

Scope of Work

Agricultural Projects in Azerbaijan: Review of Design and Performance

I. Purpose

The purpose of this TDY is to assist the office of USAID/Baku to evaluate the design and performance of two large multi-year projects designed to grow the rural economy.

The assessment should identify deficiencies in the design of the project and weaknesses in implementation. Both projects have large grant components. The Mission would like an evaluation of the grant component as well.

II. Background

The economic growth strategy of USAID seeks to strengthen and diversify the non-oil and gas sectors of the economy. This strategy is designed to help rebalance Azerbaijan's economy which has a booming oil sector and very little else. Azerbaijan in FY 2005 had one of the fastest growing economies in the world with GDP growing at 20%. However, growth in the economy is very unbalanced with oil and gas production the main drivers of economic growth. Oil and gas account for 90% of Azerbaijan's exports, 30% of its GDP and 1% of its employment. USAID's portfolio of projects support this strategy of growing the non-oil sector in four ways. USAID seeks to improve the capacity of the Government of Azerbaijan to manage its revenues through improved financial management and capital budgeting. USAID seeks to strengthen access by SMEs to capital, particularly agricultural producers and processors, by strengthening commercial banking and non-bank financial institutions through training of financial professionals, improved capacity to regulate the financial sector and better financial laws and regulations. USAID seeks to improve the supply of electricity, gas and heat to the people and businesses of Azerbaijan by encouraging the Government of Azerbaijan to restructure the energy sector so as to allow for a market driven energy sector subject to sound regulation. USAID is also helping agricultural processors and producers to create links to markets and to help them meet the demands of those markets. USAID is implementing its rural development strategy through two projects the Rural Enterprise Competitiveness Program (RECP) and the Azerbaijan Business Assistance & Development project (ABAD). The prime contractor for the RECP contract is Pragma and the prime grantee for the ABAD cooperative agreement is the International Rescue Committee. RECP started in September of 2003 and will run through August of 2008, with a total budget of over 12 million dollars. ABAD started in August of 2004 and will run through July of 2009, with a total budget of close to 7 million dollars.

RECP: The goal of RECP is to raise rural incomes and agriculture productivity in Azerbaijan. The program will increase the volumes and quality of fresh and processed agricultural product so that the volume of value added products sold in domestic and export markets increases, providing income benefits for a broad range of producers and processors, and will enable Azeri agricultural products to

displace imports and reach export markets by introducing the competitiveness paradigm in the agricultural and agri-business clusters of Azerbaijan's economy.

In order to achieve these objectives, the project will focus on two primary tasks, as envisioned by USAID:

- RECP Task # 1: Improving domestic product quality; and
- RECP Task # 2: Expanding the focus of the agribusiness sector on competitive products.

The RECP project has created a local entity, the Azerbaijan Agribusiness Center (AAC), through which to implement its activities. This was done to ensure the future provision of support activities to the agricultural sector – the AAC will continue to provide services to the Azerbaijan agribusiness community on a sustainable basis after the RECP project has ended.¹

The AAC describes its service offering as follows:

- Production: High value production (greenhouse, high value horticulture); machinery service supply; extending market windows through innovation; introduction of new products; improving links to processors; formalization of market linkages; and modernization of production techniques and inputs.
- Marketing: Market research (domestic & export); market surveys, plans and strategy; market identification & introduction; competitive product identification; participation in trade shows and market events; and introduction of stable contracts for sustainability.
- Processing: Linkages to supply; improvement of raw materials; improvement of process efficiency and equipment; food safety & quality, HACCP; packaging; competitiveness compared to imports; and targeted value addition (e.g., cut chicken, fruit yogurt, baby food, processed nuts, tanning).
- Logistics: Collection and distribution centers; terminal wholesale markets; catering and institutional food supply; airline and cargo company infrastructure; transport and machinery custom service; and transport standards and pooled transport service supply.
- Finance and Credit: bankable deals; agribusiness development foundation; alliances or partnerships for development; facilitation of leasing; trade and contract finance mechanisms; asset registration; and machinery and facility targeted credit and investment.

