project will not pay processors, farmers, association members or other beneficiaries of project activities to participate.”

The RECP SOW goes on to say, under V. Program Management, Section C. Grants,

It is expected that the Contractor will develop a grant program to facilitate organizational and/or marketing activities of targeted Business Associations. The contractor will prepare a grant manual, outlining the process of awarding and managing grants under the contract, including criteria for the award of grants. The grants manual must be approved by USAID before any grants can be awarded. The matching grants, aimed at improving competitiveness of the inputs/products produced/processed by targeted groups might be employed for:

- Providing technical advice to targeted groups on the formation of effective agribusiness food chain;
- Assisting targeted groups in drafting business/marketing plans;
- Organizing training and workshops on specific issues critical to members of the targeted groups such as technical production issues, food industry safety and quality standards, accounting, financial planning and organizational development;
- Providing advice to processors with packaging design and marketing of value added products; and
- Assisting targeted groups in the identification and/or foreign strategic partners.

The reader will note that all references are made to providing grants to groups, rather than individual enterprises.

The ABAD SOW also discusses its grants program in connection with community groups. It states,

Grants Program: The contractor will propose an approach and criteria for awarding community grants based on successful examples from the Caucasus or similar regions. The proposed grant criteria will be reviewed and approved by USAID at the implementation stage. The contractor would develop a Grant manual that describes the process of awarding and managing Grants under the contract, including criteria for the award of grants. The Grants manual will be approved by USAID. The contractor would develop a Grant Program and oversee disbursement of funds (approximately \$40,000 per business development center) for the various market solutions. Rural entrepreneurs would be required to demonstrate a willingness to mobilize themselves and to buy-into the business development center approach before funds would be made available. Such criteria would provide the key incentive for communities to support the program. The business development centers would offer:

- grants for infrastructure projects that would promote productivity or market access (e.g., rehabilitation of irrigation or electrical systems or construction of storage and packaging facilities);

- grants for the purchase of production and processing equipment, including farm machinery;
- creation of business associations to bring similar enterprises together to address common problems and to consolidate products for sale and ensure quality control;
- fee-based training, provided by business development center employees, to enhance the ability of business associations to identify markets, fill market gaps, diversify products, set prices, and build market linkages; and
- technical assistance, such as agricultural extension services. The contractor and the business development centers would be responsible for identifying agricultural extensionists and other Azeri technical specialists that could be on retainer at the business development centers. The contract would allow short-term technical consultants to come to Azerbaijan to provide training to Azeri technical specialists.

The Cooperative Agreement with IRC was amended on September 1, 2005 to make a number of changes to the SOW. The relevant section related to grants was as follows:

**Page 15**

**Activity #3: Rural Development Grants Program**

**Original text:**

One of the primary goals is to provide grant support to emerging commercial and non-commercial agricultural producers. The available grant fund of \$1,250,000 will be disbursed in the first three years of the program to no fewer than 65 recipient groups.

**Amended text:**

One of the primary goals is to provide grant support to emerging commercial and non-commercial agricultural producers. The available grant fund of **\$1,067,000** will be disbursed in the first three years of the program to no fewer than 65 recipient groups.

In spite of these limitations of the grants to community groups or associations, it appears that both projects are now engaging in direct grants to specific enterprises. It is not clear how this change came about. In fact, the grants manuals for both projects indicate that grants may be made to both organizations and members of organizations. That would seem to open the door to grants to individual enterprises.

*Potential for fiscal impropriety:* The ABAD COP informed us that a local project staff member had been terminated for fiscal impropriety. Details of that termination were not discussed, but it indicates the potential for fiscal impropriety that grant programs can have. During the visits of the evaluation team to various firms assisted by the RECP and ABAD projects, we noted that the grants to individual enterprises held the potential for kickbacks to the business consultants requesting the grants. It is important to note that the evaluation team is not contending that any impropriety has actually occurred; only

that the possibility for such exists. And the larger the grant, the greater the potential for kickbacks. When grants are made to organizations and groups, the potential for such impropriety decreases, since that usually results in a number of individuals supervising the use the grant funds.

#### Size of the Grants

The size of the grants made by the RECP project has varied between \$1,223 for a travel grant to attend a trade fair to two pending grants for \$100,000 each for equipment purchases. The average size of the grants approved to date is approximately \$28,000. Grant funds committed as of March 11, 2006 totaled \$474,872 with \$159,492 disbursed. This leaves \$1,025,128 grant funds in the pipeline. Discussions with the Chief of Party of RECP indicated that the project hopes to make a smaller number of larger grants in the next year to achieve progress on disbursing the pipeline of grants.

The size of the grants made by the ABAD project has varied between \$2,250 for equipment and \$40,000 for a grant to CredAgro to support its costs required to begin leasing operations. The average size of the grants approved to date is approximately \$12,600. Grant funds committed as of February 24, 2006 totaled \$151,385 with \$61,685 disbursed. This leaves \$915,615 grant funds in the pipeline. There is a pending grant to Unileasing for \$85,000 to support its costs required to begin leasing operations.

The ABAD grant to a bio-humus producer in Guba was an excellent example of how a grant program should be run. This grant of \$7,185 was provided to an entrepreneur who provided about \$45,000 of his own money to start a bio-humus production facility. The grant covered the cost and arranged for the purchase of California red worms that produce bio-humus. This is a good example of how a small grant leveraged an innovative enterprise activity that could have an important demonstration impact for other enterprises and result in ecologically sound increases in production by the eventual users of the bio-humus. (See details in Annex 9)

Both projects have had trouble finding grant projects to support. There seems to be a tendency to increase the size of the grants in order to meet the target of the disbursing the grant funds allocated for both projects before they come to an end. The assumptions regarding both the necessity of the grant funds and the size of the grant funds required for both projects should be re-examined by USAID. In addition, the size of the individual grants should be re-examined as well in light of the discussion above on the potential for fiscal impropriety.

#### Loans Rather Than Grants

Discussions with credit programs funded by USAID and other donors were critical of the use of grants to fund enterprises. Studies have shown that there is a shortage of credit for rural areas in Azerbaijan. However, the issue of how to best address that shortage is relevant. Some of the enterprises selected for grants could probably have received loans from existing institutions if they had been provided assistance in applying for the loans. The evaluation team noted a very successful entrepreneur who was finalizing his ABAD

grant while the team was in Azerbaijan could probably have qualified for a loan for the same purpose. He ran multiple enterprises and appeared to have considerable business acumen. Although the CredAgro grant appeared to be a good use of grant funds to further that form of finance in Azerbaijan, the director of that company said that they would have begun leasing operations even if the grant funds had not been made available. One wonders if the same might be the case with the pending ABAD grant to Unileasing.

## **VI. CONCLUSIONS**

### **A. Key Overall Conclusions**

- There is no significant relative difference in project results, even though the RECP project is now in its 3<sup>rd</sup> year and ABAD is in its 2<sup>nd</sup> year. The critical assumption by project designers that the ABAD and RECP projects could work together in a seamless manner, accepting different roles in the development of value chains, did not take into account the naturally competitive nature of consulting firms and U.S. PVOs in competing for donor resources.
- Although there have been considerable changes in key management staff in both projects, the impacts of such changes have been largely those of slowing down the progress of the projects, rather than significantly changing the impacts of the projects.
- Project staff visited during the field trips of the evaluation team revealed that most are young, energetic, market-oriented business consultants, with the exception of the ABAD staff in the Lenkoran corridor. Those staff members are older and many appeared to be still rooted in a Soviet mentality regarding business development.
- Current best practices on BDS development focus on facilitation rather than direct provision of services. However, that is based on the assumption that there are existing business service providers (BSP) to utilize. In the former Soviet Union, donors have had to establish BSPs and train them in how to provide BDS. This resulted in the proliferation of business centers throughout the region. In some countries, and this is definitely the case in rural areas in Azerbaijan, business service providers exist in urban areas, but are extremely limited in rural areas. In such cases, there is nothing wrong with building the capacity for BSPs through direct provision of services. Over time, private sector spin-offs from those business centers will occur. In the later stages of development, the facilitation approach to BDS can be utilized more fully so that market distortions of BDS do not occur through the use of expatriate and project staff-provided services when local BSPs can provide more effective and efficient services. The services being provided by RECP and ABAD do not really exist to any extent in the areas in which they are working, so their methodology is consistent with best practices in BDS.
- The current criteria being used by both projects to make grants appear to be both confusing and creating distortions in the credit market. Project staff explanations of the rationale for grants were strained and unconvincing.

### **B. Project Management**

#### Changes in Project Staff

The numerous changes in key staff in the RECP project did have an impact on the project in that it delayed performance during the first year. The staffing currently in place is functioning properly and appears to be achieving progress toward the project objectives.

The changes in ABAD staffing were less numerous and involved fewer key people, but did appear to create some staffing friction within headquarters. This now seems to be

resolved and the current staff members appear to be working well together and functioning properly. The changes in staff for the ABAD project did not materially affect project performance.

It should be noted that changes in USAID staff supervising the two projects had a negative impact on project performance as well, since new officers did not always have the same perception or appreciation of project activities as previous officers.

In sum, although the changes in project staff did affect the projects negatively during the first year of each project, those problems appear to be resolved. The evaluation team has made some suggestions in the section below regarding staffing to reduce project costs and to replace some expatriate staff with local staff members.

#### Coordination with Other USAID Projects and Other Entities

Coordination is now taking place between the RECP and ABAD projects due to encouragement by USAID staff. Some coordination appears to be taking place between the ABAD project and other USAID and donor programs in Azerbaijan. Coordination between the RECP project and other entities is less evident, although some appears to be taking place. It is important that the USAID staff supervising the projects keep the pressure on to maintain and expand the coordination among the relevant projects.

#### **C. Comparison of Project Design with Best Practices**

Although some concerns were expressed above regarding the use of business centers in the projects, these can be addressed by focusing on exit strategies for the centers. The concerns regarding work with business associations are more difficult and will require discussions between project management and USAID staff to resolve future efforts in this regard.

