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Cover photos, left to right, top to bottom:

PSCEP consultant and Azerbaijan fish farmer
Greenhouse Visit in Ganja
Milk Testing
Hazel Nut Sorting
PRIVATE SECTOR COMPETITIVENESS ENHANCEMENT PROGRAM (PSCEP)

2010 Annual Report

Contract No. AID-112-C-08-00002

United States Agency for International Development/AZERBAIJAN Economic Restructuring Office

USAID Contracting Officer’s Technical Representative: Aytan Gahramanova
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<td>BDS</td>
<td>Business Development Service Provider</td>
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<td>BIC</td>
<td>Business &amp; Innovation Center</td>
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<td>CIIC</td>
<td>Caspian International Investment Company</td>
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<td>CIS</td>
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<td>COTR</td>
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<td>GMM</td>
<td>Ganja Meat Milk</td>
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<td>POF</td>
<td>Purchase Order Finance</td>
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EXECUTIVE SUMMARY

Chemonics is pleased to present the Private Sector Competitiveness Enhancement Program’s (PSCEP’s) second annual report, for the period October 1, 2009 to September 30, 2010.

In its second year with the leadership of a new chief of party, PSCEP explored the lessons learned from its first year activities as it reached understandings on what was working, not working, and what was likely to work and show results or promising activities before the end of the project. In consultation with the USAID Mission, the project revised its range of sectors and sub-sectors and readjusted its strategy towards long-term staffing and short-term technical contracting, as well as local and international subcontracts, to concentrate on the target indicator levels. Taking into consideration the limited amount of remaining project resources, PSCEP instituted a more thorough budget review and cost projection process and made necessary budget and cost revisions to decrease the project’s spending rate while still maintaining a critical focus on contract obligations. Significant improvements were made to the monitoring and evaluation system to improve both the accuracy of reporting results and impacts and the project’s responsiveness. The project also maintained close communications with USAID staff to share information, exchange suggestions and insights, and report on progress and issues needing attention.

This examination and adjustment—focusing and improving upon success—permitted PSCEP to deliver concrete results in its second year, identify limiting sector and sub-sector factors, and help show the way for future development activities tied to ambitious but achievable targets. Results in accomplishing the project’s contracted target indicator levels will be reported in the PSCEP annual monitoring and evaluation report and final report; however, some reporting period highlights are listed below. These, along with other project activities, are described in more detail in the body of this annual report:

- PSCEP had considerable success through its assistance to the financial sector. PSCEP partner banks reported approximately US $142.5 million dollars of lending during the reporting period. In addition to providing formal and on-the-job training to selected banks, some of the banks used PSCEP training materials and session attendees for their own internal training sessions. Although it is not possible to determine the extent to which PSCEP had direct effects on this period’s lending, the incorporation of PSCEP forms, procedures, recommendations, and training methods into the banks’ operations does suggest a strong indirect influence at the very least.

- Significant project efforts went into improving the genetic vigor of local fish stocks. For the first time eyed trout eggs were successfully imported into the country. With PSCEP technical assistance, customs clearance was efficient, fish farmers retrieved their orders, and egg hatchings were consistently over 90 percent (with most reaching 98 percent). As a result, PSCEP plans to double the eyed trout egg orders in late 2010; and a PSCEP project cost-share grant enabled the construction of a carp fingerling hatchery. Both will provide an improved supply of high quality fish for producer rearing.

- For the first time Azerbaijani fish farmers attended an international aquaculture fair. Under a cost-share arrangement, a group of local fish producers attended the Future Fish Eurasia fish fair.  

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1 The project’s original targeted sectors (and sub-sectors) changed from year one: Finance, Oil-sector Manufacturing Support Services (Catering and Food Services; Maintenance, Repair and Operations), Logistics and Business Support (Food Retail; Warehousing/Logistics/Cold Chain; Free/Industrial Zone Development), Light Manufacturing (Packaging; Furniture; Construction Finishes; Textiles and Carpets), Agribusiness (Fruit and Vegetables—Fresh and Processed; Animal Products—Dairy, Poultry, and Processed Meat), and ICT (Software Development; IPS and Other Internet). Instead, in year two, the targeted sectors focused on: Finance (Commercial Bank Lending; Equity Investment; Subordinated Debt), Poultry (Broilers; Eggs), Dairy, Aquaculture (including breeding activities for trout and carp), Fruits and Vegetables (Greenhouse; Cold Storage; Processed Fruits and Nuts), and ICT (focusing on increased access and anti-piracy activities).
in Izmir, Turkey. The exhibition had over 300 technical, supplier, and buyer exhibits attracting large numbers of international and regional visitors. Besides Turkey, companies from Germany, Italy, Switzerland, Netherlands, Norway, Russia, Moldova, Uzbekistan, and Tajikistan had displays. Azeri fish farmers were especially interested in meetings with suppliers of sorting and grading machines, fish processing and packaging equipment, ice generating methods, aeration tanks, and feed producers.

- To address deficiencies in the dairy, aquaculture and poultry sectors, the project increased attention to proper animal feed and feeding and watering practices—this problems’ prominence is especially important because importing improved animal varieties requires appropriate care. PSCEP technical assistance emphasized the role of nutrition in improving yields and revenues. Through cost share grants, PSCEP helped create a fish feed importation channel, rehabilitate an existing animal feed mill, and establish an animal feed analysis laboratory. A PSCEP business development service (BDS) provider set up an independent company to handle the importation of eyed trout eggs and fish feed and is coordinating the founding of a local aquaculture association.

- PSCEP efforts in the dairy sector in the Lankaran region demonstrated how simple low-cost improvements in animal husbandry and milking practices—among the adherence to contract requirements with milk buyers—can result in significant improvements in milk yields, a decrease in buyer rejections of delivered milk and increased buyer confidence, and an overall result of increased farmer revenues. With BDS assistance, better farming practices, and buyer support have also lead to improved access to credits through the banking and financial sector for further improvements. These activities and results are applicable to other dairy regions of the country.

- PSCEP successfully negotiated, signed, and implemented Global Development Alliance (GDA) grants with several large international and regional information communication technology (ICT) private sector companies and the Government of Azerbaijan. A software anti-piracy GDA alliance with Microsoft and the Softline Company trained Central Bank IT auditors to identify unlicensed software use in the nation’s commercial banking industry and work with local medium- and large-sized corporations to tackle unlicensed software use in their firms. A second GDA with Azercell supports their Barama Entrepreneur Incubator Center in the development of innovative and marketable ICT products.
ACTIVITIES AND ACCOMPLISHMENTS

A. PROGRAM ACTIVITIES

1. Access to Finance

PSCEP activities in the finance sector involved strengthening existing and introducing new short- and medium-term financing mechanisms with pilot banks in the commercial banking sector, supporting BDS efforts with regional banks, and facilitating long-term investment financing with local equity companies. Short-term mechanisms included SME working capital credits, purchase order financing and trade financing; while medium-term mechanisms concentrated on broadening and strengthening leasing arrangements. Equity investment activities involved technical assistance and analysis for agricultural projects and potential investments for the PSCEP equity partners, Caspian International Investment Company (CIIC) and Azerbaijan Investment Company (AIC).

a. SME lending

PSCEP SME lending activities aim to increase partner pilot banks’ capacity to provide appropriate short-term working capital. PSCEP provided formal short-term training and hands-on training to strengthen the range of credit options in the pilot banks. The large number of Azerbaijani banks and their significant regional branches belie the fact that several institutions lend almost exclusively to their own holding company operations. Many of the others lending to the public utilize overly conservative and staid methods that do not take advantage of newer collateral sources; and employ methods and offer loan terms that are not conducive to business borrower needs. The evaluation of lending risks to borrower types was not well understood and risk analysis not widely practiced. In spite of business needs for capital, the range and depth of the pool of potential borrowers was seriously limited by the lack of proactive marketing for clients, the large number of bank branches in the regions “competing” for a limited base of qualified clients, the poor credit terms offered, and the conservative collateral requirements.

To address these constraints, PSCEP’s initial technical assistance strategy was (1) orienting the banks to analyze the borrower’s business project and provide appropriate credit and terms; (2) introducing, training, and helping to implement new short-term lending packages like purchase-order financing and accounts receivable financing; (3) training bank staff in client risk analysis and procedures; and (4) promoting proactive marketing for clients. PSCEP supported the BDS subcontractors to build their relationship with the banks—assisting in loan facilitation, business plan development, and using bankable documents to facilitate credit for BDS clients. In addition, the project offered suggestions for alternate financing sources (for example, company self-financing, buyer or supplier financing). BDS clients, however, often found the interest rates (frequently greater than 25 percent), collateral requirements, loan periods and repayment terms, and extra-official banking charges did not make for a profitable use of

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commercial bank credit financing. Instead, many client companies preferred to seek other sources, including the State Enterprise Fund, in spite of convoluted procedures.

During the second project year, PSCEP continued with this strategy. A total of 73,509,797 AZN in SME lending was reported by the six PSCEP pilot banks during the period August 1, 2009 through September 30, 2010. The following includes specific SME-lending assistance activities PSCEP undertook:

- Reviewing and updating implementation plans with each partner bank.
- Providing loan officers at PSCEP’s partner banks with on-the-job training and mentoring, covering activities from the initial credit application stage through credit analysis and loan approval.
- Designing and drafting a “Credit Grading and Scoring System” for the partner banks, which permits banks to classify risks by economic sectors, clients, and business type. It also helps banks to maintain the quality of loans in their portfolios by enabling them to take preventive actions to guard against identified risks. Documentation was developed, translated and distributed to the six partner banks for incorporation into their internal systems.
- Developing a marketing brochure for Purchase Order Finance (POF) loans which can be adapted for other banking instruments or as a general bank marketing document.

Demir Bank provided an example of the use of PSCEP training and documentation. The bank reported that it was using the short-term financing tools designed by PSCEP to analyze loan requests from potential clients. At the end of July, Demir Bank invited all its branch managers to Baku for a one-day trade finance presentation. Participants were informed about the bank’s trade finance activity, products, opportunities, service rates, and basic required documentation. Branch managers were asked to offer these products to regional clients as an alternative for financing their international trade activities. At the end of July, the Demir Bank invited its branch managers and other high level staff to a resort in the Oguz district for a one week SME credit training which covered the following topics: SME lending principles, new operation cycles, trade projections, scoring system, cross checking, and monitoring. For these sessions the bank partly used PSCEP’s trainings materials; and a Demir Bank employee who participated in the PSCEP trainings was their main SME lending trainer.

b. Leasing

During the second project year, PSCEP assisted the leasing industry. As in other sector interventions, PSCEP addressed management, business methods, and orientation issues inherited from the Soviet period. Leasing options are a good source of intermediate-term financing that could help solve collateral issues for farmers needing investment funds. The Azerbaijan leasing industry is divided into leasing companies and bank leasing departments. Both have conservative portfolios composed primarily of vehicle leases, though other business opportunities like equipment leasing are available and fairly common in some neighboring countries. Most leasing organizations in Azerbaijan do not work in the agriculture sector because of the competition from the Agro-Leasing Company, a company partially supported by the government which has the advantage of lower customs and VAT duties.

PSCEP made considerable progress in (1) the establishment of new leasing companies and leasing units3, strengthening existing operations4, and increasing the interest of potential

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3 Demir Bank, Bank of Azerbaijan, Mugan Bank, and MCB Leasing Company

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entrants; (2) enabling industry stakeholders to understand the types of leasing arrangements and the risks and advantages involved; and (3) expanding the vision of business leasing opportunities beyond those for vehicles. Although there is significant interest in expanding and broadening leasing activities in Azerbaijan, real progress is hampered by the lack of appropriate national legislation to sufficiently guard the lessor’s rights to the leased assets. Because of this, PSCEP changed its focus from establishing new leasing operations and expanding existing leasing businesses, to adopt a strategy focused on implementing more appropriate leasing laws through collaboration with TIRSP, other donor organizations, local leasing organizations, and the Azerbaijan Leasing Association.

Early in the project year, PSCEP fielded a regionally experienced leasing specialist to improve and develop leasing operations with PSCEP’s partner banks and other interested financial institutions. The advisor met with senior management at the PSCEP partner banks, leasing companies (Unileasing, Joint Leasing, and the Azerbaijan Leasing Companies Association), donor stakeholders EBRD and IFC, and with the USAID-Trade and Investment Reform Support Project (TIRSP) to develop an action plan for the industry. Individual meetings were held with each partner bank and leasing company to develop leasing strategies, design lease templates and procedures and to finalize memorandums of understanding (MOUs) with the partner banks for the leasing component of the PSCEP program. In coordination with TIRSP, a two-day seminar on leasing was held on December 21 – 22, 2009. Fifteen banks operating in the country, two leasing companies, the leasing association, EBRD, IFC, and a representative from one of the Big 4 accounting companies, PriceWaterhouseCoopers were in attendance. Issues of corporate governance, legislation reform, refinancing, accounting, and risk management were presented and discussed.

The advisor returned in early February to provide hands-on assistance to loan officers in reviewing their leasing transactions and processing lease applications at partner bank and leasing companies. As part of this hands-on training, PSCEP agreed with Demir Bank’s request for assistance in structuring a two million dollar leasing deal; unfortunately the deal did not materialize.

PSCEP also supported organizations interested in establishing leasing operations. Several partner banks expressed interest in beginning or expanding leasing activities. Based on PSCEP recommendations, Demir Bank spun off their leasing division into a separate company and PSCEP’s leasing specialist helped this new company develop their business plan.

The Bank of Azerbaijan, which is establishing a leasing division received PSCEP assistance on how to revise its corporate structure, as well as developing legal documents, strategies, procedures, and opportunities for the development of leasing activities. Similar discussions were held with Mugan Bank, which intends to start a leasing company and has hired a manager for the operation. Mugan Bank is using procedures, systems, and policy examples PSCEP provided.

Gafqaz Leasing Company, one of the participants in PSCEP’s December leasing conference and recipient of documents and assistance, started leasing trucks in Ganja.

Learning from PSCEP’s international consultant, PSCEP’s former local financial specialist attracted a foreign investor to establish a local leasing company. Through this collaboration,

4 Bank of Baku
5 Yapi Kredit Bank, Bank Respublika, and Access Bank.
6 The European Bank for Reconstruction (EBRD) and International Finance Corporation (IFC)
MCB Leasing Company, a subsidiary of the Pakistani MCB Bank, officially opened in Azerbaijan. PSCEP’s former financial specialist is the managing director.

Other non-partner participants of PSCEP’s December leasing conference were also interested in beginning leasing activities. Meetings were held with Bank Respublika, Yapi Kredi Bank, and Access Bank. All were interested in developing leasing programs but were concerned by the lack of leasing legislation. A round table meeting was subsequently held with EBRD, IFC, TIRSP, and the Azerbaijan Leasing Association, where together they developed a time schedule and work plan for preparing draft leasing legislation.

PSCEP and USAID’s Financial Sector Support Program (FSSP) Central Bank project held an informational meeting at USAID to share ideas, discuss possible areas of collaboration and synergy, and avoid duplication. Several ideas were exchanged, particularly regarding leasing and the need for the Central Bank to begin overseeing this area.

