

EVALUATION OF THE USAID/CAUCASUS- AZERBAIJAN ENTERPRISE DEVELOPMENT PROGRAM



FINAL REPORT

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Leo T. Surla, Jr., Team Leader, MetaMetrics
Jorge L. Daly, MSI

The views and recommendations expressed in this report are solely those of the MSI/MetaMetrics Evaluation Team and are not necessarily those of USAID or the U.S. Government.

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TABLE OF CONTENTS

ACKNOWLEDGMENTS	iii
LIST OF ACRONYMS	iv
MAP OF AZERBAIJAN.....	v
EXECUTIVE SUMMARY.....	vi
EVALUATION ACTIVITIES.....	vi
ENTERPRISE DEVELOPMENT PROGRAM	vi
EDP PROGRAM PERFORMANCE	vii
EDP Beneficiary Assessment.....	viii
Gender Sensitivity	viii
Corruption	viii
Sustainability.....	ix
CONCLUSIONS AND RECOMMENDATIONS.....	ix
EDP Performance.....	ix
Policy Environment for SME Development	x
SME Finance.....	xi
EDP Transition to Local Partners	xi
SECTION 1 INTRODUCTION.....	1
1.1 BACKGROUND	1
1.2 PURPOSE OF THE EVALUATION.....	2
1.3 EVALUATION ACTIVITIES.....	2
SECTION 2 ENTERPRISE DEVELOPMENT PROGRAM DESCRIP.....	4
2.1 EDP PROGRAM COMPONENTS.....	4
2.1.1 Volunteer Advisors (VAs)	4
2.1.2 Train the Supplier	5
2.1.3 Business Training.....	5
2.1.4 Field Offices.....	6
2.1.5 Train the Trainer	6
2.1.6 MBA Executive Corps.....	6
2.1.7 SME/BSP Partnership.....	7
2.1.8 Other EDP Activities	7
2.2 EDP PROGRAM PERFORMANCE.....	7
2.2.1 EDP Negative Impacts or Unintended Consequences	7
2.2.2 EDP Objectives and Program Design	7
2.2.3 Gender Objectives and Equity	8
2.2.4 Corruption.....	8
2.2.5 Cost-Effectiveness of EDP Interventions	9
SECTION 3 THE SME SECTOR.....	10
3.1 LEGAL AND ADMINISTRATIVE ENVIRONMENT	12

3.1.1	Registration and Licensing	13
3.1.2	Public Investments	13
3.1.3	Fees and Facilitation Payments.....	13
3.1.4	EDP Activities	14
3.2	SME FINANCE.....	16
3.3	BUSINESS SERVICES	17
3.3.1	Direct Assistance to SMEs: Success Stories and Shortcomings.....	17
3.3.2	Assistance to Local Partners	19
SECTION 4 FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS		22
4.1	ENTERPRISE DEVELOPMENT PROGRAM STATUS.....	22
4.1.1	ISO Effectiveness of CDC	22
4.1.2	CDC Impact on Azerbaijan Employment	23
4.1.3	CDC Impact on Azeri Business Philosophy	23
4.1.4	Monitoring and Evaluation (M&E)	23
4.2	RURAL ECONOMIC DEVELOPMENT	24
4.2.1	Field Offices.....	24
4.3	SUSTAINABILITY	24
4.3.1	BSO Capacity, Registered NGOs	25
4.3.2	BSO Capacity, Private Sector	26
4.3.3	CDC Promulgated Practices	27
4.4	PROGRAMMATIC CONCLUSIONS AND RECOMMENDATIONS.....	27
4.4.1	EDP Performance.....	27
4.4.2	Policy Environment for SME Development.....	28
4.4.3	SME Finance.....	29
4.4.4	EDP Transition to Local Partners	30
 ANNEXES		
ANNEX A BIBLIOGRAPHY.....		32
ANNEX B AZERBAIJAN ECONOMIC DEVELOPMENT PROGRAM		35
ANNEX C EVALUATION STATEMENT OF WORK.....		38
	Private Sector Specialist.....	42
ANNEX D EVALUATION WORKPLAN/SCHEDULE		45
ANNEX E INTERIM REPORT		47
ANNEX F EVALUATION QUESTIONS		64
ANNEX G AZERBAIJAN ECONOMIC DEVELOPMENT PROGRAM.....		78

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While this support is acknowledged and extensive cooperation was provided by USAID and CDC personnel, the MSI/MetaMetrics Evaluation Team takes full responsibility for the content of this report.

LIST OF ACRONYMS

ABTC	Azerbaijan Bank Training Centre
ACDI/VOCA	Agriculture Cooperative Development International/Volunteers in Overseas Cooperative Assistance
ADRA	Adventist Development and Relief Agency
AMCHAM	American Chamber of Commerce in Azerbaijan
ASK	Azerbaijan National Confederation of Entrepreneurs
ASPI	ASPI Consulting Engineers, Inc.
BAS	Business Advisory Services
BDA	Business Development Alliance
BDRC	Business Development Resource Centers
BP EC	BP Entrepreneurial Centre
BSO	Business Support Organizations
BSP	Business Service Providers
BTG	Business Training Group
CDC	Citizens Development Corps
COTR	Contract Officer Technical Representative
EBRD	European Bank for Reconstruction and Development
EDP	Enterprise Development Program
ERA	ERA Research and Consultancy
EU	European Union
FSA	FREEDOM Support Act
FSU	Former Soviet Union
GABA	Ganja Agribusiness Association
GBG	Ganja Business Group
IDP	Internally Displaced Person
IFC	International Finance Corporation
IRC	International Rescue Committee
MBAEC	MBA Executive Corps Volunteer
MSI	Management Systems International
NAR	Naxcivan Autonomous Republic
OSCE	Organisation for Security and Cooperation in Europe
RABD	Rural Azerbaijan Business Development Program
RECP	Rural Azerbaijan Enterprise Competitiveness Program
SME	Small and Medium Enterprise
SO	Strategic Objective
TQM	Total Quality Management
UNHCR	United Nations High Commission on Refugees
USAID	United States Agency for International Development
VA	CDC Volunteer Advisor

MAP OF AZERBAIJAN



EXECUTIVE SUMMARY

From July of 1999 through June of 2004, a five-year period, the USAID/Caucasus-Azerbaijan Regional Mission funded the Enterprise Development Program (EDP), administered by Citizens Development Corps (CDC). The EDP program was designed to accelerate the economic development of privately-held Azeri small and medium enterprises (SMEs).

The Enterprise Development Program was designed to address the Mission's Strategic Objective (SO) 1.3, Accelerated Development of Small and Medium Enterprises. The program was multi-faceted and aimed at inducing Azeri economic development through a technical assistance program that addresses technical and managerial needs of Azerbaijani small and medium sized enterprises and business support organizations (BSOs).

According to the Task Order Statement of Work, "[the] principle focus of the evaluation shall be the performance of EDP activity in accomplishing the terms and objectives of [CDC's] Cooperative Agreement and their contributions in achieving the Mission's Strategic Objective 1.3." The Evaluation Team of Management Systems International (MSI) in association with MetaMetrics Inc. addressed CDC EDP status, future support to economic development in Azerbaijan, the current SME environment, sustainability, and recommendations for future interventions in the development of competitive private enterprises.

EVALUATION ACTIVITIES

The Evaluation Team held initial meetings with USAID personnel. Interviews were conducted with CDC staff, MBA Executive Corps members, and CDC Volunteer Advisors. Interviews were conducted at related USAID programs, business associations, and international donor projects. Client/partner organizations in Baku were visited which covered non-government business associations engaged in providing business services, the finance sector, agri-business, and private sector business service organizations. In the second week of the evaluation effort, the Evaluation Team reviewed interim findings with the USAID COTR (Contract Officers Technical Representative), visited additional donor organizations and related USAID programs in Baku, and traveled to Ali Bayramli and Ganja to conduct interviews with CDC field staff and client/partner organizations. The third and final week was spent on evaluation analysis and draft final report preparation. The evaluation briefing was delivered at the USAID Mission on Thursday, May 27, 2004. Following USAID/Caucasus-Azerbaijan review of the draft final report and receipt of comments and requests for report clarification on June 7, 2004, the Draft Report was revised and a Final Report was submitted.

ENTERPRISE DEVELOPMENT PROGRAM

CDC, in its overview description of the EDP lists the following four core or main activities: 1) Supplier Training Initiative (Oil and Gas Sector), 2) Firm-Level Technical and Managerial Assistance (Volunteer Advisors or VAs), 3) Training and Local Capacity Building (Business Support Sector), and 4) Linkages in Finance, Trade, and Technology. For the purpose of the evaluation of the CDC EDP, the basic interventions or components of the EDP, in the basic order

or timing of their implementation, have been 1) VA (Volunteer Advisors), 2) Train the Suppliers, 3) Business Training, 4) Field Offices in Ali Bayramli and Ganja, 5) Train the Trainer, 6) MBA Enterprise Corps (MBAEC), and 7) Partnership with SMEs and BSOs. Staff resources included expatriate management, Azeri Program Officers, Volunteer Advisors, and MBAEC Volunteers.

- **Volunteer Advisors (VAs):** Over the five-year period of the CDC EDP program, a total of 111 Volunteer Advisor visits to Azerbaijan provided support on 151 primary assignments and 158 secondary assignments.
- **Train the Supplier:** An estimated total of seven 3 to 5 day training events (three in Year One) were delivered over the three-year period of the Train the Supplier program. Exit participant questionnaires indicated a high degree of satisfaction with the program.
- **Business Training:** By June of 2002, a total of ten workshops and seminars on topics including “Business Ethics,” “ISO Certification,” and “Impact Sales Techniques” were delivered. Over the five-year period a total of 92 seminars and workshops were delivered.
- **Field Offices:** Field Offices in Ali Bayramli and Ganja were opened and in operation by March 2002. The first Volunteer Advisor to work in the field offices arrived in Azerbaijan in August 2002. CDC activities in the two-year Field Offices program were similar to those in Baku and included training events and technical assistance provided by Volunteer Advisors, MBA EC volunteers, and EDP Azeri Program Managers.
- **Train the Trainer:** The Train the Trainer program lasted for five months. The first workshop was presented in June 2002. The three-day training program was aimed at increasing the number and capacity of Azeri trainers to provide business training. In October of 2002 the second and last Train the Trainer workshop was delivered.
- **MBA Executive Corps:** Two MBA Executive Corps volunteers arrived in Azerbaijan in July 2002. They provided support to CDC partners and client organizations, conducted workshops on “Business Development,” and conducted the first Azerbaijan Business Case Competition on December 15, 2002. Three MBA EC volunteers, the final MBAs of the EDP program, arrived in Baku in July 2003. The MBA volunteers will complete their Azerbaijan tours in September 2004 through the Rural Azerbaijan Enterprise Competitiveness Program (RECP).
- **SME/BSP Partnership:** Partnership with SMEs and business service providers (BSPs), also referred to as business service organizations (BSOs), became an explicit focus of the CDC EDP program in early 2003 in order to develop Azeri capacity to provide technical assistance and business services to SMEs.

EDP PROGRAM PERFORMANCE

CDC has successfully integrated the EDP components through networking and provision of ongoing technical assistance and coordination with selected partners. These additions and communications have resulted in referrals for training programs, access by client organizations to funding and support from other donor organizations, and a flow of information among client organizations to support increases in sales and access to suppliers.

The overall planning for CDC EDP has been appropriate to the situation and environment. The CDC EDP did directly build the capacity of several Azeri consulting companies (ERA and ASPI in Baku, a new consulting group in Ganja, among others) and business associations (ASK) to provide quality technical assistance that can result in improved operations of assisted SMEs. Azeri firms have organized, under EDP Program support, to provide business services.

CDC estimates that a total of 270 firms were provided technical assistance by VAs, MBAs, and Azeri staff. Training programs over the five-year period reached an estimated 480 additional firms. CDC estimated that the total number of firms reached by EDP programming was 750.

The CDC estimate of jobs created through the EDP program is 641. From the sample of interviewed Azeri firms, the Evaluation Team estimates that several thousands of jobs were actually created through the EDP program. The CDC effect on Azerbaijan employment will also continue to increase over time as the impacted SME firms continue to expand.

EDP Beneficiary Assessment

Personnel of SME firms that were interviewed provided evidence of concrete improvements in sales and operating techniques as a result of EDP technical assistance. These firms and other organizations such as the American Chamber of Commerce in Azerbaijan indicated that the continuation of the program would be valuable. The Volunteer Advisor component was seen as especially valuable and was in high demand by Azeri firms. Over the five-year project period, CDC gained an excellent reputation among the client firms and organizations. Respondents repeatedly praised the CDC training programs and the technical support provided by Azeri staff, VAs, and MBAs.

Gender Sensitivity

The CDC EDP program did focus on including women participants in the training events. Data was collected to indicate the proportion of women participants (859 of 3,039 or 28.3%). One of the five MBA volunteers was female. According to CDC, approximately 30% of the Volunteer Advisors were women. CDC estimated that the EDP program resulted in the creation of 640 jobs of which 245 or 38% were for women.

Corruption

None of the originally proposed CDC activities of the unsolicited EDP proposal, which was the basis of the cooperative agreement, addressed corruption. At the time of the original proposal, Section 907 of the FREEDOM Support Act (FSA) prohibited the engagement of USAID contractors with the Azeri Government except for humanitarian assistance. Government is the major source of corruption in Azerbaijan and CDC had very minimal contact with government agencies at the national and local levels.

CDC did conduct two Business Ethics courses as part of their business-training program. Several Azeri respondents indicated that CDC EDP general business training provided them with

a better understanding of their rights as businesspersons. Accordingly, they were less prone to succumb to requests for inappropriate government payments. The CDC Business Ethics courses, conceivably, may also have had some impact on SME businesses and corruption.

Sustainability

An unsolicited proposal submitted to USAID/Caucasus-Azerbaijan in 1999 was the basis for the Cooperative Agreement and stated “CDC’s program not only delivers technical assistance but also builds sustainable local capacity for business consulting services.” Institutionalization of local capacity was to be accomplished through 1) direct assistance to BSOs; 2) CDC VAs mentoring local consultants and business students; 3) localizing CDC project development and delivery using local BSOs; and 4) continued development of local CDC staff through training and mentoring.

The Evaluation Team collected information on sustainability in the conduct of interviews. From these interviews, the Evaluation Team concluded that the extent of sustainability of business services to SMEs as a result of CDC activities is a function of the nature of the participating organization and commitment of the organization’s leadership. No other single organization is currently, or is expected in the near term, to replicate all the services provided by CDC. However, Azeri individuals and organizations are currently providing all of the technical assistance and training activities that were provided by CDC. Most of this capacity and capability is located in Baku.

CONCLUSIONS AND RECOMMENDATIONS

The Evaluation Team concludes that EDP was a valuable USAID program that had an impact on SME development, especially in the urban areas of Azerbaijan. New USAID programmatic directions are now in order and are being undertaken through the Rural Azerbaijan Business Development Program (RABD) and RECP programs. RABD, to begin in the summer of 2004, will work through Business Development Resource Centers throughout Azerbaijan to strengthen business associations, to provide business training, and to serve as the focal point for micro and small enterprise development. Lessons learned, best practices, and recommendations from the CDC EDP evaluation are presented for consideration in the implementation of these and other USAID/Caucasus-Azerbaijan future program activities.

EDP Performance

The CDC EDP concentrated its activities in the provision of business services to SMEs and the private sector to enhance institutional capacities and to improve the quality of managerial skills. Because of the restrictions imposed by Section 907 of the FSA, the program could not actively engage government officials to promote the adoption of reforms conducive to a more friendly business environment. Notwithstanding this constraint, the EDP has made an important contribution to the SMEs that were given direct technical assistance and training. As a result of this assistance, SMEs have increased sales, created new jobs, achieved productivity gains, accessed new domestic and foreign markets, and improved management skills.

Other NGOs and businesses are now providing business services to SMEs through other donor support and paid fees by clients in Baku and, to a lesser extent, in Ganja and Western Azerbaijan. These services are similar to those of the technical assistance and training provided by EDP VAs, MBAs, and Azeri staff. The Evaluation Team does not recommend continuation of the CDC EDP program in its current configuration.

While the training events were generally valuable to Azeri participants, the overall training program may have benefited from a full-time training coordinator and longer range planning for training events. A Train the Trainer program could be supportive to developing international standard training in business services. Train the Supplier is a component that could make additional contributions to local SMEs for the oil and gas sector, especially on international technical and engineering standards for suppliers.

Policy Environment for SME Development

The impact of the EDP would have potentially been larger if SMEs operated within the context of a more friendly governmental business environment. Widespread corruption and a centralized bureaucracy are two of the most important barriers that SMEs face. Extra costs must be incurred in almost every business transaction, including registration, licensing and customs procedures. In addition, the economic rents that larger firms obtain by way of their easier access to policy makers are not captured by SMEs. The profitability of SME operations is reduced further when they face private monopolies, which artificially inflate the prices of inputs that SMEs require. All this results in higher transaction costs for SMEs.

To confront this problem, SMEs must establish strong associations that can effectively advocate for the removal of obstacles to trade and investment. Although it was never the core of its activities, the EDP did manage to make some important contributions in association strengthening aimed at improving the business environment. However, more effective technical and financial assistance is needed in this critical area of governmental business policy and the following activities are proposed:

- **Association Registration:** It is recommended that future programs be tied to the removal of obstacles to registration of new associations and other non-profit organizations.
- **Business Development Alliance:** The Business Development Alliance (BDA) initiative should be revitalized. A newly invigorated BDA can be the catalyst for the introduction of badly needed legal and administrative reforms.
- **Business Development Agency Strengthening:** Technical assistance and commodity support can be given to cooperating governmental agencies that impact SME development.
- **Association Strengthening:** It is recommended that newly created associations be institutionally strengthened and selected for demonstrating a commitment to sustainability (i.e. membership fees and a long range development plan).
- **Cooperation with Large and International Firms:** Promoting partnerships with larger domestic and foreign firms is probably one of the most promising venues to spur SME development and also have an effect on the business policy environment.

SME Finance

SMEs often cite lack of finance as one of the major obstacles that block the expansion of operations. In the opinion of the Evaluation Team, Azeri commercial banks are awash in liquidity. Lack of access to current sources of finance is a real constraint that SMEs face and current and projected international donor programs are addressing this need. The finance challenge lies more with SMEs that operate in rural areas. Their lack of access to finance is more real than that faced by the urban-based firms. It is recommended that any future donor-funded assistance in SME financing be concentrated in promoting the provision of financial services solely in rural areas.

EDP Transition to Local Partners

The transition from direct assistance to SMEs to assistance to local BSO partners and payment of fees by SME clients was initiated very late in the final year of the EDP program. Delaying the shift to the new model of partners and payment for assistance meant a limitation of outreach that might have been achieved if the program had begun five years ago. The future of SME development in Azerbaijan is tied to the ability of these firms to access reliable and high-quality services that will directly translate into concrete improvements of their managerial skills. In Azerbaijan, and taking into consideration the contributions of USAID and other international donors, the market for business services is still largely undeveloped, especially for small and new firms. The market will develop when an authentic industry of local providers is established and when SMEs have more trust in the reliability and quality of the services. To support this, the following steps are recommended:

- **Information Seminars:** Future assistance can be directed to designing and delivering seminars to sensitize SMEs on the benefits that can be derived from demanding these services and, most importantly, to the advisability that the services be delivered for a fee.
- **Registration:** Local providers of business services, which may include individual consultants, consultancy firms, associations, and non-governmental agencies, should go through the process of formal registration and recognition by the Ministry of Justice. It is recommended that technical assistance be given to this process.
- **Business Services Training:** A selection of formally registered local providers should be given extensive training on the particular background and needs of SMEs and provided tools that can facilitate delivery and improve quality of their services.
- **Financial Support:** In close coordination with other donors, it is recommended that a special scheme of monetary subsidy be implemented to develop business consultancies in rural areas in order to minimize market price distortions and the disruption of the efforts of Azeri private sector providers of business services.

SECTION 1

INTRODUCTION

From July of 1999 through June of 2004, a five-year period, the USAID/Caucasus-Azerbaijan Regional Mission will have funded the Enterprise Development Program (EDP), administered by Citizens Development Corps (CDC). The EDP program was designed to accelerate the economic development of privately-held Azeri small and medium enterprises (SMEs). The technical assistance program addresses critical technical and managerial needs of Azerbaijani SMEs and business support organizations (BSOs).

The focus of the evaluation is the performance of EDP in accomplishing the terms and objectives of the Cooperative Agreement and EDP contributions in achieving the Mission's Strategic Objective 1.3, Accelerated Development of Small and Medium Enterprises.

1.1 BACKGROUND

In July 1999, CDC received a two-year grant to implement the Project in Azerbaijan. Implementation of the Project commenced in the fall of 1999. The Project was extended for an additional two-year period in 2001 and there was a no-cost extension in 2003. CDC's approach in the EDP Azerbaijan Program over the past five years was to:

- Target critical growth/impact sectors such as oil and gas service industries, IT, manufacturing, agri-business, financial services, and education particularly in the urban areas;
- Create the demand for technical assistance by capitalizing on opportunities for local suppliers to contract with foreign multi-national companies;
- Refer clients to, and assist them in developing, new sources of financing;
- Increase the ability of Azerbaijani companies to find trading partners and attract investment;
- Establish a highly professional local country team to select clients, diagnose the needs of clients, and provide in-country support for the clients and expert consultants;
- Deliver technical assistance through Expert Consultants to specific SMEs, at the same time building the capacity of Azerbaijan consulting companies to provide more and more of this technical assistance on their own in order to make the program's impact more sustainable; and
- Conduct business services training utilizing local experts, BSOs, and foreign expatriates.