The key problem with project implementation is that both projects are essentially competing with each other in the same areas. The RECP project had all of the elements in its SOW to address rural enterprise development problems from production to markets. It is not clear what was gained by adding the ABAD project to the country portfolio. The ABAD SOW seemed to be bifurcated between working on community development and working with rural enterprises. Clearly, the perception by the project designers that ABAD would work from production to processors and that RECP would work from processors to markets does not reflect best practices in rural enterprise/agriculture development project design. It required close coordination between two competing implementers and was somewhat unrealistic. Rather, both implementers have adopted a very similar methodology focusing on processors and then assisting them in marketing. In some cases, work with the producers has taken place, but generally as an adjunct to assisting the processor clients.

## **D. Project Accomplishments to Date**

### Establishment of Regional Business/Marketing Centers and Trained Staff in the Economic Corridors

Both projects have done a good job in training local staff to provide outreach to clients in the economic corridors. Direct hire of project staff is clearly the better method for achieving results, rather than working through local NGOs or firms. In order to eliminate duplication of efforts between the two projects, it would be better to delineate project efforts by assigning them different regions or to specify in which sectors each project might work.

### Enterprise Client Services

The evaluation team discerned problems in a number of areas in how the projects were providing enterprise client services. There are no standards in either project on how many clients each business consultant should work with during any one time. This has led to inefficiencies in implementation and a lack of a basis to reward performance by individual business consultants. The use of regional project offices is clearly preferable to having consultants working out of their homes or apartments.

Neither project has an adequate system in place to measure the impact of the business services provided on the client enterprises. Both projects have prepared draft documents to address this problem, but USAID should address this issue soon in order to be able to judge the effectiveness of each project. Both projects should be using the same indicators to measure performance and the means of collection and analysis of the data to feed into these indicators should be standardized for both projects as well.

### Policy/Regulatory Reform

Neither project is having an impact on this area. The problem of dealing with business associations to advocate for policy and regulatory reform was very evident. USAID and the two project implementers should meet and agree on what is possible in this area and then take actions to change the SOWs of the respective projects to reflect the agreement on what should be done in this area.

## **E. Grant Program**

### Issues for Concern

The evaluation team had concerns about the grant programs of both projects in four areas.

1. Many of the grants are being made to individual enterprises rather than to the groups or associations of enterprises discussed in the SOWs of both projects. The manuals for the grant programs for both projects seem to be ambivalent on this

- topic. While citing the requirements for giving grants to groups or associations, they also seem to permit grants to individual enterprises.
2. The potential for fiscal impropriety on the part of business consultants when grants are made to individual enterprises is a concern. Although no evidence of impropriety was observed, the evaluation team noted the potential opportunity for such impropriety.
  3. The increasing size of the grants is another area of concern. As the grant size increases, the potential for fiscal impropriety increases.
  4. The grant programs appear to be replacing credit as the financing vehicle for some of the individual enterprises. Although there is a shortage of rural credit in Azerbaijan, the longer-term financial system would be better served by focusing on how to increase that credit and having the two projects assist clients to prepare adequate loan applications.

### Effectiveness of Grant Programs

Although the evaluation team did not review the details of all of the grants made to date by both projects, it would appear that the grants are not having the impact anticipated in the project designs. Rather, they seem to be providing funds that might be better provided by normal financial mechanisms and institutions. Any financial subsidy such as these grants should be evaluated on whether or not they are providing either additionality to the current financial system or to other economic objectives. The grant programs of both projects do not appear to be achieving either at the current time.

## VII. RECOMMENDATIONS

- **Comparison of the Effectiveness of the RECP and ABAD Projects:**

Neither project has a predominant capability over the other, so it is too early to suggest that one project be closed down and that the other continue. Both are achieving success using their respective approaches. However, there is a problem with duplication of effort, having both projects work in the same areas. It is unrealistic to expect one project to work from production to processing and another work from processing to markets. The evaluation team is unaware of any programs using this divided approach in other USAID projects. Regardless of the reasons for how this situation came about, USAID should use the next year to make changes to the projects to eliminate duplication and to make each project compete with the other for results. We suggest a way to do this below by making each project responsible for different economic corridors and expanding their services within those corridors. With the declining budget of USAID in Azerbaijan, this strategy will provide USAID with a rational means of deciding what action to take regarding each project in 2007.

- **Project Management/Staffing:**

- **RECP:** Current plans are to replace the current Deputy Director with a proposed candidate working on another Pragma contract in the Central Asian Republics. The evaluation team questions the wisdom of this replacement. Rather, this would seem to be a good opportunity for the Chief of Party to assume the responsibilities for the Administrative staff supervised by the current Deputy Director. Current plans are to replace the expatriate Grants Manager with a local counterpart in January 2007 and the expatriate Director of Client Services with a local counterpart 6 months before the end of the project in 2008. We recommend that qualified local counterparts replace these positions earlier.
- **ABAD:** Current plans are to replace the expatriate Grants Manager and Business Services Advisor with local counterparts in twelve and eighteen months, respectively. ABAD should be held to this schedule and steps taken to develop local counterparts to take on these roles should receive high priority. ABAD should cancel its arrangements with local NGOs to direct field efforts and should hire field officers directly, as they have done in Guba.

- **Grants:**

- The evaluation team recommends that the total amount for grants for each project be cut at least in half, that maximum grant levels be set at \$20,000 and that both projects be encouraged to limit average grant sizes from \$5000 to \$10,000. If all grants under \$20,000 do not require USAID review, this would help to reduce USAID project management responsibilities for this area as

well. We also recommend that USAID require that **future grants under RECP and ABAD utilize the following criteria:**

- Grants should benefit multiple enterprises, not just improve the productivity or product quality of one enterprise.
  - Grants should not replace owner equity to be able to qualify for credit.
  - Grants should promote innovation or technology that does not exist in Azerbaijan.
  - Grants should not fund more than 50% of the costs for participation in trade fairs by specific enterprises and should not provide any cost share to any enterprise for more than one trade fair.
- RECP and ABAD should work in collaboration with the new CHF projects to maximize opportunities for community involvement in the selection of local projects promoting economic development using CHF grants.
- **Best Practices:** Both projects are utilizing best practices in terms of using a market focus in determining which enterprises/sectors to assist and in providing interventions to facilitate better production and services to meet market requirements. The two projects are developing the capacity of local staff to be able to provide business services when the projects end. The long-term financial viability of the Azerbaijan Agribusiness Centers under the RECP Project and the Business/Marketing Centers under the ABAD Project is uncertain. However, what is more important than the viability of those institutions is the development of the local capacity of individuals to provide those services through whatever vehicle may make sense in the future, be it through individual or private firm consulting services or as other public or not-for-profit NGOs. These types of centers created by donors have always had long-term sustainability issues, but the services frequently carry on beyond the project via other types of public or private entities. USAID has seen evidence of this particularly in the countries of the former Soviet Union. USAID officers in Baku should require that both projects prepare an exit strategy for their business centers that addresses the financial viability issue.
  - **Geographical Focus:** In order to promote competition between the two projects without the current duplication of efforts, RECP and ABAD could be responsible for two economic corridors each. We suggest that RECP be responsible for the Lenkoran and Ganja/Tovuz corridors and ABAD be responsible for the Guba and Zagatala corridors. However, the final decision should be based on the strengths of the project staff on the ground and the potential for further business development activity within each region. This geographic focus would permit greater penetration of each area with a larger number of business consultants in each region and shorter traveling times for each business consultant. We also recommend that offices be established for each corridor, since an office provides both greater opportunities for interaction among the business consultants as well as greater credibility of the business consultants in the eyes of potential and existing client firms.

- **Business Association Development/Policy and Regulatory Reform:** In view of the evaluation of the LoL PAPA Project and comments from project staff, USAID/Baku should re-evaluate if it is feasible for either project to work on business association development and policy/regulatory reform. If not, the project agreements and results should be modified to reflect that decision. If potential work in this area is determined to have reasonable prospects, the project implementers should be asked to either conduct such activities, as required under the current agreements, or be held responsible for nonperformance.
- **Contract and Cooperative Agreement Amendments:** The two agreements should be amended to both reflect de facto changes in SOWs and to accommodate any changes coming as a result of this evaluation and consequent USAID/Baku decisions. Although the ABAD project was amended some months ago to reflect changes in project implementation agreed upon by USAID and IRC, discussions between USAID and Pragma regarding revisions to changes in the SOW have not yet been reflected in any project amendments. USAID/Baku should take advantage of this opportunity to effect the appropriate changes in both projects as soon as possible.
- **Performance Monitoring Plans:** USAID/Baku should take actions to have the project implementers develop and agree with USAID on appropriate PMPs with standardized indicators and methodologies for collection and analysis of data for both projects. This is particularly true if changes, and corresponding amendments to the project agreements, are made to the projects as a result of this evaluation and subsequent USAID decisions.

## **Scope of Work**

### **Agricultural Projects in Azerbaijan: Review of Design and Performance**

#### **I. Purpose**

The purpose of this TDY is to assist the office of USAID/Baku to evaluate the design and performance of two large multi-year projects designed to grow the rural economy.

The assessment should identify deficiencies in the design of the project and weaknesses in implementation. Both projects have large grant components. The Mission would like an evaluation of the grant component as well.

#### **II. Background**

The economic growth strategy of USAID seeks to strengthen and diversify the non-oil and gas sectors of the economy. This strategy is designed to help rebalance Azerbaijan's economy which has a booming oil sector and very little else. Azerbaijan in FY 2005 had one of the fastest growing economies in the world with GDP growing at 20%. However, growth in the economy is very unbalanced with oil and gas production the main drivers of economic growth. Oil and gas account for 90% of Azerbaijan's exports, 30% of its GDP and 1% of its employment. USAID's portfolio of projects supports this strategy of growing the non-oil sector in four ways. USAID seeks to improve the capacity of the Government of Azerbaijan to manage its revenues through improved financial management and capital budgeting. USAID seeks to strengthen access by SMEs to capital, particularly agricultural producers and processors, by strengthening commercial banking and non-bank financial institutions through training of financial professionals, improved capacity to regulate the financial sector and better financial laws and regulations. USAID seeks to improve the supply of electricity, gas and heat to the people and businesses of Azerbaijan by encouraging the Government of Azerbaijan to restructure the energy sector so as to allow for a market driven energy sector subject to sound regulation. USAID is also helping agricultural processors and producers to create links to markets and to help them meet the demands of those markets. USAID is implementing its rural development strategy through two projects the Rural Enterprise Competitiveness Program (RECP) and the Azerbaijan Business Assistance & Development project (ABAD). The prime contractor for the RECP contract is Pragma and the prime grantee for the ABAD cooperative agreement is the International Rescue Committee. RECP started in September of 2003 and will run through August of 2008, with a total budget of over 12 million dollars. ABAD started in August of 2004 and will run through July of 2009, with a total budget of close to 7 million dollars.