As part of PSCEP’s refocused leasing industry strategy, PSCEP and TIRSP agreed on a new range of collaborative efforts for the leasing specialist with him returning in late April, on a TIRSP short-term contract, to work on the legislative issue. He was supported by PSCEP’s financial specialist who had been following up with partner banks and BDS providers. In a public hearing, arranged by TIRSP, interested partners and the leasing association discussed needed changes to the existing leasing legislation. It was decided the leasing association would gather comments on the draft legislation from the banks and leasing companies; TIRSP in return would find the appropriate counterpart in the Cabinet of Ministers through which to advance the legislation. Prior to the closure of the TIRSP project, PSCEP’s financial specialist met with TIRSP’s senior attorney for an update on the leasing legislation efforts and to discuss follow up activities that PSCEP might undertake. Unfortunately, there was no progress since the last update in July 2010. Additional materials and a legislative draft were sent to the Azerbaijan Leasing Association. There has been no response. The Leasing Association legal advisor informed TIRSP the association was still reviewing the draft.

c. Trade Finance

Letters of credit (L/Cs), letters of guarantee (L/Gs), and documentary collections (D/Cs) are important tools that facilitate international trade by reducing the risk of non-payment, especially between parties who have done limited or no business together. Though this service is offered by many local commercial banks, its application is limited. Azerbaijan’s banks frequently receive rejections from international banks due to improper forms, applications, and terms of conditions of the specific trade deal. Recognizing they have limited experience with these trade finance instruments, and in particular the assessment of associated levels of risk and liability, the PSCEP partner banks asked for assistance to strengthen and enhance their skills and knowledge in line with international best practices. PSCEP initiated support during the project’s second
year. The project engaged an international banking consultant from the United States in early 2010 to work alongside PSCEP’s financial specialist. Their initial activity was a preliminary assessment of the current status of the partner banks’ trade finance operations. Using a detailed questionnaire, the expatriate and PSCEP financial specialist met several times with senior bank management and staff to (1) review their L/Cs, L/Gs, and D/Cs portfolios; (2) review their trade finance systems and procedures; (3) discuss issues and objectives; and (4) develop short-term plans and trainings. Based on the findings that PSCEP partner Banks do not have broad experience in trade finance, a technical assistance plan was developed incorporating formal and hands-on training in actual trade finance transactions.

PSCEP held a series of formal trainings for bank credit officers and back-office staff, and then provided hands-on training with the goal of having credit officers, as well as operational staff, better able to offer L/Cs, L/Gs, and D/Cs as financing tools to their existing SME clients, with less risk to the partner banks, and in accordance with international best practices. The training was divided into two sections: an overview of trade finance topics of interest to loan officers (front office) and a section focusing on specific topics related to trade finance administrative activities for operational staff (back-office). Thirty-one participants were involved for the first section. Seventeen back-office staff remained for the second section along with a number of loan officers.

Training materials and a booklet entitled “Guidelines for Trade Finance Policies and Procedures Development” were provided to the banks in English and Azerbaijani. After the trainings, Demir Bank and Royal Bank used the materials for internal trainings at their branches with some of the original trainees serving as trainers. As part of the on-the-job training, PSCEP assisted with specific trade finance deals at Demir Bank, Royal Bank, and Bank of Azerbaijan.

Four of the six PSCEP pilot banks reported trade financing valued at 13,982,119 AZN from PSCEP’s initial involvement in this activity in April 2010 through September 30, 2010.

d. Financing Facilitation Assistance Provided by BDSs

Most of PSCEP’s partner BDS providers facilitate financing for their clients. Coupled with their knowledge of the local banking community, they assist by developing work plans, financial and sales projections, and bankable documents. In addition to commercial bank loan options, BDSs explored alternatives involving state funded credit opportunities, non-Azerbaijani sources of credit, buyer-supplier, equity, and internal company financing after reexamination of the company. BDS involvement in financing facilitation ranged through a variety of levels: significant (in the case of Ganja), moderate (Sheki, Guba, and Jalilabad), newly initiated (Lankaran), and limited or none (AIM). PSCEP complemented BDS efforts by (1) becoming part of the facilitation process when needed; (2) providing agricultural technical assistance and advice to BDS clients seeking financing; (3) helping reinforce the BDS-client-bank relationship and drafting BDS marketing brochures to show the capabilities of the BDS to assist banks to review technical issues in the targeted agricultural sectors and sub-sectors; and (4) helping the BDS better analyze and report on their financial sector successes, all of which are useful steps for generating future business. For example, the Guba BDS did not realize the extent to which they had leveraged financing for their clients nor the potential from internal client financial sources in the near future. The 2009 financial tracker for the Guba BDS was completed with PSCEP support; and as of December 2009, the BDS had leveraged 4.6 million AZN for their clients, with another 10.2 million in the pipeline. By

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7 PSCEP is still awaiting reports from Mugan Bank and Rabita Bank.
September 2010, PSCEP’s five BDS providers had leveraged a total of 26,896,476 AZN for their clients, with another 77,259,855 AZN in the pipeline.

The project’s financial specialist met with regional branches in the BDS regions. As part of PSCEP efforts to increase credit availability to rural clients, support BDS sustainability efforts, and monitor the dissemination of PSCEP training and training materials to pilot bank regional branches. A summary is provided below:

- Baku headquartered banks and non-bank credit organizations have numerous branches in each region. Larger banks can have several branches in the same region. Most banks offer the same credit services for individuals and for businesses ranging from micro- to large-scale loans. The credits can be secured by a third-party guarantee, automobiles, houses or other real estate, business equipment, jewelry, and materials in a warehouse or in use.

- In general, the level of individual bank activity has declined in the last two years for various reasons: (a) the number of banks in the region has increased resulting in more competition for a limited number of viable clients; (b) businesses exporting to Russia have seen their operations drop due to the worldwide financial crisis; (c) similarly, remittances from Azerbaijani expatriate workers in Russia have declined; and (c) frequent extra-official tax authority visits create problems for businesses.

- The regional branches of larger banks have good support from their headquarters for training and technical support. Regularly scheduled trainings are held at headquarters on new products and new policies and procedures. Credit managers often visit the region to monitor or help evaluate new business applications.

- The banks do not use third parties (like the BDS) for consulting services. Banks view this as the responsibility of potential borrowers to hire consultants, if required, for the development of bankable projects and documents.

- Interest rates range from 25 to 35 percent per year and loans to agriculture make up less than 50 percent of the banks’ loan portfolios in most cases.

- Problems with bank clients include: (1) clients having repayment problems attempt to get loans from other banks to repay the creditor bank or to finance other activities; (2) collateral, like property and land, require certifying state registration documents but these can be problematic and costly to obtain; (3) lack of proper business plans; (4) double-entry bookkeeping is not done properly or is non-existent; or companies keep more than one set of accounting records making verifications difficult; and (5) though several banks do not require business plans for smaller loans, even micro or small loans require complicated and time-consuming loan procedures and high levels of collateralization.

- Businesses and local banks are not familiar with leasing activities and leasing companies like UniLeasing or Texnika Leasing do not aggressively market their products in the regions. The level of trade finance in the region is also low. Businesses are accustomed to working with cash payments even for trade with Russia. Trade finance and leasing transactions must usually be conducted by or approved out of the head offices in Baku.

e. Equity Financing

PSCEP technical assistance to partner investment companies was not as successful as hoped. Considerable technical assistance was provided during the first year and in the initial quarter of the second year to PSCEP partners AIC and CIIC. This included (1) specific technical assistance and management advice on poultry, cold storage, and greenhouse opportunities, and suggestions for related investments; (2) reviewing the valuation and transaction
structuring capabilities of both funds; (3) assisting both funds in actual transactions, including the review of discounted cash flow and multiple of earnings models; and (4) providing preliminary guidance on monitoring and governance practices for management and oversight of companies in which they invest.

However, given the PSCEP budget, limited remaining project life, and the lengthy time and complicated decision-making processes needed for the investments to be made, early in the second year, PSCEP adopted a strategy of working with its partner investment companies to (1) only provide specific short-term technical assistance when AIC or CIIC were on the verge of making or had made an investment; (2) offer opportunities for discussion with short-term technical consultants—brought in for larger sector and sub-sector assignments—on results, new technologies and methods, or related investment ideas; and (3) not proceed with introducing mezzanine or subordinated debt financing to the investment companies.

Early in the second year, the new chief of party and financial specialist had meetings with AIC and CIIC to discuss (1) investment opportunities in the agribusiness sectors; (2) our partner relationship and review progress on potential investments where PSCEP provided technical support; (3) the revised PSCEP strategy and possible future assistance; and (4) tentative schedules of short-term agricultural technical staff to allow the investment companies time to arrange informative discussions.

Given the interest CIIC has in the greenhouse sector, PSCEP staff and consultant spent a half-day with CIIC management explaining critical technical issues in greenhouse investment and responding to technical and supply questions. The consultant also suggested greenhouse related investment ideas (e.g., seed nurseries) for CIIC review. If it were to proceed with its potential greenhouse investment, which was short-listed with prior PSCEP help, CIIC indicated it will ask PSCEP for assistance in technical due-diligence and implementation.

During the first quarter of the new project year, a PSCEP poultry consultant continued his short-term assistance to AIC on the Shamkir Poultry Investment Project. Later in the year, AIC again asked for the consultant’s assistance to perform a technical due diligence assignment and provide recommendations at the last stage in AIC’s planned multi-million dollar poultry investment. The consultant carried out this assignment in May. Subsequently, AIC signed a memorandum of understanding with its foreign partner for the construction and implementation of the project but then decided to decrease its investment, reexamine its options, and redo the project’s workplan.

PSCEP’s cold storage and post harvest handling consultant met with CIIC on two occasions. Initially, the consultant met to discuss his assignment and how he could assist CIIC’s investment analyses or activities. Based on his visits, the consultant later went to discuss his recommendations on CIIC’s NAA cold storage investment. The consultant also suggested other investment opportunities: (1) a certified fruit tree planting stock nursery; (2) high technology greenhouse vegetable production facility; (3) early-season greenhouse/high tunnel strawberry production enterprise; and (4) individual quick freeze (IQF) facility for fruits and vegetables. CIIC expressed interest in bringing the consultant back, on a cost-share basis to assist NAA during the autumn fruit harvest period; however, the consultant was unavailable.

The PSCEP financial specialist had discussions over the course of the year with a former colleague from Ploutos Capital Financial Consulting Company who is now an investment director for a UK-based fund. The fund is planning on investing in the CIS in the coming year, especially in Kazakhstan, Georgia, and Azerbaijan. Cold storage, cold chains, and

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8 Introducing mezzanine financing was originally postponed until PSCEP’s second year due to numerous management changes at AIC.
related logistic companies specializing in agriculture products are an investment target. PSCEP, or its follow-on project, can assist with facilitating meetings with reliable partners in the regions. The UK investment fund will keep in touch with the financial specialist.

2. Poultry

PSCEP’s poultry sector involvement during the first quarter of the reporting year logically followed the efforts of its first year project assistance. The first project year saw PSCEP training and assistance directed towards developing business models for nine poultry companies: Davachi Broiler, OZ-AK, Beylagan, Jalilabad Broiler, Garagashli Broiler, Samukh Broiler, ASR Goy-Gol Broiler, Ganja Meat-Milk (GMM), and the Ganja Quail Farm. The business models allowed these companies to assess their profitability drivers and enhance their capabilities to evaluate productivity and competitiveness. PSCEP met with senior specialists of the project’s partner banks and the CIIC to introduce the models and discuss their use in assessing loans and investments. PSCEP also developed an ownership transition plan for the investors in OZ-AK—a joint venture between Davachi Broiler and a Turkish company—which is the only major hatchery operation in the country. In addition, PSCEP evaluated and made suggestions for poultry sector investments by CIIC and AIC.

In October 2009, the PSCEP poultry expert returned to provide technical assistance for potential investment opportunities. To assist in the proposed investment in a poultry broiler operation, the expert helped AIC identify a partner to construct the facility in Shemkir. Based on interviews with short-listed companies and presentations of selection recommendations, AIC made its selection.

In December 2009, PSCEP’s internal review compared first year efforts and results in relationship with the project’s remaining budget, priorities, and target impact indicator levels. It became apparent that the impact, lack of investment, and limited concrete actions by the targeted beneficiaries necessitated a readjustment to the project’s sector strategy. This meant PSCEP involvement in the poultry sector would be limited to BDS efforts, and short-term international technical assistance would only be provided to partner investment companies once the investments were made or were in the last stages of the investment decision. Details of the remaining second year’s PSCEP efforts follow.

In April 2010, AIC requested additional assistance for a short follow-up technical due diligence assignment from the project’s poultry consultant on the Shemkir potential investment. From his desk in Washington, the consultant reviewed and provided recommendations which detailed construction and equipment requirements to produce 6,000 metric tons of live broiler weight per year in Phase 1 and what would be required for the future expansion of up to 12,000 MT per year in Phase 2. The proposed approach included investing in the necessary equipment for pullet rearing, breeder operations, broiler grow-out, value-added processing, rendering to accommodate doubling production, a hatchery, a feed mill, and a slaughtering plant. AIC signed an MOU with its implementing partner based on the technical assistance. However, AIC subsequently decided
to revise its strategy and work plan, as well as to decrease the investment amount. The AIC investment is still pending.

On a previous first year assignment, the poultry consultant assisted CIIC with technical input to evaluate a poultry investment possibility in Ganja. The consultant concluded that this investment was a “high risk” for CIIC; subsequently, the company began reviewing alternative poultry investments. In October 2009, the consultant visited one of the short-listed investment possibilities to assess their production facility, marketing ability, and the company’s growth potential. An integrated business model was developed for the company and CIIC’s finance specialist was trained to use the model to evaluate company risks, profits, and management elements for this and other investment opportunities. CIIC expected to finalize its decision on a selected investment by the end of December 2009. In the end, CIIC decided not to invest in the poultry sector due to the possibility of other large poultry sector investments happening at the same time.

PSCEP’s poultry advisor also designed and developed the transition plan for OZ-AK. The company reviewed and accepted the transition plan through a MOU on August 7, 2009. In October 2009, he again worked with the OZ-AK partners on a performance evaluation system and the timeline for the hiring and training of staff. Although the consultant helped to smooth the negotiation process and bring the clients to agreement on the objectives and terms of the sale of shares, timing for the hand-over of deliverables, schedule for staff training, and performance penalties under the transition plan, the company eventually decided not to proceed with the partnership.

Access to quality feed for poultry (as well as for other livestock and farm-raised fish) is an issue. During its second year, PSCEP therefore provided a grant and support to the Agro Information Center (AIM) to establish an animal feed analysis laboratory which will analyze poultry, livestock, and fish feed; and provided technical assistance to AIM and its extension agents for on-farm animal feed production, care, and feeding. With AIM’s system of laboratory, extension, and communications—periodical, website, and extension service—it is expected that significant improvements in the care and feeding of poultry, livestock, and fish will come about from (1) technical articles; (2) advertising and word-of-mouth communication on reliable feed manufacturers and sources; (3) direct farmer training and advice; and (4) on-farm animal feed production and feedback. USAID approved a source-origin nationality waiver for the purchase of the AIM animal feed laboratory equipment from a Turkish supplier which arrived in late September 2010. Two pro-bono consultants from Oklahoma State University and one from the Noble Foundation provided short-term assistance in areas directly related to the new laboratory: extension training, animal feed production and feeding, marketing of laboratory services, and profit center development.

PSCEP’s Ganja BDS had significant involvement with the poultry sector working to bring together three of their clients for business ventures and assisting the Ministry of Economic Development promote poultry production in the western regions.

During PSCEP’s first year, the Ganja BDS began implementation of the first stage of a competitiveness plan with Elba LLC, a processed meat/meat products manufacturer and poultry company. The BDS assisted the company in identifying vacuum packaging equipment for its new processing facility and in finding a financing source. Elba LLC later submitted a proposal to a Baku based leasing company. The Ganja BDS also developed and launched a website (www.elba.az) and created product logos and labels for the Elba’s slaughtering line in Dashkesan.
Also during the project’s initial year, the BDS worked with GMM to refurbish its broiler production facilities. In October 2009, the Ganja BDS facilitated arrangements between GMM and Gilazi Broiler, a large broiler breeder company in Baku, for the purchase of 30,000 six-day-old broiler chicks. The BDS also assisted GMM in negotiating leasing arrangements for an investment in slaughtering line equipment. It also made arrangements with the Timuka Company in Turkey to provide suggestions on renovating the ventilation system in the Gilazi Broiler poultry houses. The BDS then facilitated a business deal between GMM and Elba LLC to grow, slaughter, cut, and clean 25,000 birds for use in Elba’s sausages. Elba will provide GMM with the eggs for incubation and rearing. These operations are still pending.

During the reporting year, the Ganja BDS also assisted a large local broiler poultry farm in analyzing an expansion of its poultry operation and facilitated the purchase of Turkish poultry production equipment. Building repairs were undertaken and equipment identified, ordered, and delivered to the border. Unfortunately, the equipment is currently held by customs.

