

Semi-Annual Report # 8
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Submitted to the United States Agency for International Development

Cluster Access to Business Services (CABS) Program in Rural Azerbaijan

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Mercy Corps

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I. Summary of main activities

From January to July 2006, the CABS program team focused on completing the program activities in the Southern areas and successful expansion to the Central and North regions of the country. In the South, the program continued its monitoring efforts among the farmer clusters and a network of service providers to evaluate and improve their performance. In the Central and North regions, the program has been striving to empower recently formed clusters, introduce new dairy production inputs and update support service providers skills.

As reported in Semi-Annual Report #7, the program achievements in this report are also divided geographically by the two program phases: 1) exiting the mature client clusters and markets of livestock service providers in the Southern regions; and 2) intensive capacity building of the newly developed farmer groups and a cadre of service providers in the Central and Northern regions.

The Southern Areas

In April 2006, the program finalized its activities in this area. For over three years, support provided by the program to the dairy and meat value chains generated and supported demand for animal health and other related business services among the small producers. The market constraints of accessing quality services and inputs were addressed through attracting investments in improving delivery of higher quality veterinary services and supplies, forming farmer groups to facilitate the implementation of cost effectiveness measures, and building both technical and entrepreneurial skills of the service and product suppliers. The program also researched and provided other opportunities to the farmers including access to credit, technical training, protein enhanced feed and useful market information.

It is worth noting that when launching the activities, the program's role was primarily to directly engage and guide producer groups and service providers in their efforts to develop and adopt new practices in their day-to-day operations. Gradually this role changed to monitoring, evaluation and provision of additional guidance when making key business decisions.

During the last six months, the program provided extensive assistance to both veterinarians and producer clusters in reducing the threat of avian influenza that caused the mass death of domestic birds in the area. The program team educated the farmers on issues of avian influenza and its preventive practices.

Over the three years of activity implementation, the program formed and empowered 49 producer clusters, assisted 51 animal health service providers in technical and business skills development, developed the skills of 4 cattle artificial insemination (AI) technicians and supported the launch of one animal feed production facility. To date, approximately 6,000 enterprises have participated in the program and they have contributed approximately \$7,200,000 to the local economy. These businesses contribute approximately 42% of the total meat and dairy production in the region. It is important to note that when the team made (how many or how often) follow up visits to the area they observed that producers and service providers continued using improved practices without any exterior facilitation.

The Central and Northern Areas

In contrast to the program close out in the South, the activities in the Central and North regions expanded dramatically with the program stakeholders. Since program start up, the team has enrolled 71 support service providers including state and private veterinarians, drug stores, AI technicians and milk collectors, forming 78 farmer clusters to address dairy value chain constraints at the micro level.

Supply side facilitation activities in the Central and North focused mainly on building the organizational and business management capacity of the regional networks of animal health service providers. In addition, the program helped the service suppliers in the network to update their technical skills by linking them with in-country expertise, research institutions, and vet supply companies. The goal of this capacity building is to introduce new and more effective methods to combat the areas most prevalent diseases such as seasonal blood-parasitical and tick born brucellosis and potential plague outbreaks. With the goal of improving the local breed's genetics, the program also identified six veterinarians and trained them in cattle AI techniques. All six technicians acquired new skills and in a very short period of time successfully reached breakout points in this new business. The program also organized farmers to implement hygiene requirements that would result in the production of a consistent high quality raw milk product. These producers were also successful in communicating the improved quality of their milk to consumers.

The demand side interventions consisted mainly of strengthening existing and forming new village level producer groups. The major purpose of working with more mature groups was to complete a series of educational campaigns, explore better market opportunities, assist in the preparation of cluster action plans and to provide directions for their implementation. The program activities with the 26 newly formed clusters centered around selecting initiative groups, providing initial steps in building their organizational capacity, implementing pilot projects, and facilitating relationships with vet service providers and milk buyers.

Since the start of activities in August 2005, the program in the Central and Northern areas reached about 5,600 small cattle holders through the old and newly-formed farmer clusters and enrolled service providers.

In general, program activities are in line with the approved targets outlined in the cost extension proposal and implementation plan. To date, the program total has reached more than 11,400 micro-enterprises, 36% of which are women-owned and operated businesses.