**RECP:** The goal of 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.<sup>1</sup>

The AAC describes 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.

The project's aim is to provide demand driven services, focusing not only on production, but on the needs of the marketplace. 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.

In Year Two, 10 Account Managers provided services to 48 companies, of which 42 are long-term AAC clients. A detailed SWOT is done in the preliminary stages of work with each company and the Account Manager works with an action team from the client to develop an action plan for the future of the company and for the role that AAC will play in that development. In Year Two, this process was improved and a solid base of productive clients was established. The project is now poised to increase that client base dramatically.

With the help of AAC, the clients achieved over \$2,326,303 in new trade and invested over \$4,862,750 in plant improvements (these are cumulative figures). Assistance from the AAC is tailored to meet the needs of each client, but general areas of emphasis include trade and marketing; processing; finance and credit; and logistics and inputs. In addition, there have been 804 new jobs created in AAC client companies. A rough guide used by many organizations to show the impact that trade and investment has on employment is that for every \$10,000 dollars of trade/investment, one job is created. Based on this guide the project's rate of job creation well exceeds what might be expected from the level of trade/investment achieved by clients.

**ABAD:** ABAD focuses on creating value for Azeri producers and businesses and repairing the supply chain that remains broken since the collapse of the Soviet Union.

During its first year of operation ABAD staff completed the competitive bidding process for Marketing Center operators, provided start-up training to Marketing Center staffs, and guided Marketing Center management in developing annual operating plans. All eight Marketing Centers in the four economic corridors are open, staffed and operational. Though work is still in the early stages, Marketing Centers have already contacted hundreds of buyers and sellers and begun working in earnest with over 50 clients through the development of Client Development Plans, laying the foundation for developing market linkages in the corridors and beyond. Training is underway to enhance the consulting capacity of business advisors, equipping them with necessary tools to identify value-added opportunities and facilitate deals to generate increases in jobs and sales.

As the Marketing Centers have developed their client bases, the Grants Program has begun receiving a growing number of requests for grant assistance. Of the 25 Client Development Plans thus far approved by ABAD management, approximately half requested grant assistance, and of these, three grant applications have been developed, submitted and are pending final approval.

An assessment was conducted during the reporting period to evaluate the credit and leasing environment in Azerbaijan and to develop recommendations that will enable ABAD to increase access to credit and leasing services in ABAD project areas during Year 2. This included a survey of 960 individual entrepreneurs in ABAD's economic corridors to assess the demand for leasing and other credit services, and developing an overview of the formal-sector leasing services currently available.

This period, ABAD's monitoring and evaluation (M&E) team fine tuned the M&E approach and software, completed installing the database on computers at all eight Marketing Centers and trained

Marketing Center personnel in its application. The M&E team also updated forms and data fields to ensure that the data collected addresses program needs.

While start-up activities have succeeded in putting the critical elements of the ABAD program in place, significant challenges remain. Although ABAD selected Marketing Center operators from among existing organizations with personnel experienced in providing services to rural stakeholders, it will be necessary to continue to put significant efforts toward training and consulting with Marketing Center personnel to develop their understanding and ability to apply ABAD's market-driven approach. A particular area of need for increased capacity development is in preparing grant proposals that fulfill ABAD's criteria. Likewise, ABAD anticipates it will need to continue providing significant support to the Centers in the areas of basic office operation and management.

At the same time, ABAD is taking advantage of opportunities to cooperate with partners on a number of complementary efforts in Baku and the economic corridors that bolster and bring additional resources to the Centers' efforts to facilitate transactions between the Marketing Centers clients and the buyers of their products. Applying a new model for economic development in Azerbaijan, ABAD will stimulate over \$15 million in sales and create 4,000 jobs by 2009. The added jobs and sales will invigorate rural economies, serving as a basis for sustained economic growth over the long term.

### **III. Activity Description**

#### **Scope of work**

The TDY team will do a thorough review of the RECP and ABAD project design and implementation resulting in a set of recommendations to the Mission. The specific tasks that will be undertaken by the TDY team to prepare the deliverables of the TDY team are:

- Review the contract for both projects and all project reports
- Review work plans for both projects
- Review Grant Manuals for each project
- Review grant applications from both projects
- Review USAID's IR related to the projects
- Meet with the USAID Country Director, Program Officer, EG Acting Team Leader, FSN Agricultural Specialist
- Meet with the projects' staff
- Visit Marketing Centers
- Visit Processors and Producers assisted by the projects
- Meet USAID supported agricultural lenders
- Meet staff of USAID SME Financial Strengthening Project

It is anticipated that the Evaluation team will first complete a desk study that will be used to establish an understanding of the agribusiness activities and environment before arrival in-country. The SO 1.3 team will provide documentation electronically to the Evaluation team the week prior to their departure in order for the team to prepare.

The work plan should be ready for discussion at the in-brief and adjustments then made based upon comments by Baku staff at the in-brief. The work plan should include information that:

1. Explains the methodology for carrying out the evaluation;
2. Identifies potential major constraints; and
3. Presents other information the evaluation team wishes to provide.

**We expect that the evaluation will:**

1. Compare project design to generally agreed-upon international best practices and recommend changes.
2. Determine if internal project management problems have jeopardized or damaged or set back the projects and if so, make recommendations.
3. Address if there is duplication of activities, and/or if activities are working in sync or at odds with each other and recommend remedial actions if needed.
4. Address crosscutting themes. Are they incorporated to a serious extent?
5. Determine if project management is cooperating within SO, across SOs, and with other donor interventions, and working adequately with the GOAZ. Determine if USAID is adequately addressing and furthering its strategic priority of growing the non-oil sectors of the economy through RECP and ABAD; and if not suggest better alternatives.
13. Recommend reading materials on best practices for market chain development and including best practices on financing ag processing and rural development for the Baku staff.
14. Comment on the criticism of the projects by an outside expert who reviewed USAID's whole portfolio and which is copied below.
15. Recommend how sound business proposals can be developed into bankable deals rather than grant funded.
16. Evaluate impact, if any, of grants on efforts to create sustainable rural lenders.
17. Evaluate effectiveness of the grant component of RECP and ABAD in promoting sustainable improvements to the rural economy and suggests ways in which the grant funds could be more effectively deployed, if appropriate.
18. Evaluate administration of grant component in RECP and ABAD for vulnerability to fraud and malfeasance and recommend appropriate changes.

**Comments of outside expert**

The RECP design is curious as best as can be discerned from a rather thin work plan. RECP emphasizes building value chains for particular commodity groups, a well known concept in "competitiveness" circles. However, it appears that USAID designed RECP to work on the supply side of commodity value chains while ABAD is designed to work from processing to marketing. This division of labor does not make sense in

competitiveness theory and practice.<sup>2</sup> Normally, agribusiness projects are designed to cover the whole value chain and that approach usually yields the best results. In this regard, the work plan mistakenly identifies “transportation, warehousing and logistics” as “peripheral services” when they are actually integral to value chain and cluster development. In addition:

- It appears that grant making was required in the original USAID solicitation and if so, and like the ABAD project, that is not a best practice if grants are directed to offsetting the costs of equipment for individual farmers or entrepreneurs.
- Under client outreach, it appears BDS is provided with no fee. If so, that is a practice that should be stopped as it stifles professionalism in BDS and business growth. Other donors, or even other USAID projects, may complain if they have to compete with free BDS services while they are trying to develop profitable businesses.
- The work plan is explicit that RECP will help clients interact with investors and financial organizations, presumably MFIs, NBFIs and commercial banks, rather than provided grants; this is a distinct difference from, and improvement over, ABAD.

### **Azerbaijan Business Assistance and Development Program (ABAD)<sup>3</sup>**

Overall, this is a large, poorly designed project with ample funding and an extended life span. If resources were needed elsewhere to advance the fight against corruption, redesigning this project offers the possibility of reprogramming funds to a higher order purpose. More specifically:

- It is rare to see a business development (BDS) project is awarded as a Cooperative Agreement, especially to a provider that has weak organizational credentials in BDS. Unless the project was solicited under a RFP, and IRC won in full and open competition, it is likely that USAID has not acquired the services of the most capable technical assistance provider.
- The idea of using project funds to establish and operate marketing centers is at least 25 years old and has been discredited for at least the past 10 years, because there are few if any known success stories, upon the termination of donor assistance. This is a matter of project design deviating from well recognized best practices.<sup>4</sup>
- The project apparently aims to make grants both to marketing centers and to clients for equipment, machinery and infrastructure. One example, a grant sufficient to cover 45% of a cold storage facility, is troubling because it should have been referred to the banking system. In another example, ABAD is making a grant to farmer for a power line to his mill.<sup>5</sup> Best Practices in business development have excluded such approaches for a long time because they do not lead to enterprise profitability without

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<sup>2</sup> See, for example, Fairbanks, Michael and Stace Lindsay, *Plowing the Sea: Nurturing the Hidden Sources of Growth in the Developing World*, 1997 or Michael Porter’s seminal *The Competitive Advantage of Nations*, 1990.

<sup>3</sup> International Rescue Committee, *Azerbaijan Business Assistance and Development (ABAD) Work Plan: Year 2, August 5, 2005 through August 4, 2006*.

