



Semi-Annual Report # 5
For the period of
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Cluster Access to Business Services (CABS) Program in Rural Azerbaijan
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Mercy Corps Azerbaijan

Table of Contents

- I. Summary of main activities**
- II. Progress on performance targets and indicators**
 - A. Performance Targets Table
 - B. Narrative Explanation
- III. Implementation issues**
- IV. Progress on Learning Agenda**
 - A. Strengthening Mercy Corps' knowledge and use of BDS market development approach
 - B. Review cluster development
 - C. Comparison of two veterinary-targeted BDS models

I. Summary of main activities

During the reporting period, July to December 2004, Mercy Corps focused program activities on facilitating new and empowering previously formed farmer clusters, developing value chain linkages, attracting new service providers, and experimenting with new service products to address priority problems of the livestock sector. The following program objectives were achieved over the semiannual period:

- Four new farmer clusters were initiated in four new villages where animal husbandry is a primary source of household income. The program team closely worked with community leaders and members, guiding them through the process of forming cluster initiative groups. The program team also trained the lead group members, organized visits to “star” clusters, initiated pilot projects and worked with the groups to identify future direction
- Performance monitoring and evaluation of previously formed clusters was carried out. Groups were provided with input on how to enhance cluster capacity to better serve community livestock and other needs
- Performance monitoring and evaluation of veterinary networks and other program-supported vets was carried out. Monitoring focused on the outreach strategies, changes in clientele and general business practices of the veterinarians. The monitoring team provided veterinarians with feedback on how to improve and strengthen networking.
- Two new veterinary service providers were enrolled in the existing regional veterinary networks. Two other vets were linked to the local AI company
- Customer education campaigns for animal supplemental feed and its advantages for improving animal health and productivity were facilitated. Customers were linked with existing animal feed dealers. In addition, the program continued its efforts to inform the farmers about available market alternatives for selling their products.

During this period, the CABS team continued to work with the thirty-eight existing clusters and facilitated development of four new client groups. Currently, the program reaches 4,474 clients in these 42 clusters, thus already exceeding the stated life of program targets. Of these 4,474 farmers, 4,196 are micro-entrepreneurs, while the remaining 278 are small-scale farmers. Women-operated farms comprise 34% of the micro-enterprises served by the program. In total, the program-targeted farmers contribute more than US\$ 4,800,000 to the regional economy in sales value of livestock related products.

According to the heads of the Lenkaran and Masalli regional state veterinary departments and vet network members, within the 27-month period of program implementation Mercy Corps made a considerable contribution to the market for veterinary services and helped improve farmers’ business practices. The veterinary departments and network members observed a positive change in farmers’ attitudes for vet services, especially in the program-targeted villages. The vet practitioners note that there was significant increase in demand for preventive veterinary services (vaccinations, periodical animal checks, separation of sick animal from the healthy stock and other preventive actions) in the last two years that they attribute to improved awareness among farmers on animal diseases and health.

On the supply side, cluster members reported to the program team that the vets became more responsive to farmer's needs and problems, resulting in higher household profits. A survey of the program carried out by Weideman Associates in fall of 2003 confirmed that annual profits of targeted farmers were on average 39% higher than the control group.

During this semiannual period, the CABS program also enrolled two new vets in the vet network. These two vets received a comprehensive orientation from the network members on their goal, activities, future plans and membership commitment. In addition, they were provided with a short training on marketing and provided with access to available technical and business resources at the network. At present, 51 veterinary service providers are meeting the needs of program-supported clusters in the Lenkaran and Masalli regions.

Due to relatively limited availability of cattle AI service in the area, the program team committed to continually provide comprehensive oversight of the service market through tracking market changes and trends. To date, more than 600 farmers (both cluster and non-cluster clients) have successfully used the service. To effectively respond to increasing demand, the program partnered with two more vets to launch AI service provision over the reporting period. Currently, there are four AI service suppliers operating in the program target area. Over this period, the program also made efforts to ensure that farmers have better sales market and input supply options. The program facilitated linkages between clusters and milk buyers. Towards the end of the reporting period, the program started raising farmers' awareness on the benefits of quality feed, informing them of available feed supply options. Approximately, 500 farmers can now benefit from selling milk to processing facilities.

