

## I. EXECUTIVE SUMMARY

Mercy Corps proposes to implement an innovative Cluster Access to Business Services (CABS) program in the southern Azerbaijan regions of Lenkoran and Massali.

**Applicant Experience:** A leader in innovative economic development programming worldwide, 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 its management of the Azerbaijan umbrella grant, Mercy Corps successfully introduced market approach principles in four BDS programs incorporating demand-driven, fee-based services. This spring the programs will transition into building networks of local providers.

**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 6,958 micro-entrepreneurs—of whom 58% are women—through greater access to services via 67 client clusters.
- *Provider:* Strengthen the capacity of a network of 90 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.

**BDS and Final Goods Market Context:** Between 12% and 21% of the 10,025 commercial businesses engaged in livestock and poultry production currently use the available veterinarian and production advice services. This low number was identified as a critical constraint in the final goods market. Due to cultural constraints regarding women contacting men directly, only 5% of women producers access these services. Low reach is partially due to veterinarians not finding it profitable to make the long journey to serve clients in remote areas. In addition, consumers are not fully aware of possible service benefits or payment options available, and therefore do not purchase the services.

**Target Clients:** In the target areas of Massali and Lenkoran—an underserved area near the Iranian border with over half the villages in remote mountainous locations—10,025 of the 40,000 registered landowners are involved in animal husbandry and poultry production activities for commercial purposes. An estimated 45% of these are women who are primarily engaged in the poultry businesses. According to World Bank statistics 68% of the target population in the southern area live under the national poverty line.

**Target BDS Providers and Services:** 119 private veterinarians practice in the target regions, eighteen of whom operate veterinarian drug stores according to the State Animal Disease Department statistics. In addition to traditional veterinarian services, the vets supply advice on production technology—an embedded service. Veterinarians themselves note that while their technical skills are adequate, they lack business skills to develop and market their service products. Mercy Corps proposes to work with 90 of the 119 vets and suppliers.

**Approach to Development:** The Mercy Corps program strategy is to serve as a BDS facilitator, building on existing relationships and facilitating client cluster revitalization and development as well as a provider network, highlighting individual as well as group benefits. On the supply side Mercy Corps will develop the capacity of the local private service providers to improve their services to MEs and expand their client base. On the demand side, Mercy Corps will facilitate cluster development and awareness raising in order to promote greater access to services, resulting in increased profitability for MEs. Beyond the life of the program client clusters will

continue to allow clients to leverage resources for greater economic impact. In addition the providers network will encourage the exchange of effective market approaches and new product ideas.

**Expected Impact and Program Targets:** *ME level:* 6,958 livestock and poultry producers will experience a 20-50% increase in annual sales due to reduced production costs, modified practices, and higher sales prices. Through client clusters, women have greater access to vet services and production advice and all farmers will benefit from economies of scale.

*Provider level:* The network of 90 providers will increase their profitability by 87% due to increased outreach via improved efficiency and access to client clusters thereby providers will expand their client base to 77 producers for vet services and 52 for production advice services per provider.

*Market level:* The market will experience an increase in users—approximately 70% and 59% for veterinarian and production advice services respectively. Mercy Corps projects a 40% increase in the number of women entrepreneurs and a 30% increase for remote clients accessing the two services.

## **II. Mercy Corps' INSTITUTIONAL CAPABILITY**

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. Known internationally for its quick-response, high-impact programs, Mercy Corps has provided more than \$575 million assistance in 73 nations since 1979.

A leader in innovative economic development programming worldwide, 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.

Client groups offer a means of cost-effectively reaching and providing services to many micro entrepreneurs. In Bosnia, cluster committees defined priorities for training and support services and accessed them through 7 associations, a business center, and the Brcko Chamber of Commerce. In Lebanon Mercy Corps has involved over 1,300 rural farmers and processors as part of a cluster development program. Working with client groups, Mercy Corps strengthens the capacity of women cooperatives by training them on management and business basics. In Uzbekistan, Mercy Corps acted as a facilitator, building the capacity of 11 farmers groups and one association to provide marketing, farm management, and agricultural technology services. In Kyrgyzstan, Mercy Corps assisted the development of 4 farmers associations that provide market linkages and input supply services to almost 1000 members. These groups, many of which include refugee farmers, leverage their resources to purchase equipment and provide services to their members and other farmers in the region.