Azerbaijani consumers prefer the taste of local barnyard fowl over that of industrial broilers, but a local reliable and adequate supply of fertile eggs for an improved barnyard variety is not available. The Ganja BDS negotiated with poultry companies in Samukh, Ganja, and Khanlar, and with the Doğan Company in Georgia to test the yields of imported fertile eggs (non-broiler types) and the resulting sales of poultry. The BDS imported 250 fertile eggs, which were tested at small hatcheries at the Agrarian University in Ganja and a Ganja-based poultry company. Unfortunately, hatch rates were similar to local breeds, thus commercial importation, including transportation and customs fees, would not be a profitable undertaking.

The BDS organized a visit to Western regional poultry farms for the Ministry of Economic Development. The objective of the visit was to promote chicken breeding in western Azerbaijan by providing loans through the State Entrepreneurship Fund. Representatives visited a number of farms around Ganja, however, to date no financing has been issued by the State Fund for poultry investments.

3. Dairy

Project efforts in the dairy sector had striking results during the year. Production increases since the beginning of PSCEP assistance average over 270 percent. Proper feeding and nutrition is a key ingredient to maintaining dairy cattle health and improving raw milk yields. The lack of training in cattle care, especially for newly introduced high-yield (but also high-maintenance) breeds, and uncertainty of feed quality (produced on-farm, locally, or abroad) complicates the situation. PSCEP addressed the issues through PSCEP BDSs, and through a grant to establish an animal feed analysis laboratory at AIM.

Direct and indirect support was provided to over 6,000 dairy farmers through Pal Sud and MilkPro collectors and collection centers. Assistance positively affected changes in milking practices, improvements in cattle nutrition and husbandry, and enhanced milk quality and quantities to meet Pal Sud and MilkPro standards and contracts. Through technical assistance (direct training, demonstrations, and training of trainers) and public outreach (brochures, posters, training materials, and word of mouth), milk yields have increased and rejection rates have dropped, resulting in higher volumes of milk supply and improved revenues for suppliers.

Dairy products are an important part of the Azerbaijani diet. Two major dairy companies (Pal Sud and MilkPro) source milk from the Lankaran area. In the past, these two companies have been forced to import powdered milk for much of their milk and processed dairy products because of their bad experience with low milk volumes and poor quality of local sources of raw milk.
milk. However, the major dairy companies do continue to look for new sources of raw milk in the regions. In these geographic areas, issues of proper feeding, care of dairy cattle, and hygienic handling of milk require attention.

Most local cattle are of old Soviet stock and produce low volumes of milk, though they are able to fend for themselves on poor husbandry and feeding practices. The introduction of better milk producing breeds has not gone well in many cases, since these require improved husbandry and proper nutrition to not only continue to produce high yields but also to survive. PSCEP BDS efforts in Lankaran to modernize dairy husbandry complements farmers’ desires to introduce higher yielding breeds.

During the second project year, the Lankaran BDS expanded its role in Lankaran’s dairy sector. It trained additional farmers and farmer groups, expanded its involvement with PalSud’s milk collectors—training them and providing them with training materials and posters so that they could train additional dairy farmers—and began collaborating with a large MilkPro collector, who works with 2,500 dairy producers in the area. To improve the quality and quantities of supplied milk, the trainings to farmers and milk collectors aimed to improve the conditions in which animals are kept (stable cleanliness, sanitary hygiene norms, and proper feeding regimes for livestock), sanitary-hygiene norms in milk production, sanitary milking practices both in stables and for farm workers, and the importance of proper watering.

The BDS provided updated data on milk collection rates from the five Pal Sud milk collection centers, which show continual increases in production. While the growth rates have slowed from Year 1 following the initial jumps in production and collection, year-on-year growth rates (for June-August) range between 8 and 20 percent depending on collection center. Total increases in production from the start of the program (June-August 2008–2010) ranges between 161 and 638 percent (averaging 271 percent).

Milk rejection rates have also declined substantially. In late August, PSCEP’s DCOP met with the Boladi collection’s manager, who reported they were rejecting on average between 10-20 percent of daily milk supplies received in the first years of the center. Currently it is a rare occasion when he has to reject a canister or delivery of milk. He estimated maximum rejection rates to be one to two percent per month. Furthermore, a local collector noted that last year he was rejecting 100-150 liters per day. Currently, while he still has daily rejection rates, he estimated levels to be only 25 to 30 liters a day. In addition, his collection rates have increased substantially – approximately 400 liters a day, from the same group of 350 farmers. While some farmers have increased their herds, he believed that much of the production was coming from better collection and feeding practices.

Based on the increase in the milk quality, as of September 1, 2010 Pal Sud increased the price paid to farmers from 20 to 24 qep/liter. The collector rates also increased from 25 to 29 qep/liter. So while collectors will continue to earn 5 qep per liter of milk delivered to the collection center, farmers will receive a 20 percent increase in the price/liter of milk supplied.

<table>
<thead>
<tr>
<th>Pal Sud’s Milk Collection Increase by Center</th>
<th># Tons Jun – Aug ’08</th>
<th># Tons Jun – Aug ’09</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mahmudavar</td>
<td>276</td>
<td>810</td>
<td>193</td>
</tr>
<tr>
<td>Sharafa</td>
<td>276</td>
<td>720</td>
<td>161</td>
</tr>
<tr>
<td>Boladi</td>
<td>204</td>
<td>540</td>
<td>165</td>
</tr>
<tr>
<td>Boradigah</td>
<td>63</td>
<td>465</td>
<td>638</td>
</tr>
<tr>
<td>Chakhiri</td>
<td>150</td>
<td>450</td>
<td>200</td>
</tr>
<tr>
<td>Totals</td>
<td>969</td>
<td>2,985</td>
<td>208</td>
</tr>
</tbody>
</table>
To complement its activities to increase milk production, the Lankaran BDS tackled the issue of finance for increasing herd size and improving farm facilities. The BDS provided informational sessions for Access Bank and Agrarkredit to facilitate introductions between the banks and the milk producers seeking small loans. The financial institutions value the contracts that producers have with the milk companies, and appreciate the technical coverage provided by the BDS including: development of business plans for credit applications; provision of on-farm consulting and farm development; and sourcing pedigree dairy cattle, cattle feed, and dairy equipment. The financial institutions especially welcome the success in production increases generated by this assistance. Yet, despite providing the introductions, holding the seminars for the Banks, and facilitating loan negotiations, the Lankaran BDS has not been receiving payment from the banks for this service. Since both Access Bank and Agrarbank are extremely interested in expanding this cooperation, PSCEP has advised the BDS it needs to seek compensation for the business brought these banks – especially since its client base of farmers is now well over 5,000.

To assess the direct and indirect impact of the project on Lankaran’s small dairy farmers, PSCEP and its BDS conducted a survey among a random selection of BDS-assisted dairy farmers in August. The survey sought to determine whether dairy farmers received project technical assistance or technical information (either directly or indirectly through milk collectors, milk collection points, or from neighbors) and if so what were the effects. PSCEP was able to interview fifty-eight farmers out of sixty-seven randomly selected farmers. Results show that over 75 percent of farmers surveyed reported receiving some type of assistance or training. Of the surveyed milk producers who received recommendations and/or training, over 90 percent recorded increased milk yield (on average 10 to 20 percent) and milk quality during the past year. Furthermore, 88 percent of those surveyed have seen increases in their milk sales which have attributed to social welfare increases reported by 64 percent of the surveyed farmers who received technical assistance.

The BDS has also been providing assistance to expand the operations of its larger dairy sector clients: Pal Sud, Yusif Farmer, and Elbrus. Pal Sud is planning a significant investment to enlarge their own farm and import pedigree cattle. The BDS linked Yusif Farmer with Access Bank to finance the purchase of dairy cattle for his farm, provided input for the expansion of the stable complex, and recommended cheese-making and milking equipment. For Elbrus, LBC advised on the expansion of the stables currently being built and is working with the farm and Agro-Leasing to source and import pedigree cows.

Both MilkPro and Pal Sud dairy processing firms are looking to or have established milk collection sites in the Guba region. PSCEP brought this to the attention of the Guba BDS. The project’s results in Lankaran show there is growth potential in working with dairy farmers and processors. Working in the dairy sector would increase the Guba BDS’ impact, client base, and

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9 This represents a 90 percent confidence level for a random sample of the full set of 5,375 farmers served by the five Pal Sud and one MilkPro collection centers assisted under the PSCEP program.
public relations. Though the Guba BDS does not currently have a dairy expert on staff, it could sub-contract someone who has already worked in this field to (1) prepare training and informational materials, (2) provide information and training to the collection centers and dairy farmers, and (3) train someone on the BDS staff to follow up and carry out the work in the future.

PSCEP’s Jalilabad BDS provided support to the Bilasuvar Agro Company early in the second year by helping set up a milk collection center in Imishli and providing training to Bilasuvar’s two other collection centers.

The project’s BDS in Ganja has also had a growing involvement in the dairy sector during the reporting year, working with both milk producers and processors to source suppliers, equipment, financing, and improved dairy cattle.

Working with its long-time client the Elba Company, the Ganja BDS supported the company’s new dairy operation in Dashkesan. The BDS developed company registration documents and applied to the tax department for registration. Twelve farmers were identified and agreed to supply the company with specified daily quantities of raw milk. The client currently needs 4-5 tons of milk per day to begin production, later they plan to increase their capacity to 10-20 tons of milk per day for the production of cheese, yogurt, and sour cream.

The Ganja BDS also is facilitating the purchase of cooling tanks, helping to identify collection points, and providing a dairy consultant to work with small producers on milk quality and collection methods. The BDS contracted Erkal Uzeyli, a Turkish milk processing company, to provide consultants and training. Dairy processing equipment was identified, purchased, imported, and installed. The Turkish FRENOX company visited and signed a contract for the construction of 1,000 tons of refrigeration capacity for the new dairy facility. To help finance the investment, the BDS assisted in negotiating a loan from the State Fund through Demir Bank.

The Ganja BDS also assisted the Gilan Holding Company to expand its dairy and cheese production facility in Tovuz by facilitating contacts for dairy equipment and credit financing, and by sourcing milk suppliers. A credit line from Xalgbank has already been secured. The BDS visited the Jalilabad region to view Turkish milk holding tanks and speak with Turkish specialists. It met with 23 farmers in Samukh and Dashkesan and another 50 farmers in Akstafa and Goy-Gol to discuss the dairy’s operations, identify milk collection and provide 2-ton capacity milk tanks for their collection points. Four 2-ton milk tanks, out of the planned eight, arrived and were installed in BDS selected milk collection points in Samukh, Goy-Gol, and Dashkesan. A Turkish specialist from the supplier company trained the collection point representatives on tank maintenance, collection point hygiene and sanitation, and use of instruments and meters for milk testing.

On the production side, the Ganja BDS worked on a business plan for a dairy company which recently bought land for dairy cattle breeding. The BDS also assisted another client with a leasing application to Agro-Leasing for the purchase of new Australian bred milking cows. The BDS also held discussions with a third client on the installation of dairy cattle feed storage units and the development of a client base.

In late September, the Ministry of Economic Development (MoED) sponsored an industrial fair in Ganja. The BDS demonstrated new vacuum milking equipment imported from the Lucas Company in Turkey. The three demonstration models were sold during the exposition and additional orders taken.
4. Aquaculture

Although there is significant demand for this industry from local restaurants, retail stores, and potentially for export, aquaculture production in Azerbaijan decreased 95 percent over the last two decades from approximately 60,000 MT in 1988 to just 3,000 MT in 2007. PSCEP’s full spectrum of value chain activities aim to revitalize the sector through the introduction of modern operational methods to improve antiquated Soviet-era facilities and techniques. By focusing on farms in key areas where conditions are appropriate, supporting the entry into the market of significant players, and attempting to bring together stakeholders to solve common problems through emerging association(s), PSCEP can have a major impact in revitalizing this sector. PSCEP also is focusing on long-term sustainability by involving and promoting the development and use of local expertise: local consultants and service providers, local feed production and supply, and local sources of carp fingerlings.

The burgeoning interest in expansion of existing operations and in new investment in the aquaculture sector is in part attributable to project involvement and progress. Aquaculture has been a success story during the year with activities ranging from advice to potential investors; assistance in sourcing, securing, hatching and rearing fingerlings from improved stocks of eyed-trout eggs; and technical assistance on production facilities, water quality, spatial designs, rearing and feeding practices, and sources of feed. PSCEP guidance involved international short-term technical assistance, as well as local short-term advice. PSCEP also provided support through small grants for local production and the import of quality fish feed, as well as the establishment of an association-based carp hatchery. The project was also successful in its collaborative fostering activities planned to lead up to the formalization of an association (joint orders for purchase and importation of eyed-trout eggs; joint capital investment in the carp hatchery; and bulk orders for fish feed). Project specifics are described in more detail below.

a. Short-Term and Local Technical Assistance

PSCEP’s local value chain (VCS) advisor together with the project’s northern BDSs and international experts in trout and carp production were instrumental in furthering developments in the industry.

- In December 2009, PSCEP contracted a trout production specialist to assist the farms in Guba, Sheki, and Ganja with the tempering and incubation of the eyed-trout eggs ordered by local farmers (see consolidated eyed-trout egg order, below). During his first assignment, the specialist also provided significant assistance in water quality and farm management prior to the arrival of the trout eggs. The specialist continued his assistance from abroad, making himself available to the fish farms and BDSs that participated in the eyed-trout-egg order through email or Skype.

The trout production specialist returned to Azerbaijan in February. The PSCEP team visited all participants in the eyed-egg activity to review progress on implementing recommendations and assess growth of the newly hatched trout. Besides visits to Guba, Ganja, and Sheki/Zagatala areas, the team visited a participating farm in Nakhchivan to provide technical assistance. To increase impact and broaden understanding of the sector,
the team also visited additional farms and spoke with potential investors or operators. The specialist noted producers were not feeding their fish adequately (issues of fish feed quality and quantity) which would increase the length of the production period, hamper the ability of the fish to reach their genetic production potential, and result in increased costs and smaller annual revenues. He also emphasized the importance of water flow and oxygen, reusing water, and multi-cropping mutually supportive animals within the same body of water (i.e., carp, trout, and ducks).

In an effort to develop greater local capacity in the aquaculture sector, PSCEP contracted an experienced local fish farmer to accompany/shadow the specialist on site visits to other farms. By participating in the aquaculture assistance practices, the local fish farmer will be able to provide local short-term assistance for local farmers in the future.

- The expatriate consultant also was influential in the development of a carp hatchery operation in Zagatala, providing several key recommendations which could increase the supply of to up to 2 million fingerlings per year, an increase of 400 percent. Based on these recommendations, the hatchery made a grant request to PSCEP to expand and improve operations which is detailed in the grant section below.

- Given the number of carp and trout farms in the country, PSCEP found it necessary to increase the number of international aquaculture experts. PSCEP recruited a carp specialist to provide short-term technical support to carp farmers, similar to the assistance offered to trout producers. The consultant began offering short-term support in September—including visits to the southern regions where a substantial number of carp producers are found—and participated in the project’s October aquaculture workshop. PSCEP also engaged a local experienced technician to accompany Dr. Karangwa to develop the local expert’s capacity to provide consulting technical assistance for carp producers.

- BDS Activities:
  1) The Ganja BDS has also been providing assistance to the aquaculture sector. One of its clients, a trout producer which has expanded into carp production, requested technical assistance to construct a water supply and drainage system for carp production. The BDS involved the Ganja Main Water System Department to design the system and to prepare a work plan and budget estimations. Construction has begun.

  2) One of the Ganja BDS clients, a trout farm in Goy-Gol, had problems finding suitable fingerling feed for the newly hatched trout from the eyed-egg operation. The Ganja BDS linked the company with another farm in Gusar which had excess feed to sell, and 50 kg of feed was purchased. Per an urgent request of the fish farm, the Ganja BDS assisted the farm purchase 100 kg of fish feed from Georgia for its fingerlings. This type of arrangement can work for small amounts of feed, but it is unsuitable for the larger volumes required to meet the needs of significant numbers of rapidly growing fish.

