



Armenia Agribusiness SME Market Development Project

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Work plan

Year 3

October 1, 2002 – September 30, 2003

Prepared by:

Development Alternatives, Inc

For

USAID - Armenia

Submitted: September 2002

Armenia Agribusiness SME Market Development Project (DAI-ASME)

YEAR 3 Work Plan

October 2002 – September 2003

Highlights through Year 2:

- DAI-ASME has assisted over 100 Armenian agribusiness firms with ongoing technical and financial assistance, including 15 women-owned/managed firms;
- DAI-ASME assisted firms increased their export and domestic sales by over \$9 million as a result of project interventions. Seven firms have entered into sales relationships with international clients;
- DAI-ASME consultants completed 26 market related studies identifying prospects for exporting Armenian products to CIS countries, the Gulf, Europe, and North America and sector-specific analyses covering a wide range of Armenian produced products such as cut flowers, wood products, specialty processed fruits and vegetables, fish and crayfish, honey, herbs and tanned hides;
- DAI-ASME initiated a cost-share grant program that has provided \$220,000 to 36 companies for support of their marketing activities and production upgrades.
- DAI-ASME has laid the foundation for the establishment of a commercially operated equipment leasing company;
- DAI-ASME has established working relationships with 27 local business service providers who provide services supporting the agribusiness community; and
- DAI-ASME has stimulated over 150 SME interventions to identify constraints and impediments that inhibit the ability of Armenian SMEs to operate in a fair and effective business environment.

Contract Modification:

The activities described in the Year 3 work plan are tied to the proposed Contract Modification that has been submitted to USAID-Armenia for consideration. DAI has proposed a number of changes to benchmarks that serve as objectives for DAI-ASME efforts. It is not proposed to change the original purpose of the project and the five core technical components of the project continue to be essential to the success of the project. However, mid-way through the project is an appropriate time to review the benchmarks established at the beginning of the project and to revise some of them to reflect the lessons learned during the first two years of implementation, the accomplishments of the project to date, as well as the current situation in the Armenian agribusiness sector.

The core benchmarks that measure the overall effectiveness of DAI-ASME, domestic and export sales increases and job creation, are not changed. Within the two technical components, Service Components #1 & #2, that form the essence of what USAID and DAI-ASME are attempting to achieve, the modifications entail revising several benchmark targets upward and clarifying others as to what is being measured and how it is measured. For Service Components #1 & #2 there are no substantive modifications proposed.

The majority of proposed benchmark changes are for Service Components #3, #4 & #5 – service components that support the primary marketing-based technical assistance efforts covered by Components #1 & #2. Service Component #3 addresses the financial assistance efforts provided by DAI-ASME to support the agribusiness community achieve its goals of increased sales and new job creation. Originally DAI-ASME intended to use equity funding and loan guarantees to support its development efforts and the original benchmarks reflected activity in these mechanisms. However, it was determined by USAID that these mechanisms were not appropriate for DAI-ASME. Responding to this determination, DAI-ASME has developed a cost share grant mechanism and is supporting the development of a commercial lease company. The proposed benchmark changes for Component #3 reflect this re-direction of DAI-ASME's financial component.

The focus of Service Components #4 & #5 is to develop sustainable support for the agribusiness community by providing market related training to SMEs, instilling the capability to provide continuing technical assistance from local BSPS (Component #4), and creating mechanisms to develop and maintain a favorable business environment (Component #5). Neither the local BSP community nor local agribusiness associations have evolved to the capability levels anticipated in the original benchmarks. DAI-ASME is not abandoning the objectives of these components, nor is it foregoing use of BSPs or associations, rather it is expanding its efforts to include additional mechanisms in order to develop the support needed by the agribusiness community. The proposed revised benchmarks for Components #4 & #5 reflect this expanded effort.

Summary of the Year 3 Work Plan:

The Year 3 work plan for the DAI-ASME Project covers the time period from October 1, 2002 through September 30, 2003.

This third year's work plan builds directly off DAI-ASME's experience during its first two years of field operation. The focal point of DAI-ASME will continue to be Service Component #2, "SME Development and Expansion". Supporting this Component will be efforts to: identify and analyze export and domestic market opportunities (Service Component #1); develop linkages between agribusiness entities and various financial mechanisms (Service Component #3); provide impact-oriented training and develop commercially viable business service providers to support the agribusiness and SME community (Service Component #4); and identify policy issues that impede a business' ability to operate in a legal and efficient manner (Service Component #5).

As DAI-ASME progressed through its Life of Project, more of the Project's activities are directed toward reinforcing and refining assistance efforts provided in the initial two years. While basic level marketing assistance will still be offered to those firms in need, more market intense efforts will be designed and provided to selected firms that have begun to adapt to the demands of a market-based situation. While assistance will continue to be

broadly offered to all firms through invitations to workshops and training activities, distribution of market studies and involvement in policy advocacy efforts, more intense interventions will be provided to a limited number of firms that realistically have the ability to expand their marketing opportunities and stimulate the growth of Armenia's economy. As DAI-ASME enters the second half of its life, by concentrating a majority of its efforts on firms that have demonstrated their willingness and capability to apply market oriented attitudes and approaches, the Project will maximize its achievements and provide USAID with the maximum return on its investment.