In July 2004, the CABS program hosted two staff members from Save the Children Tajikistan, involved in veterinary project implementation. The purpose of the trip was to provide the visitors with an opportunity to observe the CABS-applied development approach and to engender cross-fertilization of experiences.

Overall, the CABS program has met and exceeded of its major life of program target: number of farmers serve; and almost reached the target number of program-supported service providers. Over the next semiannual period, the team plans to:

- coordinate and further strengthen capacity of the farmer groups and vets networks
- observe performance of the AI service market
- continue creating connections with milk buyers, and
- continue experimentations with new input – animal supplemental feed, its supply and demand.

Subject to no-cost extension approval, in April 2005 the team plans to expand program activities in the neighboring Astara region where business environment is very similar to the existing target areas.

II. Progress on performance targets and indicators

A. Performance Targets Table

PERFORMANCE TARGETS AND TABLE 1						
In US\$						
		Progress to date	Planned Year 1	Planned Year 2	Planned Year 3	
Applicants targeting a specific sub-sector	ASSESSING THE MARKET FOR GOODS & SERVICES (Final Sales)					
	MARKET-LEVEL					
	1.	Annual value of sales (in US\$)	11 000 000	9 548 000	10 000 000	11 200 000
	PROGRAM-LEVEL					
2.	Annual value of sales (in US\$)	5 200 500	638 000	3 450 000	4 570 000	
All applicants	ASSESSING THE DEVELOPMENT OF THE BDS MARKET					
	MARKET-LEVEL					
	3.	Total number of BDS providers	124	123	125	127
	a.	Service 1: Veterinary Services	106	105	107	109
	b.	Service 2: Embedded Production Advice	124	123	125	127
	PROGRAM-LEVEL					
	4.	Number of BDS providers participating in the program	51	27	54	54
	a.	Service 1: Veterinary Services	44	27	54	54
	i.	Percent private, for-profit providers	100%	100%	100%	100%
	b.	Service 2: Embedded Production Advice	51	27	54	54
	i.	Percent private, for-profit providers	100%	100%	100%	100%
	c.	Service 3: Cattle Artificial Insemination (AI)	4	0	0	0
		Percent private, for-profit providers	100%			
	d.	Service 4: Milk collection & storage services	2	0	0	0
		Percent private, for-profit providers	100%			
	5.	Number of firms acquiring BDS from program-supported providers	4,474	783	3 132	4 158
a.	Service 1: Veterinary Services	4,474	783	3 132	4 158	
b.	Service 2: Embedded Production Advice	4,474	587	2 349	3 119	
c.	Service 3: Cattle AI service	621	0	0	0	

	d.	Service 4: Milk collection & storage services	500	0	0	0
	6.	Number of microenterprises acquiring BDS from program-supported providers	4,196	541	2 890	3 900
	a.	Service 1: Veterinary Services	4,196	541	2 890	3 900
	b.	Service 2: Embedded Production Advice	4,196	406	2 168	2 925
	c.	Service 3: Cattle AI service	621	0	0	0
	d.	Service 4: Milk Collection & Storage services	500	0	0	0
	7.	Microenterprises as percent of total firms (line 6/line 5)	93.8%	69%	92%	94%
	8.	Number of women-owned microenterprises acquiring BDS from program-supported providers, by service	1,426	110	900	1 700
	a.	Service 1: Veterinary Services	1,426	110	900	1 700
	b.	Service 2: Embedded Production Advice	1,426	83	675	1 275
	c.	Service 3: cattle AI services	84	0	0	0
	d.	Service 4: Milk collection & storage services	340	0	0	0
	9.	Women-owned microenterprises as percent of total microenterprises (line 8/line 6)	34%	20%	31%	44%
All applicants	ASSESSING THE FACILITATOR'S COST-EFFECTIVENESS (PROGRAM-LEVEL INDICATORS)					
	10.	Program costs	\$503,007	\$314 610	\$344 989	\$367 870
	11.	Program costs per microenterprise served (line 10/line 6)	\$120	\$582	\$119	\$94
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 (veterinary services)	\$1,600 a year	\$1,500 a year (25% increase as to base year \$1,200)	\$1,800 a year (50% increase as to base year \$1,200)	\$2,250 a year (87.5% increase as to base year \$1,200)
All applicants	ASSESSING THE IMPACT ON THE MICROENTERPRISE CLIENT (Program Level)					
	16.	Annual value of sales by microenterprises participating in program (in US\$)	4 863 000	638 000	3 450 000	4 570 000

