

Mercy Corps South Azerbaijan – Case Study Summary
for the SEEP PLP in MA list serve discussion: “Estimating demand and supply in
weak or limited Markets” January – March 2003

By Kamran Abdullayev, Mercy Corps Azerbaijan CABS Program Manager
With input from Alexandra Miehlsbradt
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1 Project Background

Mercy Corps is a non-profit, private voluntary organization founded in 1979 to alleviate suffering, poverty and oppression by helping build secure, productive and just communities. The agency now operates in more than 25 countries reaching 5 million people worldwide. Mercy Corps has provided more than \$575 million assistance in 73 nations since 1979. Mercy Corps implements demand-driven BDS programs in 12 countries as an integral part of the Economic Opportunities portfolio. Mercy Corps traditionally utilizes three common approaches in its BDS programs: client clusters, the MFI-led approach and the sub-sector approach. Mercy Corps activities focus on underserved micro entrepreneurs, specifically women and rural poor.

In 2002, Mercy Corps responded to a request for proposals from USAID with a successful proposal to develop the markets for veterinary and production advice services for rural, low-income livestock farmers in two southern regions of Azerbaijan, Lenkoran and Massali. These regions were chosen because they showed economic potential but the poverty rate was high (68%). The most important sector in the area is agriculture and much of these regions are characterized by remote mountainous villages.

2 Market Assessment

At the time of the market assessment, Mercy Corps already had a sizeable portfolio of BDS projects in Azerbaijan. Mercy Corps's market assessment for this project had three main components: an overview assessment of 12 BDS markets for micro enterprises in the 2 regions, a more detailed assessment of the markets for veterinary and production advice services and a rapid subsector analysis of the livestock subsector. These components are summarized below.

Study	Dates	Main Objectives	Assessment Methods
Overview assessment of BDS markets	Nov-Dec 2000	<ul style="list-style-type: none"> To understand an overall picture of the BDS markets in the area To assess the current usage, including awareness, reach and retention of various business services by MEs To describe the main consumer segments for BDS in general and specific business services To identify specific demand for services and opportunities for commercial service provision To help design market development interventions for one or several BDS markets 	<ul style="list-style-type: none"> Key informant interviews with local NGOs providing BDS, international programs, business associations and business people. Survey of 120 MEs Focus group discussions with MEs Interviews with 37 BDS providers
Detailed assessment of the veterinary and production advice service markets	Nov 2001	<ul style="list-style-type: none"> To present a clear picture of the market for vet and production advice services, including market size, penetration, trends, customer purchase habits and satisfaction, key reasons for purchase and non-purchase To pinpoint key weaknesses and opportunities in the market for these services To help design program interventions for developing the market for vet and production advice services 	<ul style="list-style-type: none"> Survey of 100 livestock farmers through group discussions Focus group discussions with service providers (vets and veterinary drug suppliers)

Study	Dates	Main Objectives	Assessment Methods
Rapid subsector analysis of the livestock subsector	Nov 2001	<ul style="list-style-type: none"> To identify the growth potential of the animal husbandry and poultry business for commercial purposes. To verify that veterinary and production advice services address key constraints to the growth of the subsector and the business performance of small scale farmers in it. To identify other key constraints to the growth of the subsector and the business performance of small scale farmers in it. 	<ul style="list-style-type: none"> Survey of 100 livestock farmers through group discussions Key informant interviews with other actors in the subsector including traders, government agencies, vets etc.

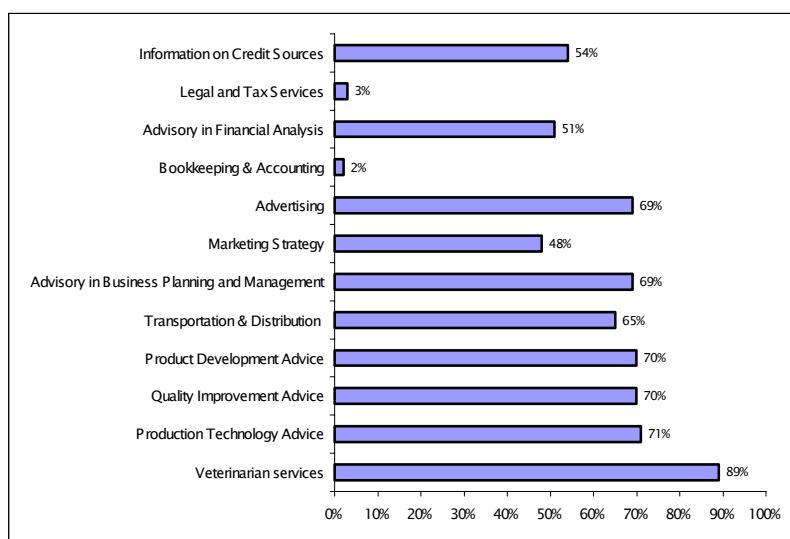
3 Key Findings of the Market Assessment

Mercy Corps used information from the market assessment to help decide on which services to focus and how to develop those service markets. Mercy Corps also used the market assessment to help establish targets for the program.