<sup>4</sup> See the following compendium of best practices: Ernst, Ulrich, Marina Krivoshlykova, Donald Snodgrass, James Packard Winkler, *Enterprise Growth Initiatives: Strategic Directions and Options – Handbook*, Development Alternatives, Inc., for the Bureau of Economic Growth, Agriculture and Trade, USAID, Washington D.C. July 2004

<sup>5</sup> International Rescue Committee, *Azerbaijan Business Assistance and Development (ABAD), Semi Annual Report, February 5-August 4, 2005*.

also distorting the market. They may also create the appearance of favoritism or, worse yet, corruption. ABAD should be directing entrepreneurs and the marketing centers to MFIs, NFBI's or commercial banks.

- ABAD is also concerned with developing the leasing industry but no grant funds should be made available for either the lessor or lessee. The use of appropriated monies to establish a Rural Leasing Guarantee Fund is equally problematic and better left to the banking system and to the financial viability of the entrepreneurs' proposals.
- The activity on women and entrepreneurship appears to be empty of content.
- The activity on community support for marketing centers is better left to soft projects like the Community Development project or abandoned all together.
- The activity on marketing center monitoring and evaluation is an effort to create MIS capacity that will not likely survive the end of USAID funding.
- There is no mention of anti-corruption in the work plan. In the semi-annual report there is perfunctory mention of other related USAID projects, i.e. RECP, ABA-CEELI and Community Development but no tangible evidence of coordination.

## **II. Staffing and level of effort**

The design and implementation review will be conducted by one USAID employed business development expert, Mr. Stephen Silcox, and one agricultural expert contractor, preferably with experience in the FSU. The TDY team will be accompanied by the Mission's FSN agriculture specialist. The Mission will schedule the meetings and provide work space and a computer at the Mission office for Mr. Silcox when needed. The contractor will be responsible for his own logistical support including, hiring an interpreter and providing in-country transportation for the team. Mr. Silcox will have ultimate responsibility for the deliverables. He will supervise and direct the work of the agricultural specialist contractor.

## **III. Delivery Schedule**

The contractor will have 2 work days to complete the desk study prior to departure and 3 work days to participate in the drafting of the report after departure from Azerbaijan. The team is anticipated to be in country for 2 full work weeks in late February and early March. The contractor will be allowed a 6 day workweek.

## **IV. Deliverables**

Inbrief, midbrief and outbrief will be scheduled with Mission staff in Baku. The TDY team will provide a draft report including background, conclusions and recommendations at the outbrief. The contractor agricultural specialist will provide a draft evaluation report to Mr. Silcox entitled "Draft Evaluation Report on USAID/Azerbaijan's Agricultural Projects" the day prior to the outbrief. The report will address in detail the 12 expected outcomes of the evaluation listed above, with recommendations that identify new

activities or orientations, for mission comment and will be limited to thirty pages (plus annexes).” Then, the mission will have 10 days to respond. The contractor will have 5 working days to respond to the Mission’s comments and will provide editorial review of at least 2 drafts of the consolidated Evaluation Report that will be finalized by Mr. Silcox. The contractor will provide editorial review within 2 working days of receipt of a draft report from Mr. Silcox.

## ANNEX 2

### PERSONS INTERVIEWED

#### *USAID/Baku*

James L. Goggin, Country Director

Catherine Trebes, Program Officer

Geoffrey Minott, Economic Policy Advisor

Anar Khalilov, Project Management Specialist, Agriculture & Rural Development

Farid Bakhshiyev, Project Management Specialist, Economy & Finance

#### *USAID/Caucasus Mission, Georgia*

Robert Wilson, Deputy Director

#### *RECP/Pragma/Baku*

William Levine, Chief of Party

Glenn Stennes, Deputy Chief of Party

Gideon Donoho, Director of Client Services

Patrick Kadian, Grants Manager

#### *RECP/Marketing Center/Lenkaran*

Fuad Agazadeh, Trade Marketing Specialist

Mobil Penjaliyev, Ph.D., Food Technologist Specialist

#### *RECP/Zagatala*

Mirmail Mirsalahov, Agribusiness Specialist

#### *RECP/Guba*

Eldeniz Osmanov, Agribusiness Specialist

#### *Clients of RECP*

Belokan Canning Plant, A. Anshiskiy, Zagatala Region – Fruit processing

Mohobbat Ibrahimov, Optimal cos, Lankoran Region – Cucumber canning

Anar Isayev, Lyuks Company, Lankoran Region – Tomato & Cucumber canning

Sadiq Bagirov, Chinar Processing, Lankoran Region – Tomato & fruit processor

Vagif Ismailzade, The Puffed Corn, Zagatala Region – Maize and macaroni processor

Rashid Ramazanov, Khacmaz Sud, Guba Region – The Dairy Processor director

Fatima Aghamirzayeva, Aygun, Guba Region – The Carpet factory

#### *ABAD/Baku*

Thomas Lemley, Chief of Party

Tracy Shanks, Director of Business Services

Tanner Chaiken, Director of Enterprise Finance

Daniel Gies, Short-term consultant for FLAG Int., Finance & Leasing Specialist

***ABAD/Guba Marketing Center***

Kheyreddin Jabbarov, Director  
Elshan Karimov, Business Advisor  
Kamile Fermanova, Office Manager

***ABAD/Jalilabad Marketing Center***

Adalat Nahmatov, Director, Lenkoran Economic Corridor Marketing Centers  
Elshan Bayramov, Director, Jalilabad Marketing Center  
Alovsat Mammadov, Business Advisor  
Shahin Atayev, Business Advisor

***ABAD/Lenkoran Marketing Center***

Gagayi Mammadov, Marketing Center Director  
Shaddig Bashirov, Business Advisor

***ABAD/Salyan Marketing Center***

Elshad Abiyev, Marketing Center Director  
Yusif Satiyev, Business Advisor

***ABAD/Sheki Marketing Center***

Rafael Jabbarov, Marketing Center Director

***ABAD/Zagatala Marketing Center***

Nariman Ramazanov, Project Coordinator & Managing Partner, FINA LLP  
Afet Orujova, Sales & Marketing Manager  
Nargiz Abdullayeva, Project Manager

**Clients of ABAD**

Abdulaziz Ahmadov, Azuga, LLC, Zagatala Region – Hazelnut processor  
Azuga and Alidjanov Zukanov, Zagatala Region – Hazelnut processors  
Bahaddin Shabanov, Shabanogullari LLC, “Pari Galasy” – Mineral water  
Nadir Jabrayilov, Zagatala region – Perfume manufacturer  
Aliyeva Saadet, Lenkoran Corridor – Bakery  
Husseyinov Aghagulu, Elvin-2, Lenkoran Corridor – Potato grower and processor  
Allahverdiyev Namig, Hasally LLC, Lenkoran Corridor – Beef & Dairy husbandry  
Turan KFT, Lenkoran Corridor – Tomato and cucumber processing and canning  
Zeynalov Vugar, Lankoran Corridor – Alfalfa producer  
Mirzayev Kheyreddin, Astara Chay, Lankoran Corridor – Tea processor  
Sabrán-D, Guba Region – BioHumus producer  
Humay Mammadova, Guba Region – Carpets

***World Bank/Baku***

Rufiz Chiragzade, Operations Officer, ECSSD

***Asian Development Bank/Baku***

Rafael Abbasov, Economics Officer

***German Technical Cooperation***

Dr. Franz Heinzmann, Senior Agricultural Expert

***CredAgro/Baku***

Eldar H. Jafarov, Director

***FINCA Azerbaijan, LLC***

Jeffrey Flowers, Country Director

***CHF, International/Baku***

Neil McCullagh, Country Director

***CABS/Mercy Corps***

Kamran Abdulleyev,

***AKTIVTA/Baku***

Farid Firidunov, Executive Director

Nizami Garayev, Senior Agronomist

***SME Finance Project - ACDI/VOCA, Baku***

Muhammad Junaid, Chief of Party

Paul S. Hamlin, SME Finance Expert

***Consultants***

GENRAY CORP. International Training and Consulting, Naples, FL

Raymond M. Genick, Ph.D., Senior Vice President

Wiles and McLaughlin, LLC, Intl. Program Management Consultants, Fairfax, VA

Richard D. McLaughlin, Managing Partner

Management Systems International

Michelle Adams-Matson, Senior Associate

## ANNEX 3

### Schedule & Itinerary of Evaluation Team

Thursday, Feb. 23, 2006

- Silcox arrives in Baku

Friday, Feb. 24, 2006

- In-briefing meeting with USAID Staff.
- Meeting with ABAD management
- Meeting with RECP management

Saturday, Feb 25

- Hagsten arrives in Baku

Monday, Feb 27 & Tuesday, Feb 28

- Meetings with
  - SME Finance – ACDI/VOCA
  - FINCA
  - CredAgro
  - CABS/Mercy Corps
  - AKTIVTA
  - GTZ
  - ADB
  - WB
  - FAO
  - CHF

Wednesday, Mar. 1

- Travel to Lenkoran
- Visit RECP Salyan office

Thursday, Mar 2 & Friday, Mar 3

- Meetings with RECP/Lenkoran staff and Clients
- Meetings with ABAD Jalililabad Staff and Clients

Saturday, Mar 5

- Travel to Sheki & Zagatala
- Meeting with RECP/Zagatala staff and client in Sheki

Sunday, Mar 6

- Off

Monday, Mar 7

- Meetings with ABAD/Zagatala staff and clients

Tuesday, Mar 8

- Meeting with RECP/Zagatala staff & client
- Travel to Baku

Wednesday, Mar 9

- Worked at hotel in Baku (local holiday)
- Met with Geoff Minott at hotel to debrief him on progress

Thursday, Mar 10

- Travel to Guba
- Meetings with ABAD/Guba staff and clients

Friday, Mar 11

- Meetings with RECP/Guba staff and clients
- Travel to Baku

Saturday, Mar 12 & Sunday Mar 13

- Draft key findings, conclusions and recommendations

Monday, Mar 14

- Debriefing at USAID on key findings, conclusions and recommendations

Tuesday, Mar 15

- Team departs Baku

## **ANNEX 4**

### **LIST OF DOCUMENTS REVIEWED**

#### **RECP DOCUMENTS**

RECP Year One Annual Report, (Oct. 1, 2003 to Sept. 30, 2004), prepared for USAID by Pragma, October 2004.