With the CDC Enterprise Development Program completion, two new USAID five-year programs will support rural enterprise development. The Rural Azerbaijan Enterprise Competitiveness Program (RECP), awarded to Pragma Corporation, is oriented to increasing the competitiveness of the agriculture/agri-business sectors and raising rural incomes and agricultural productivity. Proposals are being assessed for the award of the Rural Azerbaijan Business Development Program (RABD). RABD will provide technical services for rural micro/small enterprise development through ten Business Development Resource Centers (BDRCs) throughout Azerbaijan.

1.2 PURPOSE OF THE EVALUATION

The Enterprise Development Program was designed to address the Mission's Strategic Objective (SO) 1.3, Accelerated Development of Small and Medium Enterprises. The program is multi-faceted and is aimed at inducing Azeri economic development through a technical assistance program that addresses technical and managerial needs of Azerbaijani small and medium sized enterprises and business support organizations.

According to the Task Order Statement of Work, "[the] principle focus of the evaluation shall be the performance of EDP activity in accomplishing the terms and objectives of [CDC's] Cooperative Agreement and their contributions in achieving the Mission's Strategic Objective 1.3." The Evaluation Team of Management Systems International (MSI) in association with MetaMetrics Inc. addressed the following performance topics:

- **CDC EDP Status:** Determine the status of the current activity, the successes and weaknesses, and identify any unforeseen constraints and obstacles that may have affected performance.
- **Future Support to Economic Development in Azerbaijan:** Collect information and conduct analysis to assist USAID/Caucasus-Azerbaijan to formulate ideas regarding Rural Enterprise Competitiveness, Agriculture Marketing, Small and Medium Enterprise Development and Rural Community Business Development programs.
- **Current SME Environment:** Provide the Mission with a better understanding of the current overall environment for the development of small and medium enterprises in Azerbaijan.
- **Sustainability:** Assess the sustainability of current EDP program efforts.
- **Recommendations:** Provide recommendations for future interventions in the development of competitive private enterprises.

1.3 EVALUATION ACTIVITIES

The first five-day period of the Evaluation Team in Baku consisted of interviews and review of materials. Initial meetings were held with USAID personnel. Intensive interviews were

conducted with CDC staff, MBA Executive Corps members, and CDC Volunteer Advisors. Interviews were conducted with related USAID programs, business associations, and international donor projects. Six client/partner organizations in Baku were visited which covered non-governmental business associations engaged in providing business services, the finance sector, agri-business, and private sector business service organizations. An Interim Evaluation Report, which included initial observations on the Statement of Work evaluation questions, was prepared and submitted to the USAID Mission.

In the second week of the evaluation effort, the Evaluation Team reviewed interim findings with the USAID COTR, visited additional donor organizations and related USAID programs in Baku, and traveled to Ali Bayramli and Ganja to conduct interviews with CDC field staff and client/partner organizations. The field trip to Ali Bayramli and Ganja completed the basic data collection activities of the Evaluation Team.

Additional CDC EDP program material was obtained and clarifications provided by CDC on EDP program activities. The third and final week was spent on evaluation analysis and draft final report preparation. The evaluation briefing was delivered at the USAID Mission on Thursday, May 27, 2004. Following USAID/Caucasus-Azerbaijan review of the draft final report and receipt of comments and requests for report clarification, the Draft Report was revised and a Final Evaluation Report submitted.

SECTION 2

ENTERPRISE DEVELOPMENT PROGRAM DESCRIPTION

Citizens Development Corps, Inc. (CDC), formerly Citizens Democracy Corps, was created in 1990 to mobilize business volunteers from America's private sector to assist in the economic and political transformation of Central and Eastern Europe and the Newly Independent States. The Volunteer Advisors (VAs) have been the core of the CDC program to promote economic reform, to identify new market opportunities, to create jobs, to stimulate investment, to develop trade links, and to develop local capacity and sustainability.

The CDC experience at the time of the signing of 1999 Cooperative Agreement with USAID/Caucasus-Azerbaijan included enterprise development in Russia, Poland, Ukraine, and Moldova. This CDC experience included economic and enterprise development, finance and trade linkages, CDC technical services through VAs, and Train the Suppliers in the oil and gas sector (Russia, Romania, Bulgaria).

2.1 EDP PROGRAM COMPONENTS

CDC, in its overview description of the EDP, lists the following four core or main activities:

- Supplier Training Initiative (Oil and Gas Sector)
- Firm-Level Technical and Managerial Assistance (Volunteer Advisors or VAs)
- Training and Local Capacity Building (Business Support Sector)
- Linkages in Finance, Trade, and Technology

For the purpose of the evaluation of the CDC EDP, the basic interventions or components of the EDP, in the basic order or timing of their implementation, have been 1) VA (Volunteer Advisors), 2) Train the Suppliers, 3) Business Training, 4) Field Offices in Ali Bayramli and Ganja, 5) Train the Trainer, 6) MBA Enterprise Corps, and 7) Partnership with SMEs and BSOs. Staff resources included expatriate management, Azeri Program Officers, Volunteer Advisors, and MBA EC Volunteers.

CDC estimates that a total of 270 firms were provided technical assistance by VAs, MBAs, and Azeri staff. Training programs over the five-year period reached an estimated 480 additional firms. CDC estimates that the total number of firms reached by EDP programming is 750.

2.1.1 Volunteer Advisors (VAs)

The utilization of Volunteer Advisors is a standard component of all CDC programming. Experienced advisors are matched to managerial and technical skills requirements of client organizations. Individual statements of work are developed to guide the three- week to two-

month period of Volunteer Advisor engagement on primary and secondary assignments. Volunteer Advisors can spend as much as three months on a single stay in Azerbaijan.

From the Evaluation Team interviews with client organizations in Baku, Ali Bayramli, and Ganja the Volunteer Advisor program was highly successful. The ISO 9001 technical assistance provided over the past three years by a Volunteer Advisor resulted in a doubling of sales of a food-processing firm over a two-year period. The ISO technical assistance enabled an Azeri engineering firm to gain ISO certification and, in turn, provide fee-based technical support for the certification of five additional companies. A Volunteer Advisor with finance experience provided technical assistance to a Baku insurance company that resulted in their expansion from business insurance into life insurance, the opening of branch offices and acquisition of insurance agents, and a substantial increase in sales and profits.

Over the five-year period of the CDC EDP program, a total of 111 Volunteer Advisor visits to Azerbaijan provided support on 151 primary assignments and 158 secondary assignments (as brief as three hours of consultation). A single client organization could benefit from as many as three and four separate assignments by a Volunteer Advisor. An estimated 125 separate firms and non-governmental institutions were provided technical support through the Volunteer Advisor component.

2.1.2 Train the Supplier

The Train the Supplier program was implemented in the first three-year period of the project from the Fall of 1999 to December of 2002. The component's intent was to facilitate access of oil and gas companies to Azeri suppliers. Topics included "Bids and Proposals," "Procurement Opportunities and Requirements," and "Problems and Successes in Working With International Companies." An estimated total of seven 3 to 5 day training events (three in Year One) were delivered over the three-year period of the Train the Supplier program. Exit participant questionnaires indicated a high degree of satisfaction with the program.

2.1.3 Business Training

Seminars and workshops in Business Training began in June of 2001 with a "Project Management and Control Seminar" and a "Total Quality Management (TQM) and ISO 9000 Process Seminar." These initial seminars were conducted by a Volunteer Advisor with experience in SME development and ISO certification.

By June of 2002, a total of ten workshops and seminars on topics including "Business Ethics," "ISO Certification," and "Impact Sales Techniques" were delivered. By the end of 2002, a total of 20 workshops and seminars in business training, primarily in Baku, had been conducted, approximately one training event per month over the 18 month period (June 2001 through December 2002).

Over the next six-month period, under the second CDC Chief of Party, a reported 24 short workshops on business topics were delivered (four per month). Approximately half of these

workshops were presented outside of Baku. In the most recent three quarters, 48 workshops were delivered for an average of five per month.

2.1.4 Field Offices

Field Offices in Ali Bayramli and Ganja were opened and in operation by March 2002. The first Volunteer Advisor to work in the field offices arrived in Azerbaijan in August 2002. This VA also conducted the first seminar held in the Ganja Field Office. Electricity problems in Ali Bayramli affected CDC operations. Rising costs for office space in Ganja, due to pipeline development, required a search for a new office location.

Following the resolution of office issues, CDC activities in the Field Offices commenced and were similar to those in Baku: Volunteer Advisors, Azeri staff Program Officers, and training events.

2.1.5 Train the Trainer

The Train the Trainer program lasted for five months. The first workshop was presented in June 2002. The three-day training program was aimed at increasing the number and capacity of Azeri trainers to provide business training. In October of 2002 the second and last Train the Trainer workshop was delivered.

2.1.6 MBA Executive Corps

MBA Executive Corps volunteers arrived in Azerbaijan in July 2002. The two volunteers, based in Baku, provided support to CDC partners and client organizations, conducted workshops on “Business Development,” and conducted the first Azerbaijan Business Case Competition on December 15, 2002. The Business Case Competition was considered to be a success by participants and sponsors.

The MBAs provided technical assistance to client organizations, similar to that provided by CDC Volunteer Advisors. Additionally, they supported the VA program through the development of VA statements of work and by accompanying VAs on some of their assignments.

Three MBA EC volunteers, the final MBAs of the EDP program, arrived in Baku in July 2003. That July, one of the two original MBA volunteers assumed the CDC Chief of Party position and, in September 2003, the other original volunteer departed Azerbaijan.

The new MBA volunteers conducted the Second Azerbaijan Business Case Competition in January 2004. Two of the volunteers were then assigned to the recently initiated Rural Azerbaijan Enterprise Competitiveness Program (RECP) operated by Pragma Corporation and one volunteer was assigned to FINCA. The MBA volunteers will complete their Azerbaijan tours in September 2004 through these two programs.

2.1.7 SME/BSP Partnership

Partnership with SMEs and business service providers (BSPs), also referred to as business service organizations (BSOs), became an explicit focus of the CDC EDP program in early 2003 in order to develop Azeri capacity to provide technical assistance and business services to SMEs. Please see Annex F for the list of targeted organizations.

The Train the Supplier and Train the Trainer components were ended by this time. Staff Program Officer, Volunteer Advisor, and MBA volunteer efforts were directed over the last eighteen months of the project to working with local consultants and selected companies/organizations to create sustainable capacity for business services.

2.1.8 Other EDP Activities

Other activities of CDC EDP included the SME database; trade, and finance links for SMEs, and coordination with donor and other organizations.

2.2 EDP PROGRAM PERFORMANCE

CDC has successfully integrated the EDP components through networking and provision of ongoing technical assistance and coordination with selected partners. Such communications has resulted in referrals for training programs, access by client organizations to funding and support from other donor organizations, and a flow of information among client organizations to support increases in sales and access to suppliers.

2.2.1 EDP Negative Impacts or Unintended Consequences

Evaluation Team interviews have uncovered very positive and CDC planned benefits from the program components. The overall planning for CDC EDP has been appropriate to the situation and environment, i.e. necessary adjustments for operations of the Field Offices. No information has been collected by the Evaluation Team to date on negative impacts or unintended consequences of the program that were not addressed and deserve note.

2.2.2 EDP Objectives and Program Design

The CDC EDP did directly build the capacity of several Azeri consulting companies (ERA, ASPI, new consulting group in Ganja) and business associations (ASK) to provide quality technical assistance that can result in improved operations of assisted SMEs. Of course, more work can be done to improve capacity of these organizations. The current demand for SME business services is relatively low and there is an issue regarding ability to pay for services.

Azeri firms are being organized to provide business services. The Business Training Group (BTG), a woman-owned training company organized and registered as a profit organization in December of 2003, has provided seven training programs (Time Management, Marketing, and Presentation Skills) over the past six months. Participants from NGOs and primarily for-profit

firms (80%) pay \$40 for two-day workshops. Trainings have been conducted by BTG at the BP Enterprise Center.

Other objectives such as linkages in finance, trade, and technology were addressed by CDC EDP activities. Indications to the Evaluation Team are that CDC EDP assumptions and program activities basically matched sector conditions and the policy environment. CDC was responsive to USAID/Caucasus-Azerbaijan program suggestions and guidance on enterprise development.

2.2.3 Gender Objectives and Equity

The CDC EDP program did focus on including women participants in the training events. Data was collected to indicate the proportion of women participants (859 of 3,039 or 28.3%). One of the five MBA volunteers was female. According to CDC, approximately 30% of the Volunteer Advisors were women. CDC estimates that the EDP program resulted in the creation of 640 jobs, of which 245, or 38%, were for women.

2.2.4 Corruption

None of the CDC activities of the unsolicited EDP proposal, which was the basis of the cooperative agreement, addressed corruption. At the time of the original proposal, Section 907 of the FREEDOM Support Act (FSA) prohibited the engagement of USAID contractors with the Azeri Government except for humanitarian assistance. The USAID/Caucasus-Azerbaijan strategy is still in the process of being updated to reflect programmatic changes made possible by the January 2002 Presidential waiver of Section 907 of the Freedom Support Act (FSA). USAID contractors have established some relationship to the Ministry of Economic Development although CDC has had minimal contact with Government at the national and local levels. Government is the major source of corruption in Azerbaijan.

Some corruption and the practice of facilitation payments were present in Azerbaijan in the Soviet era. Workers were potentially required to share their bonuses to a fund of their State enterprise for unusual expenditures and incentives to support the organization. Traffic personnel did, carefully, extract some payments from drivers. Similarly, some teachers were, surreptitiously, offered incentives for grades. With the fall of the Soviet empire, corruption took place at an accelerated pace and those seeking “facilitation payments” became more aggressive. Customs, not previously an issue in the Soviet era with no borders, quickly became an opportunity for State and personal gain. Government gatekeepers requested and were provided illegal payments rather than risk the withholding of services.

CDC did conduct two Business Ethics courses as part of their business-training program. Several Azeri respondents indicated that CDC EDP general business training provided them with a better understanding of their rights as businesspersons. Accordingly, they were less prone to succumb to requests for inappropriate government payments. The Business Ethics courses, conceivably, may also have had a specific impact on corruption.

2.2.5 Cost-Effectiveness of EDP Interventions

The use of Volunteer Advisors has been cost-effective. The MBA volunteer contribution has also been valuable and less costly per person level of effort than the cost (essentially the international air travel cost for short-term assignments) for the more experienced Volunteer Advisors. Overall results with client firms and organizations (number of firms reached, increases in SME productivity and profitability, job creation, investment, loans secured) are seen as commensurate with the level of invested resources (\$4.4 million over the five-year period).

SECTION 3

THE SME SECTOR

In many developing countries across the world, SMEs can easily represent more than 80% of all registered firms. In general, they do play an important role by providing goods and services to the poor, by generating and mobilizing domestic savings, and by providing a breeding ground for entrepreneurship. At the same time, the entrepreneurs who own and manage SMEs typically lack modern management skills and use obsolete equipment and outdated production techniques. As a result, it is not uncommon to observe in them little ability to obtain sustained increases in total factor productivity and, consequently, a lack of capacity to dynamically compete in domestic and foreign markets. They do generally show the flexibility to adapt to changing circumstances, but this is more out of the necessity to survive with basically unchanged production techniques in markets that are increasingly more competitive.

The existence of a sluggish SME sector does not bode well for a developing country. For one, unemployment and underemployment levels may soar and income distribution may worsen. The growth of the so-called informal economy shrinks the base of taxable individual and corporate incomes and, with it, the capacity of fiscal authorities to generate tax revenues to finance public infrastructure projects. Growing numbers of the disenfranchised, especially if expressed in absolute terms, will make for governments the task of embracing more decisive policies that accelerate insertion into world markets more difficult. Last but not least, the chances that economic growth cannot be sustained are real, as investment plans are delayed or even shelved in the presence of increasing social unrest.

In Azerbaijan, the need to develop SMEs that can dynamically partake in the process of economic growth is even more urgent. As the experience of countries with natural resource-based economies has amply demonstrated, economic growth can unfold in patterns that aggravate social and economic exclusion of a large number of the population. The demand for labor from the oil industry cannot possibly match the supply of new entrants in the workforce. Moreover, a significant number of positions demand skills that Azeri people, victims of policies that for long neglected the updating of technologies in the oil and energy industries, do not possess at the moment. By the same token, local firms that could potentially expand production by way of supplying goods and services to foreign firms in the oil and energy sectors, may lack the managerial, technological and marketing capacities to do so.

This situation is compounded by the fact that the Azeri economy may be prone to suffer the problems associated with the so-called Dutch Disease. In general, this signals an allocation of resources tilted in the direction of so-called non-tradable goods and services. The construction boom that Baku has endured in the last two years is evidence of this phenomenon.

While beneficial for SMEs and their workers in this sector, little discussion so far has transpired on the quality of the new commercial and residential construction, or on the fact that the boom may be engendering an over supply of office space and housing. In all though, the Dutch Disease may reveal an overall loss of competitiveness in sectors that find it very difficult to

match the productivity increases in the leading sector of the economy (oil). Typical examples are agriculture and small, labor-intensive manufacturing firms, which will see their competitive position eroded vis-à-vis goods from foreign countries. The consequence of this is loss of local employment and migration, either to the larger urban centers of the country to join the ranks of the underemployed, or to foreign countries.

The challenge, consequently, is to improve the competitiveness of all firms in Azerbaijan. In an increasingly globalized international economy, this challenge does not even escape the larger local firms. Their belief that they are firmly entrenched within the confines of the oil and energy sectors in close partnership with foreign investors provides a false sense of security because foreign investors can find high-quality, competitively-priced products elsewhere. But the challenge has larger implications for SMEs, precisely for their potential capacity to absorb and generate more employment, not only in Baku but in the regions as well. Friendly policies and effective programs must therefore be implemented so that SMEs can dynamically partake in the process of economic growth.

To expand vigorously, SMEs require that policy makers take the necessary measures to ensure the presence of a business-enabling environment. They must also have timely access to finance at reasonable cost and on appropriate terms. Finally, they must find suppliers of business services that can increase access to market information and increase the quality of their management skills. Good policy means simultaneous action on these three fronts. It may be argued that an enabling environment is the main pillar, the factor that underpins SME development. However, it is more likely that this is a necessary, but not a sufficient, condition. Experience demonstrates that in countries that have instituted financial policy reforms and enacted less restrictive regulatory frameworks, market imperfections that tilt resource allocation to the disadvantage of SMEs remain. On the other hand, no lasting progress can be achieved from programs that focus primarily on developing business services to SMEs. These will go as far as the prevailing business environment permits. If this is not conducive to increased flows of trade and investment, the twin engines of sustained economic growth, the outreach of such programs will be limited and their impact, at best, marginal.

In Azerbaijan, much progress is needed in these three fronts. Until recently, Section 907 prevented USAID from engaging government officials in dialogue to promote economic, administrative and legal reforms. As a result, Azerbaijan lags somewhat behind other countries in the former Soviet Union (FSU) in the adoption of policies that promote a more friendly business environment. Nevertheless, USAID designed and implemented programs aimed at spurring progress in the other two fronts – access to finance and development of business services. In our opinion, this decision was sound. For one, the programs led to the creation of partnerships with important members of the Azeri private sector. And of equal if not more significance is the fact that the programs focused on effectively exploiting potential business opportunities for SMEs that were made possible by foreign investment in the oil and energy sectors. This was precisely the grist of the train-the-supplier program that the Enterprise Development Program (EDP) implemented when it was initiated.

The EDP, as has been noted before, concentrated its activities in developing business services to Azeri SMEs. This section will highlight the impact of these activities and will shed light on the

institutional barriers that block the development of the expansion of business services in Azerbaijan. In addition, it is worth noting that the evaluation activities also covered grounds that pertain more to the contours of finance and, to a much larger degree, of the policy environment. The evaluation team unearthed findings that are of particular relevance for future technical assistance work in these areas and examined activities of the program that *indirectly* may have contributed to the accomplishment of further progress. Such findings and program contributions will be documented in this section.

3.1 LEGAL AND ADMINISTRATIVE ENVIRONMENT

In Azerbaijan, the existing legal and administrative environment is not conducive for the development of the SME sector. The most important barriers are the following:

First, SMEs in Azerbaijan must contend with the heavy legacy of a centralized bureaucracy. The consequences of this condition go far beyond the blunting of the rapid development of entrepreneurial activity. What must also be factored in are intangible, yet very important costs expressed, for example, in pervasive distrust in government officials, in the resistance of policy makers to relinquish unnecessary control and supervision of business activity, and in their lack of knowledge of the nuances of a market economy.

The second major constraint is the widespread presence of corruption. This problem evolves from the lack of clarity in the application of legal and administrative procedures and also from the steering of business opportunities to the direction of firms that are in good terms with high government officials. It is not uncommon for these firms to be granted perks in the form of monopoly rights on the production or imports of goods and services that are widely demanded.