	17.	Microenterprise client satisfaction				
	a.	Service 1: number of repeat clients	4,028	530	2 832	3 822
	b.	Service 2: number of repeat clients	4,028	398	2 124	2 867
	c.	Service 3: number of repeat clients	NA	0	0	0
	d.	Service 4: number of repeat clients	500	0	0	0
	OTHER INDICATORS					
All applicants	18.	Exchange rate used to calculate US\$ figures	\$1 = 4902AzM	\$1 = 4830AzM	\$1 = 4950AzM (estimated)	\$1 = 5100AzM (estimated)
	19.	Estimated percentage of microenterprises on line 6 who have poverty loans from any source	9%	5%	5%	10%

B. Narrative Explanation

Indicator 1

The amount of US\$11,000,000 is a figure for year 2003 obtained from the local statistical departments of both program-targeted areas. The figure represents the value of the regional production and sales volume of meat, dairy, eggs, wool and other livestock related products. Statistics for 2004 are not yet available.

Indicators 2 and 16

The amounts of US\$ 5,200,500 and US\$ 4,863,000 given in indicators 2 and 16 were identified through the baseline and impact surveys conducted by the program in June 2004 and October 2004. Number of enterprises targeted by the program was multiplied by their average annual incomes.

Indicator 6

The figure of 4,196 in indicator 6 represents micro enterprises acquiring BDS through program-supported clusters, including access to market and cattle AI services. **This figure does not count the non-cluster clients served by the program-supported veterinary service providers.**

Indicators 8 and 9

The number of 1,426 women makes up **34%** of the micro enterprise level program clients. This percentage constitutes women-operated farms that benefited from services through cluster-based initiatives – as the clusters make services available to the whole community including men, women, youth and elderly – and access to market and AI services. Women's direct participation in the cluster governing bodies, decision-making process and veterinary informative sessions increased in comparison to the previous semiannual period: from **14% to 27%** of the cluster initiative group members.

Indicator 10 and 11

The program cost of US\$ 503,007 includes all program related expenses over the 27-month period and the program match consisting of the clusters' in-cash and in-kind contribution, and program-supported service providers sales. The cost effectiveness indicator was identified through dividing the total program cost (including match) by the number of micro enterprises.

Indicator 15

The annual service providers' sales of US\$1,600 were identified through the impact interviews carried out by the program in March 2004. The program tracks changes in the clientele of program-supported service providers as a proxy indicator to register change. Program tracking indicated that the targeted vets increased their average monthly number of clients by 39. The survey conducted by Weidemann Associates in fall 2003 also revealed that the rate of services provided by Mercy Corps supported vets is on average 36% higher than the control group.

Indicator 19

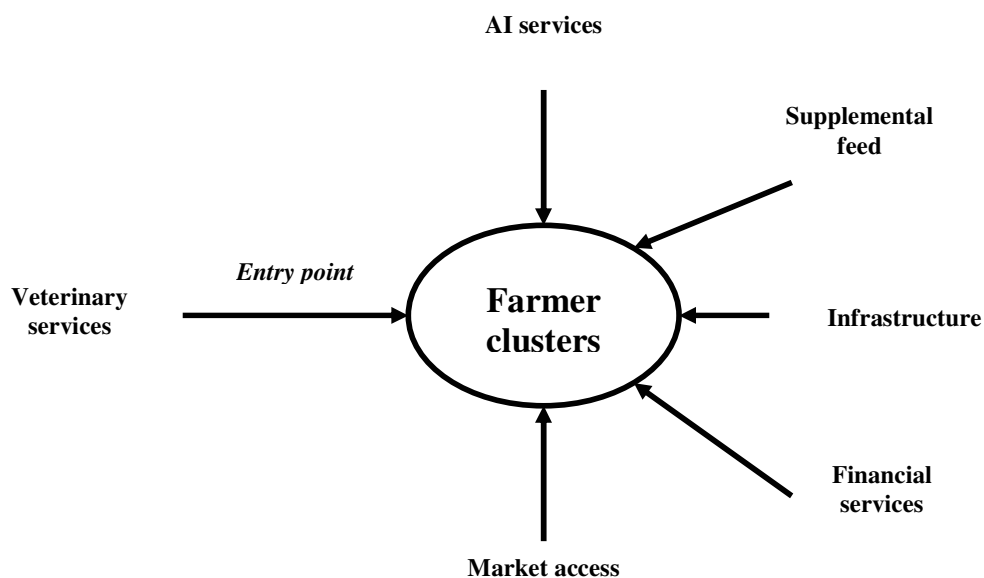
The percentage of micro-enterprises that have poverty loans include loans from the local credit service providers and loans obtained as part of routine business operations such as from input suppliers, service providers, and others.