Over the next six months, the CABS program team is planning to strengthen further the organizational skills of the producers groups and to monitor their activities toward implementing cluster action plans. The program also plans to continue to facilitate linkages with the service providers and intensively educate milk producers on animal health issues and on buyers' quality and hygiene standards. In addition, the program will work with the networks of AI and vet service suppliers to help them ensure consistency in service quality and client outreach.

II. Progress on performance targets and indicators

A: Performance Targets Table

PERFORMANCE TARGETS AND TABLE 1 In US\$						
		Progress to date	Planned with no-cost extension	Planned in new areas with cost extension	Total Planned	
Applicants targeting a specific sub-sector	ASSESSING THE MARKET FOR GOODS & SERVICES (Final Sales)					
	MARKET-LEVEL					
	1.	Annual value of sales (in US\$)	62,005,000	17,000,000	43,000,000	60,000,000
	PROGRAM-LEVEL					
2.	Annual value of sales (in US\$)	13,384,000	6,900,000	10,780,000	17,680,000	
All applicants	ASSESSING THE DEVELOPMENT OF THE BDS MARKET					
	MARKET-LEVEL					
	3.	Total number of BDS providers	329	144	185	329
	a.	Service 1: Veterinary Services	275	135	140	275
	b.	Service 2: Embedded Production Advice	329	144	185	329
	c.	Service 3: Cattle AI service	9	4	8	12
	d.	Service 4: Milk collection & storage points	9	3	9	12
	e.	Service 5: Complete feed producers	3	1	3	4
	PROGRAM-LEVEL					
	4.	Number of BDS providers participating in the program	122	61	60	121
	a.	Service 1: Veterinary Services	106	54	57	111
	i.	Percent private, for-profit providers	100%	100%	100%	100%
	b.	Service 2: Embedded Production Advice	115	61	60	121
	i.	Percent private, for-profit providers	100%	100%	100%	100%
	c.	Service 3 Cattle AI service	10	4	8	12
		Percent private, for-profit providers	100%	100%	100%	100%
d.	Service 4 Milk collection & storage points	6	3	9	12	

		Percent private, for-profit providers	100%	100%	100%	100%
	e.	Service 5 Complete feed producers	1	1	3	4
		Percent private, for-profit providers	100%	100%	100%	100%
	5.	Number of firms acquiring BDS from program-supported providers	11,645	5,974	9,800	15,774
	a.	Service 1: Veterinary Services	11,645	5,974	9,800	15,774
	b.	Service 2: Embedded Production Advice	11,645	5,974	9,800	15,774
	c.	Service 3: Cattle AI service	2,423	1,500	3,000	4,500
	d.	Service 4: Milk collection & storage points	2,250	1,000	9,800	10,800
	e.	Service 5: Complete feed producers	65	500	1,500	2,000
	6.	Number of microenterprises acquiring BDS from program-supported providers	11,486	5,696	9,800	15,496
	a.	Service 1 Veterinary Services	11,486	5,696	9,800	15,496
	b.	Service 2 Embedded Production Advice	11,486	5,696	9,800	15,496
	c.	Service 3: Cattle AI service	2,267	1,500	3,000	4,500
	d.	Service 4: Milk collection & storage points	2,250	1,000	9,800	10,800
	e.	Service 5: Complete feed producers	65	500	1,500	2,000
	7.	Microenterprises as percent of total firms (line 6/line 5)	99%	95%	100%	98%
	8.	Number of women-owned microenterprises acquiring BDS from program-supported providers, by service	4,135	2,278	4,312	6,590
	a.	Service 1: Veterinary Services	4,135	2,278	4,312	6,590
	b.	Service 2: Embedded Production Advice	4,135	2,278	4,312	6,590
	c.	Service 3: Cattle AI service	675	200	400	600
	d.	Service 4: Milk collection & storage points	578	700	4,312	5,012
	e.	Service 5: Complete feed producers	27	200	400	600
	9.	Women-owned microenterprises as percent of total microenterprises (line 8/line 6)	36%	40%	44%	42%
All applicants	ASSESSING THE FACILITATOR'S COST-EFFECTIVENESS (PROGRAM-LEVEL INDICATORS)					
	10.	Program costs (in US\$)	1,234,500	1 027 469	1,273,320	2,023,320
	11.	Program costs per microenterprise served (line 10/line 6) (in US\$)	107	180	130	130
Only for direct providers of BDS	ASSESSING THE BDS PROVIDER					
	12.	Total earned revenues (do not include any grants or donor contracts)	NA			
	13.	Total expenses	NA			
	14.	Return on operations (line 12/line 13)	NA			