3.1 Which services?

Mercy Corps decided to focus on the service markets with the most potential for expansion. They measured this by contrasting the percent of MEs that considered a service important for their business with the percent of MEs that had not yet acquired that service. Figure 1 shows the results of this analysis.

Figure 1: Potential for BDS Markets in Lenkoran and Massali



Note that product development advice, quality improvement advice and production technology advice were commonly identified by clients as production advice and were therefore grouped together in the program. This figure demonstrates that there was significant unmet demand for veterinary services and production advice services which are embedded within traditional veterinary services. Unmet demand signals market potential.

Veterinary services are comprised of animal disease prevention, treatment measures and production advice services, which include information on breeding and feeding techniques. They are provided by veterinarians who travel to farms to treat animals for a fee and veterinarian drug stores who provide embedded production advice at the point of sale.

Based on the initial comparative BDS market assessment, Mercy Corps decided to focus on the veterinary and production advice services markets for the following reasons:

- The market for this type of services has the most potential to expand

- The nature of vet services allows focusing on the specific sectors in the target area, animal husbandry and poultry production that have a potential for growth thus fueling demand for services what will ensure the highest program impact
- The nature of vet services allows developing a supply for embedded production advice services for animal husbandry and poultry businesses.

In order to confirm the choice, Mercy Corps conducted a subsector analysis of the animal products market. They found that the subsector was very significant to the local economy and was growing substantially. Of the estimated 40,000 registered landowners in the two regions, 10,025 were involved in animal husbandry and poultry production activities for commercial purposes. An estimated 45% of these were women who primarily engaged in the poultry business. These findings confirmed that this was an important and viable subsector in which to intervene. The subsector analysis also showed that animal death and disease, rejection of animals for sale due to health problems and poor breeding and feeding practices were three of the most severe constraints to the profitability of small livestock farmers. Mercy Corp found that these three problems could be effectively addressed by using vet and production advice services. This finding confirmed that veterinary and production advice services would have a significant and positive impact on MEs that use them.

3.2 What interventions?

Mercy Corps aimed to design interventions to address the key constraints to the growth of the markets for vet and production advice services. The detailed assessment of the vet and production advice markets gave them information on the key constraints in these markets.

Group discussions with small livestock farmers revealed the following *demand side constraints*:

- Consumers do not fully understand the potential benefit of the service to their businesses and are risk-averse to trying new services.
- Consumers are not aware of the payment options and assume they must pay cash up-front and as a result do not use the services, losing access to production advice in the process.
- Consumers located in the remote areas are not always attractive for service providers, who note that they are generally not interested in making long journeys to serve single clients, or groups of less than three.
- The local culture limits women from directly contacting the service providers, who are all men.

On the supply side, Mercy Corps found that there were 119 veterinarians in the Lenkoran and Massali regions. 101 of these worked “in the field,” traveling to farms and treating animals. After the collapse of the Soviet Union, they began independently to provide services to private animal husbandry and poultry businesses on a fee basis; these fees have become their primary source of income, although they serve non-commercial clients as well. Another 18 veterinarians operated their own veterinarian drug stores, providing production and disease-prevention advice bundled with the sale of veterinarian medicines. Both veterinarians and vet suppliers admit to long-entrenched behaviors arising out of the former centralized system in which marketing services or customer satisfaction simply were not business concerns. As historically their services are targeted for large businesses, the veterinarians do not promote the fact that they offer payment options when it comes to smaller clients. Moreover, the veterinarians rely almost fully on word of mouth: a “clients will find me” attitude. In FGDs, clients reported dissatisfaction with particular features of veterinarian services. They describe veterinarians making the long trek out to remote villages without any medical supplies; the vets would diagnose conditions but could not offer the appropriate medical treatments.