  3) PSCEP’s Guba BDS is also actively involved in the aquaculture sector. The Guba BDS met several times with a large Guba-based fish farming company. The company is willing to buy its feed through the proposed fish feed importation program if the terms and quality are satisfactory. The fish farm also wants to establish its own egg-production operation and would like the PSCEP consultant to provide guidance. The Guba BDS discussed the company’s water quality problems and visits by the
specialist revealed that the farm could “push” production during the few good months where there was sufficient clean and temperate water. The fish farm is looking into a water purification system and the expansion of their hatchery.

4) After the specialist’s December visit, the Guba BDS followed his recommendations with a second Guba fish farm. The farm purchased 150,000 eyed-trout eggs. Hatching was good at over 90 percent but the specialist remarked the production area needed to be expanded and the water temperature was too low. The place where they are currently keeping the fish was intended only for a temporary grow-out location for the fingerlings; it is not a production facility. PSCEP strongly advised the farm to expand the raceways and to channel more water for higher oxygenation into the production area. The owner, however, did not follow PSCEP’s recommendations and the Guba BDS reported the fish farm was having difficulties with high mortality rates, particularly after feeding, due to the fish growing with no room. Having learned from his experience in the first year, the owner has since heeded the recommendations: he has built additional raceways and grow-out areas and has ordered another 100,000 eggs from Troutlodge in the second consolidated eyed-egg order expected to arrive in December 2010.

b. Grant-based Activities

Early in the project’s second year, PSCEP’s VCS for Aquaculture worked with the PSCEP Sheki BDS to coordinate and manage the consolidated eyed-trout egg order. The egg importation proved to be a success. As sack fry began to grow and turn into fingerlings, they required significant quantities of the appropriate feed to maximize their growth potential and reduce the growing period. However, there is no fish feed production in Azerbaijan for this type of feed. This problem led two separate PSCEP small grant operations to address the fish feed issues.

- Fish Feed Distribution: In PSCEP’s efforts to address the fish feed issue from a larger scale sustainable perspective, the VCS accompanied the Sheki BDS to Georgia to meet with Dogan Feed Company (the closest source of appropriate quality fish feed). There are many benefits of working with Dogan Feed, including their technical specialists who can provide support to assist Azerbaijani clients with fish feeding. Several weeks later PSCEP hosted the director of Dogan Feed to discuss progress and the next steps in implementing the feed arrangements. Before and after the Georgia trip, meetings and phone conversations were held with local fish farmers in 13 regions and with PSCEP BDSs to forecast the immediate- and medium-term demand for fish feed.

Based on analyses and negotiations, a grant proposal was submitted to PSCEP for working capital to establish a fish feed importation operation from Georgia. Acknowledging the lack of adequate supplies of quality fish feed as the key limiting factor for the development of the aquaculture industry in Azerbaijan, the PSCEP Grant
Evaluation Committee approved the grant. Unfortunately, the business arrangements with Dogan Feed were not realized, as the Georgian company backed off their agreement. PSCEP therefore researched fish feed suppliers and identified Coppens International, a world leader in fish feed from the Netherlands, as a reliable source. While negotiations continued on a long-term distributorship agreement with Coppens that will allow later imports to be done directly through Coppens, the grantees negotiated a contract with Coppens’ Georgian distributor to expedite the first delivery, and a commodity origin waiver was approved by USAID’s regional mission. In addition, PSCEP and the grantee had meetings with the Caspian Fish Company—the major Azerbaijan aquaculture company, but which does not specialize in trout—to explore business arrangements.

- **Fish Feed Mill Rehabilitation:** In addition to the fish feed import, PSCEP worked with local farmers to begin local, small scale production of fish feed by approving a grant to assist with the refurbishment of the fish feed mill in Sheki—as an associative effort—to provide local fish producers with sources of feed. Restoration of the feed mill will help to increase feed production from the very low 5 tons annual production to 12 tons per shift (10 hours), as well as improve the quality of fish feed quality. PSCEP will work with the AIM animal feed laboratory, once operational, to test the fish feeds to ensure that the customers are receiving a proper quality rations.

- **Carp Hatchery:** Following work with the PSCEP specialist, Hajibulag farm and an association of lake-fish farmers approached PSCEP with a grant concept to construct a carp hatchery which could provide lake fish farms in the north-western regions of Azerbaijan with a constant supply of local fries and fingerlings, thereby increasing the cost-efficiency and competitiveness of the Azerbaijani lake-based aquaculture sector. PSCEP approved the grant in June 2010. An environmental monitoring and mitigation plan was developed for the hatchery and approved by USAID’s regional environmental officer, after which construction began in July. The hatchery was opened and introduced to the public during the Second Annual Aquaculture Conference in October 2010 – with the first hatch expected in May 2011. The hatchery will supply the domestic market with ecologically clean, high-quality silver carp and grass carp, but also has the capacity to later expand to hatch different varieties of fish fingerlings – including trout, tilapia, and catfish if desired.
c. Outreach and Association-building:

- Second Annual Aquaculture Conference: PSCEP efforts to increase its technical impact involved holding an expanded second annual aquaculture conference in early October to address production and marketing issues through presentations by national and international experts. Invitations were sent to trout and carp farmers, all PSCEP BDSs and AIM, Ganja Agricultural University, PSCEP partner investment companies\(^\text{10}\), banks, and select international feed and fish egg suppliers, and a large potential industry actor (Caspian Fish Company). Conference presenters from Trout Lodge (eyed-trout egg supplier) and Coppens (fish feed supplier) would make presentations, as well as PSCEP’s international carp expert, trout expert (via videoconference), and local fish consultants. Field visits to both carp and trout farms will be made and a ribbon cutting ceremony for the new carp hatchery and the fish feed mill will be part of the events.

- European Future Fish Fair Participation: Further exposure to modern production methods and potential buyers and suppliers is important for Azerbaijan’s aquaculture industry. PSCEP supported Azerbaijani fish farmer attendance, on a cost-share basis at the European Future Fish Fair (http://www.eurasiafairs.com/eng/katilimci.html) in Izmir, Turkey in mid-September. PSCEP’s BDS BIC coordinated the arrangements and the project’s VCS accompanied and guided the group. For all this was the first time attending an international fish fair.

- Consolidated Eyed-Trout Egg Orders: PSCEP facilitated the country’s first consolidated order for 500,000 trout eyed-eggs to be imported into Azerbaijan in late December 2009. PSCEP aquaculture specialist arrived in Azerbaijan in time to ensure the eyed eggs were properly received, handled, tempered, and incubated at the farms to optimize the hatch rates. He worked with the four ordering fish farms to prepare their hatcheries and provided hands-on training in handling and incubating the eggs. The eggs hatched approximately two weeks later with all farms reporting hatch rates between 90-98 percent – well above the Azerbaijani industry norms of 60 percent for locally-sourced eggs.

\(^{10}\) Both AIC and CIIC expressed interest in the aquaculture industry and understanding investment opportunities.
Subsequently, the resulting fingerlings developed well with little mortality. These fingerlings were three times bigger than fingerlings hatched from local eggs at the same age. PSCEP spoke to local specialists at two state fish restocking enterprises raising trout who said the local stock has degenerated and needed renewal. Currently, local trout eggs hatch in 72 days, while eggs imported from Trout Lodge hatched in 20 days. Fish without improved genetics, proper nutrition and raising, local trout reach market size of 180 – 220 grams in 18 months, while Trout Lodge guarantees the same result in 6 – 8 months with proper feeding. For the farmer this means three times more frequent harvests and consequently higher income.

A second larger order of eyed-trout eggs was planned for the autumn 2010, with delivery expected in late-November or early-December. The order is for 1 million eggs for 8 clients – 5 of which are new for this order and two of whom would likely need assistance with the tempering process (the other three are experienced in incubation). PSCEP expects to bring its trout specialist back to assist with this order, and to work with the local specialist who shadowed him during the last incubation period to assist new farmers with the process.

5. Fruits and Vegetables

PSCEP’s work in this broad sector supports sub-sectors that are themselves key segments of agro-industry value chains. These include cold storage, greenhouse production, and fruit and vegetable processing.

a. Cold Storage

The fruit and vegetable industry is a profitable sector in Azerbaijan, especially if means are used to prolong and target selling seasons. Major sales at harvest mean low prices, while targeting seasonal markets with the right quality fruits and vegetables means a more lucrative business. In addition to market analysis and selection, this also requires the installation of appropriate production and post-harvest systems including the selection of storable varieties, production techniques that produce storable products, proper harvest handling and timing, proper post-harvest handling and produce selection for storing, cooling and storing, and cold chain management.

The cold storage sub-sector continues to be an attractive area for investors both for new facilities and for related value-added auxiliary operations. However, given the relative newness of the sector, management and technical questions still need to be addressed. In the last few years Azerbaijan’s agriculture sectors have paid increased attention to cold storage with private investment, government credit facilities, the banking industry, and investment companies providing financing for the construction of new cold storage facilities. A major issue,
however, is the focus on only one aspect of seasonal marketing: cold storage. This marketing opportunity really requires a systems approach involving production, harvesting, and post harvest decisions.

PSCEP’s initial analysis of cold storage and cold chain facilities revealed almost universally that companies lacked experience in operating and maintaining modern cold storage facilities, especially within a free market competitive system. Furthermore, the cold chain does not exist. Efforts were almost totally focused on storing products in cold storage units, but there was only general knowledge of optimum temperatures and conditions for the storage of fresh produce and considerable disinformation on current technical processes for extending shelf life of these products, particularly tree fruits. Experience in the construction and management of the new cold storage units is limited and based on older technology and information. Preventative maintenance is virtually non-existent and none of the interviewed owners had plans for continued maintenance of their facilities once the initial 1-3 year warranty period expired. None had temperature recording devices, which are critical to most food protection programs and of paramount importance in maintaining and substantiating the product has been stored under appropriate and consistent conditions necessary for higher valued products. None of the facilities visited had formal sanitation or other food protection plans, which are prerequisites for participation in the international export trade with most of the world. There also are management and marketing problems for existing warehouse and cold storage facilities, which often sit empty. Finally, the fruit and vegetable sector as a whole lacks fundamental expertise in regards to post-harvest handling of their crops and knowledge of potential value-added opportunities.

PSCEP approached cold storage issues from several directions: (1) improve the management and technology employed through short-term international technical assistance and the involvement of our BDS providers and related local organizations (Ganja Agriculture University, Agro-Scientific Center in Guba); (2) facilitate loans through business plan development and banking relationships; (3) provide technical advice to partner investment companies AIC and CIIC; and (4) increase efficient cold storage use through producer—cold storage relationships, for example, storage of Jalilabad potatoes in Guba prior to shipment to Russian market. The latter was not effective unfortunately, as the prices to be charged were not attractive to the producers.

A summary of PSCEP’s cold storage international expert visits is found below:

- The PSCEP expert visited CIIC’s N.A.A cold storage facility in Ganja, as requested by the CIIC director. In Ganja the consultant also met with the local BDS and local cold storage facilities and conducted a workshop for 25 faculty members on “Postharvest care for fruits and vegetables” at the State Agrarian University. In Ter-Ter region the consultant and the cold chain VCS met with AIM staff and held a strawberry post-harvest handling workshop for 23 strawberry growers who receive extension services from AIM. The consultant also visited strawberry fields and provided field training and recommendations on varieties, production, handling, and cold storage.

- In the southern region the consultant met with the Jalilabad BDS and provided advice to grape growers on production, product handling, and cold storage. The consultant continued with visits to strawberry fields in Jalilabad and provided a workshop to strawberry growers. In the northern region, the consultant met with the Guba BDS and held a workshop on cold storage and post-harvest handling for seven cold storage owners (both clients and potential clients), fruit producers, and a cold storage specialist from the Agro-Scientific Center. The consultant provided hands-on training at a number of the cold storage facilities, visited high density apple orchards in Guba—the area’s primary
cold stored fruit. He also met with the director of Agro-Scientific Center Ilham Guliyev and horticulture PhDs to discuss and learn about crop varieties in Azerbaijan, problems of growers and cold storage operators, and future perspectives in the agricultural sector.

- The consultant’s comments and recommendations were well received. Cold storage operators and fruit producers requested and are willing to cost-share and additional assignment for him during the harvest period in October or November. PSCEP’s consultant provided the following comments after visits to cold storage units, producers and other stakeholders:

1) Cold storage facilities in general are adequate but all visited facilities had the common problems of slow initial reductions in temperatures, poor air circulation, limited humidity controls, and inadequate ethylene ventilation. Simple and relatively inexpensive hand-held instruments for humidity, ethylene, and air circulation measurement are available, as are ethylene-absorbing filters, which should be purchased. Individual cold rooms do not have enough refrigeration capacity and air flow velocity to rapidly remove the field heat from warm products and cool them to a 0°C storage temperature. This will be especially problematic if large quantities of product are placed in a given room during the same day. The lack of adequate refrigeration capacity and air flow for quick cooling is unfortunate, because maximum storage life of any product is obtained by rapid removal of the field heat as soon as possible after harvest. Ideally, the pulp temperature of the harvested product should be lowered to its optimal storage temperature within 4-6 hours after harvest. For example, highly perishable fruit crops such as strawberries with a pulp temperature of 30°C will lose 1 day in market life for every hour of cooling delay. Even less perishable crops such as apples can lose their firmness and market quality after several months of storage if the rate of initial field heat removal is slow. Dr. Picha recommended field shading and field packing to reduce product heat while awaiting transport to cold store units.

2) All fruits and vegetables produce ethylene, since it is a natural ripening hormone, but the build-up of ethylene in an enclosed storage room is very detrimental to the post-harvest quality of stored fruits and vegetables. The degree of product damage depends upon the commodity, concentration, length of exposure time, and temperature. Inadequate internal air ventilation inside the storage rooms can lead to a build-up of ethylene, which is also emitted by propane, diesel, and gasoline-powered engines. Machines and forklifts which are powered by fossil-fuel requiring engines should never be used inside the storage facility. Certain fruits and vegetables produce relatively high amounts of ethylene (i.e., apples, melons, peaches, pears, tomatoes) and should always be stored separately from those products that are ethylene sensitive (i.e., persimmons, cabbage, leafy greens). Ethylene causes accelerated ripening and deterioration of fruit and vegetables and significantly reduces storage life. Even at very low concentrations ethylene will cause rapid breakdown of the tissue. Persimmons are particularly sensitive to ethylene damage, with the fruit becoming soft and discolored. Apples also lose their firmness and become soft when exposed to ethylene.

3) Attention should be paid to the complete cold chain to include refrigerated transport which is seriously lacking and could defeat all the efforts in maintaining product quality from improved cold storage facilities.

4) Vegetable and fruit production techniques and crop varieties are out of date and hamper yields, quality, and marketability. The Turkish horticulture industry is a good
model to follow and a good source of material, equipment, and knowledge, with its similar climate, more modern production techniques, varieties, cold storage, and handling techniques.

5) Cold storage owners, farmers, and exporters all need to pay increased attention to marketing and taking the necessary steps to secure new and maintain existing markets. Counter-season fruits (including strawberries) and vegetables continue to have excellent markets in Russia, but the Russian market is becoming increasingly competitive. Expanding into the European market will require various international certifications, including the important GlobalGap certification, which none of the producers or exporters currently have.

6) Successful long-term storage of table grapes will require proper sulfur dioxide (SO2) fumigation at regular intervals. The introduction and regulation of the SO2 concentration must be carefully controlled in order to obtain adequate suppression of Botrytis gray mold, while at the same time avoiding phytotoxicity to the grapes. SO2 is also corrosive to metal inside the storage rooms.

The following is a summary of regional PSCEP activities in the cold storage sub-sector.

- Cold storage is particularly important in the Guba and Ganja areas and should become increasingly relevant in the grape (and strawberry) growing areas like Jalilabad and Agiebeddi in the future. In light of the consultant’s visit and the resulting interest of Guba’s cold storage providers, the Guba BDS is interested in becoming a distributor for hand-held cold storage and post-harvest testing and related equipment (for example, sugar refractometers, ethylene monitors, air circulation meters, ethylene removal material).

