

External Review  
of SDC's Program on Rural Market Development  
in the South Caucasus  
2008 - 2012

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Annex 1: ToR

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### Task-specific abbreviations

AI	Artificial Insemination
DRR	Disaster Risk Reduction
EDE	SDC's Economic Development and Employment Domain
ExCom	Executive Committee (lowest central govt. authority in Azerbaijan)
IDC	International Development Cooperation
KK	Kvemo Kartli region in Georgia
M4P	Making Markets Work for the Poor
SCO	Swiss Coordination Office
SDA	Strategic Development Agency
SJ	Samtskhe-Javakheti region in Georgia
VC	Value chain

## Executive Summary

This mandate asks for an assessment of SDC's approach to promote Economic Development and Employment (EDE) in the South Caucasus, as implemented in a dozen projects in Georgia, Armenia and Azerbaijan.

This consultancy arrives at the conclusion that the M4P approach as implemented in the past strategic phase (2008-12) provides an adequate methodology to respond to the constraints farmers face in their development efforts, but its application is challenging and makes high demands on project leadership. One M4P project which started early (2006) and was well managed, demonstrates the relevance and effectiveness of the approach. Another project in an isolated region, started in 2008, had troubles to apply the methodology due to context challenges and also a lack of understanding of the approach.

The assessment draws the following *lessons* from the application of the M4P approach so far:

- a) The South Caucasus programme strategy has become more consistent.
- b) The existing regional South Caucasus programme logframe is overly ambitious.
- c) M4P is a broad concept for inclusive economic development which can take into account related, and accommodate additional aspects like governance, gender sensitivity, environmental concerns, etc.; it promotes and hooks into (market) growth dynamics, with improved system functioning as its central purpose; sustainability of intervention effects (systems which work and into which the poor are increasingly included) is a constitutive element of the approach which gives it an edge over more traditional direct-support modalities to beneficiaries.
- d) The M4P approach as proposed by Springfield Centre is complex, not easy to understand, to explain, and to apply; finding and shaping responses to market system building requires substantial knowledge and management skills by project management and staff; such institutional and personal capacities are scarce; more attention is required to secure them, particularly at the start of projects.
- e) The broad M4P analytical umbrella allows different system-building intervention options, like the building of institutional capacities in public sector institutions (rule setting bodies, municipalities, training institutes, etc.), strengthening financial service supply (e.g. risk-mitigating instruments to incentivize financial service supply to farmers), etc. next to core M4P projects.
- f) M4P as a systemic approach takes time to deploy, at least 6 to 8 years.
- g) The portfolio initiated in the past strategic phase is ample and requires intensified exchange between projects as well as consolidation.
- h) There arises a need for policy dialogue under a M4P logic.

The assessment *recommends*

1. Consolidate the present M4P projects – including DRR and governance – and bring them up to an acceptable performance level.
2. Analyse in each country central institutional deficiencies for rural development and check the prospect for combined support strategies for rural development to both public (municipalities) and private actors (service suppliers, farmers).
3. Clustering support – as in SJ and KK in Georgia – makes sense as long as approach consistency is maintained.
4. Assure measurement of project impact in a concerted fashion for the entire programme.
5. Reinforce regional exchange and learning between M4P projects, also for mayors, service providers and young entrepreneurs.
6. Complement SECO's and SDC's portfolio in Azerbaijan more closely.
7. Initiate a policy dialogue among partners to enhance SDC's EDE effectiveness.
8. Adapt selection procedures to the requirements for successful project implementation.
9. Increase donor coordination and cooperation in the EDE domain, particularly in Azerbaijan.

## 1. The Mandate

The Terms of Reference of this assignment (see Annex 1) specify that „to take stock of the achievements and lessons learnt in the EDE domain so far“, it „is expected to critically assess assumptions made and methodologies applied by SDC and its implementing partners, and to identify success factors, shortcomings and potentials for improvement.“

Under Scope of Analysis, the ToR ask to „assess to what extent the interventions of SDC under the EDE domain are appropriate for helping to transform rural farming from subsistence agriculture to commercial farming and employment. The strengths and weaknesses of the M4P approach in the context of the three countries shall be reviewed.“ „The Consultant is expected to come up with a number of key lessons learnt and corresponding recommendations allowing SDC (and its partners) to reorient the programme so as to increase effectiveness and scale of interventions.“

## 2. SDC's EDE portfolio in the South Caucasus

### Georgia

SDC's present EDE portfolio includes seven on-going projects, four of which are M4P projects (total budget of CHF 17 million) and three non-M4P projects (total budget CHF 1.77 million). The list below also includes a completed Vocational Training project, whose continuation is in preparation.