Examples of activities that will receive significant attention and resources in the coming year include:

- intensive hands-on assistance from DAI-ASME staff and consultants (expatriate and local) to individual firms in order to strengthen their market access abilities;
- market tours where Armenian businessmen/businesswomen can meet face-to-face with prospective buyers;
- attendance at selected international trade fairs where quality products can be displayed, relationships established and buyer contacts made;
- emphasis on food safety activities such as HACCP review and ISO certification so that firms can qualify for export opportunities;
- expanded financial assistance via cost share grant availability and the creation of a commercial leasing company;
- additional training activities such as refinement of branding and packaging techniques that will allow firms to strengthen their market positions;
- support for infrastructure development such as analysis of the country's cold chain system that currently inhibits fresh and processed product movement;
- assistance for sectors to organize their activities in a manner that benefits both the sectors and individual firms that make up the sector; and,
- support to address issues that constrain the ability of businesses to operate in a fair, transparent and competitive manner.

Continued emphasis in this year's activities will be given to Women In Development (WID). Although there are very few women-owned or managed agribusinesses in Armenia, DAI-ASME has identified several that have the capability to expand their efforts and help grow the Armenian economy and demonstrate that, given proper support and access to resources, they can operate as successfully as any other business.

Coordination:

While the DAI-ASME Project is a distinct project supported by USAID, it will, where practical, coordinate its activities with, collaborate with, and complement the efforts of other USAID sponsored activities and those sponsored by other donor organizations that further the development, strengthening and expansion of Armenian Agribusiness SMEs. As it has done in its first two years, DAI-ASME will take advantage of the volunteer network offered by IESC and ACDI-VOCA. DAI-ASME will also continue to coordinate efforts with USAID funded projects implemented by ARD (revitalizing the tanning industry), AED (providing needed training opportunities for agribusiness), the Legislative Strengthening Project (creation of a favorable business environment) and other projects with which the efforts of DAI-ASME can be synergistically leveraged.

DAI-ASME will continue to seek support from U.S. Peace Corps volunteers in developing efforts to assist local populations develop commercial activities. DAI-ASME will also look to support USAID efforts in the Earthquake Recovery Zone as well as elsewhere where USAID and the US Government have targeted specific assistance.

DAI-ASME will continue to work close with USDA's MAP effort to create and implement development efforts targeted at Armenian Agribusiness SMEs. To that end, DAI-ASME and USDA-MAP will:

- Freely exchange information on each other's activities including, but not limited to: agribusiness firm contacts; area of a firm's interest in assistance, either technical or financial; availability of resources that each activity can offer to the other's effort; and other information that will avoid duplicative efforts and increase the coordinated implementation of each program;
- Look to identify areas where each activity can offer complementary assistance to that being provided by the other to increase the overall effectiveness of USG assistance;
- Meet on a regular basis so information can be exchanged and coordination of activities can be discussed. Information exchange and coordination efforts will be an ongoing, continuous activity. As such, communication (telephone calls, ad hoc meetings, e-mails) between staff will occur on a regular, 'as needed' basis.

Furthermore, DAI-ASME and USDA-MAP will work together to create an active network of donor-sponsored organizations working on agriculture, agribusiness and related program activities by sponsoring coordinated site visits and a means for continuous information exchange.

Organization:

The work plan is organized according to the five Service Components presented in the original DAI proposal, as summarized in the "Results Framework" (Figure 2) of the proposal.

BACKGROUND

DAI-ASME seeks to increase revenue, profitability, and employment in the agribusiness and related sectors of the Armenian economy through a set of market-driven interventions targeted at selected SMEs.

Agribusiness development faces a large number of the same constraints encountered by all SMEs in Armenia. The most fundamental barriers to agribusiness SME development lie in limitations of the domestic/export markets and, in those cases where identified markets do exist, lack of expertise in exploiting them. The Armenian domestic market is relatively limited due to the country's small size and lack of purchasing power. Gaining access to export markets is costly due to high transportation costs associated both with being landlocked and with the current Turkish border situation.

Local expertise in identifying and exploiting a constrained export market and growing the domestic market needs to be developed and supported. DAI-ASME will provide assistance to overcome impediments such as: lack of market and standards information; lack of technologically current, high quality processing and packaging materials; inadequate product development skills; problems with quality control; inability to accurately utilize cash flow analysis and/or identify unit costs of production; and, lack of experience in advertising and promotion.

Agribusiness is one of the more promising sectors of the economy for growth in employment, income and business investment in both the near and medium term. DAI-ASME is a major step towards increasing private investment and subsequent jobs and incomes at the grass root level. Towards this end, DAI-ASME will identify key agribusiness growth areas, review and address constraints to increase private sector investment in agribusiness SMEs, and design and implement concrete market-driven activities in both agribusiness and other supporting sectors to exploit market (profit-making) opportunities.

Service Component #1: Market and Demand Analysis

Overview

Service Component #1 is designed to provide in-depth knowledge of market demand in potential export markets including CIS countries, the Gulf States, the Caucasus, Middle East, Europe, and North America, as well as, knowledge of market demand within the Armenian domestic market. In its third year year, DAI-ASME will continue to conduct ‘market demand studies’ of specific Armenian food and agricultural products that define export market and import competition opportunities.