In Azerbaijan, no effective institutional reform that can provide speedy enforcement mechanisms on clear, simple, stable “rules of the game” for big and small enterprises alike has been undertaken. This underlines the presence of transaction costs that are too high. Under these circumstances, businesses scramble to obtain privileges and special favors from policy makers in order to compensate the unnecessarily high costs of doing business. It follows that business activity, rather than developing dynamically for the benefit of all, concentrates in securing economic rents, that is, in obtaining revenues that are not engendered by productive activity. Enterprises that enjoy privileged access to policy makers, including through family connections, thrive in this rent-seeking atmosphere and compound the extent of corruption in the business arena. The SMEs, on the other hand, are at a disadvantage in this game. Because of their smaller resource base, the negative effects of high transaction costs are definitively more pervasive for them.

In a context when access to secure favors from policy makers largely determines the fate of the firms, and when this access may carry a hefty price, SMEs may be doomed to lethargic growth or, in extreme circumstances, to joining the ranks of the unregistered firms that clog the underground economy. It is consequently important that measures be undertaken to remedy this situation.

3.1.1 Registration and Licensing

The process of business registration and licensing is onerous for many SMEs for the valuable time that must be employed in following these rules and the legal costs that usually must be carried. It is even rendered more costly for the illegal payments that may accompany this process although many of the firms interviewed by the Evaluation Team stated that they were able to achieve registration of their firms and that there were no substantive barriers.

Registration as a problem is particularly more acute as regards the registration of business associations and non-governmental organizations. The process of obtaining legal recognition from the Department of Justice is difficult and can take up to eighteen months or even years. This obstacle clearly betrays a penchant for control and distrust on independent organizations that emanate from civil society.

This has a negative impact for SMEs. Difficulties in registering an association deprives them from some basic, simple rights, such as the opening of a bank account, or from the larger institutional benefits that can be obtained if and when they are the recipients of donor-funded projects. A non-registered association, after all, will find it difficult to partner with donors. The consequence is that its role of advocacy and its capacity to make effective representations to promote reforms conducive to a more enabling environment will be clearly diminished. Those associations that have achieved NGO registration, possibly with connections to the necessary government officials, may enjoy a monopoly or oligopoly position with respect to access to international donors.

Difficulties in setting up associations also deprive SMEs from undertaking actions on two very important areas. The first relates to the dissemination of market information among the membership. In Azerbaijan, most SMEs have limited knowledge of domestic markets and virtually no knowledge of international markets. Typically, the costs of acquiring market information are very high which means that, all along the marketing chain, agents are unable to sell to the highest bidder. This lack of broadly based access to market information could have a severe impact on the country at large. Effective SME business associations are vehicles to mitigate this problem.

3.1.2 Public Investments

SMEs can demand a more equitable allocation of public investment. This issue is particularly relevant for firms that operate in rural areas. These suffer, in general, from outdated irrigation systems and from unreliable energy supply. Roads that are in poor condition also negatively affect the competitiveness of rural SMEs. The consequence is higher marketing and distribution costs, and a more restricted market entry for SME producers and marketing agents.

3.1.3 Fees and Facilitation Payments

There are additional “fees” required to expedite the processing of imported inputs from customs. SMEs may find these informal costs prohibitively high, with the consequence of being penalized by unnecessary delays in the release of their merchandise.

SMEs must contend with unplanned, unnecessary inspections from tax authorities. As it happens with almost any layer of the public bureaucracy, the solution to this problem usually entails the payment of bribes.

3.1.4 EDP Activities

The EDP has undertaken activities that are indirectly contributing to create a more enabling business environment. Four concrete activities are worth mentioning. The most important has been the conduct of seminars on business ethics. These seminars emphasize the importance of business rights, including that of operating in a bribe-free environment. As positive changes in actual business practices have yet to become visible, the utility and contribution of these seminars cannot be discerned. At the same time, increasing awareness of these rights among SME owners and managers has been expressed. In any event, whatever positive changes emerge as regards this issue will likely materialize with the passing of time, when another, younger generation of managers play a more prominent role in the conduct of businesses and in the economy at large.

The second activity has been support to the organization outside Baku of business fora and trade fairs. The business fora were venues to discuss problems and issues common to SMEs and normally attracted the participation of local government authorities. They could constitute, consequently, useful vehicles to promote dialogue and a better understanding of the most pressing SME issues between the private and the public sector. Trade fairs, on the other hand, brought together managers and owners of SMEs from different regions and thus made them aware of expanded markets for their products and the existence of interesting business opportunities for their own firms. In many an event, this translated into higher sales and increased investment.

The third activity relates to the assistance provided to associations that are already established. For example, support aimed at improving the institutional capabilities of the Association of Accountants *may have indirectly contributed* to two important achievements. The first is the invitation extended to the association by the Ministry of Finance to hold a seat in its Coordinating Council. The second is that the association has presented a proposal to the Legislature for the adoption in the country of internationally accepted accounting standards. Another example is the assistance provided to the Ganja Agribusiness Association (GABA), which seeks the standardization of market information and therefore the creation of a user-friendlier tool that will result in important benefits to its 900 members. Last but not least, the case of the National Confederations of Employers (ASK) must be highlighted. According to the Deputy Director of this confederation and its representative in Ali Bayramli, the EDP was instrumental in the reduction by the national government of the number of obligatory business licenses, from 240 to 38. This is certainly a considerable accomplishment and credit is due to the EDP, which was at the forefront of this effort.

This last example has larger implications for future activity in this area. It is the opinion of some SME representatives that the adoption by the government of legal and administrative reforms has a higher probability of success when policy makers perceive that donors stand behind and openly support the reform initiatives. Put simply, donors provide “cover” to SMEs that, in turn, will feel

emboldened to be more proactive and take risks that otherwise they would not be willing to assume.

The fourth and last activity is important for what it did not achieve and for the lessons that can be correspondingly drawn. This relates to the efforts concentrated in the establishment of the Business Development Alliance (BDA), which counted with the support of the Eurasia Foundation, other donors and foreign investors. Its goal was to “facilitate and contribute to diverse and sustainable economic development in Azerbaijan.” A key activity was the coordination of private sector initiatives conducive to broad-based economic growth, including those aimed at rural enterprise development.

This was a sound initiative that, unfortunately, did not materialize. It took more than 12 months to have the organization registered by the Department of Justice. When this finally happened, the enthusiasm of some of its founding members had cooled while others had left the country. Still, the initiative should be revitalized when conditions permit. As experiences in other FSU countries illustrate, a coalition that includes donors and foreign investors can be the catalyst for the introduction of reforms conducive to the consolidation of an enabling business environment.¹ To succeed, it will be necessary to enlist the active participation of an able government official, preferably one who can effectively champion the reform campaign in spheres where key decision makers operate. This would provide the government with the necessary “ownership” of the reforms.

With barriers to speedy registration reduced or removed, USAID can contemplate providing assistance to private business associations. At the moment, the EDP cooperates in certain activities of ASK, but the scope is limited. Moreover, there is the perception within some circles of SMEs that the confederation is unduly influenced by government officials. This creates distrust, with the consequent damage on the effectiveness and credibility of the confederation. If so, it would be necessary to support organizations that are less prone to direct political influence and with potential capabilities to access large number of SMEs and operate with less bureaucracy.

The impact on SME development of well-run private business associations can be considerable. Their functions can go beyond that of typical advocacy. For example, in some countries of Asia and Latin America, business associations offer their members tax and legal advice, market information, a referral service to appropriate advisory, research and information facilities, information on sources of new and improved technologies, seminars on skills and management upgrading, and even limited basic consultancy services. Furthermore, private business

¹ The Kyrgyz Republic provides an example of a success story. In this country, the USAID-funded Trade and Investment Program lends technical assistance to the Secretariat, the working body of a government-led consultative council whose objective is identifying and removing all investment constraints. The Secretariat is an effective force for reform in the Kyrgyz Republic. It takes credit for a significant jump in the inflow of foreign direct investment – 28% in 2002 and 12% in the first quarter of 2003 – and for the positive expectations engendered by an improved business climate. It has also been instrumental in the liberalization of the visa regime, which now excludes nationals of 28 countries from requesting letters of invitation to enter the country, and for the enactment of more than 50 laws on varied topics, such as trade, leasing, collateral and dispute resolutions.

associations can engineer partnerships between SME members and larger domestic and foreign firms, which open opportunities for direct technological transfers that ultimately raise productivity and enhance product quality. This is one of the most important needs of SMEs. As experience demonstrates, they can be met more effectively by business partners than by providers of business services.

In Azerbaijan however, all this will take time to materialize. As a former Soviet republic, the country must contend with the legacy of associations that were imposed and directed by the state. SMEs are then understandably suspicious that newly formed associations may operate with the “collective” spirit of the past. In addition, it is not unsafe to assume that effective managers and leaders endowed with a vision of how associations can contribute to lasting changes are in short supply. For these reasons, any program aimed at strengthening private business associations should be of long-term nature.

3.2 SME FINANCE

From the 300 commercial banks that were operating in the early 1990s, only 44 remain at present. Still, the number of providers is way too high. More weeding out of inefficient units and more mergers are necessary.

Of the existing banks, three are state owned and 10 are joined ventures with Turkish, Russian and Iranian commercial banks. The largest commercial banks are Azeri owned. In the last years, the government has managed to improve the quality of on site and off site bank supervision. The regulatory framework is adequate, although some prudential norms may need to be modified to facilitate higher volumes of SME and micro enterprise credit.

Some SMEs cite lack of finance as one of the major constraints to expansion. This is not accurate. At the moment, commercial banks are awash with liquidity and are struggling to find profitable outlets. The SME sector is one possible outlet but commercial banks have yet to exploit this opportunity, even among those that seem to be prospering. The SMEs that operate in the construction sector provide an interesting example. It is indeed very telling that the construction boom that is visible in Baku has been financed by cash versus a credit-led boom.

More than lack of finance, the main obstacle seems to be lack of access to financial services. The EDP has made an important contribution to alleviate this constraint by developing a website that lists the available sources and terms of finance. The website can be accessed by interested SMEs. But much needs to be done on the supply side of finance. For one, commercial banks probably do not have the appropriate credit technologies to lend to the sector and, therefore, prefer to concentrate lending on proven corporate clients. SME lending should be based on cash flow analysis and not on the traditional availability of collateral. When commercial banks emphasize the latter, the universe of potential customers is greatly reduced. Another problem relates to the fact that commercial banks have imperfect information on prospective customers. They know very little about SMEs’ capacity and willingness to pay, especially those which operate in rural areas and have a low capital base. They consider them to be high risks.

In the view of the Evaluation Committee, SMEs will continue to have better access to finance. Four main factors explain this. The first is that the government is taking preliminary steps to establish a credit bureau. A credit bureau will make it possible for banks to access better quality of information on prospective customers. The second factor is that the combination of competition and excess of liquidity will force commercial banks to penetrate other segments of the market. Thirdly, the BP Enterprise Center, in cooperation with the International Finance Corporation, is establishing a \$4 to \$5 million equity and quasi-equity program for Azeri businesses in all sectors of the economy. Finally, it is worth noting that the Azerbaijan Banking Training Center, which is owned by commercial banks, has recently secured support from the International Finance Corporation to provide managerial training to SMEs. This training program has the blessing of major banks and includes the preparation of business plans, a requisite that commercial banks demand to extend loans.

3.3 BUSINESS SERVICES

During its first four years of operation, the EDP devoted much time and resources to provide direct assistance to SMEs. As noted before, at the beginning the EDP had to adopt a proactive strategy to find prospective clients. Shortly thereafter however, a typically demand-driven approach to business consulting was adopted which reflected, without a doubt, the high quality of the services provided by the volunteer advisors. Managers of the SMEs that were visited gave high marks to their professional competence and dedication to high standards of excellence.

3.3.1 Direct Assistance to SMEs: Success Stories and Shortcomings

In general, direct assistance to SMEs had a positive impact on their operations. Illustrative examples are thus provided:

- Assistance to Mbask, an insurance company, entailed a drastic change in its organization structure. Improved institutional capacity resulted in positioning the firm as the third largest in the country by number of contracts signed. Before this assistance, the company ranked 10th in the market.
- Aqua Vita, a rapidly developing soft drink manufacturer, provides another interesting case of improved institutional capacity. In this company, new merchandising and marketing departments have been added to the organization chart, and new policies on human resource management adopted as a result of the technical assistance.
- In Ganja, a company that bottles and sells water changing bottling from glass to plastic. As a result, losses of units have significantly diminished.
- Technical assistance to ERA Research and Consultancy, a marketing research firm, led to the introduction of a new product – advertising rating – which has helped the company become more visible and make gains in market share.
- In a clear demonstration of how EDP has promoted linkages with large foreign firms, assistance to Flexible Solutions, a web-firm, has led to the manufacturing of web sites in response to demand from US companies.

- Effective managerial and marketing assistance to Milk-Pro, dairy and juice manufacturer, has resulted in the capacity of the firm to place sales in foreign markets, such as Israel, Estonia, Ukraine and Belarus.
- Assistance to Hajigabul-Milk, a small producer of dairy products, led to improved productivity in its cheese manufacturing process. As a result to the assistance, usage of milk to produce 1 kg of cheese has been reduced from 9 to 5 liters.
- Another producer of dairy products, the Ganja-based Samedoglou was provided assistance for business plan preparations and marketing. As a result, sales increased by 30% in six months. In addition, it received recommendations for the reconstruction of the plan and introduction of new technologies.
- Several assisted SMEs have now obtained ISO certification by SGS, a world recognized Swiss firm in the assessment of quality grades and standards. Worth mentioning is the fact that ASPI, an engineering firm that the program has effectively assisted, has obtained license to certify, in turn, local firms. There is potential, consequently, for a rapid multiplication of benefits as regards the adoption of international standards of quality.

Notwithstanding these accomplishments, this strategy had several shortcomings. The most important are the following:

a) The Volunteer Advisors would visit the country and clients for short periods of time. At times the visits would last four weeks, but the norm was periods of consultancy for two weeks. Now, if time for adaptation to the Azeri setting is factored in, the real consultancy time devoted to the client is further reduced. This applies even to those volunteer advisors who are already acquainted with the country and their clients, for they need time to recover from a long trip.

The generally excellent business consultancy provided by volunteer advisors cannot possibly offset the constraints that this type of arrangement contains. For the reality is that the effectiveness any type of business consultancy, in developed and developing countries alike, rises when it is carried out on an ongoing basis and with a longer time horizon. For the EDP, the solution to this problem was given by the follow up activities of project managers and MBA consultants. At best, this was an imperfect solution, not for their lack of professional competence, but because of the strong personalized relationships forged between the clients and the volunteer advisors. An Azeri project manager, no matter how competent he or she is, does not elicit the trust that a foreigner does. At the moment, this is the reality of the Azeri context. And with respect to follow on assistance by MBA consultants, at times it was executed more on a sporadic than on a regular basis.

b) Technical assistance was seldom given in a timely manner. The reason is that the task of matching the particular needs of SMEs to the identification and availability of volunteer advisors is particularly challenging. In a handful of occasions, EDP was unable to find the right volunteer advisor for the required task. Fortunately, the client reacted to the news with understanding.

The shortest time incurred to find a volunteer advisor was three weeks, but the normal time lag approximated three months. This delay obviously undermines the effectiveness of the assistance and stains the credibility of the program, especially when clients are charged fees. No client ever

issued a cancellation of a request because of delays but, as illustrated in countries with more dynamic markets, cancellations should not be ruled out.

c) The EDP did not charge fees to the clients and two adverse consequences followed. The first is that clients cannot possibly appreciate more, or place the same value on, business consultancy services than when they pay for it. The payment of fees makes it possible for SMEs to hold accountable the suppliers and demand from them the delivery of high quality services. The second is that it cripples the development of a domestic market for business services.

d) As a direct consequence of the above, further implementation of activities under this approach directly contradicted the necessity of devising a sustainable exit strategy.

In all, it must be concluded that this original approach rendered important benefits to all those SMEs that happened to be selected for assistance. Conceivably, the impact reached beyond the beneficiaries because of the power of demonstration effects, and definitively more so when the program moved to establish operations in Ganja and Ali Bayramli. But the scope of this impact was bound to be limited, not only for the reasons cited above, but also because this model of assistance works best under very special circumstances. In the opinion of the evaluation team, such an approach has highest effectiveness in a stage of incipient market development, either in countries that have recently abandoned state planning or in those that exhibit scant progress of commercial activities. But in situations characterized by more rapid and dynamic market development, SME demand for business services must increase exponentially if they are to keep pace with the process of economic growth. Its effectiveness rests on the availability of advisors who volunteer services and live overseas, and it is highly unlikely that original approach would be able to deliver timely services under these more dynamic circumstances.

3.3.2 Assistance to Local Partners

Given the reasons cited above, the change of strategy affected in 2003 to work directly with local partners which could provide business services was timely. A most important change that was introduced was to demand the payment of fees from SMEs directly to the local partners, that is, to the providers of business consultancy services. USAID subsidy is then given directly to the partners and not to the ultimate user of the services. This decision was sound. The change translated into a support that was more focused, this time on key market agents – the local suppliers of business services – which must develop their capacities if they are to play a decisive role in the expansion of SME activity. In addition, it is pertinent to emphasize that the strategy is aligned with that adopted by the European Union, enhancing the chances, consequently, for a more permanent, consolidated removal of end-user subsidies that distort the market.²

² The EU Business Advisory Services (BAS) program was launched in May 2003. It has implemented 100 projects that have benefited 87 SMEs. A large majority of these beneficiaries has less than 50 employees, while the projects concentrated in providing services in marketing, preparation of business plans, and introduction of management quality procedures. To implement the projects, BAS contracts 33 firms that are duly qualified. BAS offers a subsidy to the firms of 50% of their consultancy costs. For projects outside Baku, the subsidy reaches 70%. The average cost of the projects is 9,000 euros.

The new strategy was introduced too late to determine whether or not the assisted local providers of business services will remain in operation and be sustainable once the EDP is terminated. To be sure, there are shining experiences, such as the assistance provided to ASPI, which suggest the existence of interesting success stories. But to conclude that these will automatically replicate nationwide, that they will spearhead the development of the supply side of a market for business services, is a stretch. In this regard, the evaluation team concludes that the jury is still out. At the moment, and notwithstanding the interesting experiences that can be drawn from the BAS program, it is fair to conclude that the local consultancy of business services is, at best, a nascent industry.

To develop the industry, three important obstacles must be overcome. The first is that potential SME clients may not have confidence either in the reliability or on the quality of the services that local consultants can potentially provide to them. The problem is compounded by the fact that the clients, especially those assisted in the past by the EDP, may willingly or unwillingly incur in comparisons with the assistance provided by foreigners who do not permanently reside in the country. In this regard, there is virtually nothing that can be done, except the continuation of a visible cooperation between foreign experts and local consultants. This will send the message that the local consultants keep benefiting from expatriate know how.

The other two obstacles are more typically related to the demand side. It appears that the SME demand for business services is somewhat shallow. This is partially explained by the fact that private business activity in the country is still in an infant stage and training may be necessary in the value of business consultant services and methods of identifying technical specialist organizations and individuals. To a large extent, national discussions on SME issues, including the promotion of the development of the sector, has so far been donor-driven. Finally, the problem related to the costs of consultancy cannot be ignored. Many SMEs in Azerbaijan are not willing nor are capable of paying consultancy services provided at full cost.

Future assistance, consequently, must be concentrated in the removal of these obstacles. At minimum,

- a) Local providers of business services – individual consultants, consultancy firms, and even associations – should be given extensive training and tools that can facilitate delivery and improve quality of their services.
- b) In exchange for this assistance, local providers must devote to SME consultancy a given number of days a year at a rate below applied to their larger clients.
- c) If donor support includes the payment of monetary subsidies to local providers, such as that provided by BAS, SMEs should be charged a fraction of the reduced rate. This scheme could be particularly useful to stimulate market activity in rural areas.
- d) In order to avoid market distortions, donors must exhaust efforts to align their projects under one single subsidy scheme.

e) Local providers must be formally registered and abide by a code of ethical behavior. Screening should be based on the application of minimum criteria related to qualifications, experience and integrity.

SECTION 4

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

The principal focus of the evaluation is the performance of the EDP activity in achieving the USAID/Caucasus-Azerbaijan Strategic Objective (SO) 1.3, Accelerated Development of Small and Medium Enterprises. The findings regarding EDP program performance are oriented to the activity status including successes and weaknesses, future support to Azerbaijan economic development, current SME environment, and sustainability.

4.1 ENTERPRISE DEVELOPMENT PROGRAM STATUS

The Evaluation Team conducted interviews and reviewed documents to determine the status of the EDP components over the five-year project period. Successes, weaknesses, constraints, and obstacles were assessed for their impact on performance.

Interviews have indicated that the VA program has been very successful. Firms provided evidence on concrete improvements in sales and operating techniques as a result of VA assistance. These firms and other organizations such as the American Chamber of Commerce in Azerbaijan have indicated that the VA program would be valuable to continue.

Over the five-year project period, CDC gained an excellent reputation among the client firms and organizations. The Volunteer Advisor component has been valuable and is in demand by Azeri firms. At the beginning of the EDP program, CDC had to seek firms to accept VA technical assistance. There is now an excess of demand for VA technical assistance. Respondents repeatedly praised the CDC training programs and the technical support provided by Azeri staff, VAs, and MBAs.

4.1.1 ISO Effectiveness of CDC

The CDC Volunteer Advisor, Raymond Genick, has been providing technical assistance and training in ISO certification in Azerbaijan for the past three years. He has taken 5 firms through the full 6-step process of ISO 9001 certification. The ISO certification process requires from 9 to 18 months. At the time of this report preparation, Mr. Genick was working with an additional four firms to achieve ISO certification.