#### M4P projects

#	PARTNER	PROJECT	Phase	GEOGRAPHIC TARGET	RESOURCES ALLOTTED	START DATE	END DATE
1	Mercy Corps	Market Alliances Against Poverty In Samtskhe-Javakheti	2	Samtskhe-Javakheti	CHF 6,000,000	October-08	December-14
2	Mercy Corps	Market Alliances Against Poverty in Kvemo Kartli	1	Kvemo Kartli	CHF 2,700,000	February-11	February-14
3	Care	Rural Development in the Region of Racha-Lechkhumi (RDRL)	2	Racha-Lechkhumi	CHF 5,300,000	November-08	January-15
4	HEKS/EPER	Rural Development in Kakheti region	1	Kakheti	CHF 3,000,000	November-11	October-14

#### Non M4P projects

#	PARTNER	PROJECT	Phase	GEOGRAPHIC TARGET	RESOURCES ALLOTTED	START DATE	END DATE
5	Elkana	Tourism and Rural Development	1	Samtskhe, Racha	CHF 750,000	June-09	June-12
6	UNDP	On-demand Consultancy Services for the GoG	2	Georgia	CHF 562,000	October-07	June-12
7	UNDP	Integrated Socio Economic Development in the Pankisi Valley	1	Kakheti, Pankisi valley	CHF 462,000	December-10	December-12
8	UNDP	Modernization of Vocational Education and Training System in Georgia	2	Kakheti, Samtskhe, Racha	CHF 375,000	December-07	December-11

At present, SDC is preparing a further project in the EDE domain for another CHF 11 million together with the Danish Ministry of Foreign Affairs:

#### Project in the pipeline

#	PARTNER	PROJECT	Phase	GEOGRAPHIC TARGET	RESOURCES ALLOTTED	START DATE	END DATE
9	Not selected yet	Potatoe and dairy sector development, Investment capital for agrobusiness	0	Samtskhe-Jav., Kvemo Kartli	CHF 10,984,000	May 2012	mid-2016

### Armenia

*M4P projects*

#	PARTNER	PROJECT	Phase	GEOGRAPHIC TARGET	RESOURCES ALLOTTED	START DATE	END DATE
1	Strategic Development Agency/SDA	Livestock Development in the Syunik region	2	Syunik region	CHF 3,950,000	01.09.2011	31.08.2014
2	InterCooperation with Shen	Rural Development in the Region of Meghri / Markets for Meghri	1	Meghri region	CHF 1,850,000	01.12.2009	31.11.2012

**Azerbaijan**

*M4P projects*

#	PARTNER	PROJECT	Phase	GEOGRAPHIC TARGET	RESOURCES ALLOTTED	START DATE	END DATE
1	HEKS/EPER	Facilitating Access to Animal Resources and Markets (FARMS)	1	Agcabadi and Beylaqan districts	CHF 2,145,000	01.05.2011	31.08.2013
2	Oxfam GB	Stimulating Markets for Farmers (SMART)	1	Barda, Tartar, Agdam	CHF 2,075,000	18.07.2011	31.10.2013

*Non-M4P projects*

#	PARTNER	PROJECT	Phase	GEOGRAPHIC TARGET	RESOURCES ALLOTTED	START DATE	END DATE
3	FAO	Capacity building in rural development for Internally Displaced Persons (IDP) and refugees	3	Agdam district	USD 1,700,000	01.06.2009	31.05.2012

The total budget for SDC's on-going EDE program amounts to CHF 30.5 million, of which 88,6% (CHF 27 million) for M4P projects.

SECO also implements projects under the EDE domain, which are, however, reviewed by another assignment:

#	PARTNER	PROJECT	Phase	GEOGRAPHIC TARGET	RESOURCES ALLOTTED	START DATE	END DATE
1	IFC, Ministries	Business Enabling Environment Project / Investment Climate	1	Country-wide	USD 4,350,000	2008	2013
2	IFC, Central Bank	Azerbaijan and Central Asia Financial Infrastructure Development Project (ACAFI)	1	Country-wide	USD 2,600,000 (for 6 countries)	2009	2012
3	IFC, Central Bank	Crisis Response Project	1	Country-wide	USD 1,300,000	2010	2012

This review did not evaluate individual projects but the entire strategy. It paid a visit to a selection of projects in all countries (5 in project locations, plus the Meghri project office in Yerevan), discussed with programme staff and reviewed documents.