In undertaking Service Component #1 activities, the major focus will be to:

- identify viable international and domestic agribusiness markets and examine business opportunities and constraints that Armenian agribusiness need to be aware of in order to respond to changing market and profit opportunities;
- vertically link profitable export and domestic markets for agribusiness products to Armenian agribusiness processors and their downstream wholesalers, distributors and traders; and,
- enhance and complement existing donor SME development activities (including USDA) as needed to accomplish USAID goals and objectives and to avoid redundancies and overlaps with USDA and other donors/practitioners that have similar goals and objectives.

Year Three Activities and Expected Results:

Agribusiness market demand studies:

- 5 sector specific market demand studies will be undertaken to determine possibilities for market entry and/or expansion. Studies currently programmed include: fish roe extraction and processing, hive health and honey marketing and pre/post harvest handling of cut

flowers. Additional studies will be designed and implemented dependent upon the need of the agribusiness community.

Supply/Service sector studies and cross-sector efforts:

- 5 supply/service studies and/or cross-sectorial efforts will be undertaken to support increasing the marketing capability of agribusiness firms. Studies currently programmed include: cold chain development, packaging, improvement of tree and vine pre/post harvest cultural practices, and intensive branding development.

Countries covered by international market studies:

- 3 countries will be the subject of a geographical-based study to be undertaken in early 2003 to determine possibilities for market entry and/or expansion. Countries to be studied are: Jordan, Lebanon and Syria. These countries contain sizeable numbers of Armenian Diaspora who, along with indigenous populations that share many similar food preferences with Armenians, can potentially become significant markets for Armenian agribusiness products.

Countries covered by regional market studies:

- No additional studies are projected during Year 3, although if final resolution of the conflict between Armenia and Azerbaijan seems imminent within the coming year, an effort may be undertaken to conduct an in-depth analysis of opportunities for Armenian agribusiness in Azeri markets.

Web based market information system developed:

- The DAI-ASME web page is operating and serving the Armenian agribusiness community by providing needed market information. As well, the web page is providing valuable information on Armenian business and markets to interested parties throughout the world. The site will continue to be maintained and continuously updated during the coming year.

	Benchmark	Life of Project Total	Cumulative Total to August 31, 2002	Proposed Year 3 Total
1	Agribusiness market demand studies	25	16	5
2	Supply/Service studies and cross-sector efforts	8	3	5
3	Countries covered by international market studies	10	5	3
4	Countries covered by regional market studies	4	4	0*
5	Web based ,market information system developed	1	1	Maintenance

*A study of Azerbaijan may be undertaken depending on peace initiatives.

Service Component #2: SME Development and Expansion

Overview

Activities undertaken in Service Component #2 provide direct technical assistance to Armenian agribusiness firms, as well as to the supply and service firms that support the agribusiness community. Building off the development activities outlined in Service Component #1, DAI-ASME will continue to provide integrated technical assistance to seize market opportunities, as well as firm-level assistance for sustained impact in export market development and domestic market activity. These activities will continue to stress the importance of a market-driven “supplier” client response to potential buyers versus the more commonly held one-off “trader” mentality.

In undertaking Service Component #2 activities, major efforts will be to:

- continue to focus on a firm’s overall market development, including involving raw material suppliers and buyers of the processed production, to assure quality products, in sufficient quantity are produced and provided with timely delivery that satisfy market demands;
- increase utilization of market tours and trade shows to introduce client firms to prospective buyers with whom they can establish relationships that will result in on-going contracts;
- provide increasing attention to market development activities for women owned firms; and
- undertake environmental review of DAI-ASME provided interventions that have the potential to cause significant environmental affects.

Year Three Activities and Expected Results:

Agribusiness firms assisted and strengthened:

- Over its initial two years of operation, DAI-ASME has provided support to over 100 firms. In order to most effectively use DAI-ASME resources during the remaining years of the Project, beginning in Year 3 special emphasis will be given to those firms that have demonstrated potential for significant growth and the potential to benefit the Armenian economy. Assistance will continue to be provided through firm level hands-on technical assistance, information generated by sector-specific and geographic market studies, firm participation in training workshops and seminars, and firm participation in domestic and international trade shows and market tours.
 - While focusing on a selected number of firms who have demonstrated the highest growth potential, DAI-ASME will continue to identify other agribusiness firms that might also demonstrate similar potential. We expect to identify 15 new client firms during the coming year.
- Included in this year’s assistance efforts will be implementation of HACCP and ISO programs to further strength the ability of Armenian firms to access export market opportunities.

Supply and service firms assisted and strengthened:

- As with agribusiness firms, support for firms that service the agribusiness community will continue through hands-on technical assistance and their participation in training workshops and seminars. Viable local ‘support and service’ firms are critical to the development of a sustainable agribusiness community. As efforts in support activities such as branding, packaging, and cold chain facilitation are receiving heightened activity from DAI-ASME, we expect to increase the number of support and service firms assisted in Year 3 to 10 firms, 6 of which will be new firms.

Women owned/managed SMEs assisted and strengthened:

- An important subset of the total agribusiness firms assisted are firms that are owned or managed by women. DAI-ASME will continue to provide specific assistance and access to resources to WID firms to help them upgrade their capabilities. To date, 15 WID firms have been supported by DAI-ASM. An additional 3 new WID enterprises will be included in project activities in Year 3.