- The Jalilabad BDS continued its production assistance to several early potato farmers to secure agricultural inputs (seeds, fertilizer) and address initial production issues. This assistance was directed to several large potato producers who provide a market and technical support for an additional 153 smaller producers. Per request of the BDS’s major client for local assistance in the construction of an underground potato warehouse, PSCEP interviewed two local engineers to provide cost estimates and technical recommendations; unfortunately, neither had suitable experience.

- The Jalilabad BDS also contacted the Guba BDS to negotiate with two of the Guba cold storage clients to store potatoes and possibly provide packing and transport arrangements for export to Russian markets. One of the cold storage providers said that it could provide the cold storage services for a cost of 1 AZN per day per ton of potatoes. However, following the poor harvest this year, potato producers in Jalilabad felt that it was not a profitable arrangement for them as all produce was immediately sent to Russia.

- PSCEP’s Guba BDS conducted a marketing study to identify prices for dry fruits, local demand, customer preferences and export opportunities for one of its clients. In addition to their current cold storage facility and fruit drying production, the client is planning on expanding by building an additional 2,000 ton storage unit in the Guba region with BDS assistance. The client has added quick cooling equipment to its current facility to rapidly cool cherries, plums and small stone fruit, and has arranged its units for the fall apple harvest. In its second facility, the client intends to include a jam production facility and is working with the BDS to identify financing and equipment. The Guba BDS also supported the company in the design of company stick-on labels for export fruit and advice on marketing.
• A third Guba client continued its work on a 2,000 ton capacity cold storage facility that will include a packaging production activity, and the BDS researched packaging production suitable for shipping fruits and vegetables. Based on the BDS packaging and fruit processing information, the client will apply to the State Leasing Fund for financing. The BDS will provide assistance on business plan development. The company also contracted the preparation of a business plan for the expansion of the company’s orchards which will supply the cold storage units and planned fruit processing activity.

• PSCEP’s Ganja BDS hosted representatives of the Sera Cold Company from Turkey and organized their visits to the Ganja area cold storage companies seeking to expand or improve their cold storage systems; and in particular to make technical recommendations and cost estimates for a 1,000 ton capacity cold storage construction for one of the BDS clients. Through the BDS, Sera Cold also supplied a short-term consultant to advise three cold storage operators on persimmon storage. The BDS also facilitated the purchase and financing of humidifiers (from Sera Cold) for persimmon cold storage this year and helped a client finance and secure three cold storage units, with total capacities of 1,400 tons each, for a facility in Dashkesan. Equipment is ordered and scheduled to be delivered and installed by the end of September 2010.

• In addition, the Ganja BDS met with a Tovuz entrepreneur to review plans for the building of a cold storage facility in the region, and assisted a Dashkesan investor apply to Xalg Bank for a loan to construct a 1,000 ton capacity cold storage unit.

b. Greenhouses

The PSCEP Domestic Resource Cost (DRC) analysis identified greenhouse horticulture production as highly profitable. Attractive Russian and local markets exist for off-season greenhouse production. However, Azerbaijan only exploits opportunities for tomato and cucumber exports. In spite of this narrow market vision, producers and investors are interested in expanding production but they are coming up against financing and capital issues, as well as cost and technical constraints. Many of the existing businesses are still using older structures and materials, and require technical assistance and advice in moving towards more modern and cost effective commercial operations. The range of technology used in most commercial greenhouses in Azerbaijan today varies from that approaching modern standards to that which is several decades old. For the sector to have a competitive market position in the region, the greenhouses’ production quality and quantity levels must be raised and made consistent. One important step will be to help replace older technology and techniques with more modern, size appropriate, and cost effective greenhouses.

Heating and temperature control were particularly critical issues. PSCEP analysis showed a minimum of 20 percent of operational costs go for heating, the local natural gas supply is not a reliable heating source, and older Soviet heating systems are not cost effective. Producers also identified heating and temperature control issues as central to improving profitability. To
address issues in the greenhouse sector, PSCEP relied on its BDS subcontractors and its value chain specialists and brought in an international technical consultant to work alongside them. The PSCEP team helped (1) facilitate financing and investment to expand operations and construct new facilities; (2) address identified greenhouse issues and uncovered others while making suggestions on improvements to productivity (infrastructure, production technology, inputs, etc); (3) identify new market and product opportunities: seed and seedling production, plant nurseries, and other greenhouse crops like berries; (4) source equipment including reliable temperature control equipment, materials and production inputs; (5) with market identification, market promotion, product labeling and the development of new marketing tools including internet websites; and (6) the greenhouses to understand and initiate the international certification process in some cases.

A summary of the year’s PSCEP greenhouse sub-sector activities follows.

- Greenhouse owners informed PSCEP they would like to apply new, more cost effective technologies to mitigate heating costs and increase their competitiveness. PSCEP brought in a short-term international consultant to provide expertise in modern and cost-effective heating and temperature control systems and to advise on greenhouse management and production techniques. The consultant visited two large (17 hectare) and four small (1-5 hectare) greenhouses in Ganja, Shemkir, Zagatala, and Lankaran regions where he analyzed issues and made recommendations on temperature control: heating and ventilation; disease and insect control; production-related matters concerning shading and sunlight, fertilization, growing mediums, and seeds; transplant nurseries; produce and alternative business options like seed or strawberry production; and greenhouse construction and construction materials. The consultant provided recommendations to each company and to the BDS providers. He also provided contacts of international greenhouse equipment and input suppliers interested in business in Azerbaijan and left several useful catalogues of suppliers and materials.

- As part of the project’s effort to expand its impact and sustain development, the consultant gave a two-hour workshop on greenhouses to 50 students and instructors of the agrarian faculty in Ganja and provided recommendations on the reconstruction of the 0.40 acre university greenhouse dating from the Soviet period. An afternoon question and answer session was held with CIIC at the end of the assignment to review the country’s greenhouse sub-sector and suggest related investment opportunities.

- Following the consultant’s visit in January, the AzRusDostlug company requested the Ganja BDS organize a trip to greenhouses in Lankaran where new heating equipment was installed. AzRusDostlug experts did not like some elements in that equipment and requested the BDS to search for other heating equipment. Proposals from several vendors were received and evaluated and the proposal from Turkish company “Damir Dokum” was selected for further assessment. While the Ganja BDS has assisted the company to identify equipment options and possible bank financing, the company has yet to make a final decision on the investment.

- As a result of the consultant’s visit, the Ganja BDS submitted a grant proposal to the PSCEP Grants Evaluation Committee to test and demonstrate a new small-sized greenhouse heating system that works with heavy oil and natural gas. The advantages of this system over those currently in use are that it is fully automated – providing stable temperatures for upper and lower parts of the greenhouse with electronic temperature stabilizers. The systems are much safer in terms of fuel storage and operation, significantly reduces fuel consumption, and can switch from gas to heavy oil within 5
minutes. The proposal concept paper was accepted by the evaluation committee but unfortunately the full grant application arrived too late to be considered since the implementation and test results would have carried on beyond the life of the project. PSCEP encouraged the BDS and the test promoter to seek other sources of funding to undertake the trial—the BDS will share the cost with a greenhouse owner and purchase the equipment in near future.

- To further promote greenhouses in the Ganja area, the BDS invited the Agro-Leasing Company to visit fifteen greenhouses in the Shemkir region to evaluate the demand for new construction. They found a large demand for metal greenhouse frames, which can be produced in Azerbaijan. Based on this analysis, the BDS submitted a business proposal to the MoED that was forwarded to Agro-Leasing. An agreement was reached with the Azerbaijan State Entrepreneurship Fund and the Agro-Leasing Company to launch a new leasing project for development of the greenhouse sub-sector. The BDS and Agro-Leasing visited Shamkir, Tovuz, and Samukh regions to review proposals to lease greenhouse equipment and funds for greenhouse construction materials for building small-scale greenhouses (0.10-0.20 acres). The names of eighteen entrepreneurs interested in participating were gathered and submitted to the State Fund with four greenhouse projects approved and another three projects are being reviewed for documentation and collateral requirements.

- Analyzing the high costs of imported fertilizers in greenhouse production, the Ganja BDS attempted to organize a bulk purchase of Italian fertilizer for greenhouse operators. Eight growers from Samukh, Shemkir, Lankaran, and Jalilabad were interested in purchasing a total of 20 tons. However, meetings with Azerbaijan’s Head of the Customs Department and with the Ministry of Agriculture, to learn details and regulations related to customs clearance of fertilizer, led to the dropping of the initiative.

- As was the case during the project’s first year, PSCEP’s Lankaran BDS helped its clients in sourcing greenhouse equipment and inputs (e.g. glass, drip-irrigation equipment, seedlings), providing assistance on designs of new structures and production technologies, researching new plants and varieties, and promoting greenhouse products.

- The Lankaran BDS supported a client in the establishment of a 0.6 hectare greenhouse by providing information on equipment and construction materials, organizing visits to other Azerbaijani greenhouses, and developing a greenhouse business plan. The BDS also advised the company on packaging and handling of fruits and vegetables, and introduced it to the BDS’s fruit and vegetable processing client seeking vegetable suppliers.

- The Lankaran BDS provided marketing services to a second greenhouse client by developing promotional materials for distribution to supermarkets, wedding palaces, and bazaars. The BDS promoted the company’s products on its website and helped the company create its own website. The BDS met frequently with greenhouse agronomic staff to advise them on pesticide use and crop disease prevention and treatment. It also assisted the company to purchase modern planting materials from an Israeli company and change their heating system to a more efficient mode. The BDS also researched training opportunities and facilitated participation of the greenhouse technician for a one-month agricultural training workshop in Germany.

- The Lankaran BDS initiated a promotional campaign for its greenhouse ornamental plant producer by developing marketing literature. It is also helped the company research landscape designs, ornamental plant cultivation equipment, and production techniques on
the internet. The Lankaran BDS provided a further greenhouse client with information on packaging materials and transportation for the company’s products.

- In Sheki, PSCEP assisted its partner BDS expand the operations of a large local greenhouse and negotiate with a leasing company to fund heating equipment for it. However, the greenhouse company did not like the terms of the leasing deal and ultimately found its own source of financing for the project.

c. Processed Fruits and Vegetables

PSCEP is also involved with the fruit and vegetable processing sub-sector—another aspect of seasonal marketing/value-added activities. Azerbaijan’s processed fruit and vegetable industry focuses primarily on the Russian and domestic markets with a limited handful of products: pickles, juices, compotes, tomato paste and sauce, and some dried fruits for example. Azerbaijani companies are capable of penetrating additional value added domestic and international markets. However, safety and quality procedures, international certifications, and a competitive cost structure are an absolute must if Azerbaijan is to have internationally competitive agricultural and processed food industries.

The PSCEP strategy with processed fruits and vegetables is similar to that which the project applied elsewhere in agriculture. PSCEP directly or through its BDSs provided assistance in (1) facilitation of financing and investment; (2) short-term technical assistance; (3) market identification and marketing promotion including internet marketing; (4) assistance in international certifications and training; (5) contact facilitation between processor and producer-suppliers, identification of producer-suppliers, and production advice to producer-suppliers; and (6) assisting new value added opportunities e.g. chocolate covered hazelnuts.

Annual activities are summarized below:

- PSCEP’s Guba BDS was involved with several clients to (1) source equipment and financing, (2) identify farmer-suppliers and provide them with production information and training, (3) promote products through improved packaging and labeling, and (4) improve operations management and planning.

- A juice processing client in Qusar contracts fruit from 4-5 main suppliers who in turn buy from 30-40 sub-suppliers in Guba, Gusar, and Khacmaz regions. Per the request of the company, the Guba BDS identified and linked them with more than 30 rose-hip grower-suppliers.

- The PSCEP Guba BDS worked with a second client to initiate the company’s fruit drying activities and helped it explore expansion into jam production. The BDS is also developing attractive and detailed product labeling. The processing company received an order from Germany to supply 200 tons of dried apples and is testing the new fruit drying line to meet the order’s specifications. In September, they also began to stock second-grade apples, or those not optimal for cold storage but well suited for drying, to prepare for the order.

- A third client is also interested in expanding its cold storage activities and entering into fruit processing. GMC assisted the company to reach agreement with local farmers to supply fruit for processing and to rent cold storage space.

- PSCEP’s Lankaran BDS continued to assist fruit and vegetable processing clients in marketing and marketing research. It researched markets and competitive products in Europe, Russia, Central Asia, and Australia. The BDS also increased the amount of information about its fruit and vegetable processing clients on its website, created
websites for some clients, printed and distributed company marketing material to potential customers, and addressed international certifications and standards issues for export-oriented clients. The BDS also assisted in sourcing new farmer-suppliers and improving fruit and vegetable supplies. It provided training and orientation on new varieties and growing techniques, the importance of quality production and proper use and timing of inputs, and agro-technical services to improve quality and yields. It also helped establish a business network based on buyer-supplier contracts and adherence to contracts.

- The Lankaran BDS linked one of its fruit producers with a fruit and vegetable processing client for the supply of feijoa for processing. The BDS provided information on production, linked the company with a seedling grower in the area, facilitated contacts with credit institutions, and helped to prepare a business plan to secure production financing for increased citrus production.

- Lankaran also assisted a pomegranate processing company to secure international certifications including help to participate in a one-month training program in Germany organized under an agreement between the German and Azerbaijani governments. The company’s product marketing was supported through the creation of brochures and promotion on the BDS website; and assistance was provided with negotiations with a Russian buyer of pomegranate concentrate. The BDS also provided fruit production training materials for the company’s fruit producer-suppliers.

- Taking advantage of the end of the fruit processing season in late winter, the Lankaran BDS provided training and materials on hygiene practices and production safety rules to its processing clients. Product marketing materials were developed and client company products were promoted on the BDS web page. For one specific client, a client website was developed to enhance the company’s image and promote its products to additional export markets including Germany and Afghanistan.

- PSCEP’s BDS provider in Jalilabad provided assistance to fruit and vegetable producers to improve their yields and product quality and to make contacts with processors. The Jalilabad region is seeing resurgence in table grape production in the fourth year of production for most grape farmers. There are approximately 1,500 hectares of land under cultivation. The BDS supported grape growers with information on drip-irrigation equipment and improved grape production techniques. Growers are interested in leasing drip irrigation and the BDS has been researching leasing possibilities. Another leasing opportunity for steel stake making equipment to produce support structures for new vineyards was also explored. Jalilabad grape growers are also interested in raisin production, but there are no fruit drying centers in the region. PSCEP suggested contacting fruit drying companies through the Guba-based BDS. However, as the Jalilabad vineyards are not yet at full capacity and the 2010 harvest has been small, discussions on cold storage and fruit drying have been tabled for this year.
• At the request of CIIC, the Ganja BDS developed a scope of work for a consultant to assist the NAA Company with a fruit and vegetable drying operation. The BDS linked CIIC/NAA with the PUMA Company which identifies and provides consultants in this field. The Ganja BDS also provided contacts with the Multivac and Shaller companies for the purchase of equipment to dry fruits and vegetables and to peel pomegranates. Equipment is currently on order and training will begin following delivery and installation.

• The Ganja BDS worked with Unilever to identify and facilitate business arrangements for a dried fruit and vegetable export activity (dried onions, potatoes, and other available fruits and vegetables) and organized meetings between Unilever and NAA. The BDS also assessed local onion production and estimated the financing requirements for Unilever to provide production inputs. Producer-suppliers would supply NAA with onions for drying. The BDS continued to work with NAA to finalize an agreement with Unilever to purchase dried vegetables – specifically onions, garlic, pumpkin, parsley, leeks, and sugar beets. As dried vegetables are a new export product for Azerbaijan, Unilever is currently working with the Azerbaijani Ministry of Agriculture for the necessary documentation and certification for this transaction. NAA also has an agreement with the Azerbaijani military to supply dried fruit in the coming year. In addition, the BDS is assisting NAA to meet Unilever requirements (ISO and HACCP certifications) and to identify drying equipment and produce suppliers.

• The Ganja BDS also facilitated contacts and sourced equipment for the Elba Company for its flash-freezing plant for fruits and vegetables. The BDS also linked the Vugar Company and similar Turkish businesses to develop business ties for information exchanges and collaborative arrangements for possible exports to the EU in the future.

• The PSCEP BDS in Sheki assisted a hazelnut processing client in sourcing used packaging equipment for their hazelnut line; and economically priced used wrapping and labeling equipment for its candied hazelnuts.