**3. Relevance of the domain**

SDC's end beneficiary group are poor farming families in selected regions in the three countries. The purpose of its EDE domain is to facilitate their economic development in a way that they manage to reduce or get out of economic poverty permanently.

As seen in the tables above, the predominant approach during the past cooperation strategy has been M4P. The questions to be responded by this consultancy should assess „the strengths and weaknesses of the M4P approach in the three countries“.

The Making Markets Work for the Poor (M4P) approach searches for and aims at systemic changes to improve the working of markets with higher inclusion and/or profitable inclusion of poor people. Linking poor farmers to products, services, markets should increase their income and employment by more than what they could achieve through continued subsistence farming<sup>1</sup>.

### 3.1 Constraints end-beneficiaries face for improving their livelihoods

The mentioned M4P projects have identified, in each of the three countries, a number of well known constraints for poor farmer families' socio-economic advance (not only for accessing markets). There are similarities as well as substantial differences in the context poor farmer families face in the three countries.

#### 3.1.1 Consequences from system change for agriculture

Privatisation of agricultural land has led to great *fragmentation* of individual property in all three countries, while communal land (for pasture and other purposes) remained in the hands of weak communities. Municipalities live to a good extent from land sale or lease. Existing land fragmentation does not permit efficient agricultural production.

Another crucial aspect of the system change has been the massive *decapitalization* of agriculture in all countries. Collective structures were dismantled, the machinery park was abandoned and not maintained, farmers were left with small plots of scattered land and did not have the means to acquire new implements, let alone machinery.

A third consequence of the systems change concerns both the *knowledge* farmer need, and the *mentality* of older farmers to only comply with orders from above. For decades, private initiative was hardly tolerated, rather discouraged in most of the Soviet Union. Employees in a kolkhoz were specialized workers, not all-round private farmers whereas now, farmers need to understand and master the entire farming value chain. This requires new knowledge and a different, entrepreneurial approach to farming. Several interviewees spoke of a required mentality change, and most link it to a needed generational change. Such a change includes the need to see an association between farmers in a different light, not as forced collectivism but as voluntary cooperation for economic benefit.

All the more serious is the observed out-migration of young people from rural areas. Changing the environment – opening economic opportunities, providing social meeting places and access to knowledge, etc. – so that the young can detect a future in their rural region is of crucial importance. This seems to start happening now in the Syunik region in Armenia, as three interviewed farmer ladies and men confirmed.

#### 3.1.2 Lack of services

Farmers lack *access to affordable credit* (as in many countries). One or the other Micro-Finance Institution started providing rural credit in Georgia. In Armenia, the Syunik project mentions that six financial institutions offered agricultural loans in the region but at terms not affordable to the project's end-beneficiaries. In Azerbaijan, a massive public Enterprise Fund provides credit for agricultural ventures but mainly to larger ones; apparently, only proposals acceptable to installed political and politically connected positions (and their ventures) have a chance to obtain subsidized loans (at 7% p.a.). The Ministry of Agriculture introduced from 2004 onwards an agricultural credit

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<sup>1</sup> Improved subsistence farming can increase food security but hardly overcome poverty.

facility (State Agency for Agricultural Credit) with an IDA loan, and a second such project was in preparation in 2010; the Agency is also supported, since 2011, by an IFAD loan<sup>2</sup>.

Also, most farmers cannot count on *public or private provision of farming knowledge and inputs*, as observed in the field visit in all three countries (this, too, being a phenomenon observed in many developing countries). Soviet agricultural input supply structures broke down. In Azerbaijan and Armenia, public entities maintain e.g. a veterinary service which is, however, grotesquely understaffed and does not provide any reasonable coverage of services (except maybe in Azerbaijan to companies paying for such services). Armenia seems to be most advanced in this respect, though still in its beginning.

### 3.1.3 Poor status of rural infrastructure

Irrigation and drainage systems, secondary and tertiary roads, bridges, water trough barriers, etc. are in a state which implies risks and seriously encroaches its usability. This further isolates a considerable number of villages which are located relatively far from municipality centers. Broken infrastructure leads – particularly in Azerbaijan – to salinization of soils and a water supply which leads to the emaciation of cattle.