RECP Year Two Annual Report, (Oct. 1, 2004 to Sept. 30, 2005), prepared for USAID by Pragma, October 2005.

RECP Year Three Work Plan, (Oct. 1, 2005 to Sept. 30, 2006), prepared for USAID by Pragma, October 2005.

RECP Performance Monitoring Plan, prepared for USAID by Pragma.

RECP Year One Performance Monitoring Plan (PMP), October 1, 2003 to Sept. 30, 2004),

RECP Draft of Report on Second Annual Monitoring and Evaluation Review of the RECP Project in Azerbaijan, August 2005.

RECP Section C: Description/Specifications/Work Statement, Azerbaijan Rural Enterprise Competitiveness Program Scope of Work.

RECP Year Three Work Plan and Gantt Chart, prepared for USAID by Pragma, October 2005.

RECP Year Two Work Plan – Final, Oct 1, 2004 to Sept. 30, 2005, prepared for USAID by Pragma, October 2005.

#### **ABAD DOCUMENTS**

ABAD Client's Tracking Form, February 24, 2006.

Discussion Paper, ABAD Credit and Leasing Facilitation Activities.

ABAD Data on Sales and Jobs through February 28, 2006, memo prepared by Thomas Lemley, COP, to Evaluation Team, March 13, 2006.

ABAD Marketing Center Clients – USAID Evaluation Visit, February 2006.

ABAD Grant Component – Policies and Procedures Manual, designed by FLAG, Intl., November 2004.

ABAD Grant Pipeline: March 14, 2006.

Memorandum of ABAD Proposed Modification to Cooperative Agreement, No. 112-A-00-04-000, September 14, 2005.

ABAD Semi-Annual Report #1

Azerbaijan Business Assistance and Development (ABAD) Program, Semi-Annual Performance Report, #2, February 5, 2004 to August 4, 2005, prepared for USAID by The International Rescue Committee, Chemonics, Intl. and Flag, Intl., September 15, 2005.

ABAD Semi-Annual Report #3, Appendix 3: Implementation Indicators (draft), 2005.

ABAD Work Plan Year 2 (Excel tabulation sheet), 2005.

ABAD Work Plan Year 2 (August 5, 2005 to August 4, 2006), prepared for USAID by IRC, 2005.

ABAD Annex 1 – Impact on Program Modification on Cost Share.

ABAD Annex 2 – Consultant’s Report, May, 2005.

ABAD Annex 3 – Discussion Paper, ABAD Program Modification – rev. 1, July 2, 2005.

ABAD Annex 4 – Discussion Paper: ABAD Operations in Nakchivan – rev. 1, July 27, 2005.

ABAD Annex 5 – Form 30 Modification #2 to Contract, September 1, 2005.

ABAD Annex 6 – Cooperative Agreement Modification Language.

Community Participatory Assessment: Recommendations for Increasing Community Participation in the ABAD Program, prepared by Jason Scarpone, EWMI Consultant, for IRC-ABAD, February 2006.

III Description of ABAD Project (Section C), ver. 1.

ABAD Staff Members List, provided by Thomas Lemley, COP, March 14, 2006.

Rural Azerbaijan Business Development Plan: Performance Monitoring and Evaluation Plan (draft).

Section C: Description/Specifications/Scope of Work: Business Development for Communities – USAID/Caucasus – Azerbaijan.

### **OTHER DOCUMENTS**

2 Reports on Anti-Corruption prepared by Chuck Johnson, DAI, for USAID

## *ANNEX 5*

### **Expected Outputs and Results for RECP Project** (From Section IV of Project Scope of Work)

#### ***Strengthening Businesses and Associations***

##### *Outputs*

- A minimum of 15 processor or marketing enterprise organizations will be strengthened and/or created and achieve sustainability
- A minimum of 30 producer organizations will be assisted to support processors over the life of the project. These may be associations, cooperatives or other organizational forms that have an open membership policy.
- Creative incentives such as strengthening grants will be made over the life of the project to 30 organizations for market-linkage capacity building or related activities.
- At least 25 training programs for association leadership and staff will have been conducted for a minimum of 75 leaders and 200 staff.

##### *Results*

- 1) The market share of selected food products in domestic market will be increasing at a rate of 5% per annum;
- 2) The ratio of previously imported products to domestically produced/processed products will be reduced to 1:5

#### ***Vegetable and Fruit Processing and Marketing Improvement***

##### *Outputs*

- A minimum of 25 processors assisted over the life of the project to improve the quality, quantity and/or packaging of processed output.
- A minimum of 10 important meeting events organized (workshops, farm shows, seminars, trade shows) over the life of the project that bring together food industry processors, agricultural associations and agricultural producers to promote networking, new product opportunities, and customer-service orientation within this sub-cluster.
- Plans for special agricultural processing events prepared and events held in a minimum of twenty locations over the life of the project.
- A minimum of twenty marketing studies on Azeri fruits and vegetables or their value-added products that are identified as having the potential for domestic and international competitiveness completed over the life of the project.

- A program of HACCP and ISO certification developed and tested in Azerbaijan.
- A minimum of 40 formal relationships established over the life of the project among processors, association brokers and producers.
- A minimum of 30 rural, community-buying stations for fruits and vegetables established.
- A minimum of 1000 vegetable and/or fruit producers selling quality products in the domestic market over the life of the project.
- A minimum of 40 technical bulletins prepared and widely distributed over the life of the project.
- A minimum of 30 training courses provided for small producers over the life of the project.
- At least 100 producers and 10 processors assisted to receive financing from available sources in Azerbaijan.

#### *Results*

- 1) The market share of locally produced processed products at organized markets will increase by 10% per annum.
- 2) The income of assisted enterprises will increase by 15% per annum
- 3) At least 500 jobs will have been created in the sector as a result of the project's activities

#### ***Animal and Animal products- Processing and Marketing Improvement***

##### *Outputs*

- A minimum of 25 animal product processors will have substantially increased their incomes, provided employment and increased sales of high quality products over the life of the project.
- At least 20 animal product processors implementing best international practices in both processing and management by the end of the project.
- At least 10 animal product processors are using price differentiation to encourage delivery of higher quality raw materials.
- A minimum of 40 additional collection or marketing points for animal products in operation.
- A system of grades and standards for meats, poultry, milk and wool established and implemented.
- A minimum of 5 new products developed and marketed.

- A minimum of 25 producer-processor relationships established and formalized via long-term contracts over the contract period.
- Increased volumes of raw and processed animal products including meat, milk, eggs, poultry and wool are entering market channels and being sold.
- A sustainable program for securing improved animal genetics for cattle and sheep designed and implemented.
- Sustainable production techniques introduced to 1000 livestock producers to improve product quality and reduce costs developed and implemented over the life of the project.
- A minimum of 25 training courses for small producers/processors involving at least 750 individuals that enables them to transition to income-producing business conducted over the life of the project.
- A minimum of 20 animal producers and/or processors will have participated in study tours.
- A minimum of 10 processors will have obtained loans with the assistance of project staff.
- Over 30 technical bulletins on animal and animal product production, processing and/or marketing prepared and widely distributed over the life of the project.

*Results*

- 1) The percentage of imported powdered milk used by major Dairy Processing Plants will be decreased to 10%
- 2) Over 500 jobs in the sector will be created by the end of the project
- 3) The income of assisted enterprise will increase by 20% per annum

***Policy and Regulatory Environment Reform***

*Expected Outputs*

- Development of a road-map for creation of a data collection and analysis unit within the appropriate government entity
- Demand driven policy-regulatory changes identified and advocated by business associations to support business and processors in improving their market competitiveness and greater access to market

### ***Expanded Focus On Competitive Products***

#### ***Outputs***

- Agricultural Products Competitiveness Council (APCC) will be established to lead efforts to increase marketing of Azeri agricultural products nationally and internationally
  
- Identification of competitive agricultural products identified and assistance organized around viable business entities to focus on domestic and export markets
  
- Targeted policy and regulatory changes advocated by the activity and beneficiary groups accepted and implemented by the Government of Azerbaijan

## *ANNEX 6*

### **Expected Outputs and Results for ABAD Project** (From Section IV of Project Scope of Work)

#### **For Task #1 – Building productive capacity of targeted communities**

##### Expected Outputs

- A thorough assessment of market to determine areas for program interventions and the baseline analysis to establish the framework from which to establish the initiative;
- Series of training courses for the business development center employees in organizational development, financial management, and market research enabling employees to provide quality advice to rural entrepreneurs developed and implemented;
- A minimum of 9 business development centers will be operational on a sustainable basis pursued by phasing in of fees for membership;
- Assistance (service, inputs and advice) to a minimum of 18 business associations around issues critical to targeted rural entrepreneurs provided;
- A minimum of 18 business associations (producers and processors) will be established, assisted and operational. It is anticipated that many of the specific activities conducted will target opportunities identified through work with specific associations in support of market-linkage capacity building between producers, processors and buyers or other related activities;
- Training programs (at minimum 4 per year/per business center) and consulting services tailored to targeted group needs will be launched. Training courses should cover but not be limited to topics such as technical production issues, food safety and quality standards, accounting, marketing, financial planning, management, etc;
- A minimum of 18 business associations (producers and processors) assisted to expand capacity and foster market linkages. Sustainable production/processing techniques introduced to business associations to improve product quality and reduce costs developed and implemented;

- At minimum 27 grants will be made over the life of the project to targeted groups for infrastructure projects that would promote productivity or market access (e.g., rehabilitation of irrigation or electrical systems or construction of storage and packaging facilities), and for purchase of production and processing equipment, including farm machinery; and
- Rehabilitated infrastructure, irrigation and critical equipment in place in targeted communities.

### Expected Results

- At minimum 10,000 rural entrepreneurs trained. Business skills, with particular attention to improving technological processes, quality control, and enterprise management and marketing of rural entrepreneurs improved;
- 10% increase per annum in sales among program participants and consequent increase in income among targeted groups;
- Number of new jobs created increased at 15% per annum;
- At minimum 100 new enterprises created.