Marketing

Reliable and timely market information is a critical element for successful business decision making. However, it is a weak link for Azerbaijan’s private sector. With no systematic provision or source of agricultural market information, securing information is an ad hoc, informal, and company specific activity. This was confirmed by PSCEP’s brief survey on the sources, uses and needs of agricultural market information of BDS client companies. The assessment showed there is no consistent or accurate agriculture market information provided in Azerbaijan. Nor do entrepreneurs spend money or time for market research essential for their business development. Instead, they prefer to get “bits and pieces” of market information based on observations and inquiries of partners and other related parties. In spite of this, respondents said that they felt this was a critical weakness and would welcome a source of reliable and timely information.

PSCEP identified AIM as the one source of market information provided to the agricultural sector, but also identified several weaknesses in its provision of data. A short-term PSCEP consultant worked with AIM marketing information and IT staff and visited with AIM’s agricultural extension staff and farmers to determine the following: the objectives of its data collection; the types, frequency, and reliability of collected data; the analysis of the data; and the practicality and use of the data by the targeted end-users (farmers and agricultural extension agents).
The consultant’s main recommendation, which he tested with producers who expressed their willingness to pay for the service, was that since all farmers and extension agents had cell phones (as did almost every family in the AIM region) a simple text messaging service would be a low cost practical agricultural information system applicable to AIM and other farmers throughout the country. The system would allow the farmer to input his farm-gate asking prices for products, planned and actual production quantities, and other simple farm production and marketing information. In return the farmer would receive similar collated information on products and prices in other markets. Simple commercial software is available in international markets to handle the databases, and receive and transmit subscriber information. The AIM director and staff appreciated the fact that this could be a source of additional revenue through hosting the system and sharing revenue with the cell phone line provider, and by selling lists of farmers to advertisers. Though late in the project for PSCEP to become involved with the development, AIM has been encouraged to explore the development of such a system with national cell phone providers or through the Barama Innovation Center.

6. Information Communication Technology

A major constraint to developing a modern competitive economy is the dearth of human capital related to ICT in Azerbaijan, which is also a severe impediment in fostering competitiveness in PSCEP’s sectors and sub-sectors. Though ICT is one of the highest development priorities of the GoAJ, except for telephony and some software development for the oil industry, Azerbaijan’s ICT sector is small and underdeveloped compared to the overall economy. Through Global Development Alliance (GDA) activities PSCEP undertook efforts to strengthen the ICT sector.

The project was successful in identifying concepts, activities, and partners; drafting basic agreements and budgets; and negotiating, reviewing and signing MOUs and grant agreements for two GDA activities: the PC Software Anti-Piracy Alliance and the Barama Innovation Center—signed into effect by USAID’s Regional Representative. PSCEP took a third GDA activity, the Ministry of Education’s ICT Innovation Center Alliance, all the way through the negotiating process. However, it became apparent the activity would be more appropriately housed elsewhere, since it involved governance issues, and PSCEP handed it over to USAID’s Democracy and Governance section for follow up and implementation. The fourth GDA activity, the Cisco Networking Academy Alliance, went through the entire MOU process until the signing but could not be finalized due to time constraints in the PSCEP contract, which meant that implementation would have extended beyond the project’s end date.

It was originally planned that during the project’s second year the GDA activity would be expanded to focus on the agricultural sector. However, given the length of time it takes to bring these alliances to fruition, and the limited implementation period remaining under the PSCEP project, it was decided to devote budgeted resources directly to operational activities in the targeted sectors and additional GDAs were not pursued.
A brief description of the GDAs and their status follows. Please also see the PSCEP Competitiveness Innovation Grant Fund Table below for the current GDA status and brief historical review:

- The PC Software Anti-Piracy Alliance includes partners Microsoft, Softline (a large Russian software company), USAID, the Ministry of Education (in the later phases of alliance activities), and the Central Bank (non-signatory partner). The purpose of the alliance is to address the one of the world’s highest rates for illegal use of software products within the ICT sector. Illegal software use is not only harmful to the business interests of legitimate software vendors, but it also limits the motivation of local software creators who cannot safeguard their copyright and property interests. Additionally, use of pirated software exposes the user to malicious software risks, and computer downtime if the software fails—potentially causing serious disruptions if the software is used in a business environment. The GDA funding for this activity, authorized through the PSCEP small grants fund, is targeted to the purchase of PC audit software packages and for support of training of the CBA auditors on use of this software in Phase I, Part 1; and awareness and education activities under Phase II. The signing ceremony and press conference for the PC Software Anti-Piracy Alliance MOU Phase I was held March 4, 2010.

In Part 1 of Phase 1, Softline undertook initial steps, including surveys and pre-tests, to develop the training curricula for Central Bank auditors in April. Softline then trained 20 staff at the Central Bank of Azerbaijan (CBA) to detect the usage of unlicensed software in performance of the CBA’s regulatory monitoring of Azerbaijani commercial banks. CBA policy requires commercial banks, for security reasons, to use software that is supported by the vendor. The auditors are expected to inspect nearly 5,000 computers at more than 35 commercial banks in Azerbaijan. The CBA’s team will provide each audited bank with a report on their system security and the corrective measures needed to become compliant with the CBA regulations. Over the next two years, the IT Supervision group will educate the commercial banks on the risks of using unlicensed software, and the improved security, benefits, and protection provided by legal software. These actions will directly increase the security of the Azerbaijani financial system, and can serve as a model for other ministries.

After completing the CBA training in June, Softline’s activities shifted to focus on Phase II to target the commercial users of PC software (large businesses with over 250 computers and medium sized enterprises with over 20 computers). In August 2010, training was provided to 15 companies and over

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11 The International Data Corporation (IDC) 2009 Piracy Study found the rate of software piracy in Azerbaijan is 88% percent – a two percent decrease over the 2008 survey, but still unacceptable for a modern economy.
12 In Phase I, Part 2 Softline is seeking to work with the tax inspectorate to train 35 tax inspectors in software product licensing models and the use of audit software to detect the illegal installation and use of PC software at commercial firms. It is anticipated that the tax inspectors will audit more than 50,000 computers at 500 commercial firms; however, the tax authority is still deciding whether to participate in this activity.
13 Originally, the CBA was to assign their normal bank auditors for training. The CBA changed its participants to members of the IT Supervision Division who hold the mandate to monitor the IT systems of commercial banks for compliance with security standards, and are also better at understanding and educating the banks on the deficiencies detected during the audits.
14 The following Azerbaijani companies participated in the sessions: Bank of Baku, Ateshgah, Finca Azerbaijan, Embawood, AtaTexnologiya, EuroMED, IDRAK, Amazon Computers, DNS Computers, Computex, Professional IT, Soliton LTD, IPI Computers, Gigatech, and Digital Source.
150 staff specializing in IT outsourcing. The workshops were oriented to divisional directors and mid-level management of the large and medium companies. The sessions focused on copyrights; management of licenses; importance of acquisition of software licenses; software anti-piracy issues and means of dealing with these issues in Russia, the CIS countries and in other international countries; and intellectual property protection in Azerbaijan.

An additional phase for the GDA was planned – however, due to limited timing on the PSCEP program, USAID will not participate in Phase III. This phase will focus on implementing PC software piracy awareness and education activities targeted at future ICT professionals. Softline will work with the Ministry of Education’s Bureau on ICT for Education and the Ministry for Information and Communication Technology (MICT) to provide training for teachers and faculty on the use of licensed software; create awareness among future ICT professionals, faculty, and other students at four key universities; and partner with Madat (an Azerbaijani NGO) on its MOE-supported software training program by incorporating content on the advantages of licensed software into the Madat training curriculum and training the Madat trainers on the content.

This anti-piracy initiative also has possibilities to extend to neighboring countries. In the lead-up to the MoU signing to gather additional information for the negotiation and implementation phases, PSCEP’s VCS for the ICT sector participated in the Georgian IT Innovation Conference. The conference was organized by the ICT Business Council of Georgia and USAID/RCI, and was sponsored by Microsoft, HP, and other local IT companies. The conference focused on the benefits of integrating innovative information communication technologies to streamline government, business and social procedures and their development—highly relevant to develop the ICT sector in Azerbaijan. Contacts made during the conference have resulted in interest by Microsoft and Softline to launch an anti-piracy program in Georgia, similar to the PSCEP PC Software Anti-Piracy Alliance. Both companies requested that PSCEP share information on alliance progress with USAID/Georgia to promote the possibilities for a similar operation there. Softline also has training offices in Georgia, Kazakhstan, Kyrgyzstan, and Moldova where the Russian-language Anti-Piracy training modules also could be easily implemented.

- The Barama Innovation Center Alliance between Azercell Telecom, Cisco Systems and USAID fosters innovation by establishing an ICT incubation center that will allow approximately 45 young innovators each year to take their ICT innovations to market and start businesses. Fomenting the growth of entrepreneurial, visionary small companies that can increase innovation across the economic landscape would be a significant contribution to the Azerbaijani economy.

Azercell, a leading ICT firm in Azerbaijan established the Barama Innovation Center—a fully equipped technology innovation center—in December 2009. USAID’s assistance through the PSCEP small grant’s program adds value by helping establish a Cisco Entrepreneur Institute at the Innovation Center through local training modules and the provision of equipment needed to operationalize the Entrepreneur Institute. While Azercell

15 The draft MoU for Phase III of the PC Software Anti-Piracy Alliance was reviewed, cleared, and substantial changes—including proposing the Copyright Agency as an alliance partner—suggested by the Cabinet of Ministers, the Ministry of Education (MoE), the Copyright Agency, Ministry of Communication and Information Technology, Ministry of Justice, Ministry of Foreign Affairs, Ministry of Finance, and the Ministry of Economic Development. The significant changes would have necessitated new negotiations among all the parties. Given the time remaining on the PSCEP project, it was not possible to complete negotiations, sign the MoU and have results before the project would be concluded. Therefore, it was decided by USAID and the project to not move forward with this phase of the GDA. Instead, the other alliance partners can carry out the activities and publicity on their own, or they can themselves negotiate and sign a MoU without PSCEP involvement.

16 Barama means cocoon in Azerbaijani, and the program and center are based on the Eriksson’s Mobility World (Crea World) model out of Turkey, to give budding innovators the space and resources to develop their innovative concepts.
provides technical support, the Cisco Entrepreneur Institute provides entrepreneur-specific business knowledge, including business planning skills and Cisco’s Internet business solutions, and a technology enabled human network that provides business advice, mentoring, and services. Cisco will provide online course materials for various subjects, such as starting a business, growing a business, and enterprise essentials. Cisco Entrepreneur Institute’s training will begin in the second stage of the innovators’ practice at the Center. It is expected innovators will develop their ICT innovations for first four-six months and then, as their products/services reach the marketing stage, Cisco will step in with its Entrepreneur Institute program and provide essential business knowledge for the young innovators: Starting a Business, Growing a Business, and iExec Essentials.

In the first session, 5 innovators working on 3 innovation designs were invited to develop their products at the center, with the first expected to launch a product in the Fall 2010. In addition, Barama prepared to host in October 2010 an internship program for 10 ICT and business students from local universities to introduce them to the center’s services and promote the development of new ICT related innovations starting at the academic level.

- Considerable project effort went into the preliminary identification, conceptualization, and negotiating phases of the third GDA, the Cisco Networking Academy Alliance. The alliance intended to establish or expand sustainable academies at seven universities and at least 50 secondary schools that have been determined by the Ministry of Education (MOE) to be e-schools (those with broadband network connectivity and established technology capability). It was planned that Cisco’s Certified Networking Associate (CCNA) courses would be taught at the universities while Cisco’s Information Technology (IT) Essentials would be offered at the secondary schools. The alliance partners included MOE, Cisco, USAID, and AzEduNet—the implementing partner.

PSCEP started the consultation process with Cisco and the other GDA partners in July 2009. After considerable discussion and input a draft MOU was developed and approved by the MOE, USAID and Cisco in December 2009. Based on these approvals, PSCEP staff began the five-month process of clearing this approved MOU with the Azerbaijani Government. After approval by the Ministry of Education, the MOU went for review to the Cabinet of Ministers, and then to the following ministries and government bodies: Copyright Agency, Ministry of Communication and Information Technology, Ministry of Justice, Ministry of Foreign Affairs, Ministry of Finance, and the Ministry of Economic Development.

Ministerial comments were received by PSCEP on July 2, 2010. After working with the Ministry of Education to incorporate these comments, the revised MOU was approved by USAID’s lawyer and sent to Cisco on July 14, 2010. Unfortunately, on August 3, 2010, PSCEP was informed by one of its GDS partners that its internal approval process would take some time and considerable suggested changes were probable. However, USAID stated that it would be impossible to get a further revised MOU cleared through the government of Azerbaijan at this point given the PSCEP ending date. Having no further viable alternative the GDA process was stopped and PSCEP was unable to continue to participate in the Cisco Networking Academies Alliance. However, USAID has encouraged Cisco, the Ministry of Education, and AzEduNet to continue discussions to develop the alliance on their own in the future.

Based on the work of the PSCEP in GDA implementation, PSCEP’s VCS was invited to participate in a USAID training session on GDAs in Washington in July 2001 where he presented lessons learned regarding the process, likely results, and staff and time required to implement a successful GDA partnerships.
7. BDS Sustainability

A principle project objective has been to ensure the sustainability of the Business Development Service Providers’ (BDSs) endeavors after PSCEP closes. At the end of the reporting period, all but one of the BDSs had more than 50 percent of its earning coming from non-USAID sources.

One way PSCEP has tackled the sustainability issue has been to carefully select its subcontracted regional-BDS providers in the project’s first year, and then to work to increase their capacity to address their clients’ needs, become involved in new sectors and sub-sectors, and attract new clients. This strategy served both PSCEP and the BDSs well. For PSCEP, this was a way to (1) capitalize on local expertise; (2) provide close and knowledgeable technical assistance and locally reachable support in several regions of the country; (3) assess BDS competencies and address those areas needing strengthening; and (4) have a long-term repository of information and expertise for the targeted sectors and sub-sectors.

For the BDSs, the relationship provided (1) a steady and reliable revenue stream; (2) training and more modern information for their professional local experts; and (3) opportunities to receive direct technical assistance to specific sectors, attract new clients, provide increased assistance to existing clients, and potential to keep those clients into the future.

PSCEP’s BDS sustainability activities are summarized below:

- The project provided long-term budgeted contracts which allowed and guided BDSs to carry out technical assistance activities to the project’s targeted sectors, sub-sectors, and regional clients. The BDS provided PSCEP with bi-monthly detailed activity reports and monthly performance reports monitoring their clients’ sales, jobs, and investment activities. Originally, a specific PSCEP VCS was assigned to each BDS provider to monitor their operations and provide constructive feedback. Unfortunately, PSCEP budget problems reduced the number of assigned value chain staff. In the final 9-months of the PSCEP project, the fee structure of BDS contracts was gradually reduced, to wean the BDSs from dependence on USAID funding.

- PSCEP provided the BDSs with workshops and training opportunities to address project management and technical issues which included marketing, long-term planning, monitoring and evaluation (M&E) on direct and indirect impacts, and the BDSs’ role in marketing.

1) In January 2010, PSCEP held a BDS workshop focusing on strategic planning, BDS sustainability plans, and M&E systems and reports. The workshop was designed to help the BDS begin to plan to manage and sustain their activities after PSCEP project closure. This two-day capacity building workshop for the five regional BDS providers, as well as representatives from UMID and AIM, was designed to promote greater cooperation among the partner BDS organizations and regional NGOs. By holding the workshop in Ganja, BDS providers were able to observe the Young Agrarians’ office and work environment, and receive more in-depth information on the business environment in Ganja and upcoming business opportunities with UMID and AIM. The workshop focused on the 2009 results, the 2010 program targets under the revised project timeframe, and techniques to improve reporting and recording achievements in the field to more realistically present the wide-ranging impacts on the BDSs’ direct clients and indirect beneficiaries. The training also focused on how to share both PSCEP and BDS lessons learned from the first year of project implementation. Prior to the workshop, PSCEP developed and circulated among the BDS providers a sustainability plan template to serve as a guiding long-term strategic planning tool. PSCEP reviewed BDS comments and worked with each of the subcontracted BDS providers to address development.
sustainability strategies and to teach them how to better present their results to other donor organizations for future contracts.