### 3.1.4 Policy limits

The demise of the central planning system implied a fundamental new orientation in all productive policy. The three countries follow different paths in their agricultural policies but all of them are struggling to devise and test new policies, whereby Georgia's hands-off policy from production has led to a larger vacuum than in the other two states. But still, no country has developed a strategy of agricultural development which takes poverty reduction explicitly into account, as the experience of the M4P projects demonstrate.

Concerning tax policy, Azerbaijan largely freed agriculture from paying taxes. Land tax is paid to municipalities so that those with little communal land have practically no means to operate. Similar arrangements exist in the other countries. In Georgia, the tax structure largely offsets incentives for small farmers and agro-processors to consolidate their resources so as to achieve economies of scale. Municipalities receive some minimal support from the state budget, insufficient to facilitate agricultural development in their area.

### 3.1.5 Market access opportunities and restrictions

So far, SDC's M4P project end-beneficiaries sold their products in their village (to end consumers or traders), to close-by collection centres or processors, to the next cities or to the capital city.

Export market perspectives are conditioned by geopolitical characteristics. Georgia followed in the past years a liberal policy of opening the country to Western Europe, both economically and politically, leaving economic development largely to the private sector, with reduced governmental functions (rule setting and enforcement). Private initiative is welcome and agricultural goods can, in principle, be sold in all neighbouring countries and beyond. Georgian-Russian relations are strained because of territorial conflicts and occupation, affecting transport routes and access to Russia (also for Armenian trucks).

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<sup>2</sup> An interviewed small grain miller in Azerbaijan indicated lack of capital as his major constraint for growth; when asked whether he can access public subsidized funds, he laughed: no way without political connection.

In Armenia, foreign market access is more restricted: closed borders with both Azerbaijan and Turkey leave Georgia-Russia and Iran as outlets and main partners. Russia is a (although uncomfortable and not always consistent) ally. Iran has become a major investment and trading partner of Armenia (about one third of its export passes through Iran). Recently, Iran has started to buy cattle and meat in bulk from the Syniuk region, and diaspora Armenians intend to invest in substantial fruit processing plants in Meghri. Export to Turkey passes to a good extent through Georgia, with the corresponding increase in transport cost. An anecdotal indicator of the restricted access to foreign markets is the fact that in Yerevan supermarkets, most agricultural goods are Armenian (while in Georgia, most are imported). Energy-wise, Armenia will be tied to Iran stronger than before, thus reducing dependence from Russia.

Azerbaijan sides with Turkey and, economically, increasingly with Europe. Oil wealth has allowed it to build rather hermetic state structures which permeate down to the regional level. Energy supply dominates foreign policy. Economic opportunities, also in the agricultural sector, tend to be occupied by so-called „monopolies“, i.e. firms with government connections which bend the application of rules to their favour (access to cheap financing, customs, etc.). Bottom-up structures (municipalities, rural associations, etc.) are weak and controlled by government. Their activities are tolerated as long as no interests of „monopolists“ are touched; the latter make sure no competitor has a chance to rise. Few bottom-up organisations export (mostly those supported by external agencies like USAID). Most agricultural exports (vegetables, fruits), which made so far up some 60% of non-oil exports, are arranged with diaspora Azerbaijani in Russia.

Taken together, the tensions and blockages between countries in the region and the exposure of the region to Great Power politics have created barriers (NTBs) for travel, investment and sales. All three countries feature a very substantial diaspora in many countries (Russia, Iran, Europe, USA, etc.), through which considerable export occurs. For bottom-up agro-production units without connection to the diaspora (and in Azerbaijan with the government), export perspectives are limited. In Azerbaijan, the support of donors proves to be an important element to open export channels, and investors in the other two countries may also help open export channels.

Overall, the consequence of this state of affairs continues to be low productivity and mostly subsistence agriculture in all three countries. Agricultural development perspectives are at present more linked to the rise of local, regional and national demand, to which this mission could not detect major access barriers. Product standards are gradually being introduced in all countries.

### 3.2 *How to respond to such a set of constraints?*

In the view of this consultancy, long-term change needs to occur above all in two respects:

- a) economic and democratic *system-building* (rules and institutions), and
- b) the placing of *incentives* for entrepreneurial activity by government and for markets to facilitate broad-based initiatives

Addressing those constraints by the respective countries is a long-term task, for both private and public sectors. Their roles are different but closely intertwined: in the public sector, *good governance* at all levels is paramount and in the private sector, *entrepreneurial capacity* is the crucial ingredient.