Trade shows & market tours attended and/or conducted:

- Through assistance provided by DAI-ASME, many of its clients are increasing their capability to enter and sustain export market activities. Important to accessing export markets is making contact with potential buyers and distributors and maintaining those contacts with ongoing relationships. During Year 3, DAI-ASME will support the participation of firms in 15 trade show and/or market tour events. (Note in several situations, participation at a trade show will be accompanied by the firm (s) also engaging in a related market tour.) Participation will vary from one or two firms to up to ten or more depending on the event. Timing is dependent on yet undetermined schedules but will exclude events in the Armenia, the Gulf, CIS countries, Middle East, Europe and North Americas.

New buyer arrangements for client firms:

- An objective of assistance provided by DAI-ASME staff and consultants as well as from their participation in trade shows and market tour events, is for client firms to make contacts that will result in new sales opportunities. In Year 3 increased activity in trade show and market tour participation, as well as an increased attention to those firms demonstrating the most significant growth potential, will enable client firms to develop a large number of export and domestic contacts, leading to an increased number of potential buyers. In Year 3, with the increasing market capability of DAI-ASME client firms resulting from assistance provided in Years 1 & 2 and the increasing network developed in Year 3, it is projected that 30 additional new buyers will begin purchasing product from DAI-ASME clients. Based on the Project’s experience, many of those buyers will develop long-term relationships with the Armenian firms, leading to increased sales into future years.

Build to \$10 million new annual domestic sales:

- As Armenian firms increase their capability to provide a larger quantity of high quality products on a continuing basis, they are better positioned to meet the demands of the local

market, displacing imported product. By Year 4, DAI-ASME efforts will result in increased domestic sales of \$10 million. Building to that goal, it is expected that Armenian firms will do \$5 million in new domestic sales in Year 3,

Build to \$15 million new annual export sales:

- Similar to domestic sales increase, as Armenian processors become more market adept and produce products demanded by the markets, their ability to access and sell into export markets will significantly increase. By Year 4, DAI-ASME efforts will result in increased export sales of \$15 million. Building to that goal, it is expected that Armenian firms will do \$7.5 million in new export sales in Year 3.

FTE jobs created, averaging \$500 annual payroll per employee – direct and indirect:

- Increased activity by agribusiness firms and those that support and service them will result in increased job opportunities for Armenians. Based on Year 3's projected activity, 2,500 FTE new direct and indirect jobs will be created as a result of DAI-ASME assistance efforts.

	Benchmark	Life of Project Total	Cumulative Total to August 31, 2002	Proposed Year 3 Total
1	Agribusiness firms assisted and strengthened	125	101	15
2	Supply and service firms assisted and strengthened	10	4	6
3	Women owned/managed SMEs assisted and strengthened	20	15	3
4	Trade shows & market tours attended and/or conducted	40	10	15
5	New buyer arrangements for client firms	85	30	30
6	Build to \$10 million new annual domestic sales	\$10 million	\$4.5 est.	\$5 million
7	Build to \$15 million new annual export sales	\$15 million	\$4.8 est.	\$7.5 million
8	FTE jobs created, averaging \$500 annual payroll per employee – direct and indirect	6,500	1,000 est.	2,500

Service Component 3: Linkages to Finance

Overview

Within DAI-ASME, finance is considered a facilitating activity for achieving the larger objectives of the project – increasing export and domestic sales and employment generation. Financial investments will be undertaken to facilitate or enhance the growth of agribusiness enterprises and to finance the implementation of technical improvements identified as part of the assistance activities provided under Service Components #2 & #5.

The two major activities originally designed into the project are:

- Activity 3.1: Link Armenian Agribusiness SMEs to Armenia's Financial System, and
- Activity 3.2: Implement Financial Support Program: Equity Fund, Loan Guarantees and Grants.

Activity 3.1 is supported by various financial and non-financial programs involving technical assistance. Technical assistance is provided to client firms both directly from DAI-ASME STTA, DAI-ASME staff and from sub-contracted local business service providers. The assistance ranges from direct and indirect assistance in various marketing and production activities (Service Components #1 & #2) to strategic planning and finance program development aimed at helping client firms to become more viable. DAI-ASME has also, at various times, intervened directly in introducing and supporting client loan applications to Armenian financial institutions and helping them to structure acceptable financial deals with those institutions.

Activity 3.2 has evolved greatly since the original conception of the project. With the removal of equity funds and loan guarantees from the list of viable financial tools in Year 1, the program did not really take shape or initiate significant client finance activity until the second half of Year 2 with the arrival of the new finance program director. All financial support activities are now managed through one form of cost-share grant or another. **In addition, the DAI-ASME team has assisted the USAID mission with the identification of opportunities to establish a DCA portfolio loan guarantee program to benefit DAI-ASME clients and other agribusiness companies. Our team will continue to assist with the design and feasibility analysis of this program as USAID may request and the facility, when implemented, will be a major asset to the overall DAI-ASME financial support program.**

Cost-Share Grant Types:

Four types of cost-share grants have been developed during the past several months. Three of them have been implemented several times during the past year and refined somewhat on the basis of that experience. The fourth type, to support specific capital leasing activities, will be implemented in Year 3. The four types of grants developed are briefly defined as follows:

Market/Product Development Cost-Share Grants are used to share the cost of client participation in various market tours and trade shows and the cost of various product development and testing activities developed and implemented under Service Components #1 & #2.