The following critical constraints comprise the *supply side problems* :

- Service providers have poor promotion and marketing strategies.
- Service providers lack business skills to develop and market attractive service products.
- Service products lack the features that consumers want. Service package—availability of necessary drugs and facilities during the service delivery, and service consistency—accuracy in delivering the service in a timely manner, were both identified as desirable service features.

3.3 What targets?

Mercy Corps used market assessment information to help them set targets for impact at the level of MEs, BDS providers, BDS markets and product (meat) markets.

At the level of MEs, Mercy Corps found that a change in behavior regarding knowledge of illness, symptoms and treatment could reduce animal deaths thus increasing profits by 7-9% for large animals and 20% for poultry. Increased productivity resulting from improved breeding rates and feeding practices could increase profits by 2-3%. A reduction in the rejection of animals for sale by the State Animal Disease Control Board Examination could increase profits by 45% for large animals and 20% for poultry. Mercy Corps used this information to set targets for increased profits at the level of MEs.

At the level of BDS providers, Mercy Corps found that the 101 veterinarians typically earned approximately US\$960 annually serving 20 commercial clients for vet services and 10 for embedded production advice services. Mercy Corps used this information to set targets for the number of providers involved and the expected increase in their earnings.

At the level of BDS markets, Mercy Corps found that 21% of small livestock farmers had used vet services and that this market was worth approximately US\$133,894 annually. Twelve percent of small livestock farmers had used embedded production advice services. While women comprised 45% of the market, only 5% of them had accessed vet or production advice services. Mercy Corps used this and other market information to develop targets for increases in market penetration both in general and for women farmers in particular.

At the level of the meat market, Mercy Corps used information on the overall size and growth of this market (from secondary sources) combined with the information on potential impact at the ME level to set targets for increases in the sales volume for meat products in the target areas.

4 Program Design

Goal: To improve profitability for clusters of rural poor and women micro-entrepreneurs (MEs) by increasing access to a network of trained veterinary and production advice service providers, resulting in significant expansion of the service and final goods markets.

Objectives:

- *ME:* Increase sales by an average 35% for 4,158 micro-entrepreneurs—of whom 44% are women—through greater access to services via 67 client clusters.
- *Provider:* Strengthen the capacity of a network of 54 veterinarians and veterinary suppliers to provide innovative and quality services through improved business and marketing skills, resulting in an 87% increase in profitability.

- *BDS Market:* Expand the veterinarian and production advice services markets by 70% and 59% respectively; sustain expansion through network and cluster revitalization and development.
- *Product Market:* 22% increase in sales volume for meat products in the target area over three years.

Time Frame: 3 years

The Mercy Corps program strategy is to serve as a BDS facilitator, building on existing relationships and developing both client clusters and a provider network that will address market constraints and boost individual profits.

Demand-Side Approach:

Raising Awareness: In order to increase awareness about how veterinarian and production advice services can maximize ME profits through proactive and preventative animal care, Mercy Corps will reach out to clients utilizing three primary contact points; the local bazaar, the State Animal Disease Control Department, and existing client clusters. Mercy Corps's activities will include:

- Promoting the services' benefits and payment options through testimonials, demonstrations and newsletters, utilizing regional and local markets that serve as natural information centers.
- Utilizing the State Animal Disease Control Department, a mandatory stopping point for producers before going to market, to disseminate information on the services—for example, a directory of providers.
- Encouraging existing client groups in remote areas to spread the word about service benefits and payment options in nearby villages.
- Accessing women by visiting village points that are frequented by women, such as clinics and water sources, to ensure increased awareness amongst this target population.

Cluster Development: Our approach is to use client clusters¹, an approach used successfully by Mercy Corps in Azerbaijan and world wide, through which service providers can reach MEs more cost effectively. In many of the target villages informal groups of farmers already exist, purchasing inputs and sharing transportation costs for greater economies of scale. Access to suitably customized veterinary and production advice services will be addressed through:

- Teaching groups of women (including existing Mercy Corps Child Survival women's health groups) involved in animal husbandry in 37 remote villages the most efficacious way to schedule vet visits, so that they have access to information about prevention measures, breeding activities and common home remedies. The local culture is more open to women accessing services in groups than as individual clients.
- Strengthening existing groups and facilitating the formation of new clusters as a way to raise the profile of often-neglected women farmers and farmers in remote villages.
- Organizing cross visits between existing and potential clusters to inform new groups about the economic benefits of clustering.
- Involving respected community leaders such as school principals, local officials and doctors (especially women) in the client clusters—these leaders can serve as a bridge between the veterinarian and female group members.

¹ UAI revealed that 69% of farmers preferred to receive services in groups.