### Illustrative Indicators

- Production volume attributable to new market linkages;
- Number of interventions to fill market productivity gaps;
- Number of new businesses, new markets, and new products;
- Number of active associations and number of members belonging to associations and seeking technical advices/services;
- Number of businesses that apply training skills and lease equipment;
- Percentage increase in income generated by the business development centers.

## **For Task #2 – Establishing rural information services and outreach campaigns for targeted communities**

### Expected Outputs

The outputs will focus on the products delivered and characteristics of the audience reached.

- Type of mass media produced and diffused (number of publications, media appearances for dissemination of findings etc.). Mass media campaign to inform the public and the private sector of the benefits and opportunities of forming associations – printed publications and/or radio/TV broadcasting;
- A minimum of 30 information bulletins for rural entrepreneurs that will enable them to transition to income-producing market oriented business practices;
- Types and number of business associations established as a result of targeted outreach campaigns – 18 business associations established;
- Types and number of business associations informed/trained on their rights and duties, and on pesticide handling and utilization – 18 business associations;
- Initiation of a series of fora involving local government and associations on establishing partnerships. Partnership between the private sector and the local government established and local government contributed resources – 9 partnerships established and at least 25% contribution (in-kind or cash) rate by local government maintained;
- Portion of farmers benefiting from information and outreach campaigns.

### Expected Results

- # Members of targeted business associations are better informed on their rights and duties, and as a result take advantage of existing legislation and services;
- As a result of information campaign productivity and income of targeted associations increased by 10% per annum; and
- Better utilization of private and public resources resulted in 15% per annum increase in number of jobs created.

Illustrative Indicators:

- Satisfaction index of targeted associations with information/outreach services; and
- Portion of farmers benefiting from information services and their satisfaction levels.

## CRITIQUE OF OUTSIDE EXPERT'S REPORT

The following comments from an expert who recently conducted an assessment of USAID/Azerbaijan's activities in anti-corruption were found in the SOW for this evaluation. Since the SOW requested that the evaluation team "comment on the criticism of the projects by an outside expert who reviewed USAID's whole portfolio and which is copied below," we have copied those comments below. Our comments on his criticisms are in italics.

### **(From SOW) Comments of outside expert**

The RECP design is curious as best as can be discerned from a rather thin work plan. RECP emphasizes building value chains for particular commodity groups, a well-known concept in "competitiveness" circles. However, it appears that USAID designed RECP to work on the supply side of commodity value chains while ABAD is designed to work from processing to marketing. This division of labor does not make sense in competitiveness theory and practice.<sup>6</sup>

#### *Response:*

*We agree with this assertion that the assumption of having two separate projects work in different parts of the value chain was a faulty assumption and led to the current situation where both projects are taking almost the exact same approach to value chain development.*

Normally, agribusiness projects are designed to cover the whole value chain and that approach usually yields the best results. *Response: We agree.* In this regard, the work plan mistakenly identifies "transportation, warehousing and logistics" as "peripheral services" when they are actually integral to value chain and cluster development. In addition:

- It appears that grant making was required in the original USAID solicitation and if so, and like the ABAD project, that is not a best practice if grants are directed to offsetting the costs of equipment for individual farmers or entrepreneurs.

*Response: We agree that the grant program has provided the wrong signal to the private sector. Grants can only be justified if there is no commercial finance available and that does not seem to be the case for many of the grants observed by the evaluation team.*

- Under client outreach, it appears BDS is provided with no fee. If so, that is a practice that should be stopped as it stifles professionalism in BDS and business growth. Other donors, or even other USAID projects, may complain if they have to compete

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<sup>6</sup> See, for example, Fairbanks, Michael and Stace Lindsay, *Plowing the Sea: Nurturing the Hidden Sources of Growth in the Developing World*, 1997 or Michael Porter's seminal *The Competitive Advantage of Nations*, 1990.

with free BDS services while they are trying to develop profitable businesses.

*Response: Free BDS may be provided if there is no existing source of business services, as a means to generate the provision of BDS. However, an analysis should be undertaken of existing BDS before a project undertakes services, either privately or publicly provided. In cases where no services exist, donors will often provide subsidies to assist in the creation of those services by local providers. The key point is that these subsidies should be a minimal as possible to achieve the result and that they should be temporary. In such a case, the donor is serving as a facilitator to develop local business service providers.*

- The work plan is explicit that RECP will help clients interact with investors and financial organizations, presumably MFIs, NBFIs and commercial banks, rather than provided grants; this is a distinct difference from, and improvement over, ABAD.  
*Response: We agree that this works better, but RECP does not appear to have followed this approach in practice.*

### **Azerbaijan Business Assistance and Development Program (ABAD)<sup>7</sup>**

Overall, this is a large, poorly designed project with ample funding and an extended life span. *Response: Although we agree that there were design problems with ABAD, the performance of the project has been consistent with its SOW and we could see no significant difference in performance between the RECP and ABAD projects.* If resources were needed elsewhere to advance the fight against corruption, redesigning this project offers the possibility of reprogramming funds to a higher order purpose. More specifically:

- It is rare to see a business development (BDS) project is awarded as a Cooperative Agreement, especially to a provider that has weak organizational credentials in BDS. Unless the project was solicited under a RFP, and IRC won in full and open competition, it is likely that USAID has not acquired the services of the most capable technical assistance provider. *Response: This is not true. USAID has funded hundreds of projects for BDS under cooperative agreements and grants. In fact, Chemonics is the prime subcontractor to IRC and has much experience in BDS, so any shortcomings in IRC's past experience should be more than made up for by Chemonics past experience. Also, since the model being used for implementation under the ABAD project is based on Chemonics projects in Paraguay and Peru, any program design issues are due to the use of Chemonics' model. For other examples of the use of RFAs to obtain BDS services resulting in cooperative agreements and grants, ACDI/VOCA, IESC, CDC, Winrock and scores of other U.S. PVOs have been implementing BDS projects for years. These projects oftentimes have used volunteers directly from the U.S. private sector in the industries/sectors relevant to the projects implemented. Those volunteers will sometimes be hired by for profit consulting companies in later projects. The idea of using project funds to establish and operate marketing centers is at least 25 years old and has been discredited for at least the past 10 years, because there are few if any known success stories, upon the termination of donor assistance. This is a matter of project design deviating from well-recognized*

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<sup>7</sup> International Rescue Committee, *Azerbaijan Business Assistance and Development (ABAD) Work Plan: Year 2, August 5, 2005 through August 4, 2006.*

best practices.<sup>8</sup> *Response: Although business/marketing center development has been discredited in some development circles, for good or for worse USAID continues to fund them in a number of countries. We would agree that business/marketing center development is a concept that has received a lot of criticism over the past ten plus years. However, there are examples of success stories where some of these centers with entrepreneurial leadership have achieved sustainability after donor funding has ended. There is also an argument for funding these centers where spin-offs result from center employees forming their own companies after project funding ends. A key issue, however, is whether those successful centers/firms can continue to provide support to small businesses which are less likely to either value those business services or have sufficient funds to pay for the full costs of those services. This debate continues in the U.S. and other western countries where small business assistance is frequently highly subsidized by governments at all levels and private foundations. A key issue is whether those sources of funds are available in countries where USAID works after donor projects come to a close.*

- The project apparently aims to make grants both to marketing centers and to clients for equipment, machinery and infrastructure. One example, a grant sufficient to cover 45% of a cold storage facility, is troubling because it should have been referred to the banking system. In another example, ABAD is making a grant to farmer for a power line to his mill.<sup>9</sup> Best Practices in business development have excluded such approaches for a long time because they do not lead to enterprise profitability without also distorting the market. They may also create the appearance of favoritism or, worse yet, corruption. ABAD should be directing entrepreneurs and the marketing centers to MFIs, NFBIs or commercial banks. *Response: We agree, although some cases of grants use by RECP and ABAD viewed by the evaluation team seem to have value. Please see the sections in the report on findings and conclusions.*
- ABAD is also concerned with developing the leasing industry but no grant funds should be made available for either the lessor or lessee. The use of appropriated monies to establish a Rural Leasing Guarantee Fund is equally problematic and better left to the banking system and to the financial viability of the entrepreneurs' proposals. *Response: We agree that the grants made to the leasing companies by ABAD are questionable. A representative from CREDAGRO told us that they would have started their leasing program even if they had not received a grant from ABAD. Yet, USAID has provided funds to other leasing programs (as well as credit funds to banks and MFIS over the years) in other countries to get them up and running. The issue is whether or not this is a good use of USAID funds in Azerbaijan. It would have been better if USAID had conducted an assessment by an outside observer, e.g., a USAID staff specialist from Washington, DC, of the utility of the grants to the leasing companies prior to ABAD's grants being made.*

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<sup>8</sup> See the following compendium of best practices: Ernst, Ulrich, Marina Krivoshlykova, Donald Snodgrass, James Packard Winkler, *Enterprise Growth Initiatives: Strategic Directions and Options – Handbook*, Development Alternatives, Inc., for the Bureau of Economic Growth, Agriculture and Trade, USAID, Washington D.C. July 2004

<sup>9</sup> International Rescue Committee, *Azerbaijan Business Assistance and Development (ABAD), Semi Annual Report, February 5-August 4, 2005.*

- The activity on women and entrepreneurship appears to be empty of content. *Response: From the results viewed by the evaluation team, we tend to agree. However, the ABAD workplan for year two lists four tasks regarding the development of women entrepreneurship and USAID can determine at the end of year two if sufficient activity is evidenced.*
- The activity on community support for marketing centers is better left to soft projects like the Community Development project or abandoned all together. *Response: This is where IRC had previous experience on USAID projects in Azerbaijan. Interviews with one of the project designers revealed that USAID sought to encourage the development of community support for those business development centers in order to prevent potential conflict between the government (and government controlled sectors) and local private sector firms that might infringe on protected industries. It is not clear why the ABAD project has not put much effort into these community support activities, although activities in this area are also mentioned in the work plan for year two.*
- The activity on marketing center monitoring and evaluation is an effort to create MIS capacity that will not likely survive the end of USAID funding. *Response: This may be true, but USAID requirements for M&E systems (and other donor requirements) are often dropped at the end of project funding because the need for the data is primarily needed for USAID reporting purposes.*
- There is no mention of anti-corruption in the work plan. *Response: Did USAID ask ABAD to mention how they are addressing anti-corruption? If not, that is not usually mentioned, per se, in typical BDS or ag market development projects. If USAID would like to see all projects in the Azerbaijan portfolio discuss anti-corruption activities, it should be made a requirement by USAID. In the semi-annual report there is perfunctory mention of other related USAID projects, i.e. RECP, ABA-CEELI and Community Development but no tangible evidence of coordination. Response: We agree that little coordination appears to have taken place between ABAD and other projects, but this is a typical issue in most USAID missions and is usually a USAID officer function to make sure that coordination takes place between projects. The current coordination between RECP and ABAD appears to have taken place due to USAID staff encouraging it.*

## ANNEX 8

### SUGGESTED READINGS FOR USAID STAFF ON BEST PRACTICES

1. A recent workshop held in Cairo in January 2006 has a number of excellent case studies and presentations on best practices in linking farmers to markets via the global food chain.