Operational Support Cost-Share Grants are used to share the cost clients incur related to the development of business and financial plans, quality management systems and other types of technical support developed and implemented under Components #1 & #2. A new program is being introduced now to work with qualified clients and local service providers to share client costs related to the development of quality management systems compliant with ISO 9000-2000 standards. In addition, operational cost-share grants are provided to SME support organizations such as trade associations and others that are engaged in supporting the development of the SME community

Capital Finance Support Cost-Share Grants – Other have been initiated to help companies obtain capital finance through non-lease sources, either from commercial banks, foreign direct investments, suppliers credits, etc. In some cases, where outside finance is not available, cost-share grants have been used to complement the client's own funds to complete a business project.

Capital Finance Support Cost-Share Grants – Leasing will be initiated in Year 3 as the commercial leasing company becomes operational. The objective of these grants will be to help clients gain access to, and make good use of, leased equipment. Grant funds will be used either to share the down payment client firms are required to pay or to finance related expenditures related to use of the leased equipment.

Commercial Leasing Company:

A great deal of progress was made in the past year in preparing the institutional foundation upon which the long-awaited commercial leasing company (ACBA Leasing) will be based. Legislation has been formally adjusted, a Register of Movable Property has been established in the Office of the State Cadastre and the investment partners have agreed on their respective roles in the enterprise. Last minute problems in the mechanism by which DAI-ASME intended to provide technical/management support to the company caused a final delay. That problem has now been resolved and the company is anticipated **to be ready for launch in February 2003**. We expect it to be fully operational by **April** of 2003 and have projected the use of related capital finance support cost-share grants to support specific lease deals.

Operational support for establishment of the leasing company itself is projected at the level of \$1,200,000 during the remaining two years of the DAI-ASME project. The majority of these funds, approximately \$700,000, will be used to contract professional management personnel to guide the start-up of the company and to cover certain direct costs related to the start-up. The balance, approximately \$500,000, will be provided to the leasing company as grants to finance the direct purchase of equipment to be leased in compliance with normal U.S. Government procurement regulations.

The revised timetable for initiating leasing company activities is as follows:

ACBA Leasing Co.- Implementation Timetable	
January 2002	Final decisions by shareholders (Credit Agricole, ACBA, IFC) and other stakeholders (DAI, USAID, French Government)
February 2003	Corporate Registration Completed Staff Recruitment
February-March 2003	Staff Training Systems Installation
March 2003	Public Launch Receipt of First Lease Proposals
April 2003	First Lease Deal Signed

Projected Benchmark Table -- Service Component #3

Benchmark	Life of Project Total	Cumulative Total to August 31, 2002	Projected Year 3 Total
<i>Market/Product Development Cost-Share Grants – Study Tours, Trade Shows, Product Development, etc.</i>			
Number of Grants	120	51	30
Value of Grants	\$100,000	\$18,825	\$30,000
Number of Companies Assisted	50	28	11*
<i>Operational Support Cost-Share Grants – Business Plans, Quality Management Systems, Technical Support, etc.</i>			
Number of Grants	50	14	20
Value of Grants	\$100,000	\$8,557	\$40,000
Number of Companies Assisted	20	13	7*
<i>Capital Finance Support Cost-Share Grants – Commercial Loans, FDI, Supplier Credit, Other</i>			
Number of Grants.	50	9	20
Value of Grants	\$1,400,000	\$208,995	\$560,000
Number of Companies Assisted	30	9	15*
<i>Capital Finance Support Cost-Share Grants – Leasing</i>			
Leasing Company Operational Support	\$1,200,000	0	\$1,000,000
Lease Leverage Support			
Number of Grants (Leases Leveraged)	50	0	15
Value of Grants	\$1,000,000	0	\$300,000
Number of Companies Assisted	40	0	15
<i>Other Benchmarks</i>			
WID Firms Receiving Financial Assistance through DAI-ASME	5	1	2*
Joint Ventures Established	3	1	2
Total SMEs Receiving Financial Support	65	41	21*

* The projected number of companies for Year 3 only includes new companies that had not previously received a grant in the respective category.

Service Component #4: Skills Development and Information Dissemination

Overview

Service Component #4 is directed at providing impact-oriented training to the SME community and developing commercially viable business service providers (BSPs) who will have the sustainable capacity to provide market-based technical assistance to Armenian SMEs and specifically to agribusiness SMEs.

The overall strategy for Service Component #4 is to provide SMEs training activities and to build the skills and capabilities of local BSPs through a multi-channel process that complements the overall DAI-ASME objectives. DAI-ASME uses several principle tools to deliver market-based training to the SME community and to support development of the local business services industry.

- direct training through workshops and seminars given by DAI-ASME STTAs, DAI-ASME staff, and/or local BSPs are regularly undertaken to provide SMEs the know-how needed to operate in a market-base situation;
- BSP skill capability is upgraded through these trainings in two distinct ways: 1) by participation in appropriate sessions; and 2) by providing the training and thus gaining experience in the subject matter being presented.
- performance contracts negotiated with BSPs, which provide a competitive mechanism to facilitate interaction between BSPs and SMEs, are implemented under the direction and experienced guidance of DAI-ASME staff;
- mentoring situations are designed to provide a partnering of international and local consultants in the delivery of services to the SME community; and,
- professional evaluation by DAI-ASME of services (including trainings) delivered by BSPs that enable the BSPs to upgrade their efforts by incorporating reviews and comments provided by the evaluation.