For all other applicants (other than direct providers)	15.	BDS Providers' sales (in US\$, Annually)	1,950	1,800	1,800	1,800
All applicants	ASSESSING THE IMPACT ON THE MICROENTERPRISE CLIENT (Program Level)					
	16.	Annual value of sales by microenterprises participating in program (in US\$)	13,384,000	6,200,000	10,780,000	16,980,000
	17.	Microenterprise client satisfaction				
	a.	Service 1: number of repeat clients	11,486	5,411	9,310	14,541
	b.	Service 2: number of repeat clients	11,486	5,411	9,310	14,541
	c.	Service 3: number of repeat clients	NA	NA	NA	NA
	d.	Service 4: number of repeat clients	2,250	1,000	9,800	10,800
	e.	Service 5: number of repeat clients	65	500	1,500	2,000
All applicants	OTHER INDICATORS					
	18.	Exchange rate used to calculate US\$ figures	\$1 = 4455AzM	\$1 = 4900AzM	\$1 = 4900AzM (projected)	\$1 = 4900AzM (projected)
	19.	Estimated percentage of microenterprises on line 6 who have poverty loans from any source	8%	10%	10%	10%

B. Narrative Explanation

Indicator 1

During this semiannual period, the program continued targeting support services and market linkages in both meat and dairy production value chains in the South, Central and North regions of the country. The state statistical production value of live meat and raw milk in the program target areas is \$62,005,000 in sales.

Indicators 2 and 16

The total sales figure of \$13,384,000 noted in indicators 2 and 16 is calculated by multiplying the total number of enterprises participating in the program with the average annual income in all three areas as monitored by the CABS staff. Average incomes for the central and northern areas funded by the cost extension were identified through a baseline survey conducted by the team in February 2006.

Indicator 6

The number of micro-enterprises acquiring BDS from program supported providers is 11,486. This represents micro-enterprises acquiring support livestock and other business services through program-supported clusters only, including access to market, cattle AI services, veterinary services and feed mill. It represents about 6,000 micro-enterprises participating in the program in the southern areas and the 5,486 new micro-enterprises in the central and northern regions. *This figure does not include the non-cluster clients served by the program-supported veterinary and other livestock services and inputs suppliers.*

Indicators 8 and 9

Women comprise approximately 36% of the total micro-enterprise level program clients. This percentage constitutes women-operated farms that benefited from services through cluster-based initiatives. Women's direct participation in the cluster governing bodies, decision-making process, and veterinary informative sessions increased to approximately 31% of the cluster initiative group members, versus 30% over the prior semiannual period.

Indicators 10 and 11

Estimated program costs of US\$ 1,234,500 until the end of June 2006 include all program-related expenses and the program match (the clusters' in-cash and in-kind contribution and program-supported service providers' sales, as specified in the award agreement.) The cost effectiveness indicator is identified by dividing the total program cost (including match) by the number of micro-enterprises.

Indicator 15

The program team tracks the service providers' income and clientele based upon monthly reports submitted by a number of veterinarians participating in the program. Based upon their reports, the program identified an increase in average annual sales from \$1,780 to \$1,950 within the last six months. This figure represents the average income of service providers in all three program target areas. The same reporting system is used for the

targeted clusters to track their monthly spending on animal health services and other in-kind contributions, which is registered and submitted to USAID in the quarterly program match reports.

Indicator 19

The percentage of micro-enterprises holding poverty loans includes credits obtained as part of routine business operations (such as from input suppliers, service providers); informal and formal lenders, including FINCA; the local microfinance organization, AGROCREDIT; and World Bank's Program on Rural Lending, with which the CABS program connected the farmer clusters. During the last semiannual period, FINCA developed a new agriculture loan product and successfully introduced it amongst CABS program farmer clusters in the south. This new loan service became very popular among clients in rural areas, and Mercy Corps anticipates an increase in credit users in the region over the next six months. Until now more than 500 CABS program farmers have received loans only from the FINCA regional branch.