The project's aim is to provide demand driven services, focusing not only on production, but on the needs of the marketplace. All products and services will be designed based not on what the Azeri agribusiness sector can produce or process but what the customer wants. While these topics will be detailed in subsequent sections, it is important to note the focus on marketing, market linkages, and value addition along the chain, in keeping with the demand-driven philosophy that guides all AAC activities.

The project's three key goals are to create jobs, attract domestic and foreign investment, and increase domestic and export sales. The official PMP (Performance Monitoring Plan) parameters to measure project performance are based on these goals and are: increases in value added productivity, number and value of trade deals and sales increases, and value of investment into agribusiness.

¹

In Year Two, 10 Account Managers provided services to 48 companies, of which 42 are long-term AAC clients. A detailed SWOT is done in the preliminary stages of work with each company and the Account Manager works with an action team from the client to develop an action plan for the future of the company and for the role that AAC will play in that development. In Year Two, this process was improved and a solid base of productive clients was established. The project is now poised to increase that client base dramatically.

With the help of AAC, the clients achieved over \$2,326,303 in new trade and invested over \$4,862,750 in plant improvements (these are cumulative figures). Assistance from the AAC is tailored to meet the needs of each client, but general areas of emphasis include trade and marketing; processing; finance and credit; and logistics and inputs. In addition, there have been 804 new jobs created in AAC client companies. A rough guide used by many organizations to show the impact that trade and investment has on employment is that for every \$10,000 dollars of trade/investment, one job is created. Based on this guide the project's rate of job creation well exceeds what might be expected from the level of trade/investment achieved by clients.

ABAD: ABAD focuses on creating value for Azeri producers and businesses and repairing the supply chain that remains broken since the collapse of the Soviet Union.

During its first year of operation ABAD staff completed the competitive bidding process for Marketing Center operators, provided start-up training to Marketing Center staffs, and guided Marketing Center management in developing annual operating plans. All eight Marketing Centers in the four economic corridors are open, staffed and operational. Though work is still in the early stages, Marketing Centers have already contacted hundreds of buyers and sellers and begun working in earnest with over 50 clients through the development of Client Development Plans, laying the foundation for developing market linkages in the corridors and beyond. Training is underway to enhance the consulting capacity of business advisors, equipping them with necessary tools to identify value-added opportunities and facilitate deals to generate increases in jobs and sales.

As the Marketing Centers have developed their client bases, the Grants Program has begun receiving a growing number of requests for grant assistance. Of the 25 Client Development Plans thus far approved by ABAD management, approximately half requested grant assistance, and of these, three grant applications have been developed, submitted and are pending final approval.

An assessment was conducted during the reporting period to evaluate the credit and leasing environment in Azerbaijan and to develop recommendations that will enable ABAD to increase access to credit and leasing services in ABAD project areas during Year 2. This included a survey of 960 individual entrepreneurs in ABAD's economic corridors to assess the demand for leasing and other credit services, and developing an overview of the formal-sector leasing services currently available.

This period, ABAD's monitoring and evaluation (M&E) team fine tuned the M&E approach and software, completed installing the database on computers at all eight Marketing Centers and trained Marketing Center personnel in its application. The M&E team also updated forms and data fields to ensure that the data collected addresses program needs.

While start-up activities have succeeded in putting the critical elements of the ABAD program in place, significant challenges remain. Although ABAD selected Marketing Center operators from

among existing organizations with personnel experienced in providing services to rural stakeholders, it will be necessary to continue to put significant efforts toward training and consulting with Marketing Center personnel to develop their understanding and ability to apply ABAD's market-driven approach. A particular area of need for increased capacity development is in preparing grant proposals that fulfill ABAD's criteria. Likewise, ABAD anticipates it will need to continue providing significant support to the Centers in the areas of basic office operation and management.

At the same time, ABAD is taking advantage of opportunities to cooperate with partners on a number of complementary efforts in Baku and the economic corridors that bolster and bring additional resources to the Centers' efforts to facilitate transactions between the Marketing Centers clients and the buyers of their products. Applying a new model for economic development in Azerbaijan, ABAD will stimulate over \$15 million in sales and create 4,000 jobs by 2009. The added jobs and sales will invigorate rural economies, serving as a basis for sustained economic growth over the long term.