Mercy Corps utilizes the MFI-led approach by building on microfinance activities to provide BDS to clients in a number of programs. In the Philippines, Mercy Corps local NGO partner MerciPhil provided a package of financial and BDS services including agriculture, marketing, and cooperative development training to over 6000 urban and marginalized farmers of which 85% were women. As a result of this 34 agricultural cooperatives were formed that provide additional market access services to its members. Mercy Corps Indonesia works with local NGOs to deliver a package of services to 6,812 individuals and groups (63% women) including production and technology development, business and marketing training.

The Gobi Initiative in Mongolia is an example of a regional subsector program (cashmere industry) that encompasses cluster development as well as linking clients to financing. Key BDS activities include trade fairs, individual consulting, and training on marketing and finance. From the Gobi Business News (GBN) magazine, herders obtain information enabling them to obtain fair market prices for their products. In the summer 2001 trade fairs, more than 2,000 herders and 14 companies attended and nearly 150 tons of cashmere was sold, generating \$3.2 million in revenue. Future plans include the development of an incubator and business center to sustain the services in the long term.

Through the Azerbaijan Humanitarian Assistance Umbrella Grant Program, Mercy Corps has successfully introduced the market approach into three BDS focused programs that work with over 9,000 internally displaced persons in rural Azerbaijan. The programs incorporated demand-led, fee-based services utilizing client cluster, MFI-led, and provider network approaches in early 2001 and will begin to hand over the direct service provision role to local private providers while continuing as facilitators (see Annex 4).

### **III. PROPOSED CLIENTELE: FOCUS ON WOMEN and RURAL POOR**

Lenkoran and Massali have been identified as regions having economic potential, especially in the agricultural sector, according to the USAID Country Strategy. The World Bank Poverty Assessment identifies agriculture as the most important sector of the economy in terms of both output and employment. In the target area industrial production is the lowest in the country, placing a greater emphasis on agricultural activities. Government statistics show that the market for animal products has increased over the last three years and promises to continue growing. Eight kinds of taxes have been abolished by the government of Azerbaijan since 1994 in order to stimulate the agricultural sector.

Over 68% of the target population for Mercy Corps' CABS project live below the national poverty line.<sup>1</sup> While the per capita GNI in Azerbaijan is \$630<sup>2</sup> (\$52 a month), the average income of the proposed clients is just \$34<sup>3</sup> a month, or 54% of the national average. The remote mountainous villages in this area also suffer from the second highest child mortality and morbidity rates in the country. Of the estimated 10,025<sup>4</sup> commercial livestock and poultry producers, 45% are women primarily involved in poultry production according to the regional statistics department. Of this 45%, only 5% are able to access veterinarian services due to cultural restraints regarding women contacting men directly. Based on the market survey, more than 7000 proposed clients in the area have not accessed appropriate veterinary and production advice services for their animals.

Livestock and poultry producers face significant income loss not only through a high percentage of animal deaths from disease, but because astonishingly high percentages of the meat they produce is rejected as unhealthy by the State Animal Disease Control Department.

According to available statistics and site visits, less than 5% of the businesses active in the area qualify as small and medium enterprises (SMEs).<sup>5</sup> While impact on SMEs is not projected, growth in the SME sector is expected based on other USAID-funded economic programs. Mercy Corps will link directly with 37 women's health groups formed under Mercy Corps' Child Survival program that started October 2001. When appropriate, Mercy Corps will create links with ACDI-VOCA, FINCA and Land O'Lakes client-clusters developed under USAID and other donor-funded programs in order to effectively use available resources.