By placing international development cooperation (IDC) resources, IDC can influence government's priorities and the system-building in state institutions (typical case: SECO in Azerbaijan). In Georgia and Armenia, SDC has undertaken little in this respect so far (with the respective Ministries). In the private sector, its role is different: it can stimulate private entrepreneurial activity by facilitating relevant private-sector-generated system elements (e.g. input supply markets, market transparency, contract farming etc.). In Azerbaijan, furthermore, the presence and support of donors open fields of activity for bottom-up initiatives which are barely tolerated and not fostered by government, but respected when supported from the outside.



The question how IDC can or should intervene to overcome the mentioned constraints is preceded by the question which policy these countries should follow to unleash the productive forces of the population to achieve balanced and broad-based human and ecological development.

The most promising avenue would probably be, like in other transition countries, to let as many enterprising individuals as possible develop their initiatives and overcome the obstacles they face (entrepreneurs are trouble-shooters by nature). The state, on its side, should establish effective institutions to comply with its multiple tasks, including good framework conditions for private sector development. For questions of equity, a level-playing-field should be maintained by the state for the private sector. This is roughly the case in Georgia and Armenia, not so in Azerbaijan where economic opportunities are mostly captured by people with government connection.

How can such a policy be supported by IDC, here SDC? By leveling the way for private and public initiatives which concern the poor directly, in a way that the poor themselves are increasingly in the driver's seat of their own development. The top-down mentality inherited from Soviet times is still deeply entrenched among people who were adults 20 years ago. Some discussion partners mentioned that a generational change is needed to accelerate transition. Georgia has been most consistent in bringing young people into the public sector, with the consequences that poverty in Georgia affects to a large extent old people and that younger people in state institutions search for adequate ways to build their institution (e.g. in the Ministry of Agriculture in Georgia). Economically, facilitating the poor's increasing and active participation in markets is a promising way to achieve their (self-generated) development.

From this perspective, M4P appears to be on target. It is a broad concept which allows to analyse overall situations, value chains (VCs), service supply, markets and related deficiencies, from a point of view of searching for solutions that benefit the poor. This is a great advance over earlier VC approaches. M4P encompasses both markets and basic services, proposing a multi-functional approach which takes into consideration both private and public functions.

Conceptually, none of the constraints mentioned above are excluded from the analysis by the M4P approach<sup>3</sup>. And application-wise, if in the analysis of a VC or region an aspect like access to financing results critical, M4P can, within its framework, well advise to devise a specialized respective project. It can deal with tax authorities (and does it in other contexts), land fragmentation (e.g. pool land for production), rural infrastructure as a basic service<sup>4</sup>, etc. Conceptually, any constraints which limit the functioning of markets in favour of the poor can be tackled within M4P.

The limits come not from the M4P approach but from what public and private actors, supported by donors, can achieve vis-à-vis the magnitude of the mentioned constraints. Limited resources impose the need to select and to find effective ways of intervention (i.e. leverage of benefits in the future). For the application of the M4P approach, the capacity of the implementing agency is crucial.

Two major selection considerations are:

- a) since SDC wants to help reduce rural poverty, its project interventions should help tackle problems which open opportunities for the poor (credible nexus); and
- b) donor interventions must seek to ensure the sustainability of effects beyond project intervention.

ad a) As mentioned above, the M4P portfolio in the South Caucasus is young; only three projects started before 2010 (Syunik, Alliances SJ, Racha). Considered under the mentioned criteria,

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<sup>3</sup> The publication Perspectives on The Making Markets Work for the Poor Approach deals with M4P and: financial services, labour, land, agriculture, water, etc.

<sup>4</sup> The DRR „transversal“ part of the visited projects is to some extent dedicated to this aspect; it is fully compatible with M4P, as is good governance.

two of the M4P projects initiated by SDC in the strategic phase ending this year have fared well: activities defined are very much linked to farming families and have already reduced poverty. This has not been the case in Racha (for reasons, see below).

- ad b) Traditional donor cooperation aimed at maximum outreach and impact at end-beneficiary level during project life in order to justify its investment; in the past decade and after the questioning about effectiveness of IDC, increasingly, systemic approaches emerged (e.g. in IFAD, The World Bank, some Bilaterals); M4P is such a systemic approach, aiming at the rise of systems with a view to continue developing without external support.