Supply Side Approach:

Skills and Network Development: Mercy Corps' approach is to build local providers' capacity so that they will be able to meet emerging ME demands. Providers will gain the skills modeled by Mercy Corps, apply them in the field, and finally transfer them to other providers, thus forming the framework of a providers' network. By establishing these links within a network, providers can identify common issues and increase capacity to identify their own needs and access resources. Mercy Corps's interventions on the supply side will include:

- Developing an outreach strategy with the provider to explain benefits and payment options.
- Training on business planning and management principles to improve performance quality and consistency.
- Developing products with appropriate features to respond to customer requirements.
- Modeling the usefulness and financial advantages of participating in a network, where providers exchange market information, best practices and effective techniques.
- Strengthening links with the Ganje Agricultural Academy² and State Animal Disease Board for information and referral purposes.

5 Lessons Learned on Gathering and Using Information

Strategies that worked well

- One of the factors contributing to the success of the assessment was a well selected and trained assessment team. Our experience did demonstrate that it is important to conduct an appropriate orientation to the team not only on the questionnaires and target group but also provide them with basic knowledge on BDS and through what possible ways ME may access them.
- Pre-assessment testing, daily monitoring and daily feedback discussions during the assessment were tremendously helpful to identify and address emerging problems or misunderstandings in the process. Post-assessment discussions with MEs are very important to find out services purchase and non-purchase reasons.
- In order to reveal “hidden” BDS acquired by MEs, it is crucial to ask MEs not only “who do you purchase BDS from?” but also “which businesses do you chain to (suppliers, wholesalers, dealers, and etc.)?” and “what kind of non-financial assistance do these businesses provide you?”, “Do you get the same assistance from other sources? (Friends, media, state organizations and others).” Here the interviewer may give examples of non-financial assistance such as advice, information service or training to “warm up” respondents. Exactly in this way, we discovered that vets are very effective and the only breeding & feeding (production advice) advice providers to the farmers. Besides we revealed that together with vet and production advice they do provide many other services such as information on market prices, new drugs and food, and often tie farmers with potential meat or animal buyers.
- Subsector assessment did help us confirm that the interventions in developing the fee-based vet and embedded production advice services will have a quick impact as the demand for meat and its by-products is growing and the sector has potential for growth. During the subsector study we also uncovered a need for other services – information on product demand & sales prices and affordable credits in the remote villages.

² Linkages for ongoing educational and informational exchange with the Ganje Agricultural Academy already exist, as it is the only academy in the country with a degree program in veterinary sciences; 55% of veterinarians in the target area graduated from this academy.

Strategies that did not work well & Lessons Learned

- We did choose to focus on fee-based vet and embedded production advice service because from the first assessment we saw a clear potential to develop markets for these two services and there were already existing mechanisms (vets providing services) to build upon in the target area. The major goal of the subsector assessment was to ensure that the target sector is a promising one, the service will target MEs, our interventions will have the most possible impact and program investment will not be in vain. For these particular objectives, the survey worked well and besides it revealed that these services do really address highly prioritized problems for farmers. But during the subsector assessment we could see that there are also other constraints that farmers face in doing their businesses (such as market information, information on demand & sales prices, affordable credits) and a more comprehensive BDS market assessment could be very helpful that would focus only on the meat and poultry producers. Luckily for us, the vets are very active stakeholders in these sectors and as mentioned before they do provide many other embedded services. They often provide advice on the subject of the animal health to the resellers when they buy animals, thus ensuring a quality purchase. Second, vets often provide treatment services for the resellers' animals just as they do for farmers. Finally, resellers in turn refer farmers with sick animals to the vets. Based on the aforementioned, we may conclude that there are solid and functioning relationships in place and worth developing further. When implementing the project we plan to apply the “incremental” approach in order for vets to incorporate other embedded services that solve abovementioned problems for targeted farmers.

A big lesson for us is that if we had done the assessment again, we would have done the subsector analysis first and then, based on its findings, we would design and conduct BDS market assessment for this specific subsector.

- Another lesson would be to “filter out” the data collected during the assessment especially during the focus group discussions. One of the examples to demonstrate misuse of data is the finding on lack of credit. During the FGDs with small enterprises (first assessment), many respondents referred to a lack of credit as a major constraint to MEs' expansion. But further questioning them revealed that actually, the majority of the entrepreneurs did not know what to do with a loan if they got it today. We took this lesson and it helped a lot us to separate “good” data from “bad” data during the vet services survey.