### **IV. MARKET ASSESSMENT, PROGRAM GOAL, and OBJECTIVES**

Mercy Corps utilized four key market research tools to complete the market assessment and identify the demand and supply side constraints. The tools included a combination of consumer market research and a subsector analysis of the meat industry. Mercy Corps conducted a Usage, Attitude, and Image (UAI) market survey with 157 businesses, 5 focus group discussions (FGDs) with veterinarian service users and non-users and a supplier diagnostic to identify service features and provider skills. All four tools were used in research conducted in December 2000 and November 2001.

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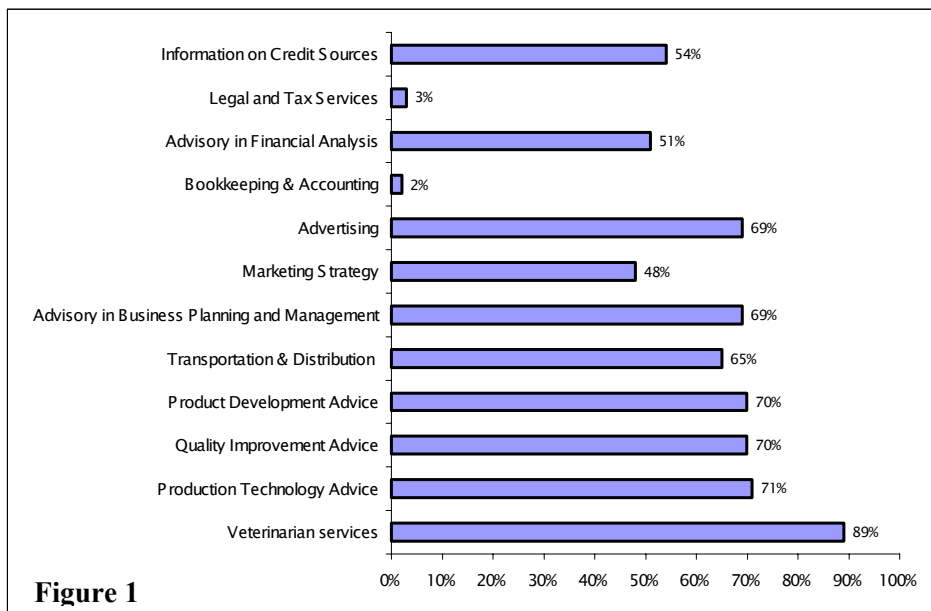
<sup>1</sup> World Bank, "Azerbaijan at a Glance," 2000.

<sup>2</sup> Ibid.

<sup>3</sup> This number extrapolated from government annual sales figures for 2000.

<sup>4</sup> Farmers engaged in animal husbandry identified through Mercy Corps' survey, 2000 and 2001.

<sup>5</sup> Based on the USAID definition, in which microenterprise are those with less than 10 employees, including unpaid family members.



**Figure 1: Potential for BDS Markets in Lenkoran and Massali**

Mercy Corps surveyed 120 businesses involved in agriculture, production, wholesale and retail, as well as 37 service providers for 12 business services. The research team identified MEs’ attitudes toward and understanding of the benefit of each service, as well as whether they had accessed the service yet or not. The markets with potential to expand emerged as those

that the MEs considered useful, but had not yet acquired.

Figure 1 shows the results of this analysis. The figure measures the potential for market expansion by contrasting the percentage of entrepreneurs that consider a service important for their business with the percentage of entrepreneurs who have not acquired that service. Note that product development service, quality improvement advice and production technology advice are commonly identified by clients as production advice and are therefore grouped together in our model. This figure demonstrates that there is significant unmet demand for veterinary services and production advice services—services that are embedded within traditional veterinary services. Unmet demand signals potential for the market. The subsector analysis revealed that the major constraints for the MEs involved in commercial animal breeding and poultry are animal deaths, disease, and low breeding rates (see Annex 6).

**Service Description and Provider Profile:** Veterinarian services are comprised of animal disease prevention, treatment measures and production advice services, which include information on breeding and feeding techniques. At present, there are 119 veterinarians in the Lenkoran and Massali regions. 101 of these work “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 operate their own veterinarian drug stores, providing production and disease-prevention advice bundled with the sale of veterinarian medicines. These service providers consider their drug stores to be a core business and do not provide any treatment services.