### 3.3 Further questions asked by the ToR under Relevance

As mentioned, this consultancy has not evaluated projects but the entire program. Several of the following questions would be appropriate for project evaluation. From what the team perceived, the following points can be stated:

- Implementation of M4P by SDC's implementing partners: Inception and following starting phases have been dissimilar in different projects. SDC's M4P project portfolio is young and in several projects, the process of finding the way to apply M4P (market facilitation rather than direct support to end-beneficiaries) has taken substantial time. This is a not uncommon phenomenon in M4P projects, explained by several factors:
  - a) context challenges (emerging markets)
  - b) need for project personnel training in M4P and its application
  - c) project management capabilities, and connected to this
  - d) support from an external project partner (where there is one)In two projects, managed by international NGOs which so far did not apply this methodology (CARE USA and OXFAM GB), M4P application has been slow and project service delivery closer to their traditional „direct delivery to beneficiaries“ approach. But they, too, were trained in the M4P methodology and are moving towards its application. In another project (Meghri), an unfortunate project set-up with an international partner in difficulties and an implementer lacking both convincing project leadership and M4P grasp seems not to have managed to devise an appropriate approach and needs to be evaluated. This result was not due to an inappropriate methodology rather than to institutional and personal factors, highlighting the choice of project partners and implementers.
- Spill-over effects of co-funding at intermediary level: Here too, it is early to assess such effects since (investment in) building service delivery capacity takes time. From the projects started earlier, evidence points to positive spill-over effects, for example
  - the establishment of community veterinary and artificial insemination points, including the contribution of initial medicine kits, allowed them to provide services in a way which permits restocking - from incipient input shops also supported by the project - of medicines through sale (observed in Syunik, Racha); before, such services have not been available in many communities and where they were, service fees dropped by 30 to 50%; regular use of such services helped increase cattle productivity at farmers' levels (e.g. decrease – almost elimination – of brucellosis).
  - in financial services, training and co-financing community financial adviser services resulted in a strong increase in credit demand by farmers, from close to zero to 650 in less than three years (credit supplied by the project); in Syunik, 88% of them obtained credit.
  - the restoration and modification of a village storage facility for a speciality cheese led to an agreement with a distributor to rent storage space and start a collection service from village cheese producers (Alliances SJ).
  - the 40% co-financing of heavy machinery by CARE to a group of farmers in Oni, Racha for the provision of services to farmers seems to lead to functioning service supply but the

interviewed group stressed they are farmers and do not yet know how to manage both farm and machinery services as a business.

- SDA (not with resources of SDC but from Polish aid) cooperated in the purchase of milk cooling tanks to establish collection centres by an operator-owner, which led to a steadying of milk supply and an increase in quality (better hygiene, less hazardous transport, etc.); a larger milk processor in Goris (Elola) provided credit for farmers to buy cattle (with the CARD MFI), and the factory extended credit for the purchase of a vehicle by the milk collector; together, this led to a strong increase of milk of acceptable quality, analysed at entry; SDA's principal contribution was the linking of all actors, overcoming traditional mistrust and helping to establish mutually beneficial relationships – an example of multi-agent cooperation deftly engineered by SDA.

So yes, such spillover effects at end-beneficiary level are clearly observable.

➤ PPPs: Cooperation between municipalities and farmers occurred

- mainly with respect to the functions of village authorities in and for the livestock sector: DRR, Pastures Management Planning and its implementation, small infrastructures, etc. (Syunik, Alliances SJ, partly Racha); the mission was told, e.g., about substantial improvements in the physical arrangement and (organisation of) use of formerly overgrazed near-by pastures and underused more distant pastures by farmers in the case of a community near Goris;
- in the establishment of both community vet points and financial service advice, both physically located in the municipal building; also, in Armenia, the state pays for certain vet services but the service is run today increasingly as a private business; municipal mayors also intervene in the selection of vets replacing ones which perform insufficiently; in Azerbaijan, FARMS tries to establish vet groups (with public and private vets) but as a private initiative, not supported neither by ExCom nor by municipalities which have no vet service;
- in the establishment of a livestock market with the support of Alliances SJ, which has not yet entered into function;
- through DRR measures (e.g. the creation of DRR Work Groups with Alliances SJ; a first one assessed the appropriateness of bridges in the project area for cattle transport (weight limits – two bridges had collapsed under livestock), placing weight limit signs; in Syunik seeds and fertilizers were made available under DRR for the improvement of pastures; infrastructure improvements like road and river fortifications are also undertaken under the DRR component;
- with Regional authorities for the coordination of activities in the region and between municipalities; here, the cooperation is more between public entities and the project.
- in the case of projects in Azerbaijan, while the municipal representative is elected and part of the supported community, its functions for the community are minimal; PPP is to be established with the relevant ExCom; relationships exist but no PPPs are in place.