In 2002, Mr. Genick provided the assistance to ASPI Consulting Engineers that resulted in the first ever Azerbaijan company to achieve ISO certification. ASPI is now providing technical assistance to other Azeri firms to achieve ISO certification. At the interview, the Business Development Director of ASPI indicated that the firm had supported and had been paid consulting fees for the ISO certification of five firms.

In all, CDC has achieved the ISO certification of ten firms. Of importance is the CDC training of ASPI to provide ongoing technical assistance for ISO certification.

4.1.2 CDC Impact on Azerbaijan Employment

According to CDC, the EDP Program provided TA assistance to the estimated number of 270 individual firms (not including firms that participated in training) in the five years of activity in Azerbaijan. The CDC estimate of jobs created is 641.³ Of the eight firms interviewed by the Evaluation Team, respondents indicated an increase of 182 jobs.⁴ Given that the CDC EDP Program, over the five-year project period reached a total of 750 firms, 270 individual firms through VA technical assistance and an additional 480 firms through MBA and Azeri staff technical assistance and training events, the overall CDC estimate of 641 jobs created is misleading. The Evaluation Team estimates that well over thousands of jobs were created through the entire EDP program. The CDC effect on Azerbaijan employment will continue to increase even further over time as impacted firms expand their operations.

4.1.3 CDC Impact on Azeri Business Philosophy

Many of the respondents interviewed by the Evaluation Team stated that CDC training and technical assistance had affected their approach to business. They cited differences of the approach to business from Soviet times and stated that the Western way was superior. This superiority was demonstrated in increased sales/productivity and reduced costs and more effective employees.

Respondents were consistent in their praise for Western style training. They cited the effectiveness of interactive/participatory training methods as contrasted with the traditional lecture approach.

4.1.4 Monitoring and Evaluation (M&E)

The Evaluation Team assessed the CDC achievement of selected program targets. The CDC follow-up procedures and documents for training evaluations and assessments of VA performance were reviewed.

CDC projected a target of ten to fifteen Train the Supplier events and actually generated seven events. Targets for placement of Volunteer Advisors were roughly met (50 promised and 48 actually placed). There were no consistent targets for Training the Trainer and business services training. The collected indicators for training events and Volunteer Advisors were consistent throughout the five-year project period. Additional detail was collected by CDC on participant evaluations of training. This information was not systematically collated for analysis.

³ CDC, Overview of the Economic and Enterprise Program, May 5, 2004, Baku

⁴ ASPI 10% increase (8); ERA (3); Mbask (had 23 employees before CDC technical assistance, now over 100, increase of 75 plus, tripled the employment); Milk Pro (50 for 50% increase); Azergarant Insurance (from 3 to 16 employees, quintupled and net increase of 13); Inara Wedding Palace, zero employment impact; Samedoglu-Ataturk Company (40% increase, 6 new employees); Kapaz Kazbegi Company (from 20 to 35, net 15, almost doubling employment); Kenmark Medikal (10% increase from 120 to 132, net 12).

There was no indication of a consistent use of M&E data over the five-year period for management purposes. The quarterly reports did provide the opportunity to collect, organize, and assess information for management purposes. Quarterly Report formats differed for each of the three CDC Chiefs of Party. All in all, the program did not suffer from the lack of more systematic collection and use of M&E information.

For future enterprise development programming, the Evaluation Team recommends that a Performance Monitoring and Evaluation System be established at the very outset. The recommended approach is to use a participatory methodology that engages the expatriate and Azeri program staff in the design and implementation of the M&E procedures.

4.2 RURAL ECONOMIC DEVELOPMENT

CDC, with USAID/Caucasus-Azerbaijan encouragement, undertook to expand operations beyond Baku and into the region. At an estimated population of a half million, Ganja is the second largest city in Azerbaijan. Ali Bayramli was selected as the second field office site because of the location there of oil sector based organizations.

4.2.1 Field Offices

Field Offices in Ali Bayramli and Ganja were opened and in operation by March 2002. The initial program emphasis was on training events and the provision of technical assistance through VAs and MBAs. Over the last 14 months there was an increased emphasis of CDC cooperation with and technical assistance provision to selected Azeri partner organizations.

The field visit interviews of the Evaluation Team indicated that there was extensive donor activity, including USAID/Caucasus-Azerbaijan efforts, in Ganja. Several USAID efforts in the region, particularly Land O' Lakes and ACDI/VOCA, were cited as having completed their operations. RECP will be active in Ganja.

CDC provided extensive technical support to the Ganja Agribusiness Association and cooperated with the Ganja Business Group (see program descriptions in Section 4.3.1) to set up training programs and contact potential participants. The technical assistance provided to the private firms in Ali Bayramli and Ganja substantively affected business operations, productivity, and profitability. CDC staff cooperated with existing organizations and consultants in Ganja and there was no apparent duplication of services. Jobs were created as a result of CDC activities. The CDC Program Manager expects to continue consulting with agribusiness firms in the region.

4.3 SUSTAINABILITY

The unsolicited proposal submitted to USAID/Caucasus-Azerbaijan in 1999 stated "CDC's program not only delivers technical assistance but also builds sustainable local capacity for business consulting services." Institutionalization of local capacity was to be accomplished through 1) direct assistance to BSOs; 2) CDC VAs mentoring local consultants and business students; 3) localizing CDC project development and delivery using local BSOs; and 4) continued development of local CDC staff through training and mentoring.

Sustainability can also be defined in terms other than “sustainable local capacity for business consulting services.” Simplistically, sustainability is the continuation of programming methods and results in the recipient country without additional donor support. Other definitions of sustainability may be appropriate. The basic CDC program could be picked up and implemented by some local organization or, depending upon the level of development and other conditions, through other international donor efforts. Individual components of the CDC program could be conducted by other local organizations. Recipients of CDC training and technical assistance could continue to utilize improved or new technologies and methods. Similarly, the results of CDC interventions such as increases in productivity and jobs could be sustainable and continue after completion of the program.

The Evaluation Team collected information on sustainability in the conduct of interviews. From these interviews, the Evaluation Team concludes that the extent of sustainability of business services to SMEs as a result of CDC activities is a function of the nature of the participating organization and commitment of the organization’s leadership.

From Evaluation Team interviews it is apparent that CDC client firms and organizations are aware of donor programs and have leveraged their USAID CDC provided support in order to obtain financing and financial assistance. For example, ABTC received IFC and BP grants for business services training and an EBRD loan was obtained by Milk-Pro for new factory construction. Of interest is that memberships fees are not substantive sources of financing for the business associations that were interviewed.

No other single organization is currently, or is expected in the near term, to replicate all the services provided by CDC. However, individuals and organizations in Azerbaijan are currently providing all of the technical assistance and training activities that were provided by CDC with most of the capacity located in Baku.

4.3.1 BSO Capacity, Registered NGOs

The Evaluation Team conducted interviews with several dissimilar organizations that provide business services. The Azerbaijan Bank Training Centre (ABTC) is a registered NGO that provides training to member banks and other organizations that pay for ABTC services. The registered NGO with the largest membership is the National Confederation of Entrepreneurs (Employers) Organization of Azerbaijan Republic (ASK). The BP Enterprise Center conducts training for SMEs and is initiating other programs in support of the SME sector. Officials at two registered NGOs in Ganja, Ganja Agribusiness Association (GABA) and Ganja Business Group (GBG) were interviewed.

The Azerbaijan Bank Training Centre (ABTC) was provided the services of two CDC VAs who conducted specialized finance/banking courses. ABTC also is the recipient of international donor support and received a recent grant to conduct business services training to businesses. There may have been some impact by the VAs on ABTC training methods.

National Confederation of Entrepreneurs (Employers), ASK cooperated with CDC in the conduct of training events. ASK has attributed the result of a reduction of kinds of business licenses from 240 to 30 from the participation of the Azeri President at a joint EDP/ASK conference of businesses. CDC was instrumental in the networking of ASK with BP.

BP Enterprise Center (EC) has cooperated with CDC over its past two-year period of EC operation. EC continues to conduct training events on the oil and gas sector supply chain (process of bids and procurements of goods and services). With BP and IFC funding, EC is initiating an equity/quasi-equity fund for investment into Azeri firms in business sectors including those outside of the energy sector.

Ganja Agribusiness Association (GABA), a 300 member NGO registered in the year 2000, receives substantive funding from international donors rather than from member firms and farms. GABA has a grant from the Rural Azerbaijan Enterprise Competitiveness Program (RECP operated by Pragma Corporation). CDC provided technical assistance from an MBA and a VA. The resulting business plan was implemented and supported development of the organization. GABA also received ISO and internet technology training from CDC.

Ganja Business Group (GBG) started operations in 1998 and was registered as an NGO in 1999. The NGO registration was seen as essential for the organization to receive international donor funding. GBG has extensive operations as an independent research and consulting organization and has no members. GBG and GABA compete for donor funding and “are in the same market.” GBG has worked with CDC (business forum and fair in Ganja) and received recommendations for operations improvements. GBG has also worked with other USAID-funded organizations and stated that the processing plants left behind by ACDI VOCA were more concrete results than those of the EDP efforts.

4.3.2 BSO Capacity, Private Sector

An official of a business consulting organization, ASPI Consulting Engineers, Inc. in Baku and Dr. Hasan Musayev (currently Program Manager for CDC in Ganja), were interviewed. In Baku, an interview was also conducted with the Director of ERA Research and Consultancy, a firm that provides marketing research.

ASPI Consulting Engineers, Inc. is an engineering firm that conducts consulting assignments for the World Bank in Azerbaijan and in the Caucasus and Asia. The sustainability of CDC efforts in ISO certification appears to be assured. Please see above information on ISO certification.

Dr. Hasan Musayev currently has a four-month assignment as the Program Manager for CDC in Ganja. Over the previous year, he served as a CDC consultant in which half of his consulting fee was paid by CDC and half was paid by the recipient of the technical assistance. This experience with CDC has made him known among several firms that may require his services in the near future. He expressed the thought that the partnership of the past five months would have been more effective if begun five years ago. Dr. Musayev has organized a group of 12 trained

engineers and food processor technicians to provide technical services. He is concerned about possible competition from freely provided, donor-funded technical assistance.

ERA Research and Consultancy, a firm that provides marketing research, is a current partner with CDC and has received training and support from a CDC VA. The company was founded in 1996 and has five companies as clients. When asked about the potential of providing SMEs with marketing research services after CDC is closed, he said that he presently gives services at lower prices to SMEs. While ability to pay for services is an issue, he did feel that the SME market for services is growing with CDC having educated firms about the value of marketing. The VA consultancy in 2001 introduced new ideas, improved management, specialization of staff activities, and a company brochure and website. The VA consultant also served as a resource for the firm's work with clients. As a result of the consultancy, the firm introduced a new profitable product: the semi-annual report that rates TV program viewership. He credits CDC brand recognition as a major benefit of his partnership with CDC and expressed the wish that the partnership had begun years earlier. He has wanted to be able to replace CDC with respect to marketing consulting and has contacted Pragma for a possible relationship in RECP.

4.3.3 CDC Promulgated Practices

The participating client firms and organizations will continue to utilize the better practices they have learned from EDP training and consultancies after the program ends (i.e. insurance company expansion of branch and agent offices, Milk-Pro expansion). Those associations with paying members (ABTC and National Confederation of Entrepreneurs) will be able to sustain and increase their provision of business services (primarily training and some technical consultancies). The provision of marketing research and ISO certification to SMEs may be hindered by lack of knowledge by SMEs and lack of ability and/or willingness of small and new firms to pay for services.

4.4 PROGRAMMATIC CONCLUSIONS AND RECOMMENDATIONS

Lessons learned and best practices are presented for consideration in the implementation of future activities. Recommendations are provided on further assistance/activities, improvements and possible synergies that can be achieved in USAID's programs supporting private sector and SME development.

4.4.1 EDP Performance

The CDC EDP concentrated its activities in the provision of business services to SMEs and the private sector to enhance institutional capacities and improve the quality of managerial skills. Because of the restrictions imposed by Section 907 of the FSA, the program could not actively engage government officials to promote the adoption of reforms conducive to a more friendly business environment. Notwithstanding this constraint, the EDP has made an important contribution to the SMEs that were given direct technical assistance and training. As a result of this assistance, SMEs have increased sales, created new jobs, achieved productivity gains, accessed new domestic and foreign markets, and improved management skills.

Other NGOs and businesses are now providing business services to SMEs through other donor support and paid fees by clients in Baku and, to a lesser extent, in Ganja and Western Azerbaijan. These services are similar to those of the technical assistance and training provided by EDP VAs, MBAs, and Azeri staff. Accordingly, the Evaluation Team does not recommend continuation of the CDC EDP program in its current configuration.

While the training events were generally valuable to Azeri participants, the overall training program may have benefited from a full-time training coordinator and longer range planning for training events. A Train the Trainer program could be supportive to developing international standard training in business services. Train the Supplier is a component that could make additional contributions to local SMEs for the oil and gas sector, especially on international technical and engineering standards for suppliers.

4.4.2 Policy Environment for SME Development

The impact of the EDP could have been larger if SMEs operated within the context of a more friendly business environment. Widespread corruption and a centralized bureaucracy are two of the most important barriers that SMEs face. Extra costs must be incurred in almost every business transaction, including registration, licensing and customs procedures. In addition, the economic rents that larger firms obtain by way of their easier access to policy makers are not captured by SMEs. The profitability of SME operations is reduced further when they face private monopolies that artificially inflate the prices of inputs that SMEs demand.

All this results in higher transactions costs for SMEs. To confront this problem, SMEs must establish strong associations that can effectively advocate for the removal of all obstacles to trade and investment. No change can be achieved without them. The problem is that small entrepreneurs naturally distrust initiatives that remind them of the collective associations that the state imposed and directed during the Soviet times. More worrisome is the fact that the government throws all types of obstacles to the registration of associations or any non-profit organization with the “smell” of an independent initiative emanating from civil society.

Although it was never the core of its activities, the EDP did manage to make important contributions aimed at improving the business environment. Seminars on business ethics and assistance to ASK which resulted in reducing the number of business licenses from 240 to 38 are two illustrative examples of what can be achieved. However, more effective technical and financial assistance, especially if it is committed to a longer time horizon, is needed in this critical area. The recommendations to make this happen are the following:

- **Association Registration:** It is recommended that future programs be tied to the removal of obstacles to registration of new associations and other non-profit organizations. The Evaluation Team considers this to be a *sine qua non* condition.
- **Business Development Alliance:** The Business Development Alliance (BDA) initiative should be revitalized. A newly invigorated BDA can be the catalyst for the introduction of badly needed legal and administrative reforms. Moreover, the BDA, with international donor participation, can potentially provide “cover” to SME

associations so as to embolden them to be more proactive and to take risks that otherwise they would not be willing to assume. To be successful however, it is necessary to enlist the participation of a senior and connected government official who can effectively champion the reform campaign within the sphere where key policy makers operate.

- **Business Development Agency Strengthening:** Technical assistance and commodity support can be given to cooperating agencies that impact on SME development. These would include the Ministry of Economic Development and the Ministry of Justice (NGO/business registration). Ideally, government ethics, administrative law, and civil service programming should be instituted.
- **Institutional Strengthening:** It is recommended that newly created associations be institutionally strengthened. The ones that should be selected must demonstrate a commitment to sustainability, that is, they must charge fees to the membership and have a plan for longer-term development. Preferably they must be managed by trained and experienced leaders with a vision of how SME development can transform the economic landscape of Azerbaijan, and who know how to take on and work constructively with government officials. It is recommended that technical assistance be focused in improving their capacities to make technical representations to policy makers, in providing membership information on markets and new technologies, and in promoting partnerships between their membership and larger domestic and foreign firms.
- **Cooperation with Large and International Firms:** Promoting partnerships with larger domestic and foreign firms are probably one of the most promising venues to spur SME development. It is recommended that associations be given support to organize seminars tailored to the discussion of this issue. It is further recommended that associations that provide services that facilitate the formation of partnerships or any type of contracting arrangements between large firms and SMEs be targeted for special assistance. The impact from these arrangements is likely to be largely positive. By partnering with large firms, SMEs can benefit from transfer of technology and new products, access to new markets, and easy availability to business consultancy services that local consultants may not readily provide.

4.4.3 SME Finance

SMEs often cite lack of finance as one of the major obstacles that block the expansion of operations. In the opinion of the Evaluation Team, this is not accurate. Commercial banks are awash in liquidity and they must find profitable outlets for their lending operations. The SME sector can easily be one of these outlets.

A more accurate diagnosis identifies lack of access to current sources of finance as a real constraint that SMEs face. This obstacle is likely to be removed sooner rather than later. The fact that the Azerbaijan Banking Training Center has recently signed an agreement with the World Bank's International Finance Corporation to deliver training to SMEs is a clear signal that

commercial banks are beginning to view the sector as a potentially profitable market. They seem to understand that there are prosperous SMEs, such as those operating in the construction sector, which may be good credit prospects.

The challenge lies more with SMEs that operate in rural areas. Their lack of access to finance is more real than that faced by urban-based firms. First, there are far more financial options in urban areas. Second, they must contend with the fact that commercial banks are either not acquainted with their operations or, more typically, do not have the credit technologies that are appropriate to assess risks of lowly capitalized enterprises.

It is recommended that any future donor-funded assistance in SME financing be concentrated in promoting the provision of financial services solely in rural areas.

4.4.4 EDP Transition to Local Partners

The transition from direct assistance to SMEs to assistance to local partners and payment of fees by clients was initiated very late into the EDP program. The effectiveness of the original approach was reaching its limits, as program managers were finding it increasingly difficult to match the availability of volunteer advisors with the concrete needs of SMEs.

In addition, it can be argued that the extension of free management services would be of benefit only to those clients with a committed management that was willing to modernize operations. In contrast, less knowledgeable managers might feel no urge to implement changes or might sense that they could not demand accountability of volunteer specialists on the reliability or quality of the services. These managers may be prone to take business advice lightly. The evaluation team noted that the extent of improvements in sales and profits as a result of CDC technical assistance was highly dependent upon the commitment and creativity of the firms' management.

Delaying the shift to the new model of partners and payment for assistance meant a limitation of outreach that could have been achieved if the program had begun five years ago. The delay may have also contributed to the perception among clients that they are entitled to continue to receive business services free of charge. Furthermore, the implementation of a sustainable exit strategy was blunted, since there was little time to build the institutional capacity of local providers of business services. As things stand, there is no single organization that is expected in the near term to replicate all the services provided by the EDP.

The future of SME development in Azerbaijan is tied to the ability of firms to access reliable and high-quality services that will directly translate into concrete improvements of their managerial skills. As noted above, one vehicle to obtain this is via stronger linkages or partnering with larger firms. Another vehicle lies in the development of a market for business services. In Azerbaijan at this moment, and notwithstanding the interesting experiences that can be drawn from EDP and from the EU Business Advisory Services program, the conclusion is that the market is still largely undeveloped, especially for small and new firms.

The market will develop when an authentic industry of local providers is established and when SMEs signal more trust in the reliability and quality of their services. To make this happen, it is necessary to take the following steps.

- **Information Seminars:** It is recommended that future assistance be directed to designing and delivering seminars to sensitize SMEs on the benefits that can be derived from demanding these services and, most importantly, to the advisability that the services be delivered for a fee. Seminars should also inform SMEs on how to locate qualified consultants and specialists.
- **Registration:** Local providers of business services, which may include individual consultants, consultancy firms and even associations, should go through a process of formal registration. It is recommended that assistance be given to this process, including advice on a code of ethical behavior to which local providers must adhere, and the establishment of minimum criteria related to their qualifications, experience and integrity. This process, hopefully, will help build trust among end users of business services.
- **Business Services Training:** A selection of formally registered local providers should be given extensive training on the particular background and needs of SMEs, and provided tools that can facilitate delivery and improve quality of their services. In exchange for this technical assistance, local providers can be requested to provide consultant services at a reduced fee for a specified number of days per year to their larger clients. It is further recommended that information on this activity be made available to SMEs by conducting workshops and by posting in websites a detailed description of the training events.
- **Financial Support:** In close coordination with other donors, it is recommended that a special scheme of monetary subsidy be implemented to develop business consultancies in rural areas. Under this scheme, the subsidy will be given directly to local providers to compensate their charging to SMEs a fraction of the reduced rate applied to larger clients. The evaluation team recommends that all assistance related to information seminars, registration, business service training, and financial support be implemented through the RABD program. Since it will create business development resource centers in rural areas, this program is the ideal vehicle to promote expansion of business services to emerging SMEs.

ANNEX A

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ANNEX B

AZERBAIJAN ECONOMIC DEVELOPMENT PROGRAM

Final Evaluation Report

INTERVIEW LIST

Baku, Azerbaijan

Zaur Askerov Adil
Marketing and Logistics Department
Milk-Pro Ltd

Gulnara Alekperova
Vice-President
The Association of Certified Accountants of
Azerbaijan
Baku, 18.05.04

Dan Bliss
Social and Community Relations Manager
The Baku-Tbilisi-Ceyhan Pipeline Company

Lars Benson
Chief of Party
CDC Economic and Enterprise Development
Program Azerbaijan
(Phone Interview)

John Brannaman
Agricultural Development Officer
United States Agency for International
Development/Caucasus-Azerbaijan

Russel Bunnell
MBAEC consultant
CDC, Economic and Enterprise Development
Program Azerbaijan

Sergei Bystrin
Deputy Director
CDC, Economic and Enterprise Development
Program Azerbaijan

Rufiz Chiragzade
Operation Officer
ECSSD

David K. Dodd
Managing Partner
The Kilburne Partnership
Avon, Connecticut

Thomas Engelhardt
General Manager
Micro Finance Bank of Azerbaijan

Jeffrey Flowers
Country Director for Azerbaijan
FINCA
(Phone Interview)

Elmir Gasimov
Director
ERA Research and Consultancy

Dr. Raymond M. Genick
Senior Vice President
Genray Corp., International Training and
Consulting
Utica, Michigan

Jonelle Glosch
Executive Director Quality Manager
The American Chamber of Commerce in
Azerbaijan

Minaya Haji-zade
Quality Manager
Milk-Pro Ltd.