**Constraints and Opportunities for Promoting Demand:** Table 1 demonstrates the potential for veterinarian services and production advice. The drop in percentage between those farmers who are aware of the veterinarian services and those who have tried them makes obvious the opportunity for promoting demand.

**Table 1: Awareness, Reach, and Retention for Vet and Production Advice Services**

Service	Awareness <sup>6</sup>	Reach <sup>7</sup>	Retention <sup>8</sup>
Vet Services	68.5	32.5	93.6
Production Advice	44.1	27.5	95.5

The table shows that not all MEs are familiar with the veterinarian and production advice services, and of those

<sup>6</sup> Fully understand the benefits of the services.

<sup>7</sup> Of those who are aware, % who have tried service.

<sup>8</sup> Of those who have tried service, % who used it in the last quarter.

who are aware, only about 30% have tried them. More positively, the retention ratio demonstrates that the services are useful because almost all of those MEs who tried them once became regular users. Focus group discussions with farmers who have not yet acquired veterinarian services and production advice shed a light on the reasons for the low reach of these services (see Annex 6). The following points comprise the *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.

**Current Market Penetration for Vet and Production Advice Services:** Mercy Corps calculated that 21% and 12% of the 10,025 commercial clients currently utilize vet and production advice services respectively, based on the Awareness, Reach and Retention information from Table 2. Data collected from current users shows that the 2,105 current vet and production advice services users on average pay \$5.3 per month for those services, which amounts to an estimated market size of \$133,894 per year. As production advice services are embedded, Mercy Corps estimated the market size in terms of scale of outreach, concluding that an estimated 1,203 ME access production advice services.<sup>9</sup> The market is far from saturated; there is potential for substantial expansion of services that can result in sizable increases in profitability for service providers and MEs alike.

**Key Supply-side Constraints:** 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 (See Annex 6). 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 the 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 products.

In order to address the market constraints, Mercy Corps has identified the following goal and objectives:

**Goal:** To improve profitability for clusters of rural poor and women micro-entrepreneurs 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:**

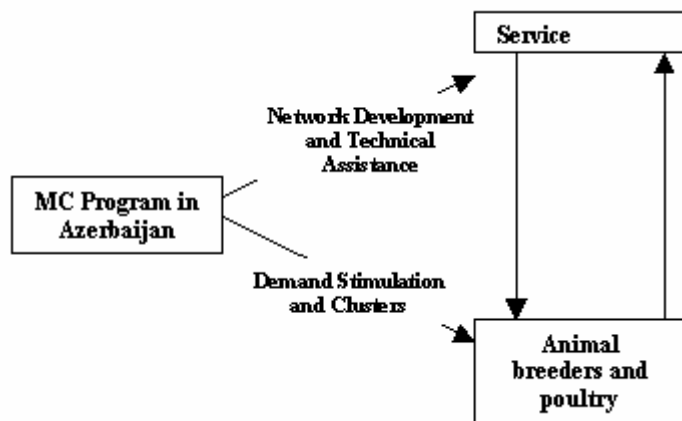
- *ME:* Increase sales by an average 35% for 6,958 micro-entrepreneurs—of whom 58% are women—through greater access to services via 67 client clusters.
- *Provider:* Strengthen the capacity of a network of 90 veterinarians and veterinary suppliers to provide innovative and quality services through improved 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.

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<sup>9</sup> See Table 3 for graphic representation of this information.

## V. APPROACH TO BDS MARKET DEVELOPMENT and PROGRAM DESCRIPTION

Figure 2: Cluster Approach to Business Services



The Mercy Corps program strategy is to serve as a BDS facilitator, building on existing relationships and facilitating client cluster revitalization and development as well as a provider network, highlighting individual as well as group benefits (see Figure 2). Note that the focus of activity is on facilitating transactions between customers and providers, rather than subsidizing them.