DRR has facilitated the active inclusion of local authorities in M4P projects, to the benefit of end-beneficiaries.

➤ Sector knowledge: the mission has encountered agricultural specialists in all visited projects but it has not been possible to check the depth of sector and product knowledge available in the younger projects. If and where related questions remain, SDC should make sure that relevant advisory capacity by people immersed in the respective VCs are secured. In the ideal case, both project management capacity and sector-technical capacity is combined in one person (as e.g. in FARMS). Where this is not the case, SDC should not compromise by accepting one skill set only at the outset of implementation: both are indispensable for successful M4P implementation, and proof of existence needs to be demonstrated.

➤ Introduction of new production techniques: For the introduction of new technology, e.g. by machine dealers, the Alliances SJ project followed a step-by-step approach, e.g. for access to improved hay and silage technology and services. The pilot consisted in selecting five interested farmers which received machinery through a dealer. Subsequently, however, only

one purchased it, the other four did not have the patience to test the equipment or said they could not afford it. It also turned out that the technical advisory and training capacity of the machine dealer for the proper use of the machinery was insufficient. The project therefore linked farmers with a local machine dealer who demonstrated ability in importing, selling and training clients, independently from the project. In 2010, he sold over 25 pieces of fodder-related machinery to service providers but he sees also the limited ability to pay the full price for much of the machinery. One of his potential clients – a farmers' group with whom the project also works – was interested in creating a business from the sale of ensiled bags of corn to farmers in the area, thus creating the capacity to buy and pay for respective machinery. In contrast, the project in Racha granted agricultural machinery to six community groups directly (with 15% own contribution); the 2011 project evaluation wrote: "Sustainability uncertain. More or less granted and now community owned goods very often leave problems in responsibility for maintenance, access to its use, covering of running costs and amortization, especially in a midterm view. Already some machinery in slightly neglected state." A more careful – more M4P – approach is recommendable, also in a less favourable context like Racha.

There are other examples of new technology introduced, from artificial insemination/AI in newly created vet points to cooling tanks in milk collection, the introduction of drop irrigation (strawberry cooperative in Barda, Azerbaijan) and new potatoe seeds with related plant treatments (Racha). A discussion which this mission had the opportunity to conduct in a larger village attended by the Alliances SJ project showed the delicacy of introducing new technology (here AI) according to an M4P logic rather than providing it free-of-charge. Farmers had to pay for the insemination but users were advised of the risk of lack of pregnancy. Among the 30% or so of non successful insemination, discontent was voiced against the veterinary doctor and „indemnization“ claimed from the project. The service could probably be finetuned in the sense that unsuccessful attempts be repeated at lower price if the farmer complied with specifications in the first case (as practiced in Armenia).

- Public implementation partners: as indicated under PPP above, municipalities have been approached – in Georgia and Armenia – under a DRR logic which, in agricultural farming communities, is closely linked to environmental concerns and agricultural production, an ideal engagement point for inclusion in an economic development perspective (see above). Regional governments, on the other hand, are overall project partners for combining state and project action. In Racha, the project managed, after initial disregard, to establish a relationship of tolerance, although the governor expressed scepticism about the effectiveness of CARE's M4P project. In Syunik, on the other side, the Vice-governor has been exceptionally well informed (and capacitated over years) about the type of cooperation implemented by SDA, expressing high appreciation about SDC's project management (complies with deadlines, keeps its promises, is effective, etc.). In Azerbaijan with its central state structure exerting control down to the local level, the inclusion of bottom-up (locally elected) municipal actors faces delicate potential conflicts with local representatives of central state power (ExComs). In that country, ExComs need to be co-opted so that they tolerate donors' bottom-up support. OXFAM, like other projects by the EU and USAID, have tried to work with municipalities directly (e.g. in health, in installing and managing water supply) since municipalities obtain practically no resources (only from land tax and municipal land rent or sale). In this country, most rural municipalities need to be empowered and built from scratch (they are recognized as autonomous entities in the legal framework but shunned by the power structure).
- Monitoring system: Because of the systems approach, pinning down the chain of effects within VC evolution, to the benefit of the poor in it, is quite a challenge. Add to this the complexity of attribution to project intervention, for which the M&E should provide a basis as well. It must also be taken into account that the kind of interventions which the project deems feasible and advisable will influence the kind of data to be collected, i.e. the structure of the M&E data base (it is not unusual that baseline studies tailored according to original project design do not provide too good a fit for the data which subsequently become central, i.e. those emanating from the first full-fledged Yearly Plan of Operation when the shape of project activities becomes