2) In April 2010, BDS providers and PSCEP VCSs were invited to Baku to participate in a two-day strategic management training course organized by the Express Group to teach the BDSs about the phases, methods, and tools used to analyze their own business opportunities, while also providing enhanced marketing and services to their clients.

3) In May and June 2010, two BDSs attended the food safety and international certification workshop in Baku and Ganja respectively, hosted by United States Department of Agriculture (USDA) and USAID. The workshops provided an opportunity for the BDS and their clients to learn about pending national legislation, international market requirements, and World Trade Organization (WTO) requirements.

4) In October 2010, all five BDS providers, as well as AIM representatives, attended the second annual PSCEP Aquaculture Conference in Zagatala. The conference allowed Azerbaijani fish farmers and BDSs the opportunity to learn the latest trends in aquaculture by demonstrating modern practices in fish farming, farm management, feeding, and fingerlings rearing. It also allowed them to exchange experience with experts from countries with developed aquaculture sectors, as well as establish useful business contacts with their colleagues throughout Azerbaijan.

- The project furnished short-term international technical assistance to work alongside the BDSs in addressing their clients and potential clients’ technical needs, and at the same time transferring modern technical information to the BDS staff. PSCEP also provided project technical reports to BDSs to post on their websites and share with their clients. The following short-term international and local technical assistance was provided to BDS providers and their clients during the reporting period:

  1) A greenhouse consultant focused on temperature control in greenhouses, modernization of greenhouse infrastructure and equipment, and improvements in production techniques and agricultural inputs;
  2) A cold storage and post-harvest handling consultant analyzed the types of cold stored fruits and vegetables, the cold storage units and cold chain, and production and post-harvest handling operations;
  3) An aquaculture consultant assisted with infrastructure, inputs, and production issues primarily in trout farming and secondarily for carp farming;
  4) A second aquaculture consultant, assisted with infrastructure, inputs, and production issues in carp farming;
  5) Consultants from Oklahoma State University and the Noble Foundation provided technical assistance in market and data information systems, on-farm production of animal feed, and animal feed laboratory economic sustainability for AIM;
  6) A poultry consultant provided briefings and recommendations to the BDS providers on poultry technical issues and financial modeling;
  7) A PSCEP financial specialist provided information on topics covered by the project’s short-term financial consultants on working capital financing, leasing, and trade finance.
  8) Four of the expatriate consultants also made presentations and held question and answer sessions at the agriculture university in Ganja to provide lecturers and students with up to date technical information relevant to important agricultural sectors in Azerbaijan.
• A BDS marketing brochure was designed in collaboration with the BDSs to attract paying clients and advertise their services through partner banks. Though the BDSs provide services that are much appreciated by the beneficiaries (direct and indirect), some lack the ability to charge and collect fees for those services. This is especially true for audiences used to receiving free (donor-sponsored) services, even if the quality is inferior. The marketing brochure can be used by the BDS to show their capacities. In addition, clients such as banks can hand these out to banking clients needing technical expertise. Electronic versions were sent to each BDS for their use and modification if necessary. Copies were also sent to regional banks.

• BDSs were offered grant assistance for projects to bolster sustainability by establishing profit making activities (or tests) that focus on PSCEP sectors and sub-sectors:

1) One PSCEP BDS applied and received a small project grant to purchase computer and printing equipment to establish a profit-making printing operation to extend the its current marketing assistance to include web services and web-based marketing, the design of brochures, and label and marketing materials production. By bringing the printing in-house, the BDS can capture the full revenue stream from these important agricultural marketing activities instead of having to outsource printing activities to firms in Baku. It also allows the BDS to increase revenues by expanding its printing services to non-agricultural activities.

2) A second PSCEP BDS received a small project grant for website development. This grant allows the BDS to provide increased services to clients (web-based marketing, technical information, market information) expanding the range of assistance it offers.

3) Another of the project’s BDS received a grant to establish a fish feed distribution system, whereby needed quantities of fish feed would be imported and sold to clients across Azerbaijan. The BDS decided in the process to establish an independent profit-making company to provide this and other aquaculture related services (consolidated orders of imported trout eyed-eggs, aquaculture equipment, sourcing of technical assistants, etc) and to satisfy the needs of the fish farmers for a reliable cost-effective supply of quality fish feed.

4) The Agro Information Center (AIM) in Aigabeddi was granted funds to establish an animal feed analysis laboratory. This activity is synergistically aligned with its existing profit-making soil analysis laboratory, as well as the services provided by its privately-funded agricultural extension agents. The lab also fulfills the needs of the broader agricultural sector for a timely and independent verification of the quality of animal feed. The grant was complemented by short-term technical assistance directed towards the economic sustainability of the laboratory, its interrelationship with the extension service, and the on-farm manufacture of appropriate animal feed for chickens, cattle, and sheep.

5) The project’s Ganja BDS submitted a proposal to purchase equipment to test temperature control systems for smaller greenhouses. While well aligned with the goals of the PSCEP project, due to the late submission, the grant’s objectives would not have been measurable prior to the project’s end. The grant was therefore not approved. The proposed activity, however, fits well with the BDS’s existing and potential client base and addresses the critical limiting factor of consistent temperatures for improving winter greenhouse production. The amount sought was relatively modest and the BDS was encouraged to seek and have since found other sources of funding to proceed with the project.

• The DCOP followed-up the January sustainability workshop with visits to BDSs to discuss sustainability plans, strategies, and improve the understanding of M&E techniques for project
impact reporting and marketing. She worked with BDS providers on their sustainability plans and developed a template to serve as a guiding long-term strategic planning tool for the BDS providers. She also developed an investment tracker for each BDS to track the amount of financing they helped leverage for their clients. A summary of BDS sustainability visits follows.

1) The Lankaran BDS was provided with assistance on their sustainability plans, grant proposal, and provided recommendations on how to increase BDS revenue. In Lankaran discussions focused on the following: (1) charging UMID for technical assistance in the dairy sector; (2) charging the banks and farmers a fee for facilitating successful loan applications; and (3) charging clients for the web space provided to promote their products and facilitate sales. The DCOP made it clear that it is in the BDS’s long-term business interests to provide support on a for-fee contracted basis. Its work, especially with the dairy industry in Lankaran, is valuable and something the BDS can replicate elsewhere in the country for a fee. Its contacts in the local agricultural and banking sectors should be turned into a revenue generating activity.

The Lankaran BDS has been recognized by USAID for their excellent results with regional dairy sector efforts (both by providing technical advice to producers and by facilitating bank credit to expand farm operations). Their efforts with greenhouses and fruit and vegetable processors have also been good. The BDS needs to parlay their regional dairy successes into a multi-regional dairy sector effort paid for by dairy farmers and dairy companies. PSCEP is promoting their expertise beyond Lankaran but more needs to be done by the BDS in self-promotion.

2) PSCEP’s partner BDS in Jalilabad will remain small and agriculturally focused, while being heavily dependent upon donor funding for the foreseeable future. Over 70 percent of their funding is from donors since its inception. The BDS sees this as their business niche, since the consulting base in Jalilabad is not large or strong enough to fully support its consulting services. The bulk of its income comes from percentages earned from veterinary services or fertilizer distribution, while it occasionally receives funds through the facilitation of small credits for clients through Agro-Leasing and some micro-credits for working capital from Zaminbank for other clients. The company has expressed an interest in opening a soil/water testing lab for the farmers in the region to earn income; however, they do not have technicians or experience in this field, nor is it clear what revenue they would be able to earn in the process. They also do not have the funds for this equipment, and would expect a project to fully fund the lab, equipment, and training, etc.

3) The PSCEP BDS in Guba is located in an important fruit growing region. Its activities with producers, cold storage providers, and now dried fruit processors are primarily oriented towards facilitating loans, and sourcing equipment and technical assistance. These are important activities, but the BDS management is oriented more like an NGO in that it is seeking donor grants and contracts rather than fees and revenues from clients. The BDS seems to be looking to the same handful of clients and donors for ongoing work rather than expanding into new sectors or business niches. Suggestions were made on pursuing opportunities with Azersun and Gilan Holding which are opening new fruit processing factories in the region and will be seeking suppliers. The project also suggested the BDS look into cooperation with the Lankaran BDS to assist Pal Sud and Milk Pro with possible new collection points and farmer identification in the northern regions. By working on buyer-supplier contracting, the Guba BDS would have the opportunity to expand its business and client base.
4) The Ganja and Sheki BDSs are sustainable BDS providers garnering only a small percentage of income from USAID projects. Their client mix is composed of private sector clients, donor and development organizations, and various income generating activities. The organizations are run by business savvy individuals who know their local environment and local market demands. Through its activities in the aquaculture sector, the Sheki BDS is expanding beyond its Sheki and Zagatala base to encompass most other trout and carp fish producing areas of the country. The Ganja BDS is well regarded for its good service and provides clients with the identification of equipment and technical specialists. Consequently, it is constantly expanding its client base. Ganja is a strong and growing agricultural zone and the BDS has great potential to aid the agricultural potential because it has a strong ongoing business plan, business model, and strategy combined with its experience in the region’s predominant agriculture sectors and with foreign development organizations.

5) AIM is a well established NGO in the country’s central regions. It provides well appreciated, key and nationally unique services (e.g. extension, market information, laboratory analyses) to its farming communities. Through its combination of donor and producer clients, profit making soil laboratory (and eventually a profit making animal feed laboratory), and lodging facilities, AIM is well positioned for continued operations. They are also well regarded by donor organizations and are therefore a willing and well-regarded partner for local implementation of donor programs, which will continue to fund their NGO activities for time to come.
B. COMPETITIVENESS INNOVATION GRANT FUND

Management of the grant component was significantly revamped after the year’s first meeting. During this initial Grant Evaluation Committee (GEC) meeting on November 25, 2009, six long outstanding grant proposals were reviewed, but none judged as meeting the minimum evaluation criteria levels for support. Although, one of the potential grant proposals from Silverkey, for e-commerce development and e-payment systems, was shared with the TIRSP project for their possible future collaboration.

Instead, PSCEP began changing the focus of the PSCEP Competitiveness Innovation Grant Fund (CIGF). This included: (1) the non-renewal of the Grant Manager’s contract and the DCOP taking over the role of grants manager; (2) the strategy for acceptance of grant proposals being changed to focus on (a) GDA partnerships to tackle local competitiveness issues in the ICT sector; (b) addressing factors limiting success in the project’s targeted sectors and sub-sectors, for instance input supply proposals (animal feed analysis laboratory, local fish feed manufacturing, fish feed supply, and supply of carp fingerlings); and (3) targeting BDS sustainability issues. To eliminate unnecessary work for those making proposals, the PSCEP Grants Committee requested that a brief concept paper be presented first. This was reviewed and either approved or rejected by the GEC, and suggestions then made for accepted concepts for the development of a full proposal. The project ending date and the likelihood of implementation and significant impact happening before the project end date were factored into the approval process. The first week in August was set as the cutoff date for proposal review. As a result of these changes grant activities and approvals during the second project year took off.

Approval of proposals by the PSCEP Grant Committee was only the first step in the process. Once approved, a full grant agreement needed to be negotiated, including budget and procurement, work plans, deliverable milestones, and evaluation criteria. In a few cases, development and USAID approval of environmental monitoring and mitigation plans also were needed for the projects (specifically those including construction, chemicals or feeds), combined with frequent PSCEP environmental monitoring. Due to the limited procurement zone under the PSCEP project, in two cases USAID approvals of source, origin and/or nationality waivers for grant procurements were also needed prior to formal grant approval.

Described below are the five (non-GDA) PSCEP grant programs launched during this program year. For details on the GDA grants, please see Section 7 Information Communication Technology above.

- **Animal Feed Analysis Lab**: AIM is a non-profit NGO providing agricultural extension services to rural farmers through 30 rayons in central Azerbaijan. Building on their experience running a soil testing lab, PSCEP approved a grant for the development of a feed analysis lab to provide and achieve increased access for cattle-breeding, poultry-raising and other farming activities, entities and organizations to quality feed in the central and other regions of Azerbaijan. The lab will analyze crude protein, fat/energy, cellulose, and moisture of the feed. The results of the feed analyses will be documented and written recommendations provided to the farmers and other clients. Components of the samples are analyzed by lab assistants and recommendations are provided within 2-3 days. The lab expects to analyze feed samples from 250-200 cattle-breeding and poultry-raising farmers annually.

- **Carp Hatchery**: This grant supports the building of an associative-based carp hatchery to provide lake fish farms in the north-western regions of Azerbaijan with a constant supply of

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17 GDA grant programs are summarized in the table at the end of this section.
local fries and fingerlings, thereby increasing the cost-efficiency and competitiveness of the Azerbaijani lake-based aquaculture sector. The hatchery will supply the domestic market with ecologically clean, more cost efficient sources of high-quality carp, silver carp, and grass carp to increase the supply and sales of local fish stock. The hatchery also has the capacity to later expand to hatch different varieties of fish fingerlings – including trout, tilapia, and catfish if desired.

- **Fish Feed Distribution Channel:** Under this grant, parties will establish a distribution chain to import quality fish feed – a commodity which is desperately needed to develop the aquaculture sector, but not currently produced or available in the local market. The importation of 17 tons of fish feed from the Georgian distributor for Coppens Feed has been secured – this amount is sufficient to supply local demand for approximately 3 months, while helping to facilitate the import channels for this type of resource. The first lot of imported fish feed will meet the demand of virtually all fish farms in Azerbaijan; this will boost the production of fish and fish products on a countrywide scale. Having higher quality feed, farms will grow their fish much faster, fish will be healthier and within the period of 6 – 8 months the market will get higher volumes of new products, both trout and carp.

- **BDS Marketing Capacity Development:** With grant support the PSCEP Lankaran BDS will purchase and install design and print equipment for the production of a broad range of publicity and promotion materials. In this region are an assortment of businesses (fruit-vegetable production and processing, cattle-breeding, furniture manufacture, tourism, decorative plant production, trade and construction industry, etc.), yet despite the fact that their products are of good quality and environmentally suitable, companies are having problems with sales and finding customers because of a lack of marketing tools and promotional materials to advertise their products and services. By developing and broadening their marketing capacity, including the design, printing and distribution of promotional materials, the BDS can assist companies, as well as themselves to broaden outreach and market presence, to increase sales and client numbers, enhance business opportunities, develop partnerships, and attract investments.

- **Feed Mill Rehabilitation:** Fish feed is a commodity which is desperately needed to develop the aquaculture sector in Azerbaijan, but not currently produced or available in the local market in levels of acceptable quality or necessary quantity. The rehabilitation of the Sheki-based feed mill will facilitate the local production of high quality granulated and powdered fish feed, which will be rich in proper nutrients and meet sanitary-hygienic standards. Restoration of the mill will help to increase feed production from 5 tons annually up to 12 tons per shift, as well as improve fish feed quality and standards. Further the farm will be able increase production to meet the increasing demand of the fish farms, and help solve the issue of fish feed supply in the region.

- **BDS Website Development:** The Guba BDS’s website will help the BDS to promote modern information sharing, enhance client marketing and consulting opportunities, develop staff capacity, and facilitate cooperation with local and international organizations. Preparation of the website will serve to expand and strengthen relations with both local producers and consumers, as well as with production, finance, government and NGO organizations available on the internet. The BDS will cooperate with foreign marketing entities to provide local producers access to foreign markets. In parallel, more business proposals are expected from foreign business entities.