### ***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 outreach 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 clusters<sup>10</sup>, 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.

### ***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:

<sup>10</sup> UAI revealed that 69% of farmers preferred to receive services in groups.

- 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 Academy<sup>11</sup> and State Animal Disease Board for information and referral purposes.

*Leveling the playing field:* Mercy Corps is prepared to work with all 119 providers, though we recognize that it is unrealistic to expect that all providers will be equally interested and able to participate in the program. As a result a target of 71% has been established, with 80 out of 101 veterinarians and 10 out of 18 veterinary suppliers expected to take part in the project. Since the following criteria is inclusive and based almost solely on each provider's individual willingness to take part in the program, Mercy Corps is confident that its interventions will reach a fair number of providers by the end of the program's third cycle. Mercy Corps will consider the following selection criteria for veterinarians:

- Appropriate education and technical background;
- Profile of existing clientele—in the first cycle preference will be given to those who have a female and remote client base;
- A demonstrated willingness to invest human and other resources into developing their business;
- Open to building relationships with client clusters and colleague networks

***A Three-Cycle Implementation Strategy:*** Mercy Corps will employ three cycles to meet the objectives of the program. In the *first cycle*, Mercy Corps will identify and lay the foundation for a network with 45 service providers and work with 37 existing client clusters. Mercy Corps staff will then take a lead role in skills development and awareness raising efforts to address provider constraints and reintroduce or create linkages between providers and clients.

*Cycle two* will focus on further capacity building of the nascent network of service providers. Steps toward sustainability begin as the most capable and energetic leaders among the first 45 providers become leaders, mentoring the new group of 45 providers with Mercy Corps facilitating the process. Mercy Corps will facilitate creation of client clusters where they do not already exist and establish more mechanisms for cooperation between service providers, the State Disease Control Board, and the Ganje Agricultural Academy.

Mercy Corps's role in the *third cycle* focuses less on direct training of service providers and more on program sustainability by further strengthening the provider networks and ensuring that linkages between service networks and client clusters are sound and functioning. At this stage Mercy Corps will track market trends and respond appropriately.

***Market Vision:*** As a result of Mercy Corps's interventions over the three-year program, the market will experience an up swell in the number of MEs using veterinary and embedded production advice services. Client clusters and clients with fuller understanding of service benefits are the key mechanisms responsible for the improved reach. MEs experience increased profits as animal deaths decrease and productivity grows. The provider network will be a powerful source of advice and information, crucial components of product development. In addition, providers' profits increase, as they are able to apply user-friendly market research tools to respond to changing market demands with quality services. As a result of the program interventions the volume of sales in the meat industry in the target area will increase by three times more than the current market growth.

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<sup>11</sup> 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.

## VI. SUSTAINABILITY PLAN AND EXIT STRATEGY

Mercy Corps recognizes that the key to sustainability is to tap into and build on existing market linkages and cluster systems. Frameworks already in place—in particular, current relationships between veterinarians and vet suppliers and between veterinarians and livestock and poultry producers, as well as existing client clusters—serve as the foundation for Mercy Corps’ interventions. Building on existing relationships reduces the threat of artificially formed groups dissolving once the intervention ends.

Measures for sustainability consist of working with individual providers and through the providers’ network. At the individual level the goal is to develop the capacity of the providers to be able to apply new skills and access necessary resources to expand their businesses. During the first and following cycles of the program, Mercy Corps will lay the groundwork for fostering economic contact within the network of key stakeholders—veterinarians, vet suppliers, the Ganje Agricultural Academy, and State Animal Disease Department.

In the former Soviet period, veterinarians, veterinary suppliers and the State Animal Disease Control Department were linked via the centralized *Kolhoz* system. With the collapse of the collective farm system, the links have weakened and opportunities to transfer skills have been lost. Mercy Corps’s CABS program aims to find market friendly ways to rejuvenate the networks that used to exist, demonstrating how service providers can pull themselves into the new market economy with increased profitability.