As the DAI-ASME project matures and the capabilities of local BSPs grow, more reliance is being placed on BSPs to provide the market based technical assistance and training that the SME community needs for it to fully access international markets and further develop the domestic market. The activities proposed in Year 3 reflect this increased reliance on BSPs.

Year Three Activities and Results:

Capacity Building Agreements (CBAs):

- As of August 2002, DAI-ASME has signed CBAs with 27 local BSPs, of which 6 are with women owned/managed firms. Signing a CBA indicates that a BSP is willing to cooperate with DAI-ASME in upgrading its skills and makes it eligible to participate in DAI-ASME sponsored activities.
- As the market develops, new BSPs are being formed. And as the availability of strengthening assistance opportunities provided by DAI-ASME becomes more widely known, additional BSPs will seek to form alliances with the Project. During the coming year we anticipate adding several more BSPs to the list of cooperating entities. There is the possibility that the number could grow high, but for the Project to be effective in providing strengthening activities and to not spread its resources too thin, DAI-ASME intends to cap the number of involved BSPs at 30.

BSP capacity building activities:

- An element of the DAI-ASME/BSP relationship involves upgrading the capabilities of the local BSPs to more effectively provide assistance to Armenian SMEs. However, for the most part, local BSPs seem content that they have developed to a level where they are comfortable in the type and level of service they provide and do not see a need to upgrade or expand their skill base. While BSPs are reluctant to individually enter into participating in a strategic skill upgrading plan, we have been able to encourage them to take part in DAI-ASME sponsored group activities, some of which are cost shared. By engaging the BSPs in 'capacity building activities' such as workshops and training sessions designed specifically for BSPs, offering them opportunities to mentor at the side of seasoned STTAs, and participation in performance contracts under the guidance

of DAI-ASME staff, we have been able to upgrade their skill capabilities. By taking a different tact, the originally anticipated goal of upgrading the local BSP capability is being achieved.

- During the coming year, DAI-ASME will sponsor 20 activities geared toward upgrading the capacity of BSPs to better service the SME community. Activities to be undertaken include:
 - in October, a DAI-ASME STTA will work with BSPs to improve the management of their organizations in order for them to better deliver a high level of service in a competitive manner. In addition to holding general workshops for all cooperating BSPs, the consultant will work intensively with 5 to 7 individual firms. If the intensive effort proves successful and is well received by the firms, the STTA will be asked to return for further work with additional BSPs.
 - For selected STTAs, DAI-ASME will offer ‘mentoring’ opportunities for BSPs. These opportunities offer BSPs the potential to learn new skills and services or upgrade their existing capabilities, by which, in turn, they can offer services of higher value to their own clients. During the coming year, branding and packaging STTAs will provide ‘mentoring’ opportunities.
 - In addition, specific trainings dedicated to BSPs will be offered by STTAs and DAI-ASME staff on topics such as food safety, competitive pricing, export market development and other topics of general interest. BSPs are also invited to participate in topic specific trainings and workshops held on behalf of the SME community.

SME training seminars/workshops:

- During the course of Year 3, DAI-ASME will sponsor seminars and workshops designed to assist the SME community develop better skills in general management, marketing, financing, and accounting. These training activities will be given by DAI-ASME staff and contracted BSPs. In addition, DAI-ASME STTAs will hold workshops/seminars for SMEs presenting results from their specific market analyses (see Service Components #1 & #2) as well as topics of general interest to agribusiness SMEs interested in entering into export markets or expanding their export opportunities. Fifteen workshops/seminars will be held throughout the year.
- To ensure that the DAI-ASME clients receive the most effective training and to provide feedback to the BSPs on the effectiveness of their training efforts, DAI-ASME will engage an independent evaluator to monitor BSP given trainings. The evaluator will provide appropriate feedback to both DAI-ASME and the BSPs. DAI-ASME has begun negotiations with ICHD, a local consulting firm, to undertake such a task.

Training seminars/workshops targeting women owned/managed SMEs:

- During Year 3 four seminars/workshops will be focused on woman-owned or managed SMEs. Activity under this benchmark is consistent with that described above for general SME training. This benchmark refers exclusively to activities directed at women owned/managed SMEs. Individual woman owners/managers may well participate in those activities undertaken as a part of the general SME training.

SMEs receiving training services:

- Most DAI-ASME training events attract from 8 to 15 individuals representing from 5 to 10 individual SMEs. As DAI-ASME intends to sponsor 19 training events in Year 3 with an average attendance of 8 SMEs, it can be expected that 152 SME training interventions will take place in year three.

Performance subcontracts:

- Performance subcontracts awarded to BSPs involve business plan production, market surveys and analyses, support of policy resolution, and provide other support that extends the capabilities of agribusiness SMEs to expand their market opportunities. In addition to firm-specific performance contracts, DAI-ASME will also initiate training performance contracts with BSPs directed at increasing the level of general business skills within the agribusiness community. These contracts will involve presentation of seminars and workshops with syllabi addressing general management, marketing, financial and accounting skills.
- As the DAI-ASME project matures and has been able to upgrade the skill capabilities of local BSPs, more and more opportunities are presenting themselves to where DAI-ASME can make use of BSPs instead of expatriate STTAs. Use of local BSPs is particularly suited to assessment of domestic market opportunities where knowledge of Armenian conditions provides a distinct advantage to developing a comprehensive analysis of the activity under analysis. It is projected to issue 15 performance subcontracts to BSPs in Year 3.