III Activity Description

Scope of work

The TDY team will do a thorough review of the RECP and ABAD project design and implementation resulting in a set of recommendations to the Mission. The specific tasks that will be undertaken by the TDY team to prepare the deliverables of the TDY team are:

- Review the contract for both projects and all project reports
- Review work plans for both projects
- Review Grant Manuals for each project
- Review grant applications from both projects
- Review USAID's IR related to the projects
- Meet with the USAID Country Director, Program Officer, EG Acting Team Leader, FSN Agricultural Specialist
- Meet with the projects' staff
- Visit Marketing Centers
- Visit Processors and Producers assisted by the projects
- Meet USAID supported agricultural lenders
- Meet staff of USAID SME Financial Strengthening Project

It is anticipated that the Evaluation team will first complete a desk study that will be used to establish an understanding of the agribusiness activities and environment before arrival in-country. The SO 1.3 team will provide documentation electronically to the Evaluation team the week prior to their departure in order for the team to prepare.

The work plan should be ready for discussion at the in-brief and adjustments then made based upon comments by Baku staff at the in-brief. The work plan should include information that:

1. Explains the methodology for carrying out the evaluation;
2. Identifies potential major constraints; and
3. Presents other information the evaluation team wishes to provide.

We expect that the evaluation will:

1. Compare project design to generally agreed-upon international best practices and recommend changes.
2. Determine if internal project management problems have jeopardized or damaged or set back the projects and if so, make recommendations.
3. Address if there is duplication of activities, and/or if activities are working in sync or at odds with each other and recommend remedial actions if needed.
4. Address crosscutting themes. Are they incorporated to a serious extent?
5. Determine if project management is cooperating within SO, across SOs, and with other donor interventions, and working adequately with the GOAZ.
6. Determine if USAID is adequately addressing and furthering its strategic priority of growing the non-oil sectors of the economy through RECP and ABAD; and if not suggest better alternatives.
7. Recommend reading materials on best practices for market chain development and including best practices on financing ag processing and rural development for the Baku staff.
8. Comment on the criticism of the projects by an outside expert who reviewed USAID's whole portfolio and which is copied below.
9. Recommend how sound business proposals can be developed into bankable deals rather than grant funded.
10. Evaluate impact, if any, of grants on efforts to create sustainable rural lenders.
11. Evaluate effectiveness of the grant component of RECP and ABAD in promoting sustainable improvements to the rural economy and suggests ways in which the grant funds could be more effectively deployed, if appropriate.
12. Evaluate administration of grant component in RECP and ABAD for vulnerability to fraud and malfeasance and recommend appropriate changes.

Comments of outside expert

The RECP design is curious as best as can be discerned from a rather thin work plan. RECP emphasizes building value chains for particular commodity groups, a well known concept in “competitiveness” circles. However, it appears that USAID designed RECP to work on the supply side of commodity value chains while ABAD is designed to work from processing to marketing. This division of labor does not make sense in competitiveness theory and practice.² Normally, agribusiness projects are designed to cover the whole value chain and that approach usually yields the best results. In this regard, the work plan mistakenly identifies “transportation, warehousing and logistics” as “peripheral services” when they are actually integral to value chain and cluster development. In addition:

² See, for example, Fairbanks, Michael and Stace Lindsay, *Plowing the Sea: Nurturing the Hidden Sources of Growth in the Developing World*, 1997 or Michael Porter's seminal *The Competitive Advantage of Nations*, 1990.

- It appears that grant making was required in the original USAID solicitation and if so, and like the ABAD project, that is not a best practice if grants are directed to offsetting the costs of equipment for individual farmers or entrepreneurs.
- Under client outreach, it appears BDS is provided with no fee. If so, that is a practice that should be stopped as it stifles professionalism in BDS and business growth. Other donors, or even other USAID projects, may complain if they have to compete with free BDS services while they are trying to develop profitable businesses.
- The work plan is explicit that RECP will help clients interact with investors and financial organizations, presumably MFIs, NBFIs and commercial banks, rather than provided grants; this is a distinct difference from and improvement over, ABAD.