By the end of the third year, the intensive client-focused awareness raising activities can level off and be maintained through the market by word-of-mouth. Access (reach) to services continues through ongoing and expanded cluster activities. Clients will continue to work together in clusters as long as they receive a common economic benefit from doing so.

The following network and cluster activities will be fostered during the three program cycles to ensure sustainability beyond the life of the program:

- Veterinarians and vet suppliers will interact with each other and share effective market approaches and new product ideas, transferring business skills to new providers as they enter the market.
- The State Animal Disease Control Department plays a key role in tracking client needs by providing information regarding trends in illnesses. Veterinarians can use this information to market appropriate treatments, as well as to help clients keep abreast of important trade issues. Veterinarians can expand their service by referring clients to the State Animal Disease Control Department lab facilities, an opportunity for the State Department to benefit by increased fees from referred lab services.
- The Ganje Agricultural Academy, recently tapped by a World Bank project to help raise awareness amongst farmers in central Azerbaijan about new diseases, trends and technology, will link in as part of the provider network, serving as a resource for improving the technical side of service delivery.
- Clients recognize the usefulness of cluster access to veterinarian services as demonstrated through Mercy Corps’s interventions.
- Client clusters realize higher profits and lower purchasing risk, as they are able to take advantage of their leveraged resources.
- In a natural continuation of the process, farmers start their own clusters as they observe how existing client clusters safeguard their investments and experience higher profits.

**Exit Strategy of the BDS Facilitator:** The three-cycle approach Mercy Corps will implement keeps an eye toward exiting by handing over its activities to the network and clusters throughout the life of the program. A strong focus on strengthening the provider network as well as client clusters will ensure that structures and systems are in place to maintain profitable activities after Mercy Corps withdraws. While Mercy Corps takes the lead role in awareness-raising activities and training in the first year, by the second year veterinarians themselves begin mentoring providers new to the program, and awareness-raising activities will continue through client clusters and the provider network. In addition, through cross-visits—a particularly effective tool currently utilized in Azerbaijan by other economic groups—the groups will pass on success stories about the advantages of veterinarian services as well as the economic benefits of clustering. By the third year, the

providers will become primary links with client clusters as Mercy Corps oversees the service market and finally effectively exits the program.

## VII. EXPECTED IMPACTS AND ACCOMPLISHMENTS

**ME Impact:** By the end of the program the annual sales for the 6,958 animal husbandry and poultry MEs will increase on average by 35%, which in dollar terms represents an increase from \$816 to \$1,102<sup>12</sup>. Sales will increase from 20-50% depending on the individual ME situation. In real terms this means an ME can bring home up to an additional \$204 in net earnings a year, raising their GNI to \$612 and bringing it closer to the national average by a full 43%.<sup>13</sup> The following table shows how access to veterinarian services and production advice will solve some of the major problems faced by MEs, resulting in higher profitability.<sup>14</sup>

**Table 2: Direct Impact on MEs**

Impact	Constraint addressed	% Impact on Profit <sup>15</sup>	Services
Change in behavior regarding knowledge of illness, symptoms, and treatment	Animal Death	7-9% large animals, 20% poultry	Veterinarian service; preventive info
Increased productivity	Low breeding rates and poor feeding practices	2-3%	Production advice
Higher sales price	Low sales price due to rejection at St. Animal Disease Control Board Examination	45% large animals, 20% poultry	Vet service and Production advice

*Client satisfaction:* Mercy Corps will measure client satisfaction with providers by tracking repeat clients for veterinarian services and referrals for production advice services. Mercy Corps projects that repeat clients will remain high at 95% due to improved service package and consistency. Client clusters are expected to increase client referrals for embedded production advice services. In year three, an estimated 4,586 clients will obtain production advice based on a recommendation from a previous client.