III. Implementation issues

In the South the supporting market for veterinary products showed signs of growth. Producers were buying more medicines with increasing frequency and some market players responded by investing in new retail outlets. It became evident that creating demand for the support services opened up opportunities for both service providers and producers. The increased delivery and use of veterinary products fostered further growth in the supporting markets. As farmers witnessed the benefits of these products and services, they procured a greater variety of services, opted for more expensive, better quality products and dramatically increased demand for both products and services. The prosperity of farmers and the actors in the supporting markets appeared to be inter-dependent, with their respective growth as the impetus for increasingly better services and benefits to the producers. Service providers were also able to realize greater sales volumes although initial measures of overall profitability rose only slightly.

The program activities implemented in the Central and North regions emphasized building the organizational capacity of the producer clusters and creating linkages between milk producers and buyers. Specifically the program facilitated these relationships by 1) bringing milk buyers to the communities; 2) facilitating meetings between buyers and sellers to discuss sales opportunities as well as quality issues; 3) and providing technical assistance to milk collectors. The program made an effort to facilitate the transition of the existing milk buyers as partners rather than opportunists. By not eliminating them, the program encouraged producer groups to continue to work with them, particularly if they can offer alternative markets for products that do not meet quality standards. The milk collectors were happy to get better quality milk, but late payments to the producers, that sometimes could reach two-month delays, frequently undermined their relationship with suppliers.

Another challenge to the producer-buyer systems was convincing dairy processors and milk collectors that producer groups could consistently meet daily production volumes with high quality products. When communities, especially in North, became known for producing high quality milk products, the buyers started coming to the communities without too much encouragement from the program team. Different local conditions such as existing communities' social structures, community cohesiveness, high regard of group leaders, etc. sometimes influenced the success of the program. Also, peer influence among community members was useful in selecting appropriate milk buyers and in general stimulating demand for other business services.

With lessons learned from activities in the South, the program was successful in introducing cattle AI services in the Central and North regions. Six vets were selected and trained in AI techniques. These veterinarians rapidly learned the techniques and expanded their businesses. To date, 615 farms were provided with the AI services and the first offspring are expected in September, 2006.

Within this reporting period, the CABS team helped create a network of vets and producer groups that addressed avian influenza threats in all three target areas. In

January 2006, a series of dead wild birds were discovered in the areas mostly located along the coastline of the Caspian Sea in the north and south regions of Azerbaijan. A month later, the southern regions experienced a mass death of domestic fowl that spread rapidly from the villages closest to migratory paths to other villages and eventually to the major regional towns of Masalli, Lenkaran, Astara, Jalilabad and Salyan in South and Khachmaz and Siyazan in North. Subsequently tested bird samples confirmed a presence of highly pathogenic avian influenza (H5N1). Immediately after the news of the bird deaths, the program mobilized the communities, and vets networks. In close collaboration with the local state veterinary office, they initiated intensive educational campaigns on general avian influenza issues. More than 10,000 villagers have been educated on avian influenza prophylaxis, health, hygiene and fowl handling practices since February 2006.

IV. Progress on learning agenda

A. Strengthening Mercy Corps' knowledge and use of market development and value chain approaches

During this reporting period, Mercy Corps undertook the following major actions to promote understanding and application of the business services markets and value chains development approach in its micro-enterprise and economic development activities portfolio:

- The CABS staff continued providing input to the BDS IGP network. The team provided feedback and suggestions on prioritizing issues on market development, and facilitation approaches as well as types of tools, documents and exercises to be used in order to promote BDS learning and experience dissemination;
- In June 2006, the CABS team together with other Mercy Corps program staff participated in the USAID Learning Conference on Microenterprise Development in Washington D.C. They presented their methodology for effective outreach to rural poor enterprises along with accompanying challenges and lessons learned;
- In March 2006, the Accelerated Microenterprise Advancement Project (AMAP) selected a case study documenting the CABS program's experience of working in the Azerbaijan dairy and meat value chains. The case discussed how small-scale livestock farmers in Azerbaijan's meat and dairy value chains, struggling to grow as the country transitions from a planned to a market economy, benefited from the growth in supporting markets for veterinary services and artificial insemination products. The central theme of the case was that supporting markets can play a critical role in value chain growth;
- During this reporting period, the CABS team has also undertaken a number of cross fertilization initiatives to promote local and regional learning on support services market development. Examples of such learning included a visit of Mercy Corps colleagues from Georgia. They learned about the CABS approach so they could apply a similar program approach in their economic development activities. In February the CABS team hosted officials of the Azerbaijan Ministry of Agriculture and World Bank to demonstrate and present the achievements and challenges in developing rural markets of business services;
- In April 2006, the CABS team won an opportunity to attend "The Private Sector, Poverty Reduction and International Development" conference organized by the Development Studies Association (DSA). The conference will be held in November 2006 in Scotland and Mercy Corps will present the CABS program under the theme of Private Sector, Agriculture and Rural Development.