III. Implementation issues

As mentioned in the Summary section of this report, over the period of July through December 2004, Mercy Corps focused on different components of the supply and demand sides of the services market and animal husbandry sector. The major emphasis has still been on improving the farmer cluster capacity, educating them on service benefits and connecting them with a network of veterinary and other business service providers.

Over this reporting period, the program continued to support the 42 farmer clusters, providing guidelines where necessary and monitoring cluster activities progress against their prepared action plans. The cluster-prepared action plans primarily included animal health preventive cares, based upon advance negotiations and agreements with the individual private and state veterinarians, and other livestock related or community prioritized activities. To realistically measure the extent to which farmers are benefiting from cluster-organized campaigns, the team interviewed the leaders, private veterinarians and state mandatory vaccination providers. Interview results show that the service usage rate in the target villages has considerably increased over the last two years ago. For example, according to the state veterinary department, average coverage rate for mandatory animal vaccinations in the villages was not usually more than 50%, but after the villages formed clusters and improved their knowledge on animal health issues the average coverage rate increased to 80%.

The CABS experience shows that the program and cluster initiatives directed at creating demand for veterinary services provide a good opportunity to draw the clusters' attention to other sector related problems for joint action. The farmers coming to one table and discussing common problems results in solutions for these as well as other business problems, thus increasing farm profitability. The diagram below graphically demonstrates how the clusters approach has changed from just centering on animal health (but still with a veterinary service serving as an entry point for the cluster sensitizations) to increasingly articulating and addressing other needs.



As other needs are identified by the clusters, CABS takes on the role of educating available service providers on the benefits of supplying to target farmer clusters. The program also facilitates cluster initiatives for problem solving and self-help. Examples of helping farmers in other needs include: negotiations with the local municipalities -along with cluster members- to solve basic infrastructure problems; connecting clusters with milk collection points and informing them on available credit opportunities. In order to address the issue of animal nutrition – especially for the AI born Holstein cow breeds – the program has recently started exploring opportunities for creating supply and critical demand for supplemental animal feed.

The milk collection and storage point in the Sharafa village of Masalli is one of the largest points in the area that buys milk locally the year round and transports it to Baku processing facilities. This storage point collects milk in more than 20 villages in the region. Recently the program connected five cluster villages with this collection venue and they became regular milk sellers to this point. Milk sales enable 500 target villagers to earn cash on a daily basis and meet their immediate needs.



One of the challenges for the team regarding cluster development activities over the program implementation period was reaching a stated number of 67 clusters. Over this period, the program did successfully reach and even exceed a planned number of program-supported clients through the 42 clusters formed through CABS. The team decided not to push on reaching 67 clusters. The CABS team believes that working with a smaller number of dedicated and dynamic clusters, helping them be sustainable, functional structures can better serve the program goal than pursuing greater number but less “quality” clusters.

On the market supply side, the program continued reviewing the veterinary networking activities, connecting them with resources and observing the market development trends for the AI service. As mentioned in the last semiannual report, since first introducing the AI service the CABS team has closely tracked market demand fluctuations. During the last year, the team observed that increased demand resulted in increased prices for the service due to only two AI technicians available in the market. Higher demand for the service also resulted in a change in the AI technicians’ business behavior. Where earlier these service providers pursued every single client, including in remote areas, and offered “after sales” services such as follow up visits, pre and post birth delivery checking, now they became “client-selective” and could even reject farmers in remote areas or those unable to pay upfront. To create fair competition and thus raise the AI service suppliers’ interest to serve diversified market segments, the program successfully negotiated with the semen supply firm and built capacity of an additional two vets to provide the AI service in the targeted area in October 2004. Through building additional supply capacity, the program could achieve higher outreach and renew healthy competition among service suppliers, which is necessary to ensure bettering the service affordability.