*Indirect Benefits:* The indirect benefits of the project interventions will primarily profit the cluster communities through creation of new jobs, increase in income, and strengthened civil society. Mercy Corps projects that 10% of the 7000 clients will hire additional employees due to an increase in sales, resulting in 700 new jobs. Mercy Corps also expects that 5% of 30,000 household livestock and poultry producers (out of 40,000 total registered land users) will enter the commercial market during the life of the project, encouraged by the success of their commercially active members to begin their activities. On an even broader scale, Mercy Corps expects that the regional economy can benefit as the GDP in Lenkoran and Massali increases due to program activities. In addition, veterinarians and vet suppliers in adjoining regions may be inspired to improve their businesses based on their counterparts' success in these two regions.

**Meeting ME Demands:** In order to ensure that the providers meet ME demand, Mercy Corps conducted a supplier diagnostic to identify what service features are not satisfactorily provided (See Annex 6). The three most important aspects of the production advice and vet services demanded by clients are payment options, service package and consistency. Focus group discussions will play a key role in providing information for the providers, who can use them to identify the features and services demanded by their clients. By the third year, efforts will focus on overseeing the application and fine-tuning of these market research and product development tools. In addition, the network linkages with the State Animal Disease Control Department, veterinary suppliers, Ganje Academy, and the veterinarians themselves will provide information on market

<sup>12</sup> The annual sales for the total of MEs participating in the program appear in Table 3.

<sup>13</sup> This figure is only 3% less than the national average at \$630.

<sup>14</sup> The market for meat in Azerbaijan is strong and growing. The Azerbaijan government has increased duties on imported meat and abolished eight kinds of taxes as part of its measures to support and encourage the domestic meat production market.

<sup>15</sup> These figures were obtained from the State Animal Disease Board, clients, and providers.

trends and new product ideas.

**Impact of Intervention on BDS Service Provision:** Increased profitability promises to be the main impact on providers primarily due to new clients obtained through clusters. The typical target provider currently earns \$960<sup>16</sup> annually, serving 20 commercial clients for vet services and 10 for embedded production advice services. Mercy Corps expects program-supported providers will increase their sales by 87% at the end of the program due to increased outreach via improved efficiency and access to clusters, expanding their client base to 77 for vet services and 52 for production advice services. Along with measuring the annual profits of the program-supported providers, Mercy Corps will measure profits before and during the life of the program,<sup>17</sup> gathering this information during the program start-up and the sample impact survey at the provider level.

**BDS Market Level:** An increase of 70% in users of veterinarian services and 59% in users of production advice services mark the most significant change in the market. By the end of the program 76% of the 9,123 users in the overall market will acquire veterinarian services from program-supported providers. Of the 7,519 production advice users, 62% will access services from program-support providers. Note that the overall market will show a 40% increase in the number of women entrepreneurs who access vet and production advice services by the conclusion of the program. Further, we expect that 30% of those accessing veterinarian and production advice services will be clients from poor rural villages that were traditionally unable to access these services. Mercy Corps assumes that 100% of firms acquiring BDS from program-supported providers will be MEs. The following table demonstrates how the program intervention will impact the market penetration.

**Table 3: Impact on the Vet and Production Advice Services Market**

Market Level Measures	Current Market		Market after Program Intervention	
	Veterinary Service	Production Advice Service	Veterinary Service	Production Advice Service
Market penetration	21%	12%	91%	75%
# Of MEs accessing a service	2,105	1,203	9,123	7,519
# Of women accessing a service	501	501	4,511	4,511
Market size in \$ term	\$133,894	Not applicable	\$580,222	Not applicable
# Providers	103	121	109	127

**Systems Used to Track Impact:** Mercy Corps will utilize a participatory approach for the semi-annual and annual impact and market surveys to measure performance at the ME, provider and market level. As the program begins Mercy Corps will conduct a baseline survey for MEs and providers to verify the current status. The semi-annual impact survey will include a review of ME and provider status as well as of the development of client clusters and the network. Annually, Mercy Corps will implement a market survey to identify changes in the awareness and usage rate, which will provide feedback on the effectiveness of the program. As well, with input from CABS staff and providers, Mercy Corps will design a database to track program indicators.