Conference title: Regional Consultation on Linking Farmers to Markets – Lessons Learned and Successful Practices

Conference location and date: January – February 2006, Cairo, Egypt

Co-Sponsors: USAID; World Bank; U. of Ill – ACES; IALC; and IFAMA

Website: <http://www.globalfoodchainpartnerships.org/cairo>

Some suggested presentations:

(All of the following and more can be downloaded from the website cited above.)

Robert E. Lee *et. al.*, Linking producers to markets in Ukraine: An integrated agribusiness systems approach. (A 12-page paper).

Rao, P. P. *et. al.*, Linking producers and processors – Sorghum for poultry feed in India. (A 20-page powerpoint presentation).

Louw Andre *et. al.*, Regovernng markets: Integrating small-scale fresh produce farmers into mainstream agri-food systems in South America. (A 34-page PPT presentation).

2. ADB Annual Report. 2005. Value Chain. Conclusion and Policy Implications. Pages 96-104.
3. Bernet, T., Devaux, A., Ortiz, O., and Thiele, G. 2006. Participatory Market Chain Approach. (Document 25 of 33). IRDC Books Online. [www.irdc.ca](http://www.irdc.ca)
4. Hobbs, J. E. and Cooney, Ann. 2003. AFIA Specialized Livestock Marketing Project. <http://www.agr.goc.sk.ca/afif/projects/19980203.pdf> (A 7-page report with references).
5. An excellent report and handbook on best practices in enterprise development produced by DAI for the Economic Growth Office of EGAT can be found on the EGAT/EG internal website at [http://inside.usaid.gov/eg/reports/enterprise\\_reports.htm](http://inside.usaid.gov/eg/reports/enterprise_reports.htm)

6. Trienekens, Jacques and Beulens, Adrie. 2002. Innovation through international food supply chain development: A research agenda. Applied Information Systems Group, Wageningen University, The Netherlands. 12 pages.
7. USAID Agriculture Strategy – Linking Producers to Markets, July 2004.  
[http://www.usaid.gov/our\\_work/agriculture/ag\\_strategy\\_9\\_04\\_508.pdf](http://www.usaid.gov/our_work/agriculture/ag_strategy_9_04_508.pdf)
8. A number of useful documents, particularly dealing with value chain or subsector analysis can be found on the USAID Microenterprise Development website or Microlinks at  
[http://www.microlinks.org/ev\\_en.php?ID=9651\\_201&ID2=DO\\_TOPIC](http://www.microlinks.org/ev_en.php?ID=9651_201&ID2=DO_TOPIC)
9. For general reference and documents related to USAID projects at a website that is updated monthly, see the USAID Development Experience Clearinghouse site at <http://dec.usaid.gov>
10. A good source of information for value chain/subsector analysis can be found at the website of the Action For Enterprise website, an organization that specializes in value chain/subsector analysis and BDS market development  
<http://www.actionforenterprise.org/index.htm>

## ANNEX 9

### Notes on Field Visits with RECP and ABAD Clients

#### **ABAD** (Azerbaijan Business Assistance & Development program)

##### **Bakery/Lenkoran**

The woman who owns the business started the operation in February of 2001 as a small operation with limited capital. She kept reinvesting funds and now five years later she ended 2005 at \$115,000 in sales, which is a \$70,000 increase over previous year.

The MC (Marketing Center) found a new buyer, resulting in the majority of the sales increase. She has been renting an electric oven for the last five months in order to keep up with demand. Since most of the additional profit goes to pay oven rent and electric utility, the MC has assisted in the search for a quality oven to purchase (from allowable countries). A contract to purchase a new \$20,000 oven has been signed with a 50:50 cost share in the form of a grant. The expected lifetime of the new oven is 20 years.

She has fewer employees now than with the former labor-intensive oven. The total number of full time employees is 12, which includes twice per day delivery to local restaurants.

Her former employment was inventory control in a state-owned operation located in the building from which she now rents the space. She wanted to provide employment for others and stable income for herself.

The two main problems they initially faced were (1) poor quality flour and (2) erratic electrical supply. They now have a steady supply of good quality flour contracted, and the change from electricity to easy-to-obtain gas or diesel for the oven assures quality and sustainability.

Observations: The MC assistance sped up the processes for this business by (1) finding new buyers, (2) finding new flour sources to pursue, (3) resourcing a new oven, and (3) providing half of the investment with a not-to-be-repaid grant. The quality of bread locally improved, the business became more sustainable, yet the employment numbers did not increase.

##### **Alfalfa Producer/Lenkoran**

This operation managed several businesses, including a lumberyard and a local storage area, in addition to the alfalfa enterprise. They have had a small acreage of alfalfa for years, but harvesting was their limiting factor.

The ground produces about 32 tons of alfalfa per year in five cuttings and they get paid about 10,000 AZ monat (~\$2) per bale. There is a wholesaler in Baku with extensive

storage facility (30 tons), who will take their entire production. About 50% of the local farmers produce alfalfa, as there is high demand, and the prices are encouraging.

The main problem they faced, when the MC representative approached them with assistance, was the inability to get more than three cuttings per year due to the lack of available harvesting equipment for use on the area alfalfa fields. The MC helped resource a new harvester for them, thus they can now get five cuttings yearly on the flood-irrigated land.

Observations:

The annual yield of 32 tons per hectare is a realistic yield on irrigated land. Since this diversified operation had capital, all they needed from the MC was a network which could assist in finding a much-needed piece of harvest equipment.

**Astera Tea Processing Company/Lenkoran**

This small operation is located in a Soviet-era plant, which was privatized four years ago, with the operator owning 90% of the shares. They only have enough tea to utilize less than 15% of the processing capacity.

They were buying unsorted tea locally, partially processing it, yet not obtaining the quality the current world market expects. By getting a more precise sorting machine they can easily increase the value by 50%. Being cash-poor the MC supplied a 50% cost share grant of \$4,000 to speedily increase profitability and hopefully sustainability for them and for the local farmers they buy the green tea from. They have a permanent staff of 20 and will add 30 more once the new machine becomes operational.

Observations:

They are raising the bar on quality (for themselves and from their supplying farmers). They are improving local employment. The seed-money should assist them making more profit sooner, so they can buy a modern packaging machine in order to buy more, process more, and get better paid for quality.

**Elvin-2 Potato Grower and Processor/Lenkoran**

This farm started in 1992. Over the years the owner has improved his quality of potatoes, and he now also supplies seed potatoes to neighboring farmers so they can grow the same variety, and he can process and sell more at a higher quality, thus helping everyone involved.

He has several other business ventures along with the potato growing/processing operation. He is a seed importer and distributor, he has an egg incubation business to keep employees occupied during out-of field time (although it is currently closed due to AI – Avian Influenza); and we learned upon leaving that he owns two prominent corner business buildings in town, too.

They have 33-45 seasonal employees, six permanent, and will add 6-10 more once cold storage gets operational. In 2005 he grew 300 tons on his own 12 hectares, and purchased an additional 2,000 tons locally.

By working with the MC on supply-chain issues, he discovered the availability of grant funds. He has just received a \$20,000 grant for the purchase of a \$45,000 cold storage facility for potatoes, grapes and vegetables (in order to get year-long utilization). He started with USAID projects when ACIDI/VOCA ran demonstration plots of drip irrigation on his farm. His yields improved from 35-40 tons/ha to 65-70 tons/ha via the drip irrigation program, so he knows the value of learning from outside experts.

Observations:

He probably did not need the grant, even if he makes good use thereof and increases employment. He is a savvy entrepreneur, who has left his engineering days at the state farm behind, and embraced the new era. He is the kind of innovator and thought-leader new programs like ABAD need to utilize to the fullest in getting the positive ripple effect of change.

**Hasally, LLC Beef and Dairy Farm/Lenkoran**

This operation started less than two years ago with the purchase of 240 ha of farmland and the conversion of a state-farm huge building shell into a place housing about 100 beef and dairy animals. (They also have sheep on the hills and fish in a dammed up pond). Two brothers, with no animal husbandry training, started the operation and have 6 employees.

They receive technical assistance thru the MC specialist, who has a veterinary/animal science degree. Additionally, the MC-established service provider provides artificial insemination services, upon request and upon payment.

Observations:

Not much about this client made any sense, however the questioning would have been too indiscrete. Obviously, the MC provided both facilitation and business services.

**Hazelnut Processor/Zagatala**

Three years ago the two partners purchased an old state farm cattle barn, fixed it up and converted it to a hazelnut drying, processing and storage facility.

They pre-dry the nuts on the large floor surface, and then dry them in an oil-furnaced dryer prior to breaking of the shells and mechanical sorting by size. They sell primarily to a wholesaler in Baku, who assists with financing, too. They can dry 2 tons per day; and they do have a quality assurance system of laboratory sampling in place.

Observations:

This relatively low-budget, sorted (but not hand checked for quality), bulk processor of hazelnuts can profitably produce up to 400 tons of nuts per year.

### **Pari Galasy Mineral Water Processor/Zagatala**

This owner has other businesses, like flour milling and is soon to enter the hotel business, as well. Four months ago he rented space in an old huge perfume factory where he processes the mountain spring water from a spring on the property of his flourmill.