Paul S. Hamlin
Credit Advisor
Assistance to Private Agribusiness
ACDI VOCA

Amr Hassan
MBAEC consultant
CDC, Economic and Enterprise Development
Program Azerbaijan

Namik Kasumov
Deputy Director
Azerbaijan Bank Training Center

Anar Khalilov
Business Development and Training
Specialist
AMDA, Agri-Input Market Development in
Azerbaijan

Brian Kroneman
Senior Program Manager
Citizens Development Corps

Jeffrey Lee
Deputy Country Coordinator
USAID/Caucasus-Azerbaijan

Amanda MacArthur
Program Assistant
Citizens Development Corps
Washington, DC

Prof. Alekper Mammadov
President
National Confederation of
Entrepreneurs (Employers') Organizations of
Azerbaijan Republic (ASK).

Emil Mamedov
Business Development Manager
CDC Economic and Enterprise Development
Program Azerbaijan

Dr. Ibrahim Mammadzadeh
PhD(Econ), MS (WaterEng), AssocProf
Business Development Director
ASPI Consulting Engineers, Inc.

Sue McIntyre
Chief of Party
USDA Monetization and Programs,
Azerbaijan
International Relief & Development, Inc.

Jamil Melikov
Chairman of the Board
MBASK Joint-Stock Insurance Company

Michael E. Peden, PhD.
General Director
Azerbaijan Agribusiness Center

Jennifer Raymond
MBAEC consultant
CDC, Economic and Enterprise Development
Program Azerbaijan

Sevinj Rustamova
Quality Assistant
Genray Corp, International Training and
Consulting

Gyulshan Rzayeva
Deputy Secretary General
National Confederation of
Entrepreneurs (Employers') Organizations of
Azerbaijan Republic (ASK)

Lala Rzayeva
Director
BAS, Business Advisory Services
Programme, Azerbaijan

Nofal Rzayev
Advisor to the Board
MBASK Joint-Stock Insurance Company

Oleg Shevtsov
Credit & Finance & Marketing Specialist
Agri-Input Market Development in
Azerbaijan (AMDA)

Lamiya Shirinova
Technical Administrator
GenTek, International Consulting

Manfred Smotzok
Chief of Party
Agri-Input Market Development in
Azerbaijan (AMDA)

Deirdre White
Vice President,
Business and Program Development
Citizens Development Corps
Washington, DC

Azer Zeynalov
Director
Enterprise Center
BP Group

Regions, Azerbaijan

Nail Aliyev
General Director
Kapaz Kazbegi Co.
21.05.04

Arif Jahangirov
Deputy Director
Ganja Business Group
Ganja, 20.05.04

Vugar Babayev
Vice-President
Ganja Agribusiness Association
Ganja, 20.05.04

Hasan Musayev, PhD
Program Manager
CDC, Economic and Enterprise Development
Program, Azerbaijan
Ganja, 20.05.04

Nadir Balakishiyev
Owner
“Inara” Wedding Palace
Ali-Bayramli, 19.05.04

Niyazi Samedzade
Manager
Samedoglu-Ataturk Co.
Ganja, 20.05.04

Joshgun Feyzullayev
Director
“Azergarant” Insurance Company
Ali Bayramli, 19.05.04

Hafiz Huseynov
Sales Specialist
Kenmak Medikal
Ganja, 21.05.04

ANNEX C

EVALUATION STATEMENT OF WORK

Evaluation of the Enterprise Development Program in USAID/Caucasus-Azerbaijan

This evaluation will examine the Enterprise Development Program (EDP) activity being implemented under USAID/Caucasus-Azerbaijan's Strategic Objective (SO) 1.3, *Accelerated Development of Small and Medium Enterprises*.

I. PURPOSE OF THE EVALUATION: The principal focus of the evaluation shall be the performance of EDP activity in accomplishing the terms and objectives of their Cooperative Agreement and their contributions in achieving the Mission's Strategic Objective 1.3.

The evaluation team shall determine the status of the current activity, the successes and weaknesses, and identify any unforeseen constraints and obstacles that may have affected performance. The evaluation should assist USAID/Caucasus-Azerbaijan to formulate ideas regarding future support to economic development in Azerbaijan, including, but not limited to Rural Enterprise Competitiveness, Agriculture Marketing, Small and Medium Enterprise Development and Rural Community Business Development programs. In this regard, the team should provide the Mission with a better understanding of the current overall environment for the development of small and medium enterprises in Azerbaijan, the sustainability of current efforts, and recommendations for future interventions in development of competitive private enterprises.

Brief description of EDP is attached in Annex 1.

II. QUESTIONS AND ISSUES TO BE ADDRESSED:

The evaluation team should address the following questions and issues:

1. General:

- a) What interventions are most critical and/or have been effective in achieving program objectives and intermediate results? What improvements can be made in program implementation in order to enhance better results?
- b) Are there any unexpected but important benefits or impacts that should be documented? Are there any negative impacts or unintended consequences of the program that need to be addressed, and how?
- c) Were the objectives of the activity met, for e.g. building the capacity of Azerbaijan consulting companies to provide quality technical assistance to SMEs resulted in improved operations of assisted SMEs? Did the assumptions and program design (activities) match the sector conditions and policy environment?
- d) What gender objectives do we have, or should there be, for this program? How can this program enhance gender equity? How will gender relations affect the achievement of sustainable results?
- e) How effective did the activities address corruption issues? How was corruption addressed in the activities? If corruption issues were not addressed, or were found ineffective, how could the program be modified to better address them?

- f) How cost-effective have the interventions been? Are the targets/results/impacts accomplished to date commensurate with resources invested?
- g) What are the lessons learned? Are there follow-on activities, which USAID should consider, to maintain the momentum and/or provide strategic support to other USAID ongoing and planned programs?

2. Small and Medium Enterprise Development (SME):

- a) What are the major constraints currently inhibiting expansion of SME businesses in Azerbaijan, and what are the major opportunities for expansion of SME operations in Azerbaijan? Did the program take adequate advantage of these opportunities?
- b) Is there a reasonable market access for products and/or services produced by the program-assisted entrepreneurs?
- c) How effective have technical assistance provided to the entrepreneurs and enterprises, supported by activities, been in the following areas: improved institutional capacity, development of new products and services in response to the market, expanded market opportunities, increased access to and use of market information, improved productivity and product quality, and adoption of quality grades and standards?
- d) What do the clients of the assisted SMEs think about the program's impact on his/her business?
- e) Have business development activities and training tailored to individual entrepreneurs needs contributed directly to improved productivity and business skills? Are there ways to enhance the impact of business development and training activities in improving productivity?
- f) How effective has EDP been in tracking the progress of entrepreneurs and enterprises in applying newly acquired enterprise management, marketing and business skills?

3. Adoption of New Practices:

- a) Are beneficiaries adopting recommended practices (technical, enterprise management and business practices)? Which practices have beneficiaries been more inclined to adopt, and why? How can the program be modified to address these constraints to adoption?
- b) What is their primary source of information concerning business practices? What are other key channels of information?
- c) Are the beneficiaries satisfied with the quality of technical assistance provided? Is technical assistance to beneficiaries provided in a timely manner?

4. Business Support Organizations and Capacity Strengthening:

- a) Assess the overall progress and approach to business support organization development followed by EDP.

- b) Is the program effectively developing the capacity of business support organizations to support their member needs and advocate for a more private sector-friendly policy and regulatory environment on a regional and/or national basis? If not, how can the business support organizations advocacy capacity be strengthened?
- c) Is the current approach to organizing business support organizations satisfactory to serve as a forum for policy dialogue on small and medium enterprise issues with the government?
- d) Assess the impacts/benefits accrued to beneficiaries.
- e) Are the training materials and marketing information supplied by the implementer appropriate for the beneficiaries?

5. Sustainability issues relating to recommended practices:

- a) Did the program achieve sustainability? Will the program retain a local organization equipped with institutional, operational and financial capacity to carry on the work?
- b) Are the outcomes related to adoption of better practices sustainable, i.e. are the participants likely to continue after program ends? Which outcomes are likely/unlikely to be sustainable, and why? What can be done to increase sustainability?
- c) Are these newly created and/or improved enterprises and business support organizations likely to remain in operation after the programs are terminated? If not, why and what can be done to enhance their sustainability?
- d) Are the business support organizations/entrepreneurs seeking grants/credits and/or technical assistance from other donor programs to leverage USAID-provided support? Have they mobilized any resources internally (i.e., membership fees)? If yes, provide anecdotal evidence.
- e) Did the program improve capacity of local consultants to deliver quality advice to SMEs? Are SMEs likely to continue to refer to local consultants upon program completion?

6. Monitoring and Evaluation (M&E):

- a) Has the program achieved its targets to date? If not, assess reasons for shortfalls. Do the performance indicators provide useful and reliable data on program progress and impacts? For the activities implemented under this program, were the performance indicators appropriate? If not, what would have been better indicators to track performance and impact?
- b) Are M&E data and anecdotal information used for management purposes? Does the technical staff use M&E data and anecdotal information to conduct their work and assess progress? Can M&E data and anecdotal information be better used for program management?

III. METHODOLOGY: Rapid Appraisal techniques (e.g. key informant interviews, site observations, mini-surveys) are recommended for conducting this evaluation. However, the team should develop an appropriate methodology to address the evaluation statement of work.

IV. DELIVERABLES: The team shall submit a detailed work plan along with the schedule of field work specifying how the information will be collected, organized, and analyzed to meet the information needs specified in the scope of work not later than three days after the evaluator arrives in the country.

Upon the completion of the evaluation, the team will brief the Mission staff, and will submit a draft evaluation report two working days before the evaluator departs from Baku. The Mission will provide comments and suggestions within one week after receiving the draft. The Final Report (5 bound copies and an electronic version in PDF format) will be provided to the Mission within two weeks after completion of evaluation in Azerbaijan.

In addition, a copy of the final report should be submitted to:
United States Agency for International Development
PPC/CDIE/DI
Ronald Reagan Building
Washington, DC 20523

To ensure that the evaluation findings and recommendations are presented in a way that is useful for the Mission personnel and program implementers, the following outline is recommended:

- Executive summary not to exceed two pages in length composed of findings, a brief methodology statement, conclusions and key recommendations for each program evaluated;
- Introduction and background section for the overall evaluation.
- Brief description of interventions;
- Implementation progress, achievement of results and program impacts;
- Discussion of SOW questions by applying the following format (findings, conclusions and recommendations).

Each section should not exceed 20 pages.

The report should also include a response regarding the cause(s), if any, of deficiencies or weaknesses. It will also include findings and recommendations on priorities for further assistance/activities in the area(s), improvements and possible synergies that can be achieved in USAID's programs supporting private sector development. A discussion of lessons learned and best practices that should be captured for consideration in the implementation of future activities.

V. TIME FRAME: The evaluation is scheduled to commence in May 2004. Duration of the evaluation is estimated to be approximately four weeks.

VI. QUALIFICATIONS:

Team Leader

1. At least an M.S. degree or MBA in business related field (marketing, business administration, entrepreneurship, finance, economics, and international development).
2. Extensive experience in analyzing private sector development activities, pertaining to small and medium enterprises and business support organizations. Be familiar with recent private sector development in the Caucasus and/or NIS regions.
3. Prior experience in leading evaluation and/or design teams.

4. Exceptional interpersonal, leadership and management skills.
5. Excellent writing skills.

Private Sector Specialist

1. Advanced degree in business administration and/or marketing.
2. Experience in implementing, assessing and evaluating private sector programs preferably in NIS regions.
3. Experience with a variety of data collection techniques.
4. Organizational, listening and analytical skills.
5. Excellent writing skills.

The Team Leader's principal responsibilities:

1. Maintain contact with the technical office at USAID/Caucasus-Azerbaijan.
2. Brief the Mission on findings and recommendations.
3. Prepare and submit a final report to USAID/Caucasus-Azerbaijan within 10 working days following the receipt of comments from the Mission on the draft report.

VII. LOGISTICAL ASSISTANCE: The Mission will make available reports and other background materials appropriate to the evaluation.

The team shall be required to provide all logistical arrangements such as office space, international travel, accommodations in Baku, interpreting, secretarial and other services. The evaluator will be responsible for arranging local transportation (hiring vehicle and driver). Travel within Baku and to selected regions in Azerbaijan to review programs, activities and interview beneficiaries is expected. Detailed schedules for site visits and interviews should be developed by the team in consultation with USAID and its implementing partners. Logistical issues to be resolved in advance including the number of sites to be visited, host partner institutions to be interviewed, timing of visits to regional offices, etc.

The USAID Mission and the implementing partners will assist the team in scheduling meetings and site visits, including the names and contact information for key individuals to be interviewed in Baku, other cities and regions of Azerbaijan. Interviews should at least be conducted with the following people:

- USAID/Caucasus-Azerbaijan senior staff members
- CDC staff members in Baku: Lars Benson, lbenson@cdc-az.org , Country Director and Sergei Bystrin, sergei@cdc-az.org , Deputy Country Director.
- Staff members of other USAID-assisted programs, such as: ACDI/VOCA-David Sulaberidze, Ismail Rafi, Paul Hamlin; Pragma – Michael Peden, Paula Higgins, David Yurosek; FINCA – Jeff Flowers; IFDC – Manfred Smotzok, Ylli Bicoku;
- Representatives of major donor organizations: World Bank, EBRD, TACIS and GTZ;
- Beneficiaries and partners of EDP programs associations and enterprises established and/or supported by these programs. The name will be provided by implementing partners.

State-side contacts: Prior to departure from the U.S. the team should schedule an interview with Matthew Lutkenhouse, CDC Program Manager, MLutkenhouse@cdc.org. CDC’s headquarters is located at 1726 M Street NW, Washington, DC 20005. (Telephone 202-872-0933 and Fax 202-872-0923).

USAID participation in fieldwork: USAID/Caucasus-Azerbaijan may choose to participate in the fieldwork and site visits as an observer.

VIII. REVIEW OF DOCUMENTS: Prior to arrival the team should review the background materials listed below and brief the Mission in conclusions drawn from these materials:

- Cooperative Agreements between USAID and CDC
- CDC work plans
- CDC quarterly reports

IX. DISSEMINATION CONSIDERATIONS: All documents prepared by the team and delivered to USAID/Caucasus-Azerbaijan, including the final report, are viewed as the sole property of the U.S. Government, and only with the concurrence of USAID/Caucasus-Azerbaijan they should be disseminated to third parties.

Annex 1: Enterprise Development Program (EDP)

Citizens Development Corps received a two year grant from the United States Agency for International Development in July, 1999 to implement the “Economic and Enterprise Development Program” (EDP) in Azerbaijan. Program implementation began in the fall of 1999. A two-year cost extension was approved in 2001 and a no cost extension in 2003. The current program is scheduled to end June 30th, 2004.

In the EDP Azerbaijan Program, CDC developed a program tailored to Azeri conditions, and worked with privately held small and medium size enterprises (SMEs) and Business Support Organizations (BSOs) in key growth sectors. These enterprises were the direct recipients of CDC’s technical assistance, delivered through our expert consultants and local country staff. The EED Azerbaijan Program is multi-faceted, designed to spur Azeri economic development through a technical assistance program that addresses critical needs of Azerbaijani SMEs and BSOs by modernizing their technical and managerial skills.

CDC’s approach in the EED Azerbaijan Program over the past five years was to:

- target critical growth/impact sectors such as oil and gas service industries, IT, manufacturing, agri-business, financial services, education particularly in the urban areas;
- create the demand for technical assistance by capitalizing on opportunities for local suppliers to contract with foreign multi-national companies;
- refer clients to, and assist them in developing, new sources of financing;
- increase the ability of Azerbaijani companies to find trade partners and attract investment;
- establish a highly professional local country team to select clients, diagnose the needs of clients, and provide in-country support for the clients and Expert Consultants;
- deliver technical assistance through Expert Consultants to specific SMEs, at the same time building the capacity of Azerbaijan consulting companies to provide more and more of this technical assistance on their own in order to make the program’s impact more sustainable.
- conduct business services training utilizing local experts, BSOs, and foreign expatriates

ANNEX D

EVALUATION WORKPLAN/SCHEDULE

The evaluation project began on Monday, May 3 and the Evaluation Team of Leo T. Surla, Jr. and Jorge L. Daly reviewed the initial documents of the project: Statement of Work and budgets. On Tuesday, May 4, the Team met key management personnel of the Citizens Development Corps (CDC) at the M Street Offices in Washington, DC. Present were Deirdre White, CDC Vice President, Business and Program Development; Brian Kroneman, Senior Program Manager; and Amanda MacArthur, Program Assistant.

The discussions included program objectives, constraints, and achievements. The CDC officials provided suggestions on logistics and site visits in Azerbaijan. Two sets of reports on the EDP Program were provided. Electronic versions of key reports on tourism and WTO were received later in the week. From review of key materials and discussions with Washington-based CDC personnel, several general conclusions and areas for exploration were identified:

INTERVIEWS, MAY 10, 2004

The Evaluation Team met with John Brannaman, COTR for the Azerbaijan EDP Program, and Jeff Lee of USAID/Caucasus-Azerbaijan. Objectives of the EDP Evaluation and the initial workplan were discussed.

The Evaluation Team along with John Brannaman, met with Sergei Bistrin, Deputy Director; and Emil Mamedov, Business Development Manager of CDC. Contact information for interviews with other donor organization personnel was obtained. Information was provided on potential client companies to be interviewed. This information was used to revise the fieldwork schedule.

SCHEDULE FOR FIELD WORK PROGRAM

Phase I: Field Preparation (Development of methodology, approach and workplan)

May 10-11	Initial Interviews, USAID, CDC, Review of New Materials
May 11	Delivery, Review and Approval of Workplan

Phase II: Evaluative Information Gathering In-country (data collection, interviews, focus groups, draft report, briefings with USAID)

Segment One: Initial Fieldwork; data collection, interviews, and consultations

May 11-12	Data Collection/Interviews	USAID and USAID programs:	CDC;
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ACDI/VOCA; Pragma; FINCA; IFDC
May 13-14 Interviews with Major Donors: IBRD; EBRD; TACIS; GTZ
May 15-17 Data Collection/Interviews Beneficiaries/Partners: Baku area program visits

Segment Two: Interim Evaluation Memorandum, preliminary analysis

May 18 Team Meeting, Review of Data and Initial Analysis
May 19 Preparation of Memorandum
May 20 Interim Evaluation Memorandum
May 20 Team Review of Memorandum with USAID/Caucasus-Azerbaijan

Segment Three: Final Fieldwork and Data Collection

May 21-22 Final Interviews/Data Collection in Ganja and Lali-Bayramli

Phase III: Evaluation Reports

Segment One: Draft Evaluation Report and Final Briefing

May 24 Evaluation Analysis
May 25 Preparation of Draft Evaluation Report
May 26 Draft Evaluation Report Delivered, Prep for Evaluation Briefing
May 27 Oral Evaluation Presentation to USAID/Caucasus-Azerbaijan
May 29 Evaluation Team departure from Baku

Segment Two: Final Evaluation Report

June 7 Receipt of written comments from USAID/Caucasus-Azerbaijan
June 8-18 Refining of Draft Evaluation Report
June 18 Submittal of Final Evaluation Report

ANNEX E

INTERIM REPORT

May 17, 2004

EVALUATION OF THE ENTERPRISE DEVELOPMENT PROGRAM (USAID/Caucasus-Azerbaijan)

I. EVALUATED ACTIVITIES AND STRATEGIC OBJECTIVE

Since June 1 of 1999, a five-year period, the USAID/Caucasus-Azerbaijan Regional Mission has funded the Enterprise Development Program (EDP), administered by Citizens Development Corps (CDC). The EDP program was designed to accelerate the economic development of privately-held Azeri small and medium enterprises (SMEs). The technical assistance program addresses critical technical and managerial needs of Azerbaijani SMEs and business support organizations (BSOs).

The focus of the evaluation is the performance of EDP in accomplishing the terms and objectives of the Cooperative Agreement and EDP contributions in achieving the Mission's Strategic Objective 1.3, Accelerated Development of Small and Medium Enterprises.

II. BACKGROUND

The current Enterprise Development Program is administered by Citizens Development Corps. The Program, following completion of five years of operation, will conclude on June 30, 2004. In July 1999, CDC received a two-year grant to implement the Project in Azerbaijan. Implementation of the Project commenced in the fall of 1999. The Project was extended for an additional two-year period in 2001 and there was no cost extension in 2003. CDC's approach in the EDP Azerbaijan Program over the past five years was to:

- target critical growth/impact sectors such as oil and gas service industries, IT, manufacturing, agri-business, financial services, and education particularly in the urban areas;
- create the demand for technical assistance by capitalizing on opportunities for local suppliers to contract with foreign multi-national companies;
- refer clients to, and assist them in developing, new sources of financing;
- increase the ability of Azerbaijani companies to find trading partners and attract investment;
- establish a highly professional local country team to select clients, diagnose the needs of clients, and provide in-country support for the clients and expert consultants;

- deliver technical assistance through Expert Consultants to specific SMEs, at the same time building the capacity of Azerbaijan consulting companies to provide more and more of this technical assistance on their own in order to make the program’s impact more sustainable;
- conduct business services training utilizing local experts, BSOs, and foreign expatriates.