Azerbaijan Business Assistance and Development Program (ABAD)³

Overall, this is a large, poorly designed project with ample funding and an extended life span. If resources were needed elsewhere to advance the fight against corruption, redesigning this project offers the possibility of reprogramming funds to a higher order purpose. More specifically:

- It is rare to see a business development (BDS) project is awarded as a Cooperative Agreement, especially to a provider that has weak organizational credentials in BDS. Unless the project was solicited under a RFP, and IRC won in full and open competition, it is likely that USAID has not acquired the services of the most capable technical assistance provider.
- The idea of using project funds to establish and operate marketing centers is at least 25 years old and has been discredited for at least the past 10 years, because there are few if any known success stories, upon the termination of donor assistance. This is a matter of project design deviating from well recognized best practices.⁴
- The project apparently aims to make grants both to marketing centers and to clients for equipment, machinery and infrastructure. One example, a grant sufficient to cover 45% of a cold storage facility, is troubling because it should have been referred to the banking system. In another example, ABAD is making a grant to farmer for a power line to his mill.⁵ Best Practices in business development have excluded such approaches for a long time because they do not lead to enterprise profitability without also distorting the market. They may also create the appearance of favoritism or, worse yet, corruption. ABAD should be directing entrepreneurs and the marketing centers to MFIs, NBFIs or commercial banks.
- ABAD is also concerned with developing the leasing industry but no grant funds should be made available for either the lessor or lessee. The use of appropriated monies to establish a Rural Leasing Guarantee Fund is equally problematic and better

³ International Rescue Committee, *Azerbaijan Business Assistance and Development (ABAD) Work Plan: Year 2, August 5, 2005 through August 4, 2006*.

⁴ See the following compendium of best practices: Ernst, Ulrich, Marina Krivoshlykova, Donald Snodgrass, James Packard Winkler, *Enterprise Growth Initiatives: Strategic Directions and Options – Handbook*, Development Alternatives, Inc., for the Bureau of Economic Growth, Agriculture and Trade, USAID, Washington D.C. July 2004

⁵ International Rescue Committee, *Azerbaijan Business Assistance and Development (ABAD), Semi Annual Report, February 5-August 4, 2005*.

left to the banking system and to the financial viability of the entrepreneurs' proposals.

- The activity on women and entrepreneurship appears to be empty of content.
- The activity on community support for marketing centers is better left to soft projects like the Community Development project or abandoned all together.
- The activity on marketing center monitoring and evaluation is an effort to create MIS capacity that will not likely survive the end of USAID funding.
- There is no mention of anti-corruption in the work plan. In the semi-annual report there is perfunctory mention of other related USAID projects, i.e. RECP, ABA-CEELI and Community Development but no tangible evidence of coordination.

III. Staffing and level of effort

The design and implementation review will be conducted by one USAID employed business development expert, Mr. Stephen Silcox, and one agricultural expert contractor, preferably with experience in the FSU. The TDY team will be accompanied by the Mission's FSN agriculture specialist. The Mission will schedule the meetings and provide work space and a computer at the Mission office for Mr. Silcox when needed. The contractor will be responsible for his own logistical support including, hiring an interpreter and providing in-country transportation for the team. Mr. Silcox will have ultimate responsibility for the deliverables. He will supervise and direct the work of the agricultural specialist contractor.

IV. Delivery Schedule

The contractor will have 2 work days to complete the desk study prior to departure and 3 work days to participate in the drafting of the report after departure from Azerbaijan. The team is anticipated to be in country for 2 full work weeks in late February and early March. The contractor will be allowed a 6 day workweek.

V. Deliverables

In brief, midbrief and outbrief will be scheduled with Mission staff in Baku. The TDY team will provide a draft report including background, conclusions and recommendations at the outbrief. The contractor agricultural specialist will provide a draft evaluation report to Mr. Silcox entitled "Draft Evaluation Report on USAID/Azerbaijan's Agricultural Projects" the day prior to the outbrief. The report will address in detail the 12 expected outcomes of the evaluation listed above, with recommendations that identify new activities or orientations, for mission comment and will be limited to thirty pages (plus annexes)." Then, the mission will have 10 days to respond. The contractor will have 5 working days to respond to the Mission's comments and will provide editorial review of at least 2 drafts of the consolidated Evaluation Report that will be finalized by Mr. Silcox. The contractor will provide editorial review within 2 working days of receipt of a draft report from Mr. Silcox.