The bottle 10,000 liter bottles per day with six persons currently, and expect to need 15 persons once the summer high-volume season starts. The water is cooled, gas is added, and the bottles capped, prior to the label being affixed by hand. Their current largest cost is the transportation cost (\$300/truck load) to Baku, where the demand is continually increasing.

The owner is director of the Zagatala Enterprise Association. As financing in the rural area is difficult, he was fortunate to receive a loan from a new local bank established by CredAgro (via VOCA). He spoke highly of the assistance provided by the ABAD business advisor.

#### Observations:

The label, which he had designed in Baku, is very attractive on the blue bottle. However, when reading the label claims one had to be astonished: It claimed to cure colitis, and a number of other intestinal ailments. The claims were not research proven, yet due to weak labeling laws, acceptable.

### **Perfume Manufacturer/Zagatala**

This person was running an old-fashioned perfume factory in part of the old Soviet-era factory where he was director. Due to the low quality bottles, raw ingredients, and labels, he was only able to sell perfume at the local markets (very cheaply).

#### Observation:

This one tried to be a modern entrepreneur, wishing to be an international exporter, yet had not made the change (mentally or physically) to meet today's market needs.

### **Azuga, LLC Hazelnut Processor/Zagatala**

This entrepreneur built the entire large processing and storage facility from the ground up. The appearance is exceptional, the workers wear uniforms and head covering, and it is clean everywhere. He began small in 2001, expanded as cash became available, and is continuing to expand the quality and services provided. He wanted to be independent!

Currently they have two tanks, which allow them to dry 38 tons of nuts per day. The season is from September thru March when he has 50 people employed; during the off-season 15-20 folks are working on repair, maintenance and shipping.

They produce about 1,000 tons per year and sort them into three sizes. He has exported 400 tons to Europe. Although Turkey has the major market share, his nuts have higher oil content and he believes his quality is better, too. The local farmers are happy to supply him nuts as he pays in advance.

He is planning to diversify operations three ways: grind the smaller nuts and sell as ground nuts with higher value; extract hazelnut oil as value added medicinal grade; and add a candy factory (around the nuts), too.

Observations:

It was eye opening to see how world-market competitive this producer had established himself in five short years. He is very quality conscious. And, he really appreciated the help from the MC in finding buyers and root stock. There were concerns expressed about government employees affecting his ability to compete (that we were asked to not share). He did elaborate on the lack of quality assurance laboratory available, since they last year had problems with aflatoxin because the farmers over-fertilized with nitrogen. The excess nitrogen kept the nuts from being fully ripe at normal harvest time.

**Shabran-D, LLC BioHumus Producer/Guba**

The owner used to work in the stock market. After studying for eight months the marketing, technical, and production issues of organic bio humus production via California Red Worms, he started the operation with money saved, plus loans from family and friends.

The total investment was \$52,000. He did receive an \$8,000 grant from MC to purchase a large quantity of California Red Worms. He is the only producer of biohumus in the country. Currently the sales go to greenhouses. His business forecast is to double in sales each year. He walked into the MC and asked for assistance. Currently he has six employees but expects to need 20 fairly soon.

Observations:

This is one of those innovative ideas that may justify a small grant, when the producer otherwise raises the majority of the capital himself. He was an exciting younger savvy businessman who wanted to go for the opportunity to produce something organic that will have the potential to revolutionize much production in that country.

**RECP (Rural Enterprise Competitiveness Program)**

**Optimal Cucumber Canning/Lenkoran**

The operation started in 2001 in an old former state-owned facility. They have two production lines, one for tomato paste and one for cucumbers. Their primary season is from May thru November, starting the season with cucumbers and later with tomatoes.

During the off-season they sell product, repair, upgrade facilities, and buy jars. They have from 30 to 50 employees, whenever the seasons dictate. The quality control concerns are addressed by sending representative sample to the state-owned Lenkoran Sanitary Center.

The MC assisted him with a 5-year business plan, whereas he personally did his financial plan. What lessons did he obtain from the MC representative – an association with a representative who has business knowledge and a network of contacts is “invaluable.”

Observations:

This appeared to be a quality outfit, marketing under a well-designed label.

**Lyuks Canning Factory/Lenkoran**

The former state-owned canning enterprise was purchased in 2002. The canning-inexperienced owner wanted to make easy and good money, yet found this a very hard way to make a living.

They have 120-130 employees in three shifts during June to August for the tomato processing, then the staff continue with green bean canning in September-October. The capacity is 1,000 tons of tomatoes per day, which is packaged in salt-brine in 200 kg vats, for later reprocessing and canning, based on customer requests.

What kind of assistance have you received from MC? I have worked with them since the summer of 2003; they helped me get new jars and lids, increased sales, and helped in attending trade fairs. Our former markets were Russia and Georgia; we now export to Ukraine and Moldova, too. Our production has increased by 10% the first year and by 20% last year.

Getting highly subsidized opportunities (90%) to attend trade fairs in Moscow and Ukraine have been very helpful. There were six of us exhibitors who shared a booth at the Moscow Food Fair.

The two primary lessons learned via MC contact are (1) quality requirements, and (2) value of advertising.

Observations:

They had three levels of quality grades under three different brand names and sold at three different prices and three different concentrations (30, 20 and 15% Brix). Although he could not explain the differentiation well, at least he is trying a common marketing approach. I was suspect of his business ethics. He did have his own trucking line, too.

**Chinar Fruit and Vegetable Processing Co./Lenkoran**

This organization owns petroleum, gas stations, and for the last three years been in the processing business. They built the entire large processing facility with numerous buildings from the ground up. Currently they sell in bulk; however their next step is to diversify into smaller package sizes. The reason for getting into canning was, "dad bought a farm in his retirement, and we need to support his efforts." They currently sell 80% of our products to Ukraine as aseptic tomato paste.

When asked what the MC had done for them, he replied, "They have been very helpful with equipment ideas and with customers." We met them two years ago when they started the well-publicized center. We have started on the business plan with them.

They have 80 employees during the canning season. Our only constraint is the government. We took out a \$100,000 loan to build the facility four years ago. He regularly attends Trade Shows in Ukraine.

Observations:

When you have collateral and connections, you can get sizable building and production loans in Azerbaijan. This operation does not need funds, they need ideas and thereby are able to raise the bar on quality produced, as well provide many jobs (seasonally).

**Puffed Corn Production/Sheki**

Two years ago they rented space to start the business; he is now in the process of buying both office and warehouse space for the expanding businesses.

He used to be a cattle farmer, however when a Georgian friend suggested he diversify, he purchased the initial equipment for \$6,000. They are looking at some Turkish equipment to take them to a higher level of production and portfolio. They produce primarily puffed corn, however the by products are sold as chicken and beef feed. Next they'll add pasta production from locally produced hard wheat. Eventually, they hope to make enough money to purchase a \$40,000 piece of potato chip making machine.

The client was referred to the MC by the Ministry of Agriculture. The MC has helped immensely by helping find supply of good quality corn and wheat; finding new long-term buyer; finding better quality and cheaper brand-name bags; and discussing business principles.

They currently produce up to 5,000 packages per day with 15 employees.

Observations:

This entrepreneur appears to really have learned the value of using technical/business consultation, the value of product-extensions, and the benefit of a diversified portfolio.

**Ballakan Canning Company/Zagatala**

This joint-stock company is based in a refurbished old canning factory from 1966, which stopped production in 1994. They started in 2002 to repair and rebuild and in 2004 they started working with the AAC representative. He helped them look for: source of boiler, refrigeration repair source, took us to international business conference in Baku, helped find sterilization equipment, information on storage, as well as helped them design a website.

They have attended both Moscow and Kiev trade fairs. Their annual production is 5 million jars or bottles of juice, and one million canned containers. They are very interested in Tetra-Pak, and will be on the outlook for a second-hand machine. They have attempted to make tomato paste, however so far the results are not very promising. The plant employs 69 persons.

Observations:

They had done a very nice job of refurbishing and refitting the old plant into new grandeur, and they are striving for aseptic production facilities. This was the first and only place where they had hired a technically trained business operations manager to oversee the daily production and quality control.

### **Hazelnut Processor/Zagatala**

In a different building on the same old plant (above) they had hired a Turkish tradesman to come and build a completely automated processing facility with capacity to produce 400 tons of finished nuts per year.

During the three-month processing season they employ 115 women in two shifts to sort the nuts prior to bagging and export to other former Soviet countries.

#### Observations:

Obviously someone left a fortune for these two young men to set themselves up in modern business facilities. And they seemed to really want to make HACCP and ISO 22,000 work in their operations, in order to prove their quality being superior.

### **Khacmaz Sud Dairy Processor/Guba**

The milk processing plant was owned by a local government official. Since it has ample funding it is only one of five local dairies that actually pasteurized the milk.

One of the major suggestions from the MC representative was the need for milk cooling in the warmer months, which was accomplished via an old refrigerated truck container. They were trying new ventures, like a vacuum packaging machine for white soft cheese and had purchased a used yogurt-making machine, which was not yet operational.

#### Observations:

Guess we take it for granted that all milk sold is pasteurized. It appeared that the ideas from the MC representative were well received and incorporated as funds permitted.

### **Aygun Carpet Factory/Guba**

The owner of this carpet factory, which produces carpets using traditional Guba standards and quality, is the first woman entrepreneur in Azerbaijan. She educates young girls in the art and science of weaving, then provides them jobs in her mill, and once they graduate they set up shop in their own homes.

She built it with her own capital so growth has been slow. Currently she has 50 employees working on 14 looms. (Additionally 8 looms are in the home of graduates). Last year they produced 120 square meters; and expect to do 200 this year. She has many great ideas for bringing back the original art, colors and patterns, including growing the colorful herbs in her own greenhouses.

#### Observations:

It was nice to meet an Azeri person who appeared engaged in her work, who was trying to coach and teach young people, and who wanted to produce exceptional quality work.

She is experiencing competition from another carpet factory in Guba owned by another woman who appears to have greater marketing acumen. RECP is also assisting the other carpet factory. It will be interesting to observe