B. Review of cluster development

Mercy Corps is committed to empowering communities to drive sustainable social and economic development through building the groups organizational capacity, facilitating better access to and use of business opportunities and active participation in civic life. In the previous six months, Mercy Corps reported the success of its farmers and the larger community groups in the southern area to address village priorities by working in

partnership with local government, international and local NGOs and other interested stakeholders. Presently, Mercy Corps is successfully striving to apply the same community development approach in the central and northern areas. Since the commencement of the program activities in those areas, Mercy Corps has already observed villages undertaking a number of “micro” projects that address both the needs related to their core income generating business of dairy farming but also social, infrastructure and access to products problems. Examples of these village projects include mobilization around avian influenza threats, organizing veterinary supply distribution points, transportation issues, irrigation and schooling.

C. Comparison of two veterinary-targeted BDS models

During this reporting period, the CABS team met with a World Bank (WB) funded project team on private veterinary centers creation and development. The CABS staff took advantage of these meetings to educate the WB implementation team on the market development principles and help them take the first steps in applying this approach. The CABS staff also took the WB team to the field in order to familiarize them with the program methodology on site. As a result, the WB project began adopting the CABS program lessons and a first step has been undertaken in May 2006 to conduct a comprehensive market assessment of the animal health services in the regions.

D. Managing public-private partnerships to benefit rural farmers

During the last six months, Mercy Corps started negotiations with two large dairy processors on the subject of investing in milk storage facilities in the remote villages. Mercy Corps believes that those investments will result in better market opportunities for the remote milk producers. Mercy Corps organized visits for the dairy processors representatives to meet with farmers and assess feasibility of the potential storage points. Mercy Corps expects that a final investment decisions will be made late this summer by both dairy processing firms.

E. Experimenting with new inputs in serving dairy value chain

Over the last six months, Mercy Corps successfully trained six more cattle artificial insemination (AI) service suppliers in the newly expanded target areas. With lessons learned in the South, they quickly developed profitable AI businesses. The team believes that experience gained in the South was a key cause of a quick success in making this type of service sustainable and simultaneously affordable to rural producers. Within the next six months, Mercy Corps is planning to continue monitoring the AI service provision and coverage, and commence seeking opportunities to experiment with other dairy production products.

V. Human Interest Anecdote: Wheels rolling for better future

Nofer Ahmadov is 45-old farmer who has been involved in animal husbandry from his childhood. During the last 15 years his attitudes towards farming have changed as the collective farm enterprises have closed and individual farmers have begun to be responsible for their own small farms. His farm consists of 32 heads of cattle which are considered quite large in comparison to his fellow farmers in the village. In the course of our conversation about the project efforts Nofer underlined the importance of quality animal health in this particular period, when the government can not afford to provide a full range of veterinary care at low cost to the villagers. As all farmers in the village, he himself is now responsible for taking care of his animals.



When the Mercy Corps staff first entered Nofer's community and introduced the program, he was selected to lead the village initiative. From the very beginning, Nofer actively participated and attracted others to the animal health education campaigns. Nofer believes it is a tough job to take a good care of animals so he began organizing the whole community for preventive and vaccination actions. Since that time, many farmers in Agjabadi experienced the economic benefits of having healthier animals. Nofer also volunteered to assist the vet with animal vaccination by driving him from village to village. As an experienced farmer he also gives advice to his peers on breeding, feeding and quality control issues.

Nofer is a father of two school aged children that he has taught basic farming skills. His wife and father, who live together with him, are also engaged in day-to-day operation of the farm. Recently Nofer has hired another person to help him on the farm. Today he has become famous by clearly demonstrated to the farmers, who were initially uncertain of the benefits of investing in veterinary care for ailing livestock, that improve livestock performance will result in higher incomes.