The CDC Enterprise Development Program will end on June 30, 2004. Two USAID five-year programs, the Rural Azerbaijan Enterprise Competitiveness Program (RECP) and Rural Azerbaijan Business Development Program (RABD), will focus on increasing the competitiveness of the agriculture/agri-business sectors and on rural micro/small enterprise development.

III. PURPOSE OF THE EVALUATION

The Enterprise Development Program was designed to address the Mission’s Strategic Objective (SO) 1.3, Accelerated Development of Small and Medium Enterprises. The program is multi-faceted and is aimed at inducing Azeri economic development through a technical assistance program that addresses technical and managerial needs of Azerbaijani small and medium sized enterprises and business support organizations.

According to the Task Order Statement of Work, “[the] principle focus of the evaluation shall be the performance of EDP activity in accomplishing the terms and objectives of [CDC’s] Cooperative Agreement and their contributions in achieving the Mission’s Strategic Objective 1.3.” The Evaluation Team of Management Systems International (MSI) in association with MetaMetrics Inc. will address the following performance topics:

- **CDC EDP Status:** The evaluation team shall determine the status of the current activity, the successes and weaknesses, and identify any unforeseen constraints and obstacles that may have affected performance.
- **Future Support to Economic Development in Azerbaijan:** The Evaluation Team will collect information and conduct analysis to assist USAID/Caucasus-Azerbaijan to formulate ideas regarding Rural Enterprise Competitiveness, Agriculture Marketing, Small and Medium Enterprise Development and Rural Community Business Development programs.
- **Current SME Environment:** The Evaluation Team will provide the Mission with a better understanding of the current overall environment for the development of small and medium enterprises in Azerbaijan.
- **Sustainability:** The sustainability of current program efforts will be assessed by the Evaluation Team.

- **Recommendations:** Recommendations will be provided for future interventions in the development of competitive private enterprises.

This Interim Report presents the assessment of the Evaluation Team of the performance of the CDC EDP program following interviews over the first five days of the evaluation effort. Meetings were held with USAID personnel. Intensive interviews were conducted with CDC staff, MBA Executive Corps, and Volunteer Advisors. Additional CDC EDP program material was obtained. Interviews were conducted with related USAID programs, business associations, and international donor projects. Six client/partner organizations in Baku were visited which covered non-government business associations engaged in providing business services, the finance sector, agri-business, and private sector business service organizations.

In the coming second week of the evaluation effort, the Evaluation Team will review interim findings with the USAID COTR, visit additional donor organizations and related USAID programs in Baku, and then travel to Ali-Bayrumli and Ganja to conduct interviews with CDC field staff and client/partner organizations.

The field trip to Ali-Bayrumli and Ganja will complete the data collection activities of the Evaluation Team. The final report draft will be delivered to USAID/Caucasus-Azerbaijan on Wednesday, May 26 and the briefing will be delivered at the USAID Mission on Thursday, May 27.

The following discussions on the SOW Evaluation Questions are intended to serve to present the current assessment of the Evaluation Team and to identify areas and issues to be further addressed in subsequent evaluation information collection and analysis for inclusion in the final report. The final nine-day period of the Evaluation Team's time in Azerbaijan will be used to address the cause(s), if any, of EDP deficiencies or weaknesses. Findings and recommendations will be provided on priorities for further assistance/activities, improvements and possible synergies that can be achieved in USAID's programs supporting private sector development. Lessons learned and best practices that should be captured for consideration in the implementation of future activities will be addressed.

IV. EVALUATION QUESTIONS AND ISSUES

1. General:

A) **What interventions are most critical and/or have been effective in achieving program objectives and intermediate results? What improvements can be made in program implementation in order to enhance better results?**

CDC, in its overview description of the EDP lists the following four core or main activities:

- Supplier Training Initiative (Oil and Gas Sector)
- Firm-Level Technical and Managerial Assistance (Volunteer Advisors or VAs)
- Training and Local Capacity Building (Business Support Sector)
- Linkages in Finance, Trade, and Technology

For the purpose of the evaluation of the CDC EDP, the basic interventions or components of the EDP, in the basic order or timing of their implementation, have been 1) Train the Suppliers, 2) VA (Volunteer Advisors), 3) Business Training, 4) Train the Trainer, 5) MBA Enterprise Corps, 6) Field Offices in Ali-Bayrumli and Ganja, and 7) Partnership with SME's and BSO's. Staff resources included expat management, Azeri Program Officers, Volunteer Advisors, and MBA volunteers.

Train the Suppliers was implemented in the first three-year period of the project from the Fall of 1999 to December of 2002. The component intent was to facilitate access of oil and gas companies to Azeri suppliers. Topics included "Bids and Proposals," Procurement Opportunities and Requirements," and Problems and Successes in Working With International Companies." An estimated total of seven 3 to 5 day training events (three in Year One) were delivered over the three-year period of the Train the Supplier program. Exit participant questionnaires indicated a high degree of satisfaction with the program.

Volunteer Advisors is a standard component of CDC programming. Experienced advisors are matched to managerial and technical skills requirements of client organizations. Individual statements of work are developed to guide the one to two month period of Volunteer Advisor engagement on primary and secondary assignments. Volunteer Advisors can spend as much as three months on a single stay in Azerbaijan. From the Evaluation Team interviews with four client organizations in Baku, the Volunteer Advisor program was highly successful. The ISO 9001 technical assistance provided over the past three years by a Volunteer Advisor resulted in a doubling of sales of a food-processing firm over a two year period. The ISO technical assistance enabled an Azeri engineering firm to gain ISO certification and, in turn, provide technical support for fee for the certification of five additional companies. A Volunteer Advisor with finance experience provided technical assistance to a Baku insurance company that resulted in their expansion from business insurance into life insurance, the opening of branch offices and acquisition of insurance agents, and a substantial increase in sales and profits. Over the five-year period of the CDC EDP program, a total of 111 Volunteer Advisor visits to Azerbaijan provided support on 151 primary assignments and 158 secondary assignments (as brief as three hours of

consultation). A single client organization could benefit from as many as three and four assignments. An estimated 125 separate firms and non-governmental institutions were provided technical support through the Volunteer Advisor component.

Seminars and Workshops-Business Training began in June of 2001 with a “Project Management and Control Seminar” and a “Total Quality Management (TQM) and ISO 9000 Process Seminar.” These initial seminars were conducted by a Volunteer Advisor with experience in SME development and ISO certification. By June of 2002, a total of ten workshops and seminars on topics including “Business Ethics,” “ISO Certification,” and “Impact Sales Techniques” were delivered. By the end of 2002, a total of 20 workshops and seminars in business training, primarily in Baku, had been conducted, approximately a training event per month over 18 month period, June, 2001 through December, 2002. Over the next six-month period, under the second CDC Chief of Party, a reported 24 short workshops on business topics were delivered (four per month). Approximately half of these workshops were presented outside of Baku. In the most recent three quarters, 48 workshops were delivered for an average of five per month.

Field Offices in Ali-Bayrumli and Ganja were opened and in operation by March 2002. The first Volunteer Advisor to work in the field offices arrived in Azerbaijan in August 2002. This VA also conducted the first seminar held in the Ganja Field Office. Electricity problems in Ali-Bayrumli affected CDC operations. Rising costs for office space in Ganja, due to pipeline development, required a search for a new office location. CDC activities in the Field Offices were similar to those in Baku: Volunteer Advisors, MBAs, and training events.

Train the Trainer workshops began in June 2002. The three-day training program was aimed at increasing the number and capacity of Azeri trainers to provide business training. In October of 2002 the second and last Train the Trainer workshop was delivered.

MBA Enterprise Corps volunteers arrived in Azerbaijan in July 2002. The two volunteers, based in Baku, provided support to CDC partners and client organizations, conducted workshops on “Business Development,” and conducted the first Azerbaijan Business Case Competition on December 15, 2002. They provided technical assistance to client organizations, similar to that provided by CDC Volunteer Advisors. Three MBAEC volunteers arrived in Baku in July 2003. In July, one of the two original MBA volunteers assumed the CDC Chief of Party position and in September, the other original volunteer departed Azerbaijan. The new MBA volunteers conducted the Second Azerbaijan Business Case Competition in January 2004. Two of the volunteers were then assigned to the recently initiated Rural Azerbaijan Enterprise Competitiveness Program (RECP) operated by Pragma Corporation. The MBA volunteers will complete their Azerbaijan tours in September 2004.

Partnership with SME’s and BSO’s became an explicit focus of the CDC EDP program in early 2003 in order to develop Azeri capacity to provide technical assistance and business services to SMEs. The Train the Supplier and Train the Trainer components were ended. Staff Program Officer, Volunteer Advisor, and MBA volunteer effort have been directed over the past fourteen months to working with local consultants and selected companies/organizations to create sustainable capacity for business services.

Other Activities of CDC EDP include the SME database; trade, and finance links for SMEs; and coordination with donor and other organizations.

CDC has successfully integrated the EDP components through networking and provision of ongoing technical assistance and coordination with selected partners. Such communications has resulted in referrals for training programs, access by client organizations to funding and support from other donor organizations, and a flow of information among client organizations to support increases in sales and access to suppliers.

A) (cont'd) What improvements can be made in program implementation in order to enhance better results?

Apart from Train the Suppliers and Train the Trainer, training events were based on the availability of experienced Volunteer Advisors, expatriate staff, and MBA volunteers. While the training events were generally valuable to Azeri participants, the overall training program may have benefited from a full-time training coordinator and longer range planning for training events.

The creating of Azeri-based individuals and organizations for program sustainability (partnership) is currently a major focus of the CDC EDP program. While important progress has been made (Azerbaijan Bank Training Centre, ASPI ISO consulting, ERA market research), the level of current SME demand for business services is not yet a viable market and fees are not commensurate with BSO costs.

Interviews have indicated that the VA program has been very successful. Firms provided evidence on concrete improvements in sales and operating techniques as a result of VA assistance. These firms and other organizations such as the Chamber have indicated that the VA program would be valuable to continue.

A Train the Trainer program could be supportive to developing international standard training in business services. Train the Supplier is a component that could make additional contributions to local SMEs for the oil and gas sector.

B) Are there any unexpected but important benefits or impacts that should be documented? Are there any negative impacts or unintended consequences of the program that need to be addressed, and how?

Evaluation Team interviews have uncovered positive and not unexpected benefits. The overall planning for CDC EDP has been appropriate to the situation and environment, e.g. necessary adjustments for operations of the Field Offices. No information has been collected by the Evaluation Team to date on negative impacts or unintended consequences of the program that need to be addressed.

C) Were the objectives of the activity met, for e.g. building the capacity of Azerbaijan consulting companies to provide quality technical assistance to SMEs resulted in improved operations of assisted SMEs? Did the assumptions and program design (activities) match the sector conditions and policy environment?

As noted above, CDC EDP did build the capacity of several Azeri consulting companies to provide quality technical assistance that can result in improved operations of assisted SMEs. More work can be done and the current demand for business services is low. Other objectives such as linkages in finance, trade, and technology were addressed by CDC EDP activities. Indications to the Evaluation Team so far are that CDC EDP assumptions and program activities basically matched sector conditions and the policy environment.

D) What gender objectives do we have, or should there be, for this program? How can this program enhance gender equity? How will gender relations affect the achievement of sustainable results?

The CDC EDP program did focus on including women participants in the training events. Data was collected to indicate the proportion of women participants (859 of 3,039 or 28.3%). One of the five MBA volunteers was female. Approximately 30% of the Volunteer Advisors were women. CDC estimates that the EDP program resulted in the creation of 640 jobs of which 245 or 38% were for women. No information was collected by the Evaluation Team that indicated that gender relations would affect the achievement of sustainable program results.

E) How effective did the activities address corruption issues? How was corruption addressed in the activities? If corruption issues were not addressed, or were found ineffective, how could the program be modified to better address them?

Azeri respondents indicated that CDC EDP training provided them with a better understanding of their rights as businesspersons. Accordingly, they were less prone to succumb to requests for inappropriate government payments. The two “Business Ethics” courses may have had a more specific impact on corruption.

F) How cost-effective have the interventions been? Are the targets/results/impacts accomplished to date commensurate with resources invested?

The use of Volunteer Advisors has been cost-effective. The MBA volunteer contribution has been valuable and less per person level of effort than the more experienced Volunteer Advisors. Overall results with client firms and organizations (increases in SME productivity and profitability, job creation, investment, loans secured) are seen as commensurate with the level of invested resources (\$4.4 million over the five-year period).

G) What are the lessons learned? Are there follow-on activities, which USAID should consider, to maintain the momentum and/or provide strategic support to other USAID ongoing and planned programs?

At this stage of the evaluation, the lessons learned are that the provision of business services by Azeri firms and organizations is at an initial stage at present. Government/donor support is still needed. Team would recommend the continuation of CDC in some capacity. Over the five years, CDC has gained an excellent reputation among the client firms and organizations. The Volunteer Advisor component has been valuable and is in demand by Azeri firms.

2. Small and Medium Enterprise Development

A) What are the major constraints currently inhibiting expansion of SME business in Azerbaijan, and what are the major opportunities for expansion of SME operations in Azerbaijan? Did the program take adequate advantage of these opportunities?

First of all, SMEs in Azerbaijan must contend with the heavy legacy of a centralized bureaucracy. The consequences of this condition go far beyond the blunting of the rapid development of entrepreneurial activity. What must also be factored in are intangible, yet very important costs expressed, for example, in pervasive distrust in government officials, in the resistance of policy makers to relinquish unnecessary control and supervision of business activity, and in their lack of knowledge of the nuances of a market economy.

The second major constraint is the widespread presence of corruption. This problem evolves from the lack of clarity in the legal and administrative environments. In Azerbaijan, no effective institutional reform that can provide speedy enforcement mechanisms on clear, simple, stable “rules of the game” for big and small enterprises alike has been undertaken. This underlines the presence of transactions costs that are too high. Under these circumstances, businesses scramble to obtain privileges and special favors from policy makers in order to compensate the unnecessarily high costs of doing business. It follows that business activity, rather than developing dynamically for the benefit of all, concentrates in securing economic rents, that is, in obtaining revenues that are not engendered by productive activity. Enterprises that enjoy privileged access to policy makers thrive in this rent-seeking atmosphere. The SMEs, on the other hand, are at a disadvantage in this game. In a context when access to obtain favors from policy makers largely determines the fate of the firms, and when this access may carry a hefty price, they may be doomed to lethargic growth or, in extreme circumstances, to joining the ranks of the unregistered firms that clog the underground economy.

The third major constraint is that SMEs are not organizing themselves in business support organizations or associations. Groups, more than individual effort, enhance the chances to engage as active participants in a market economy. But two major problems must be overcome if associations are to evolve. The first is that obtaining legal registration is very difficult and takes long time. The government, clearly, could do much more to facilitate the establishment of private associations. The second problem relates to the legacy of a command economy. In past times,

associations were imposed and directed by the state. Small entrepreneurs are then understandably suspicious that newly formed associations may operate with the “collective” spirit of the past. What prevails at the moment is an attitude of fierce, rugged individualism.

Fourth, overall lack of modern managerial skills is another important constraint. This basically encompasses all areas of enterprise management and is equally applicable to SMEs that are linked to the foreign investors and to those that are not. The problem will be solved gradually, with the passing of time, especially once the presence in the market of high-quality firms that provide business development services is assured.

Fifth, lack of access to finance is commonly cited as a major constraint to SME development. However, this constraint at the moment should not be source of much concern. First, a significant number of Azeri SMEs may be reluctant to demand credit preferring, instead, to finance transactions with cash and from retained earnings. The fact that the construction boom in Baku has not been financed with commercial bank credit lends credence to this hypothesis. Second, the Azerbaijan Banking Training Center has recently secured support from the International Finance Corporation to provide managerial training to SMEs. This training has the blessing of major banks and includes the preparation of business plans, a requisite that banks demand to extend loans.

Finally, economic infrastructure, especially roads outside Baku, is poorly developed. This is a major constraint that affects mostly SMEs operating in the rural sector. The consequence is higher marketing and distribution costs, and a more restricted market entry for SME producers and marketing agents.

Major opportunities for effective interventions reside in strengthening business support organizations and partners. Two very important, far-reaching benefits are likely to ensue. The first is that they can be poised as institutional vehicles to make effective business representations to policy makers. The ultimate objective is the passing and enforcement of legislation that is more conducive to a SME-friendly, enabling environment. The second is that BSOs and partners can be providers of business development services to SMEs. This is a critical input for upgrading the managerial skills of SMEs.

The program is making inroads in the strengthening the capacities of partners that can provide high quality business development services. But a more sustained effort is needed to strengthen the capacities of business support organizations or associations. The initiative to launch the Business Development Alliance, most unfortunately, foundered. And while an agreement was signed to provide assistance to the Azerbaijan Entrepreneurs Confederation, the jury is still out on how effective this institution is to promote lasting economic and administrative reforms.

B) Is there a reasonable market access for products and/or services produced by the program-assisted entrepreneurs?

SMEs that are being assisted operate in varied sectors such as printing and publishing, real estate, car dealership, advertising, medical services, TV stations, consulting and construction. These sectors mainly encompass non-tradable activities and normally thrive in natural resource-based economies and in times when there is an upsurge of revenues generated by the leading export commodity. These are times of increasing demand for consumer goods, especially in urban centers.

SMEs definitively have access to these markets but must contend with two important disadvantages. The first is that their products normally have sub-par international quality standards and may be out-priced by larger and/or foreign competitors. The second is that civil servants artificially increase the profitability of local large firms that enjoy privileged access to the policy makers. These firms may be competitors of SMEs. Their privileged status give them the means to elbow out SMEs by way of supplying goods at lower prices.

C) How effective have technical assistance provided to the entrepreneurs and enterprises, supported by activities, been in the following areas: improved institutional capacity, development of new products and services in response to market demand, expanded market opportunities, increased access to and use of market information, improved productivity and product quality, and adoption of quality grades and standards?

In all these areas, there is evidence that technical assistance provided to SMEs have been effective. For example:

- Assistance to Mbank, an insurance company, entailed a drastic change in its organization structure. Improved institutional capacity resulted in positioning the firm as the third largest in the country by number of contracts signed. Before this assistance, the company ranked 10th in the market. Aqua Vita, a rapidly developing soft drink manufacturer, provides another interesting case of improved institutional capacity. In this company, new merchandising and marketing departments have been added to the organization chart, and new policies on human resource management adopted as a result of the technical assistance.
- Technical assistance to ERA Research and Consultancy, an marketing research firm, led to the introduction of a new product – advertising rating – which has helped the company become more visible and make gains in market share. Another case that is worth mentioning is that of Flexible Solutions. Assistance to this web-firm has led to the manufacturing of web sites in response to demand from US firms.
- Effective managerial and marketing assistance to Milk-Pro, dairy and juice manufacturer, has resulted in the capacity of the firm to place sales in foreign markets, such as Israel, Estonia, Ukraine and Belarus. Support to the organization of trade fairs and exhibitions opened opportunities for closer linkages and improved market information among participating firms.
- In close cooperation with other donor-funded organizations, the program publishes price information on selected agricultural commodities. Also, a web site on available sources and term of finance for SMEs was established.

- Assistance to Hajigabul-Milk, a small producer of dairy products, led to improved productivity in its cheese manufacturing process. As a result to the assistance, usage of milk to produce 1 kg of cheese has been reduced from 9 to 5 liters.
- Several assisted SMEs have now obtained ISO certification by SGS, a world recognized Swiss firm in the assessment of quality grades and standards. Worth mentioning is the fact that ASPI, an engineering firm that the program has effectively assisted, has obtained license to certify in turn local firms. There is potential, consequently, for a rapid multiplication of benefits as regards the adoption of international standards of quality.

D) What do the clients of the assisted SMEs think about the program's impact on his/her business?

In general the response is highly positive. As regards direct assistance, many a manager of SMEs stated that the program contributed directly to improved institutional capabilities, enhanced quality of products, increased sales and profits, and reduced unit operating costs. Clients do not mince words to express their satisfaction with the high professional standards displayed by the volunteer advisors.

With respect to the impact of the training and workshops, the responses were more varied. The main criticism was that some of the training events were not tailored to local conditions.

E) Have business development activities and training tailored to individual entrepreneurs needs contributed directly to improved productivity and business skills? Are there ways to enhance the impact of business development and training activities in improving productivity?

Yes. See c) and d) above.

CDC has been positively opportunistic by utilizing private sector experts living in Baku to offer training courses in vital issues such as oil and gas, accounting, sales, export strategies and so on.

As regards ways to further enhance the impact, it would be advisable to enlist the direct participation of local consultants at the moment of inception of any training program. This would contribute to making the activity more relevant to the particular conditions of the Azeri context.

F) How effective has EDP been in tracking the progress of entrepreneurs and enterprises in applying newly acquired enterprise management, marketing and business skills?