The following table provides the current status of all the project grants.
<table>
<thead>
<tr>
<th>GDA</th>
<th>Status</th>
<th>Date</th>
<th>Current progress of activity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Anti Piracy 1</strong></td>
<td><strong>CLOSED</strong></td>
<td></td>
<td>• MOU signed</td>
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<tr>
<td></td>
<td>MOU - Signed</td>
<td>04 March 2010</td>
<td>• Effective from May, 11th Softline will start to perform quizzes and other prep work at CBA</td>
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<tr>
<td></td>
<td>Grant Agrmt – Signed</td>
<td>19 March 2010</td>
<td>• Phase I - Training session at CBA completed June 2010</td>
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<tr>
<td></td>
<td>Grant Closing</td>
<td>30 October 2010</td>
<td>• Phase II – 15 Training sessions for large companies (250 computers or more) completed in late August 2010.</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>• Final grant disbursement paid October 15, 2010</td>
</tr>
<tr>
<td>Barama Innovation Center</td>
<td>MOU - signed</td>
<td>20 May 2010</td>
<td>• MOU signed</td>
</tr>
<tr>
<td></td>
<td>Grant Mod1 – Approved</td>
<td>12 Aug 2010</td>
<td>• Azercell is finalizing the details of the Agreement for training materials/components with Cisco Training Center in Turkey for final budget (agreement reached Aug)</td>
</tr>
<tr>
<td></td>
<td>USAID IEE Amend for GDA Equip - Approved</td>
<td>18 Aug 2010</td>
<td>• Four participants are engaged in Barama, working on three innovation projects</td>
</tr>
<tr>
<td></td>
<td>Grant Agrmt - Signed</td>
<td>31 Aug 2010 (PSCEP)</td>
<td>• USAID Amendment to Environmental Component to include GDAs and GDA equipment signed – Aug 18, 2010</td>
</tr>
<tr>
<td></td>
<td>Grant Mod2 (extension) – Signed</td>
<td>13 Oct 2010 (PSCEP)</td>
<td>• Barama website launched – October 14, 2010</td>
</tr>
<tr>
<td><strong>Anti Piracy 2</strong></td>
<td><strong>CANCELLED with MoE</strong></td>
<td></td>
<td>• Internship program for University students budget amendment approved – Aug 12, 2010.</td>
</tr>
<tr>
<td></td>
<td>– General PR campaign will be carried out by Softline and Microsoft</td>
<td></td>
<td>• Internship program launched October 11, 2010</td>
</tr>
<tr>
<td></td>
<td>Grant Agrmt – Signed (see Piracy I)</td>
<td>19 March 2010</td>
<td>• Extension amendment signed</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Grant Agreement signed with Softline – March 19, 2010</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• MOU for Part II has been cleared by the Bureau for ICT on Education</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• MOU for Part II has been cleared by the Cabinet of Ministries</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• MOU for Part II has been sent to six relevant government bodies for comment: Ministry of Justice, Ministry of Communication and Information Technologies, Ministry of Foreign Affairs, Ministry of Justice, Ministry of Finance, and Copy Right Agency - comments received July 6th</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• MOU part II will not be signed with MoE due to extensive comments from Copy Right Agency. There is inadequate time remaining on PSCEP to go through the required renegotiations with MOU partners to incorporate these comments.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Promotion component of grant will begin with Softline following training in Part I – with/without MOU from MoE</td>
</tr>
</tbody>
</table>
### GDA (cont.)

<table>
<thead>
<tr>
<th>Status</th>
<th>Date</th>
<th>Current progress of activity</th>
</tr>
</thead>
</table>
| Cisco Networking Academies   | August 17, 2010  | • MOU has been cleared by the Bureau for ICT on Education  
• MOU has been cleared by the Cabinet of Ministries and comments received from Ministry of Justice, Ministry of Communication and Information Technologies, Ministry of Foreign Affairs, Ministry of Justice, Ministry of Finance, and Copy Right Agency - comments received July 6th  
• MOU was planned for signature on Aug 17th – however CISCO has sent extensive new changes to MOU which would require re-approval through all ministries. Letter of Commitment from Cisco was not satisfactory. There is inadequate time left on PSCEP to go through the extensive MOU review again, therefore MOU signing was dropped.  
• Letter to Cisco (with CC to GDA committee in DC), and copy to MoE has been sent. Meeting with MoE for USAID has been requested. |
| CANCELLED                     |                  |                                                                                                                                                                                                                           |

| Ministry of Education IT Innovation Center Alliance | October 2009 | • USAID Democracy and Governance Group brought into negotiations with Bureau for ICT on Education (MOE) and GDA transferred. |

### Grant Status

<table>
<thead>
<tr>
<th>Grant</th>
<th>Status</th>
<th>Date</th>
<th>Current progress of activity</th>
</tr>
</thead>
</table>
| Agro Information Centre: Feed Analysis Lab | Grant – Approved  
Source/Origin Waiver - Signed  
Grant Agrmt – Signed  
Environ MM plan - pending | 4 February 2010  
23 April 2010  
7 May 2010 | • Source/Origin/Nationality Waiver approved 23 April 2010  
• AIM ordered equipment from Kutay. Grant was disbursed (in full) in mid June.  
• Kutay delivery being delayed – shipment expected to leave Turkey only on Aug. 4th; received in Azerbaijan in late September (following custom clearance). Installation and training completed Oct 14-18th.  
• AIM opening planned for Nov 26th.  
• Environmental MM Plan pending approval – last correspondence received 11/5/10 for more changes. Working with AIM |
| Girkbulag: Feed Mill         | Grant – Approved  
Environmental MM Plan – approved  
Grant Agrmt – Signed  
Grant Closing - pending | 16 June 2010  
9 June 2010  
26 June 2010 | • Environmental MM Plan approved; site visit on June 25, 2010  
• Grant agreement signed June 26, 2010; First advance tranche disbursed, June 30, 2010; second tranche disbursed Aug 18th.  
• Construction to begin in early July.  
• PSCEP site visit on July 27 – construction is moving slowly and quality of feed currently being produced is sub-standard using flour vs. fish meal.  
• PSCEP site visit Sept 28th – construction approx 1 month behind schedule and storage room still not completed.  
• PSCEP site visit Sept 28th – Feed mill operational, still need to put up dividers for storage unit; wash basin and complete drainage pipe (MM plan requirements).  
• Feed Mill Opening - Oct 8th.  
• Final receipts and MM Plan review pending. Deed of Donation not yet issued. |
<table>
<thead>
<tr>
<th>Grant (cont.)</th>
<th>Status</th>
<th>Date</th>
<th>Current progress of activity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hajibulag: Carp Hatchery</strong></td>
<td>Grant – Approved</td>
<td>1 June 2010</td>
<td>• Grant concept paper approved by GEC April 2, 2010</td>
</tr>
<tr>
<td></td>
<td>Environmental MM Plan – approved</td>
<td>9 June 2010</td>
<td>• Environmental Review done April 11, 2010; Environmental MM Plan approved June 9, 2010</td>
</tr>
<tr>
<td></td>
<td>Grant Agrmt – Signed</td>
<td>30 June 2010</td>
<td>• Grant agreement signed June 30, 2010; First advance tranche disbursed on July 5, 2010</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Site visit: July 27th: Construction proceeding on schedule</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Environmental Officer updated and question on larger water tank does not require an MM amendment</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Hatchery is planned to be operational for opening ceremony at Fish Conference in Oct 7th 2010.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Final finishes (tiling, caulking, etc) pending.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Final MM Plan review and deed of donation planned for early December.</td>
</tr>
<tr>
<td><strong>Azaquaproduction: Fish Feed Distribution Channel</strong></td>
<td>Grant – Approved</td>
<td>1 June 2010</td>
<td>• Grant concept paper approved by GEC April 2, 2010</td>
</tr>
<tr>
<td></td>
<td>Grant Agrmt – Signed</td>
<td>25 June 2010</td>
<td>• Grant application approved by GEC June 1, 2010</td>
</tr>
<tr>
<td></td>
<td>Grant Mod1 – Signed</td>
<td>24 July 2010</td>
<td>• AAP finalizing feed pre-orders: currently has 10 farmers who have placed orders</td>
</tr>
<tr>
<td></td>
<td>Grant Mod2 – Signed</td>
<td>12 Aug 2010</td>
<td>• Feed delivery delay due to problems with distributor in Georgia. Seeking modification for change in purchase from different distributor – which will require an origin waiver.</td>
</tr>
<tr>
<td></td>
<td>Origin Waiver – Signed</td>
<td>18 Aug 2010</td>
<td>• Feed arrived late September – but problems with customs and veterinary services (bribe requests and <em>permission from local monopoly needed)</em></td>
</tr>
<tr>
<td></td>
<td>Env MM Plan - approved</td>
<td>15 Nov 2010</td>
<td>• Env MM signed by USAID</td>
</tr>
<tr>
<td><strong>Canub Agribusiness Center: Development of Marketing Capacity</strong></td>
<td>Grant – Approved</td>
<td>1 June 2010</td>
<td>• Grant concept paper approved by GEC April 2, 2010</td>
</tr>
<tr>
<td><strong>CLOSED</strong></td>
<td>Grant Mod1 – Signed</td>
<td>4 Aug 2010</td>
<td>• Grant application approved by GEC June 1, 2010</td>
</tr>
<tr>
<td></td>
<td>Grant Agrmt – Signed</td>
<td>9 Aug 2010</td>
<td>• Grant amendment to change grantee name to Canub Agribusiness Center approved Aug 4, 2010</td>
</tr>
<tr>
<td></td>
<td>Grant Mod1 – Signed</td>
<td>28 Aug 2010</td>
<td>• Modification signed to modify equipment order signed 8/28/10.</td>
</tr>
<tr>
<td></td>
<td>Grant - Closed</td>
<td></td>
<td>• Equipment has been ordered, installed and inventoried in late Aug</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Deed of donation will be delivered in November.</td>
</tr>
<tr>
<td><strong>Guba Marketing Center: Website and Training Capacity Dvlpmnt.</strong></td>
<td>Grant Concept Paper – Approved</td>
<td>2 April 2010</td>
<td>• Grant concept paper approved by GEC April 2, 2010</td>
</tr>
<tr>
<td><strong>CLOSING</strong></td>
<td>Grant - Approved</td>
<td>12 Aug 2010</td>
<td>• GMC informed of GEC approval and the changes desired in the grant application. (April 2010)</td>
</tr>
<tr>
<td></td>
<td>Grant Agrmt - pending</td>
<td>16 Sept 2010</td>
<td>• GMC revising grant application (for website only) will submit in mid-July for GEC in early August</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Grant Approved, Grant agreement signed Sept 16.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Equipment ordered, installed, and inventoried in mid-October.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• English website launched Oct 20th – pending USAID approval of branding.</td>
</tr>
</tbody>
</table>
C. ADMINISTRATIVE

1. Personnel – Field Office

The project’s second year was a period of substantial personnel changes: the Chief of Party and the Financial Sector Specialist resigned and were replaced; the Deputy Chief of Party’s contract expired and he was replaced; the Monitoring and Evaluation Specialist’s (who also doubled as the grants administrator) contract was not renewed; the Office Manager went on a lengthy maternity leave with her Administrative Assistant assuming this function in the interim; and one of the project’s two translators resigned and was not replaced due to budgetary reasons. The Southern Value Chain Specialist’s contract was not renewed and budget considerations kept the project from hiring a replacement. Existing personnel were called upon to fill in the gaps and did so well. The new Deputy Chief of Party’s contract was extended from May 31, 2010 through the end of the project. Recently the Project Accountant gave notice of leaving in October and PSCEP made arrangements to engage the TIRSP accountant (after TIRSP ends) for the October to December 2010 period to ensure consistency in accounting for the final months of the project.

2. Personnel – Home Office

The Home Office Project Management Unit’s (PMU) first year Director, Manager and Associate took on new assignments and new staff were added. The PMU provided support developing draft project success stories and the first year’s annual M&E report. There was an ongoing exchange on budget scenarios which served to clarify budget issues, cost-saving alternatives, and allowed for better financial projections. PSCEP also had project review visits (paid by corporate overhead) from the new PMU Director and PMU Associate. The PMU Director also had meetings with USAID’s Contracting Officer’s Technical Representative (COTR) and the PSCEP Activity Manager. The PMU Associate helped update the PSCEP budget projections and made suggestions on the project’s physical and electronic filing systems.

3. Budget

Serious budget constraints mandated that PSCEP reforecast carefully by reevaluating its actions and costs, and deciding whether those activities could yield significant results within the remaining period—which is now projected to be through December 2010. Based on this analysis, the Crimson Capital subcontract for short-term technical assistance to the financial sector and the O’Brien subcontract for the development of GDAs were shortened, and cost savings put back into the operations budget. Subcontracts with the PSCEP BDS providers, expiring in January 2010, were renewed with declining monthly fees to gradually reduce the payment amounts and wean the BDSs from reliance on USAID project funding. The number of higher cost short-term foreign consultants was reduced, and off-site days substituted where possible for the number of more costly days spent in-country. Short-term international technical assistance in the poultry sector was curtailed to a desk-based technical due-diligence assignment as part of the last pre-investment stage for AIC and the idea of bringing international experts for a poultry slaughtering assistance assignment was dropped. Given the smaller number of projected short-term technical assignments, leases on the two TDY project apartments were not renewed and one of the apartment leases transferred to TIRSP for use for their incoming consultants. Home Office support assignments for monitoring and evaluation and communications were charged to corporate overhead and not to the project. The employment contract for the M&E/Grants Manager was not renewed with the Deputy Chief of Party taking over these functions. Options to
relocate the PSCEP office to a more suitable but more expensive location were dropped and a thorough monthly budget review and planning process instituted with the home office.

PSCEP held periodic discussions with TIRSP on joint utilization of consultants (for example, leasing and leasing legislation; high value horticulture; and quality and international standards and certifications in relation to the country’s interest in joining the WTO). The projects were successful in leveraging the work of the leasing consultant.

4. Monitoring and Evaluation

Based on its internal review of project M&E system, PSCEP reinforced efforts to improve data collection, analysis, and reporting. Internal staff sessions were held to focus more on the targeted sectors and contract indicators and target levels. Changes were made to M&E personnel with the Deputy Chief of Party assuming responsibility for the activity. A more careful focus on contract indicator targets was instituted which involved (1) the way of looking at those indicators, and (2) systematically and regularly collecting the data. The role of the BDSs in data collection was reemphasized and BDSs shown the importance of M&E to their post-project prospects. PSCEP assistance was provided to improve BDS M&E reporting and data collection methods. Overall, these efforts resulted in more thorough information and clarity on project successes and areas for increased attention. Based upon a more thorough understanding of the relationship between contract indicator targets, mission instructions, project budget, initial project focus, and likely results PSCEP submitted a modification request to the Regional Contracts Officer for changes to its indicator targets.

5. Communication and Interchanges with USAID

Weekly consultations were held and several field trips were made with USAID staff to provide first-hand information, solicit observations and suggestions, and address issues. PSCEP accompanied the COTR and her staff to each of the project’s BDS providers and met with clients in the targeted sectors and sub-sectors to share impressions and provide a more thorough understanding of activities, results, and concerns. The Regional Environmental Officer and PSCEP’s Deputy Chief of Party worked together on environmental monitoring and mitigation plans for grantees under the project’s grant program. USAID’s Country Representative visited a number of project supported fish farmers; and the USAID Regional Director participated in PSCEP BDS and GDA events and visited a number of PSCEP beneficiaries.

In February discussions were held with USAID Washington-based staff reviewing project activities and lessons learned. Based on PSCEP’s experience with its GDAs, the project’s VCS along with USAID’s COTR and Activity Manager, participated in a USAID training session on GDAs in Washington, DC to discuss lessons learned and answer questions. And, at the request of the COTR, PSCEP accompanied a visiting USDA representative on field visits and meetings to identify areas where USDA project funding could complement ongoing USAID agricultural efforts. In October, the USAID Director of Economic Growth participated in the PSCEP second annual Aquaculture conference in Zagatala, as well as the opening events for the USAID grant-sponsored carp hatchery and fish feed mill.

6. Close-out activities

During the later part of the year, PSCEP turned part of its attention to its close-out activities. A close-out template was developed and activities assigned to field office and home office administrative staff. Field office staff were notified off the estimated project ending date, their
contract dates, and closeout procedures. Vacation leave for local staff was scheduled to ensure that all leave would be taken within the remaining project period while accommodating technical activities. Questions regarding Azerbaijani legal requirements on in-country retention of personnel and accounting files and documents were resolved. A home office internal audit was approved and performed in September with no significant issues detected.