## VIII. KEY PERSONNEL

The CABS program manager will receive management and financial oversight from Mercy Corps Azerbaijan's Chief of Party and Finance Director. The program management structure will be organized to ensure clear communication lines and accountability. Please refer to Annex 8 for Program Management Structure.

**Mr. Kamran Abdullayev, CABS Program Manager.** As Economic Opportunities Officer for Mercy Corps International in Azerbaijan, Mr. Abdullayev has more than 6 years experience in SME lending and development.

<sup>16</sup> Based on Mercy Corps survey of 30 providers.

<sup>17</sup> Details are provided in Notes to Table 1

He currently oversees the monitoring, evaluation, coordination, and technical assistance needs for three Business Development Services programs dealing with micro and small enterprises and agribusiness development as part of a \$4 million economic development portfolio in rural Azerbaijan. Recognized for his expertise and training skills, Mr. Abdullayev has developed business-training materials and conducted trainings in Georgia, Turkey, and Turkmenistan for Mercy Corps and the European Union's TACIS program. As Portfolio Management Officer for the Shore Overseas Corporation (USA) lending agency, Mr. Abdullayev supported small business lending programs and managed a loan portfolio of \$600,000 in Azerbaijan. Mr. Abdullayev also served as Managing Director for a Small and Medium Enterprise support project funded by the European Union's TACIS Program. In July 2001 Mr. Abdullayev attended the SEEP State of the Art in BDS for ME training in Washington. Fluent in Azeri, Russian, and English, Mr. Abdullayev's excellent communication skills highlight his success as a reliable team leader.

**Mr. Tim Canedo, Technical Advisor.** A private consultant who will provide his expertise during three or more two-week visits to Azerbaijan, Mr. Canedo brings over 20 years of experience in private sector development, program management, monitoring and evaluation, training, and market research to his role in this project. A widely recognized leader in the development and testing of tools and techniques to be used in measuring performance of business development services (BDS) programs, Mr. Canedo has designed, developed and launched successful BDS programs in more than ten countries in just the last two years. As he specializes in enterprise development in emerging economies, Mr. Canedo's contributions to Mercy Corps' project in Azerbaijan promise to be substantial.

**Ms. Pam Eser, HQ Technical Advisor.** Currently Director of Microenterprise and Economic Development for Mercy Corps in Washington, DC and Stockholm, Sweden, Ms. Eser will provide technical backstopping for this project. With more than 10 years experience in private sector development, Ms. Eser supports the development and expansion of microenterprise and economic development programs worldwide for Mercy Corps.

## **IX. GRANT BUDGET PLAN**

The total budget estimate for the three-year project is \$1,172,115 of which \$750,000 in financial support is being sought from USAID. The requested USAID funding will be used to support the proposed BDS project in the following areas:

*Demand Side Activities:* Increase sales by 35% for 6,958 micro entrepreneurs, of whom 55% are women, through greater access to services via 67 client clusters. Mercy Corps' demand side approach with a cost element of \$21,000 USAID budget, aims to address the fact that consumers lack information that compel them to make more profitable use of the veterinarian and production advice services.

*Supply Side Activities:* Strengthen the capacity of 90 veterinarians and veterinary suppliers to provide innovative and quality services through improved business and marketing skills. The Mercy Corps program strategy is to serve as a BDS facilitator, developing the capacity of the local private service providers to improve their services to MEs as well as their promotion and marketing strategies and helping to stimulate a demand for services at a total cost of 40,500 USAID budget.

*Mercy Corps Management:* To ensure sufficient oversight and to manage the intensive schedule of short-term technical assistance and overseas training, Mercy Corps management support is required. To facilitate short-term technical assistance and training and to ensure technical backstopping, 5% time for the Director of the EO Programs in headquarters is included. In Azerbaijan, 5% time for both the Chief of Party and the Finance Director are included to ensure management support, accountability and timely financial grant reporting. Mercy Corps is requesting a total management cost of 6% of the total USAID budget.

The proposed project will cost share in the amount of \$422,115. (see Annexes 1 & 2).