It has been generally effective. Project managers are entrusted the responsibility of following up on consultant work performed by volunteer advisors. In addition, return visits by

volunteer advisors have been a constant of the program. They also remain engaged with their clients via e-mail when they are not in Azerbaijan.

Follow on assistance to clients has also been provided by MBA volunteers. But the execution of this activity seems to be more sporadic than regular, probably more dependent on a casual relationship between MBAs and VAs than on guidelines provided by a workplan. Better allocation of MBA resources must focus more on ensuring improved assistance to the work of volunteer advisors.

3. Adoption of New Practices

A) Are beneficiaries adopting recommended practices (technical, enterprise management and business practices)? Which practices have beneficiaries been more inclined to adopt and why? How can the program be modified to address these constraints to adoption?

In general, clients have adopted practices recommended by volunteer advisors. The practices that they have been more inclined to adopt are those that are more relevant to the Azeri institutional and economic context. Clients demand assistance on practices that directly contribute to the modernization of their operations, introduction of new products in response to market opportunities, and stronger linkages to foreign firms. Best results have been achieved when the assistance has been provided by seasoned volunteer advisors who are already acquainted with the particular characteristics of the SME sector and the institutional, economic and political impediments it confronts. No matter how savvy and skilled they are, first-time volunteer advisors must go through a learning process which is not devoid of pitfalls, by waste, and mistakes. Many a recommendation can indeed fall by the wayside.

This problem can be minimized by enlisting the cooperation of local consultants who can work *in tandem* with advisors since the beginning. This option, furthermore, contributes to the capacity improvement of local human capital which can be instrumental for follow on assistance to clients.

As noted in 2 a) above, the Azeri institutional context is permeated by a suffocating bureaucracy and widespread corruption. In this regard, it is telling that recommendations on practices that enhance business ethics have not had a major impact. At the moment, clients seem to believe that corruption is so deeply entrenched that it is not worthy to adopt strategies that are openly defiant.

This constraint can be more effectively addressed with the strengthening of business support organizations.

B) What is their primary source of information concerning business practices? What are other channels of information?

Clients are just starting to access useful websites. Hitherto however, volunteer advisors have been the primary source of information on business practices. A “personalized” imprint of the relationship with clients has consequently evolved. While clients have clearly benefited, successful access to information in the long run will depend more on the presence of institutionalized arrangements. On this note, clients will benefit more when they enter into partnerships with larger firms. These firms, as well as business support organizations in general, can be effective sources of information concerning modern business practices.

C) Are the beneficiaries satisfied with the quality of technical assistance provided? Is technical assistance to beneficiaries provided in a timely manner?

Beneficiaries are generally very satisfied with the quality of technical assistance that has been provided.

Technical assistance, however, has not been provided in a timely manner. The reason is that the task of matching the particular needs to the identification and availability is particularly challenging. In a handful of occasions, EDP has been unable to find the right volunteer advisor for the required task. Fortunately, the client reacted to the news with understanding.

The shortest time incurred to find a volunteer advisor was three weeks, but the normal time lag approximates three months. In situations where markets are rapidly expanding, this delay cripples the effectiveness of the assistance and stains the credibility of the program, especially when clients are charged fees. At the moment, no client has issued a cancellation of a request because of delays. However, as the experience of CDC in Ukraine demonstrates, possible cancellations should not be ruled out.

4. Business Support Organizations and Capacity Strengthening

A) Assess the overall progress and approach to business support organization development followed by EDP.

First, a distinction must be made between assistance provided to business support organizations and that provided to partners. The former relates to strengthening capacities of institutions that must play a role in advocating legal and administrative reforms. Assistance to partners, on the other hand, enhances the capacity of firms to deliver services that ultimately improve the managerial quality of SMEs. CDC does not make this distinction clear and the consequence is to lump accomplishments and shortcomings of each in one single category.

CDC was an active and founder member of the Business Development Alliance (BDA). This organization included USAID, other donors and local and foreign private companies. Its goal was to “facilitate and contribute to diverse and sustainable economic development in Azerbaijan.” A key activity was the coordination of private sector initiatives conducive to broad-based economic growth, including those aimed at rural enterprise development.

This was a sound initiative. Unfortunately, it never took off the ground. Notwithstanding persistent requests to have the organization officially registered, the Department of Justice did not provide the consent.

CDC has provided assistance to the Azerbaijan Entrepreneurs Confederation (AEC). Established in 1999, this confederation has a membership of 1,800 firms of which 80% is constituted by SMEs. CDC helped organize trade fairs in regions outside Baku, conduct e-commerce workshops and develop regional training centers. Plans to create business incubator centers and to promote electronic networking among SMEs were not implemented.

Given its large membership and regional networks, AEC may be an institutional vehicle with the potential to make policy representations aimed at removing legal and administrative constraints that block the development of SMEs. Such potential, however, has yet to materialize.

CDC cooperated with the Azerbaijan Banking Training Center (ABTC). Two volunteer advisors have imparted training in bank budgeting, project finance, strategic planning and corporate governance.

In addition, CDC provided technical assistance to the Ganja Agribusiness Association (GABA) and to the Ganja Business Group (GBG)...(To be developed).

In all, EDP's approach to the development of business support organizations has relied on the application of ad-hoc initiatives and not on the implementation of strategic activities. The approach, consequently, has had a limited impact. More than lack of vision, the reason lies on the frustration and recognition of wasted efforts that followed the failure to have the BDA registered.

B) Is the program effectively developing the capacity of business support organizations to support their member needs and advocate for a more private sector-friendly policy and regulatory environment on a regional and/or national basis? If not, how can the business support organizations capacity be strengthened?

Much progress is needed in this area. Business support organizations have not been able to promote the removal of constraints that SMEs face. For example, the process of business registration and licensing, while burdensome for big and small enterprise alike, is more onerous for the latter, for the valuable time that must be employed in following these rules and the legal costs that usually must be carried. SMEs also must contend with customs procedures that are complicated, inefficient and, because they are riddled by corruption, unnecessarily costly.

EDP must be more focused on developing the capacity of business associations. The first step should be a fresh, committed effort to relaunch the BDA initiative. Of critical importance is that this effort enlists the active support of large foreign investors and incorporates the participation of powerful Azeris who can effectively champion the need for reforms at the highest level of government. Once it is firmly established, the BDA can act as an umbrella and institutional vehicle for the policy representations of SME business support organizations. Their goals should include:

- The elimination of all legal, regulatory and administrative barriers that smother SME investment and trade.
- The enactment and drafting, at the national level, of transparent laws and regulations that encourage investment and growth of SMEs.
- The dissemination, adoption and implementation of such laws and regulations in all regions.
- The enactment of technical regulations that comply with internationally accepted standards.
- The promotion of increased dialogue and information sharing between national and regional authorities with the private sector.

EDP can provide them assistance to achieve these goals. However, it must be recognized that a positive impact will only materialize with a sustained, long-term commitment.

C) Is the current approach to organizing business support organizations to serve as a forum for policy dialogue on small and medium enterprise issues with the government?

No, EDP should be more focused. See 3 b) above.

D) Assess the impacts/benefits accrued to beneficiaries

(To be developed).

E) Are the training materials and marketing information supplied by the implementer appropriate for the beneficiaries?

(To be developed).

5. Sustainability issues relating to recommended practices:

A) Did the program achieve sustainability? Will the program retain a local organization equipped with institutional, operational and financial capacity to carry on the work?

The CDC EDP program achieved a limited level of sustainability as evidenced by interviews with four (ASPI, ABTC, ERA and National Confederation of Entrepreneurs) of the six client firms. The other two firms were in insurance and food processing. The current Azeri staff, with donor support, could carry on the work of the CDC EDP program.

B) Are the outcomes related to adoption of better practices sustainable, i.e. are the participants likely to continue after program ends? Which outcomes are

likely/unlikely to be sustainable, and why? What can be done to increase sustainability?

Participating client firms and organizations will continue to utilize the better practices they have learned and acquired after the program ends (e.g. insurance company expansion of branch and agent offices). Those associations with paying members (ABTC and National Confederation of Entrepreneurs) will be able to sustain and increase their provision of business services (primarily training). However, the provision of marketing research and ISO certification to SMEs will be hindered by lack of knowledge by SMEs and lack of ability and/or willingness to pay for services.

C) Are these newly created and/or improved enterprises and business support organizations likely to remain in operation after the programs are terminated? If not, why and what can be done to enhance their sustainability?

Yes, see answer b) above.

D) Are the business support organizations/entrepreneurs seeking grants/credits and/or technical assistance from other donor programs to leverage USAID-provided support? Have they mobilized any resources internally (i.e., membership fees)? If yes, provide anecdotal evidence.

From Evaluation Team interviews it is apparent that CDC client firms and organizations are aware of donor programs and have leveraged their USAID CDC provided support. Examples: ABTC receiving IFC and BP grant for business services training; EBRD loan obtained by Milk-Pro for new factory construction. No information collected to date by the Evaluation Team on association membership fees.

E) Did the program improve capacity of local consultants to deliver quality advice to SMEs? Are SMEs likely to continue to refer to local consultants upon program completion?

Yes, interviews to date indicate that the capacity of Azeri firms and organizations was improved. SMEs may continue to refer to local consultants (demonstrated and communicated value of ISO certification) and payment for service is expected to be an issue.

6. Monitoring and Evaluation (M&E):

A) Has the program achieved its targets to date? If not, assess reasons for shortfalls. Do the performance indicators provide useful and reliable data on program progress and impacts? For the activities implemented under this program, were the performance

indicators appropriate? If not, what would have been better indicators to track performance and impact?

CDC projected a target of ten to fifteen Train the Supplier events and generated seven. Targets for placement of Volunteer Advisors were roughly met (50 promised for 2002-2003 and 48 actually placed). There were no consistent targets for Training the Trainer and business services training. The collected indicators for training events and Volunteer Advisors were consistent throughout the five-year project period. Additional detail has been collected on participant evaluations of training and not collated for analysis.

B) Are M&E data and anecdotal information used for management purposes? Does the technical staff use M&E data and anecdotal information to conduct their work and assess progress? Can M&E data and anecdotal information be better used for program management?

There is no indication to date of a consistent use of M&E data over the five-year period for management purposes. The quarterly reports likely provided the opportunity to collect, to organize, and to assess information for management purposes. Quarterly Report formats differed for each of the three CDC Chiefs of Party. All in all, the program did not appear to suffer from the lack of more systematic collection and use of M&E information.

ANNEX F

EVALUATION QUESTIONS

EVALUATION OF THE ENTERPRISE DEVELOPMENT PROGRAM (USAID/Caucasus-Azerbaijan)

1. General:

A) **What interventions are most critical and/or have been effective in achieving program objectives and intermediate results?**

CDC, in its overview description of the EDP lists the following four core or main activities:

- Supplier Training Initiative (Oil and Gas Sector)
- Firm-Level Technical and Managerial Assistance (Volunteer Advisors or VAs)
- Training and Local Capacity Building (Business Support Sector)
- Linkages in Finance, Trade, and Technology

For the purpose of the evaluation of the CDC EDP, the basic interventions or components of the EDP, in the basic order or timing of their implementation, have been 1) Train the Suppliers, 2) VA (Volunteer Advisors), 3) Business Training, 4) Train the Trainer, 5) MBA Enterprise Corps, 6) Field Offices in Ali-Bayrumli and Ganja, and 7) Partnership with SMEs and BSOs. Staff resources included expatriate management, Azeri Program Officers, Volunteer Advisors, and MBA volunteers.

Train the Suppliers was implemented in the first three-year period of the project from the Fall of 1999 to December of 2002. The component intent was to facilitate access of oil and gas companies to Azeri suppliers. Topics included “Bids and Proposals,” Procurement Opportunities and Requirements,” and Problems and Successes in Working With International Companies.” An estimated total of seven 3 to 5 day training events (three in Year One) were delivered over the three-year period of the Train the Supplier program. Exit participant questionnaires indicated a high degree of satisfaction with the program.

Volunteer Advisors is a standard component of CDC programming. Experienced advisors are matched to managerial and technical skills requirements of client organizations. Individual statements of work are developed to guide the one to two month period of Volunteer Advisor engagement on primary and secondary assignments. Volunteer Advisors can spend as much as three months on a single stay in Azerbaijan. From the Evaluation Team interviews with four client organizations in Baku, the Volunteer Advisor program was highly successful. The ISO 9001 technical assistance provided over the past three years by a Volunteer Advisor resulted in a doubling of sales of a food-processing firm over a two year period. The ISO technical

assistance enabled an Azeri engineering firm to gain ISO certification and, in turn, provide technical support for fee for the certification of five additional companies. A Volunteer Advisor with finance experience provided technical assistance to a Baku insurance company that resulted in their expansion from business insurance into life insurance, the opening of branch offices and acquisition of insurance agents, and a substantial increase in sales and profits. Over the five-year period of the CDC EDP program, a total of 111 Volunteer Advisor visits to Azerbaijan provided support on 151 primary assignments and 158 secondary assignments (as brief as three hours of consultation). A single client organization could benefit from as many as three and four assignments. An estimated 125 separate firms and non-governmental institutions were provided technical support through the Volunteer Advisor component.

Seminars and Workshops-Business Training began in June of 2001 with a “Project Management and Control Seminar” and a “Total Quality Management (TQM) and ISO 9000 Process Seminar.” These initial seminars were conducted by a Volunteer Advisor with experience in SME development and ISO certification. By June of 2002, a total of ten workshops and seminars on topics including “Business Ethics,” “ISO Certification,” and “Impact Sales Techniques” were delivered. By the end of 2002, a total of 20 workshops and seminars in business training, primarily in Baku, had been conducted, approximately a training event per month over 18 month period, June, 2001 through December, 2002. Over the next six-month period, under the second CDC Chief of Party, a reported 24 short workshops on business topics were delivered (four per month). Approximately half of these workshops were presented outside of Baku. In the most recent three quarters, 48 workshops were delivered for an average of five per month.

Field Offices in Ali-Bayrumli and Ganja were opened and in operation by March 2002. The first Volunteer Advisor to work in the field offices arrived in Azerbaijan in August 2002. This VA also conducted the first seminar held in the Ganja Field Office. Electricity problems in Ali-Bayrumli affected CDC operations. Rising costs for office space in Ganja, due to pipeline development, required a search for a new office location. CDC activities in the Field Offices were similar to those in Baku: Volunteer Advisors, MBAs, and training events.

Train the Trainer workshops began in June 2002. The three-day training program was aimed at increasing the number and capacity of Azeri trainers to provide business training. In October of 2002 the second and last Train the Trainer workshop was delivered.

MBA Enterprise Corps volunteers arrived in Azerbaijan in July 2002. The two volunteers, based in Baku, provided support to CDC partners and client organizations, conducted workshops on “Business Development,” and conducted the first Azerbaijan Business Case Competition on December 15, 2002. They provided technical assistance to client organizations, similar to that provided by CDC Volunteer Advisors. Three MBA EC volunteers arrived in Baku in July 2003. In July, one of the two original MBA volunteers assumed the CDC Chief of Party position and in September, the other original volunteer departed Azerbaijan. The new MBA volunteers conducted the Second Azerbaijan Business Case Competition in January 2004. Two of the volunteers were then assigned to the recently initiated Rural Azerbaijan Enterprise Competitiveness Program (RECP) operated by Pragma Corporation. The MBA volunteers will complete their Azerbaijan tours in September 2004.

Partnership with SMEs and BSOs became an explicit focus of the CDC EDP program in early 2003 in order to develop Azeri capacity to provide technical assistance and business services to SMEs. The Train the Supplier and Train the Trainer components were ended. Staff Program Officer, Volunteer Advisor, and MBA volunteer effort have been directed over the past fourteen months to working with local consultants and selected companies/organizations to create sustainable capacity for business services.

Other Activities of CDC EDP include the SME database; trade, and finance links for SMEs; and coordination with donor and other organizations.

CDC has successfully integrated the EDP components through networking and provision of ongoing technical assistance and coordination with selected partners. Such communications has resulted in referrals for training programs, access by client organizations to funding and support from other donor organizations, and a flow of information among client organizations to support increases in sales and access to suppliers.

A) (cont'd) What improvements can be made in program implementation in order to enhance better results?

Apart from Train the Suppliers and Train the Trainer, training events were based on the availability of experienced Volunteer Advisors, expatriate staff, and MBA volunteers. While the training events were generally valuable to Azeri participants, the overall training program may have benefited from a full-time training coordinator and longer range planning for training events.

The creating of Azeri-based individuals and organizations for program sustainability (partnership) is currently a major focus of the CDC EDP program. Important progress has been made in establishing Azerbaijan based organizations for providing SME training and technical services, e.g. Azerbaijan Bank Training Centre, ASPI for ISO consulting, ERA for market research and Business Training Group, BTG for general business training. The level of current SME demand for business services is increasing and fees for training and technical services are being paid. Many SME's are not willing nor are able to pay for such services and a viable market and fees are not commensurate with some BSO costs.

Interviews have indicated that the VA program has been very successful. Firms provided evidence on concrete improvements in sales and operating techniques as a result of VA assistance. These firms and other organizations such as the Chamber have indicated that the VA program would be valuable to continue.

A Train the Trainer program could be supportive to developing international standard training in business services. Train the Supplier is a component that could make additional contributions to local SMEs for the oil and gas sector.

B) Are there any unexpected but important benefits or impacts that should be documented? Are there any negative impacts or unintended consequences of the program that need to be addressed, and how?

Evaluation Team interviews have uncovered positive and expected benefits. The overall planning for CDC EDP has been appropriate to the situation and environment, e.g. necessary adjustments for operations of the Field Offices. No information has been collected by the Evaluation Team to date on negative impacts or unintended consequences of the program that need to be addressed.

C) Were the objectives of the activity met, for e.g. building the capacity of Azerbaijan consulting companies to provide quality technical assistance to SMEs resulted in improved operations of assisted SMEs? Did the assumptions and program design (activities) match the sector conditions and policy environment?

As noted above, CDC EDP did build the capacity of several Azeri consulting companies to provide quality technical assistance that can result in improved operations of assisted SMEs. More work can be done and the current demand for business services is low. Other objectives such as linkages in finance, trade, and technology were addressed by CDC EDP activities. Indications to the Evaluation Team so far are that CDC EDP assumptions and program activities basically matched sector conditions and the policy environment.

D) What gender objectives do we have, or should there be, for this program? How can this program enhance gender equity? How will gender relations affect the achievement of sustainable results?

The CDC EDP program did focus on including women participants in the training events. Data was collected to indicate the proportion of women participants (859 of 3,039 or 28.3%). One of the five MBA volunteers was female. Approximately 30% of the Volunteer Advisors were women. CDC estimates that the EDP program resulted in the creation of 640 jobs of which 245, or 38%, were for women. No information was collected by the Evaluation Team that indicated that gender relations would affect the achievement of sustainable program results.

E) How effective did the activities address corruption issues? How was corruption addressed in the activities? If corruption issues were not addressed, or were found ineffective, how could the program be modified to better address them?

Azeri respondents indicated that CDC EDP training provided them with a better understanding of their rights as businesspersons. Accordingly, they were less prone to succumb to requests for inappropriate government payments. The two “Business Ethics” courses may have had a more specific impact on corruption.

F) How cost-effective have the interventions been? Are the targets/results/impacts accomplished to date commensurate with resources invested?

The use of Volunteer Advisors has been cost-effective. The MBA volunteer contribution has been valuable and less per person level of effort than the more experienced Volunteer Advisors. Overall results with client firms and organizations (increases in SME productivity and profitability, job creation, investment, loans secured) are seen as commensurate with the level of invested resources (\$4.4 million over the five year period).

G) What are the lessons learned? Are there follow-on activities, which USAID should consider, to maintain the momentum and/or provide strategic support to other USAID ongoing and planned programs?

At this stage of the evaluation, the lessons learned are that the provision of business services by Azeri firms and organizations is at an initial stage at present. Government/donor support is still needed. Over the five years, CDC has gained an excellent reputation among the client firms and organizations. The Volunteer Advisor component has been valuable and is in demand by Azeri firms.

2. Small and Medium Enterprise Development

A) What are the major constraints currently inhibiting expansion of SME business in Azerbaijan, and what are the major opportunities for expansion of SME operations in Azerbaijan? Did the program take adequate advantage of these opportunities?

First of all, SMEs in Azerbaijan must contend with the heavy legacy of a centralized bureaucracy. The consequences of this condition go far beyond the blunting of the rapid development of entrepreneurial activity. What must also be factored in are intangible, yet very important costs expressed, for example, in pervasive distrust in government officials, in the resistance of policy makers to relinquish unnecessary control and supervision of business activity, and in their lack of knowledge of the nuances of a market economy.

The second major constraint is the widespread presence of corruption. This problem evolves from the lack of clarity in the legal and administrative environments. In Azerbaijan, no effective institutional reform that can provide speedy enforcement mechanisms on clear, simple, stable “rules of the game” for big and small enterprises alike has been undertaken. This underlines the presence of transactions costs that are too high. Under these circumstances, businesses scramble to obtain privileges and special favors from policy makers in order to compensate the unnecessarily high costs of doing business. It follows that business activity, rather than developing dynamically for the benefit of all, concentrates in securing economic rents, that is, in obtaining revenues that are not engendered by productive activity. Enterprises that enjoy privileged access to policy makers thrive in this rent-seeking atmosphere. The SMEs, on the other hand, are at a disadvantage in this game. In a context when access to obtain favors from policy makers largely determines the fate of the firms, and when this access may carry a hefty

price, they may be doomed to lethargic growth or, in extreme circumstances, to joining the ranks of the unregistered firms that clog the underground economy.