Voucher program:

- Currently there are few BSPs that sell training services on a commercial basis where the participants cover the entire cost of the training activity. Most of the training firms that are active receive the majority of their revenues from donor programs. On the demand side, SMEs have indicated that they are not inclined to pay for services when there are free services available, even if the services are of a better quality. Presently, the market for training services is distorted and, as a result, implementation of an activity to support the market-based selection of training providers by individual SMEs through a voucher program is not recommended at this time.
- However, there have been indications that the training environment is undergoing some change and that SMEs (the market) are becoming more willing to pay for services they deem of value. As a result of DAI-ASME efforts to encourage the SME community to recognize the need for specialized assistance and the increasing capability of some BSPs to provide commercial market trainings, implementation of a voucher program may be appropriate in the latter stages of the DAI-ASME LOP. If the training market continues to evolve, a pilot voucher program will provide the stimulus for eventual creation of a total commercial training market as is found in western countries. Because the potential still exists during DAI-ASME's LOP, we propose to keep this benchmark in place and continually review its applicability during the coming year.

	Benchmark	Life of Project Total	Cumulative Total to August 31, 2002	Proposed Year 3 Total
1	Armenian business service providers with signed Capacity Building Agreements	30	27	3
2	BSP capacity building activities implemented	60	23	20
3	SME training seminars/workshops completed	50	27	15
4	Training seminars/workshops targeting women owned/managed SMEs	10	3	4
5	SMEs receiving training services	400	216	152
6	Performance subcontracts awarded to BSPs	40	12	15
7	Entrepreneurs trained through voucher program	1,000	0	0

Service Component #5: Building Associations and Policy Advocacy

Overview

The underlying basis of Service Component #5 is to provide a forum for agribusiness SMEs, through which issues affecting their ability to conduct business in a fair and transparent manner are identified and brought to the attention of institutions that have the capability to address and resolve the issues. Creating a favorable business environment supports DAI-ASME's primary objective to improve the marketing capabilities of agribusiness SMEs, as well as supporting the ability of all Armenian businesses to expand their business potential.

DAI-ASME is not designed to be a "policy" project, but can serve the role of stimulating policy dialogue, provide opportunities to facilitate policy discussions and support mechanisms to bring policy issues to the attention of those who can affect their resolution.

In most areas where a market economy has developed a strong tradition, member-based associations serve as vehicles for raising, discussing and moving policy issues along to resolution. Unfortunately, there are a limited number of legitimate business associations operating in Armenia capable of assisting agribusiness SMEs address business environment-type problems. Armenian associations are not developed to the state where they can serve as viable policy advocates at this time.

While DAI-ASME will continue to look to support nascent associations so that, over time, they may mature and develop this capability, because of the immediate importance of addressing business impediment issues, DAI-ASME is using an alternative approach to support business environment improvements. As with all policy advocacy efforts, DAI-ASME will strive to work with other organizations likewise engaged in addressing business issues such as the SME Development National Center (SME DNC), the Armenian Development Agency (ADA), USDA-MAP and associations such as the Union of Manufacturers and Businesspeople (UMBA) and the Union of Merchants that have developed policy capabilities.

Year Three Activities and Results:

As mentioned, the overriding objective of these activities is to strengthen the business environment in which Armenian agribusiness SMEs operated. To this end, ASME will undertake the following activities in Year 3.

Policy issue generation workshops:

- Significant to creating an open and stable business environment is the ability of interested parties to communicate with one another and exchange ideas of common interest. Continuing the efforts begun in the first years of the Project, DAI-ASME will again pull together businesses, NGO organizations, individuals and representatives from government to identify and discuss issues that impede the creation of a favorable business environment. By gathering individuals from the regions on at least a once a year basis, the opportunity is provided for the exchange of information and the leveraging of resources as individuals and groups from different regions band together to address government actions and policies that affect their ability to undertake their respective businesses. In addition, because we believe it is beneficial for individuals from across the regions to exchange information on policy issues of mutual interest and concern, a national forum will be held as well.
- As there is growing involvement by other organizations to address business environment issues, the workshops will in some cases be conducted under the leadership of DAI-ASME, but in other cases they will be held in conjunction with other like-minded organizations such as the SME DNC, the ADA and leading business associations.
- At least five regional workshops and one national workshop will be held commencing in the fall of 2002.

Policy working groups:

- Three national policy-working groups (licensing and certification, customs and taxes, and information exchange) have been established in the Project's first years to address high priority issues. DAI-ASME will work with SME DNC and ADA in organizing and providing technical support to address issues under discussion, and, as appropriate, help to link the groups with other donor- and government-supported policy analysis efforts in order to leverage the efforts of all who might be addressing a particular issue. Three more working groups will be established in Year 3 to focus on issues identified as a result of policy issue generation workshops.

Policy issues:

- Following from the issue workshops and the efforts of the working groups, issues that inhibit the ability of business to operate in a fair, transparent and competitive manner will be reviewed and brought to the attention of the appropriate national and regional government operations. DAI-ASME efforts will assist in providing the process that brings the issues to the appropriate authorities with the responsibility and ability to resolve the difficulties created by the issue.