Over this period, the program also monitored how the veterinary network activities benefit its members and clients, and continued connections with technical resources for vets. The team observed that linkages created by the program continue productively between the vets and veterinary labs, research institutions, and pharmacy suppliers. According to network members, they utilize the services of the above mentioned resources and continuously up date their knowledge in their specialties.

In the last semiannual report, it was mentioned how the linkages between the pharmacy suppliers and vets created by the program resulted in better quality drugs supply for the farmers. In May 2004, two vets in Lenkaran built on relations with drug suppliers and launched two vet drug stores selling high quality pharmaceutical supplies. Over this reporting period, the same supply agency went into an agreement with another two vets and launched the same type of drug stores in the Masalli region. The supply agency provided specialized training to the selected vets and now delivers the drug stores with necessary supplies on a consignment term. At present, these drug stores serve an average of 20 people a day and have provided farmers in Masalli and Lenkaran with access to quality animal drugs. The Masalli drug stores credit their success to the quality supplies and competitive prices.



IV. Progress on learning agenda

A. Strengthening Mercy Corps knowledge and use of BDS market development approach

During the reporting period, Mercy Corps undertook the following major actions to educate, promote understanding on and application of the BDS market development approach in its micro enterprise and economic development programs portfolio and among other agencies and practitioners:

- In July of 2004, the CABS program hosted two Save the Children's program staff involved in veterinary project implementation in Tajikistan. During their visit, the team shared with the visitors its experience on program approach, organized site visits to clusters and meetings with vets to get insights from the program clients and demonstrate how this model works on the ground
- Mercy Corps is in the process of finalizing its internal BDS Learning Document of comparative analysis of its three programs in Mongolia, Serbia and Azerbaijan that will provide a better understanding of the types of business services projects implemented by Mercy Corps, applied practices and lessons learned. The final draft is expected in January 2005
- In October 2004, the CABS program manager attended the Mercy Corps internal conference on economic development held in Uzbekistan, facilitated sessions on the BDS market development paradigm and provided technical consultations to the Mercy Corps Uzbekistan team
- With the purpose of strengthening BDS capacity within Mercy Corps, two CABS team members and MED Technical Advisor attended the Annual BDS Seminar organized by ILO, in September – October 2004. At the conference the team members had an opportunity to learn about innovations and challenges faced by BDS practitioners in different parts of the world
- In November 2004, under the leadership of the CABS team and the MED Technical Advisor Mercy Corps launched a new initiative on developing a common set of indicators to measure performance and impact of its non-financial programs. An internal indicators framework already exists for the Mercy Corps microfinance programs and Mercy Corps hopes to develop a measuring tool for non-financial practices that will allow: 1) having an up to date status of the programs, 2) comparing different modes, 3) improving a wider organizational learning, 4) enhancing external accountability and 5) ensuring high performance and ultimately impact of the program initiatives.

B. Review of cluster development

Since empowered communities and strengthened civil society remains one of Mercy Corps' most critical institutional goals, the CABS team was always interested in and committed to observing and facilitating the progress of program-supported clusters into sustainable vehicles for awareness, advocacy and mobilization around addressing common community priorities. Like in previous reporting periods, the team witnessed that clusters with strong leadership and motivation have been successfully accessing and using veterinary and other business services, and in addition have initiated implementation of other community projects that address both their economic and social needs.

Examples of the cluster initiatives, independent from the CABS program activities, include access to markets, rehabilitation of water sources and canals, roads repair, community cleaning

activities and advocacy. The Vilvan community's advocacy action presents a notable example. The Vilvan cluster members applied to the local authorities to allocate additional pasture territory to meet local needs. After a couple months of dialogue with the authorities the village successfully achieved the needed pasture field allocation and now about 45 households benefit from additional feeding areas for their animals.

It is also worth mentioning that the CABS program has played an important role in developing the community leadership capacity through facilitating the strengthening of the cluster participation, organization and cluster project implementation activities. Another indirect success of the program was that as a result of the empowered local leadership, four program cluster leaders were selected as municipality members and chairs during the recent municipality elections.

C. Comparison of two veterinary-targeted BDS models

The program observations for this reporting period do not differ much from the previous reporting period: operational sustainability of the two centers did not progress significantly and approximately remained at the same points of 15 – 20%¹. Unfortunately, the centers' unwillingness to openly share their business practices does not allow for greater learning and comparison between the two approaches.

¹ This information was shared by the heads of the veterinary centers.