The third major constraint is that SMEs are not organizing themselves in business support organizations or associations. Groups, more than individual effort, enhance the chances to engage as active participants in a market economy. But two major problems must be overcome if associations are to evolve. The first is that obtaining legal registration is very difficult and takes long time. The government, clearly, could do much more to facilitate the establishment of private associations. The second problem relates to the legacy of a command economy. In past times, associations were imposed and directed by the state. Small entrepreneurs are then understandably suspicious that newly formed associations may operate with the “collective” spirit of the past. What prevails at the moment is an attitude of fierce, rugged individualism.

Fourth, overall lack of modern managerial skills is another important constraint. This basically encompasses all areas of enterprise management and is equally applicable to SMEs that are linked to the foreign investors and to those that are not. The problem will be solved gradually, with the passing of time, especially once the presence in the market of high-quality firms that provide business development services is assured.

Fifth, lack of finance is commonly cited as a major constraint to SME development. This is not accurate. Commercial banks at the moment are awash in liquidity. Lack of access to current sources of finance seems to be a more precise diagnosis. Commercial banks probably do not have the appropriate credit technologies to lend to the sector and, therefore, prefer to concentrate lending on proven corporate clients. Another problem relates to the fact that commercial banks have imperfect information on prospective customers. They know very little about the capacity and willingness to pay of SMEs, especially those that operate in rural areas and have a low capital base. They consider them to be high risks.

Finally, economic infrastructure, especially roads outside Baku, is poorly developed. This is a major constraint that affects mostly SMEs operating in the rural sector. The consequence is higher marketing and distribution costs, and a more restricted market entry for SME producers and marketing agents.

Major opportunities for effective interventions reside in strengthening business support organizations (BSOs or business associations) and local providers of business consultancy services (local consultants or partners). Two very important, far-reaching benefits are likely to ensue. The first is that business associations can be poised as institutional vehicles to make effective business representations to policy makers. The ultimate objective is the passing and enforcement of legislation that is more conducive to a SME-friendly, enabling environment. The second is local consultants can be providers of critical inputs for upgrading the managerial skills of SMEs.

The program is making inroads in the strengthening the capacities of local partners that can provide high quality business consultancy services. But a more sustained effort is needed to strengthen the capacities of business associations. The initiative to launch the Business Development Alliance must be revitalized. And while an agreement was signed to provide

assistance to the Azerbaijan Entrepreneurs Confederation, the jury is still out on how effective this institution is to promote lasting economic and administrative reforms.

B) Is there a reasonable market access for products and/or services produced by the program-assisted entrepreneurs?

SMEs that are being assisted operate in varied sectors such as printing and publishing, real estate, car dealership, advertising, medical services, TV stations, consulting and construction. These sectors mainly encompass non-tradable activities and normally thrive in natural resource-based economies, especially in times when there is an upsurge of revenues generated by the leading export commodity. At the moment, there is a steady increase in the demand for consumer goods, especially in urban centers.

SMEs definitively have access to these markets but must contend with two important disadvantages. The first is that their products normally have sub-par international quality standards and may be out-priced by larger and/or foreign competitors. The second is that civil servants artificially increase the profitability of local large firms that enjoy privileged access to the policy makers. These firms may be competitors of SMEs or providers of inputs that SMEs demand. Their privileged status give them the means to elbow out SMEs by way of supplying goods at lower prices or by supplying inputs at artificially inflated prices.

C) How effective have technical assistance provided to the entrepreneurs and enterprises, supported by activities, been in the following areas: improved institutional capacity, development of new products and services in response to market demand, expanded market opportunities, increased access to and use of market information, improved productivity and product quality, and adoption of quality grades and standards?

In all these areas, there is evidence that technical assistance provided to SMEs have been effective. For example:

- Assistance to Mbask, an insurance company, entailed a drastic change in its organization structure. Improved institutional capacity resulted in positioning the firm as the third largest in the country by number of contracts signed. Before this assistance, the company ranked 10th in the market. Aqua Vita, a rapidly developing soft drink manufacturer, provides another interesting case of improved institutional capacity. In this company, new merchandising and marketing departments have been added to the organization chart, and new policies on human resource management adopted as a result of the technical assistance.
- Technical assistance to ERA Research and Consultancy, an marketing research firm, led to the introduction of a new product – advertising rating – which has helped the company become more visible and make gains in market share. Another case that is worth mentioning is that of Flexible Solutions. Assistance to this web-firm has led to the manufacturing of web sites in response to demand from US firms.

- Effective managerial and marketing assistance to Milk-Pro, dairy and juice manufacturer, has resulted in the capacity of the firm to place sales in foreign markets, such as Israel, Estonia, Ukraine and Belarus. Support to the organization of trade fairs and exhibitions opened opportunities for closer linkages and improved market information among participating firms.
- In close cooperation with other donor-funded organizations, the program publishes price information on selected agricultural commodities. Also, a web site on available sources and term of finance for SMEs was established.
- Assistance to Hajigabul-Milk, a small producer of dairy products, led to improved productivity in its cheese manufacturing process. As a result to the assistance, usage of milk to produce 1 kg of cheese has been reduced from 9 to 5 liters.
- Several assisted SMEs have now obtained ISO certification by SGS, a world recognized Swiss firm in the assessment of quality grades and standards. Worth mentioning is the fact that ASPI, an engineering firm that the program has effectively assisted, has obtained license to certify in turn local firms. There is potential, consequently, for a rapid multiplication of benefits as regards the adoption of international standards of quality.

D) What do the clients of the assisted SMEs think about the program's impact on his/her business?

In general the response is highly positive. As regards direct assistance, many a manager of SMEs stated that the program contributed directly to improved institutional capabilities, enhanced quality of products, increased sales and profits, and reduced unit operating costs. Clients do not mince words to express their satisfaction with the high professional standards displayed by the volunteer advisors.

With respect to the impact of the training and workshops, the responses were more varied. The main criticism was that some of the training events were not tailored to local conditions.

E) Have business development activities and training tailored to individual entrepreneurs needs contributed directly to improved productivity and business skills? Are there ways to enhance the impact of business development and training activities in improving productivity?

Yes. See c) and d) above.

CDC has been positively opportunistic by utilizing private sector experts living in Baku to offer training courses in vital issues such as oil and gas, accounting, sales, export strategies and so on.

As regards ways to further enhance the impact, it would be advisable to enlist the direct participation of local consultants at the moment of inception of any training program. This would contribute to making the activity more relevant to the particular conditions of the Azeri context.

F) How effective has EDP been in tracking the progress of entrepreneurs and enterprises in applying newly acquired enterprise management, marketing and business skills?

It has been generally effective. Project managers are entrusted the responsibility of following up on consultant work performed by volunteer advisors. In addition, return visits by volunteer advisors have been a constant of the program. They also remain engaged with their clients via e-mail when they are not in Azerbaijan.

Follow on assistance to clients has also been provided by MBA volunteers. But there is evidence that their activities were not optimally planned. The consequence was that their assistance, at times, was executed more on sporadic than on regular basis. Better allocation of MBA resources must focus more on ensuring improved assistance to the work of volunteer advisors.

3. Adoption of New Practices

A) Are beneficiaries adopting recommended practices (technical, enterprise management and business practices)? Which practices have beneficiaries been more inclined to adopt and why? How can the program be modified to address these constraints to adoption?

In general, clients have adopted practices recommended by volunteer advisors. The practices that they have been more inclined to adopt are those that are more relevant to the Azeri institutional and economic context. Clients demand assistance on practices that directly contribute to the modernization of their operations, introduction of new products in response to market opportunities, and stronger linkages to foreign firms. Best results have been achieved when the assistance has been provided by seasoned volunteer advisors who are already acquainted with the particular characteristics of the SME sector and the institutional, economic and political impediments they confront. No matter how savvy and skilled they are, first-time volunteer advisors must go through a learning process that is not devoid of pitfalls, waste, and mistakes. Many a recommendation can indeed fall by the wayside.

This problem can be minimized by enlisting the cooperation of local consultants who can work *in tandem* with advisors from the beginning. This option, furthermore, contributes to the capacity improvement of local human capital that can be instrumental for follow on assistance to clients.

As noted in 2 a) above, the Azeri institutional context is permeated by a suffocating bureaucracy and widespread corruption. In this regard, it is telling that recommendations on practices that enhance business ethics have not had a major impact. At the moment, clients seem to believe that corruption is so deeply entrenched that it is not worthy to adopt strategies that are openly defiant.

This constraint can be more effectively addressed with the strengthening of business associations.

B) What is their primary source of information concerning business practices? What are other channels of information?

Clients are just starting to access useful websites. Hitherto however, volunteer advisors have been the primary source of information on business practices. A “personalized” imprint of the relationship with clients has consequently evolved. While clients have clearly benefited, successful access to information in the long run will depend more on the presence of institutionalized arrangements. On this note, clients will benefit more when they enter into partnerships with larger firms. These firms, as well as business support organizations in general, can be effective sources of information concerning modern business practices.

C) Are the beneficiaries satisfied with the quality of technical assistance provided? Is technical assistance to beneficiaries provided in a timely manner?

Beneficiaries are generally very satisfied with the quality of technical assistance that has been provided.

Technical assistance, however, has not been provided in a timely manner. The reason is that the task of matching the particular needs to the identification and availability is particularly challenging. In a handful of occasions, EDP has been unable to find the right volunteer advisor for the required task. Fortunately, the client reacted to the news with understanding.

The shortest time incurred to find a volunteer advisor was three weeks, but the normal time lag approximates three months. In situations where markets are rapidly expanding, this delay cripples the effectiveness of the assistance and stains the credibility of the program, especially when clients are charged fees. At the moment, no client has issued a cancellation of a request because of delays. However, as the experience of CDC in Ukraine demonstrates, possible cancellations should not be ruled out.

4. Business Support Organizations and Capacity Strengthening

A) Assess the overall progress and approach to business support organization development followed by EDP.

First, a distinction must be made between assistance provided to business support organizations and that provided to partners. The former relates to strengthening capacities of institutions that must play a role in advocating legal and administrative reforms. Assistance to partners, on the other hand, enhances the capacity of firms to deliver services that ultimately improve the managerial quality of SMEs. CDC does not make this distinction clear and the consequence is to lump accomplishments and shortcomings of each in one single category.

While CDC concentrated its activities in developing business services to SMEs, it undertook initiatives that indirectly contributed to create a more enabling business environment. For example, CDC was an active and founder member of the Business Development Alliance (BDA). This organization included USAID, other donors and local and foreign private companies. Its goal was to “facilitate and contribute to diverse and sustainable economic development in Azerbaijan.” A key activity was the coordination of private sector initiatives

conducive to broad-based economic growth, including those aimed at rural enterprise development.

This was a sound initiative that, unfortunately, did not materialize. It took more than 12 months to have the organization registered by the Department of Justice. When this finally happened, the enthusiasm of some of its founding members had cooled while others had left the country.

CDC has provided assistance to the Azerbaijan Entrepreneurs Confederation (ASK). Established in 1999, this confederation has a membership of 1,800 firms of which 80% is constituted by SMEs. CDC helped organize trade fairs in regions outside Baku, conduct e-commerce workshops and develop regional training centers. Plans to create business incubator centers and to promote electronic networking among SMEs were not implemented.

Given its large membership and regional networks, ASK may be an institutional vehicle with the potential to make policy representations aimed at removing legal and administrative constraints that block the development of SMEs. Such potential, however, has yet to materialize. Moreover, there is the perception within some circles of SMEs that the confederation is unduly influenced by government officials. This creates distrust among some prospective members, with the consequent damage on the effectiveness and credibility of the confederation.

CDC cooperated with the Azerbaijan Banking Training Center (ABTC). Two volunteer advisors have imparted training in bank budgeting, project finance, strategic planning and corporate governance.

In addition, CDC provided technical assistance to the Ganja Agribusiness Association (GABA) and to the Ganja Business Group (GBG). CDC helped GABA in the preparation of its business plan and provided ISO and internet technology training. The assistance given to GBG, on the other hand, was limited to recommendations on how to improve operations.

In all, EDP's approach to the development of business support organizations has relied on the application of ad-hoc initiatives and not on the implementation of strategic activities. The approach, consequently, has had a limited impact.

B) Is the program effectively developing the capacity of business support organizations to support their member needs and advocate for a more private sector-friendly policy and regulatory environment on a regional and/or national basis? If not, how can the business support organizations capacity be strengthened?

Much progress is needed in this area. Business support organizations have not been able to promote the removal of constraints that SMEs face. For example, the process of business registration and licensing, while burdensome for big and small enterprise alike, is more onerous for the latter, for the valuable time that must be employed in following these rules and the legal costs that usually must be carried. SMEs also must contend with customs procedures that are complicated, inefficient and, because they are riddled by corruption, unnecessarily costly.

Ideally, EDP should be more focused on developing the capacity of business associations. The first step should be a fresh, committed effort to relaunch the BDA initiative. Of critical importance is that this effort enlists the active support of large foreign investors and incorporates the participation of powerful government officials who can effectively champion the need for reforms at the highest level of government. Once it is firmly established, the BDA can act as an umbrella and institutional vehicle for the policy representations of SME business support organizations. Their goals should include:

- The elimination of all legal, regulatory and administrative barriers that smother SME investment and trade.
- The enactment and drafting, at the national level, of transparent laws and regulations that encourage investment and growth of SMEs.
- The dissemination, adoption and implementation of such laws and regulations in all regions.
- The enactment of technical regulations that comply with internationally accepted standards.
- The promotion of increased dialogue and information sharing between national and regional authorities with the private sector.

EDP can provide them assistance to achieve these goals. However, it must be recognized that a positive impact will only materialize with a sustained, long-term commitment.

C) Is the current approach to organizing business support organizations to serve as a forum for policy dialogue on small and medium enterprise issues with the government?

No, EDP should be more focused. See 3 b) above.

D) Assess the impacts/benefits accrued to beneficiaries.

Assistance to ASK led to the reduction of the number of licenses that SMEs are obliged to obtain from 240 to 38. This is a significant achievement whose impact will be ultimately tied to the capacity of enforcement. However, this example of deregulation is more the exception than the rule. A real, committed reform of the legal and administrative environment has yet to be undertaken.

In all, the benefits that accrued to the handful of assisted business support organizations relate to improved institutional capacities.

E) Are the training materials and marketing information supplied by the implementer appropriate for the beneficiaries?

Generally yes.

5. Sustainability issues relating to recommended practices:

A) Did the program achieve sustainability? Will the program retain a local organization equipped with institutional, operational and financial capacity to carry on the work?

The CDC EDP program achieved a limited level of sustainability as evidenced by interviews with four (ASPI, ABTC, ERA and National Confederation of Entrepreneurs) of the six client firms. The other two firms were in insurance and food processing. The current Azeri staff, with donor support, could carry on the work of the CDC EDP program.

B) Are the outcomes related to adoption of better practices sustainable, i.e. are the participants likely to continue after program ends? Which outcomes are likely/unlikely to be sustainable, and why? What can be done to increase sustainability?

Participating client firms and organizations will continue to utilize the better practices they have learned and acquired after the program ends (e.g. insurance company expansion of branch and agent offices). Those associations with paying members (ABTC and National Confederation of Entrepreneurs) will be able to sustain and increase their provision of business services (primarily training). However, the provision of marketing research and ISO certification to SMEs will be hindered by lack of knowledge by SMEs and lack of ability and/or willingness to pay for services.

C) Are these newly created and/or improved enterprises and business support organizations likely to remain in operation after the programs are terminated? If not, why and what can be done to enhance their sustainability?

Yes, see answer b) above.

D) Are the business support organizations/entrepreneurs seeking grants/credits and/or technical assistance from other donor programs to leverage USAID-provided support? Have they mobilized any resources internally (i.e., membership fees)? If yes, provide anecdotal evidence.

From Evaluation Team interviews it is apparent that CDC client firms and organizations are aware of donor programs and have leveraged their USAID CDC provided support. Examples: ABTC receiving IFC and BP grant for business services training; EBRD loan obtained by Milk-Pro for new factory construction. Association membership fees are far from sufficient to support the associations that were interviewed by the Evaluation Team.

E) Did the program improve capacity of local consultants to deliver quality advice to SMEs? Are SMEs likely to continue to refer to local consultants upon program completion?

Yes, interviews to date indicate that the capacity of Azeri firms and organizations was improved. SMEs may continue to refer to local consultants (demonstrated and communicated value of ISO certification) and payment for service is expected to be an issue.

6. Monitoring and Evaluation (M&E):

A) Has the program achieved its targets to date? If not, assess reasons for shortfalls. Do the performance indicators provide useful and reliable data on program progress and impacts? For the activities implemented under this program, were the performance indicators appropriate? If not, what would have been better indicators to track performance and impact?

CDC projected a target of ten to fifteen Train the Supplier events and generated seven. Targets for placement of Volunteer Advisors were roughly met (50 promised for 2002-2003 and 48 actually placed). There were no consistent targets for Training the Trainer and business services training. The collected indicators for training events and Volunteer Advisors were consistent throughout the five year project period. Additional detail has been collected on participant evaluations of training and not collated for analysis.

B) Are M&E data and anecdotal information used for management purposes? Does the technical staff use M&E data and anecdotal information to conduct their work and assess progress? Can M&E data and anecdotal information be better used for program management?

There is no indication to date of a consistent use of M&E data over the five-year period for management purposes. The quarterly reports likely provided the opportunity to collect, to organize, and to assess information for management purposes. Quarterly Report formats differed for each of the three CDC Chiefs of Party. All in all, the program did not appear to suffer from the lack of more systematic collection and use of M&E information.

ANNEX G

AZERBAIJAN ECONOMIC DEVELOPMENT PROGRAM

EDP PARTNERSHIP LIST

Attachment 2

CDC-Azerbaijan Partnership with Local Organizations -- Dream Team

#	Name of the partner company	Company Profile	Location	Region of Operations	Area of the cooperation			
					Training	Consulting	Business Support Events	Linkage Program
1	Azerbaijan Confederation of Entrepreneurs (ASK)	CSO	85 Salatin Askerova Street, Baku	All Azerbaijan	●	●	●	●
2	Business Development Alliance	CSO	Ichari Shahar, 99 Mirza Mansur Street, Baku	All Azerbaijan			●	●
3	Women Entrepreneurs' Association	CSO	Ali Nazmi Street, Ganja	All Azerbaijan	●	●	●	●
4	Ali Bayramli Regional Training Resource Center	BSP	23 Rasulzade Ave., Ali Bayramli	Ali Bayramli Region (South, South-East Regions of Azerbaijan)	●	●		
5	ASPI	BSP / Consulting / Engineering	54 Bul-Bul Ave., Baku	All Azerbaijan	●	●		●
6	Azerbaijan Bank Training Center	BSP / Training Center	Ichari Shahar, 68 M.Mansur Street, Baku	All Azerbaijan	●	●	●	●
7	BP Enterprise Center	BSP	Ichari Shahar, 99 Mirza Mansur Street, Baku	All Azerbaijan			●	●
8	ERA	BSP / Market Research and Consultancy	21/9 Hajibeyli Street, Baku	All Azerbaijan	●			●
9	Ganja Business Group	BSP / Consulting / Training	258 Ataturk Ave., Ganja	Ganja Region (Western Regions of Azerbaijan)	●	●	●	●
10	Guba Regional Training Resource Center	BSP / Training / Consulting	9 Sulh Ave., Quba	Quba Region (North-Eastern Regions of Azerbaijan)	●			
11	InfoTek	BSP / IT Consulting	Metbuat Ave., Block 529	All Azerbaijan		●	●	●
12	MADAD	BSP	50 Gorky Street, Baku	North, North-West, & Central Regions of Azerbaijan	●		●	●
13	Shirvan Resource Center, Ali Bayramli	BSP	Energetik 5, Ali Bayramli	Ali Bayramli Region (South, South-East Regions of Azerbaijan)	●	●		
14	Training Center (Baku Business University)	BSP / Education & Training Center	88a Zardabi Ave., Baku	Baku	●		●	●
15	Inter-Pak	SME / CSO	13/50 Tebriz Street, Ganja	Ganja Region (Western Regions of Azerbaijan)			●	●
16	AquaVita	SME	5 Shemaki Shosse, Sulutepe Settelement, Baku	All Azerbaijan		●		●
17	M-Pro	SME	4 Mekhanicheskaya St. Baku	All Azerbaijan		●		●
18	R.I.S.K.	SME	59 R. Behbudov St. Baku	All Azerbaijan	●	●		
19	Rena Safaraliyeva	Private Consultant	5/6 A.Javad Street, Baku	All Azerbaijan	●			

Notes on Partners, through whom we will reach up to hundreds of their members in each case.

- 1 ASK has more than 400 members throughout Azerbaijan with regional offices and a newly refurbished training complex in Baku.
- 2 The BDA's members include the Ministry of Economic Development, BP, Statoil, IFC, EBRD, UNIBANK and many Azeri private companies.
- 5 ASPI was the first company in Azerbaijan to receive ISO 9000 certification (with CDC assistance) and is now advising other applicants.
- 6 The ABTC's training schedule beginning Septemeber 2003 includes a special curriculum for SMEs and has requested CDC to provide workshops.
- 9 The GBG is a self-sustaining consulting organization that has assisted more than 23,000 people since its inception in 1998.