- As with all policy advocacy efforts, DAI-ASME will strive to work with other organizations likewise engaged in addressing business issues such as the SME DNC, ADA, USDA-MAP and associations.
- While regional and national workshops and the activities of companies will be the prime vehicles to identify policy issues facing the business community, DAI-ASME will also undertake at least one public survey in the coming year to provide an opportunity for the general public and organizations that do not regularly work with the Project to identify or raise policy issues that constrain business endeavors. The survey will also be used to measure the perceived progress toward impediment resolution.

SMEs participation in addressing policy issues:

- Significant to creating an open and stable business environment is increasing SME involvement in identifying and addressing policy issues as well as the ability of interested parties to communicate with one another and exchange items and ideas of common interest. DAI-ASME will work closely with the SME DNC to organize national and regional workshops that provide opportunities for Armenian SMEs to identify and discuss policy issues.

Activities to strengthen the policy advocacy capabilities of SME support organizations:

- While Armenian agribusiness associations have not yet developed to where they can serve as forceful advocates for policy change, there are several nascent organizations, and the possibility that several more might evolve from the regional or national policy working groups, that have the potential to take on such a role. DAI-ASME will work with these organizations and forming groups to upgrade their operational capability, to better organize and sustain themselves, to increase their membership base, and to develop a stable of quality services that can add value to their membership.
- In Year 3 DAI-ASME will support the development of the SME DNC, ADA and several associations through the following activities:
 - During the first quarter, DAI-ASME will engage an organizational specialist to work with the SME DNC management in addressing organizational issues as well as helping the newly formed DNC develop near-, mid- and long-term strategies that will position the DNC to sustainably support the Armenian SME community.
 - The organizational/lobbying consultant will also work with several associations to help them establish themselves as effective, functional and viable units, build-up their lobbying and advocacy skills, and to assist them develop short-, mid- and long-term strategies for their activities.
 - The consultant will work intensively with two associations, the UMBA and the Merchants Union, analyzing their existing organizational and legal structure, membership, services provided, means of support, methods of communicating and goal setting. She will also interact with the other less developed associations through meetings, workshops and other activities from a more generic perspective. Associations to be invited to receive general of assistance will include the Business Women’s Association of Armenia, the Union of Apiarists and Apitherapy, the Greenhouse Association, the “Agroprogram”

Union, the Armenian SME Union, the Union of Entrepreneurs of Armenia, the Union of Business Support Organizations, the Union of Food Producers, the Farmers' National Union, the Potato Growers' Association and the Winemakers' Association.

- In December 2002, the consultant will lead a group of association and SME DNC representatives to visit similar SME associations and quasi-government organizations in other countries
- DAI-ASME will also support the development of two evolving sector groups, tanneries and fish growers, who are seeking to organize themselves into effective working groups for the purpose of strengthening their respective industries.
- USAID has initiated an important new project this past year, the Armenian Legislative Strengthening Project (ALSP). DAI-ASME will coordinate its policy activities with ALSP and integrate the organizations with whom it's working into the ALSP activities as appropriate.
- As has been done in the past, DAI-ASME will continue to offer mentoring opportunities to individuals from ADA and the SME DNC. While the mentoring opportunities go beyond policy advocacy, they do help strengthen the overall capability of the organizations and activities such as market analysis of neighboring geographic areas (such as is being proposed for the Middle East) provide insights into business impediment issues that affect the Armenian SME community.

Cost-share grants to support activities of SME support organizations:

- The objective of providing cost-share grants to support the efforts of associations and other organizations such as the SME DNC and ADA is to improve their operations, upgrade their capability, and disseminate information for the purpose of increasing the value of their services to their members and to the SME community at large.
 - Tabulation of the grant activity is also included in Service Component #3 under Operational Cost-Share Grants.

	Benchmark	Life of Project Total	Cumulative Total to August 31, 2002	Proposed Year 3 Total
1	Policy issue generation workshops	20	8	6
2	Policy working groups established	8	3	3
3	Policy issues identified and addressed	15	3	6
4	SMEs participating in addressing policy issues	400	154	150
5	Activities to strengthen the policy advocacy capabilities of SME support organizations	15	5	6
6	Cost-share grants to support activities of SME support organizations.	15	4	6



DAI-ASME LTTA STAFFING

by

WORK PLAN COMPONENT

[Only Programmatic LTTA are included. In addition, DAI-ASME is supported by 6.0 FTE Administrative LTTA.]

	<u>COMPONENT</u>				
	#1	#2	#3	#4	#5
<u>LTTA (In months)</u>					
<u>Market Development</u>					
Fred Harris	2	9	-	1	-
Armen Matosyan	1	9	1	1	-
Gohar Harutyunyan	1	9	1	1	-
Grisha Shirvanyan	2	8	1	1	-
Mkrtich Ayvazyan	1	10	1	-	-
Arsen Poghosyan	1	10	1	-	-
Anahit Bobikyan – WID (.5 FTE)	-	4	-	1	1
Mikayel Sarafyan – Environmental (.5 FTE)	-	6	-	-	-
<u>Financial Linkages</u>					
Gary Kilmer	-	3	6	2	1
Arman Hakobyan	-	1	10	1	-
<u>Skills Development/Policy Advocacy</u>					
Tom Rulland *	-	-	1	4	4
Ruzan Melyan	-	-	-	6	6
Tatevik Melikyan	-	-	-	6	6
Total	8	69	22	24	18

* Three months are for Administrative Responsibilities