clearer). Finally, the need to establish a useful and at the same time reasonable M&E system should not absorb too many project resources (project staff time) compared to shaping project activities. Under such considerations, the „oldest“ M4P project in Syunik has done a good M&E job (had also the most time to design it): relevant data, even allowing an estimate of attribution in impact data, have been collected. Alliances SJ indicates it has worked hard during 2011 to establish a detailed M&E system, and the data which were shown to this mission support this claim; but data collection and processing is now a further step. The project is on a good track in this respect and another project also managed by MCC (Alliances KK) will be able to benefit from it. Other projects (Racha, Meghri) have been more absorbed by structuring their activities or are still just beginning. SCO has elaborated a regional Outcome Monitoring Concept and organized respective learning events. Well elaborated surveys and their fit within this concept should be passed on to other, more recent projects so as to shorten the respective learning curves.

- Results communication: There is a general tendency among M4P projects to not advertise their support publicly, at least not in their first years. This seems to be an implication of the M4P approach: the idea is that the drivers of change should be the market players, including the poor. The project is a facilitator of transactions between market participants, acts as an „articulator“ between them and as a „system-builder“. The projects works „hands off“ the core market relationship (demand – supply), rather „from behind“ the scenery. Particularly at the start, there is not much to be communicated before results at system and end-beneficiary level become recordable. And then M4P projects need to capture results at that level with appropriate M&E systems before they can communicate results. It is therefore not astonishing that M4P projects in the South Caucasus have not yet amply communicated their results. The oldest project – Syunik – provides an interesting and well documented case (demonstrated in an elaborate Measurement Plan) for readiness to communicate their results both in Armenia, in the region and at the level of IDC. The Springfield Centre plans a further case study about this project for distribution to interested circles. A different kind of – internal – communication issue arises when M4P projects show an insufficient performance, which provokes questions also about the adequacy of the approach. Logframes are supposed to mention the major context assumptions, and yearly reports inform about achievements. It might be advisable to establish minimum standards for performance which, when results fall short of them, triggers automatically a revision by SDC. In all three countries, there has been at least one not well performing project, causing muted but not enough open discussions with project implementers and backstoppers. – Towards the outside, there is a case to be made for a more active communication of the approach, its results and its insistence on the sustainability of effects of IDC resource investment, at programme level.
- Competitive environment among service providers: The general impression of this consultancy has been that projects are looking for ways to avoid creating monopolies or oligopolies among service providers. But this aspect depends on each service market structure. Milk collection centres are installed only where a sufficient number of suppliers are expected to deliver their milk; an additional collection centre would push both centres below the profitability threshold. So market action leads to „local monopolies“. Among agricultural input and service suppliers, finding good service providers is quite a challenge and sometimes leads to a selection process (badly performing ones being sidestepped) and to cooperation with preferred business partners, a common process in the business world. In another service area: veterinary services, the FARMS project has established a group with „progressive vets“ (both public and private), the crucial selection criterion being their openness for establishing new delivery structures as a private business and possibly pooling some aspects (purchase of medicines, etc.).

Is the EDE domain the way it has been structured, relevant for lifting poor farmers up to a knowledge level and market system integration so that their chances to develop their capacities and productive potential have improved? A positive reply emerges but will much depend on bringing all implementers and projects up to a good performing standard.

#### 4. Efficiency and effectiveness

M4P's pretension is to make markets work with the purpose of assuring that the poor benefit from it. There are two fundamental elements: a) markets which start working (better) and b) in VCs which benefit the poor (income increase, more inclusion). Better functioning market systems are the means to the poverty reduction end. These two aspects are combined in the M4P approach.

M4P is, therefore, an „indirect“ approach: improvements in the functioning of VCs (e.g. by linking VC actors and partners, facilitating balanced contractual relationships (economically and gender related), potentiating service providers so that they can live from such service provision, etc.) are to lead to the (or more) poor families obtaining more income, with a good chance to continue as a consequence of mutually beneficial relationships along the VC.

System-building takes time to become effective on an entire VC level, although there are „shorter“ (e.g. bee-keeping) and „longer“ (e.g. edible oil extraction from grains), „simpler“ (e.g. fruit sales) and „more complex“ VCs (e.g. milk or meat processing). Investment goes into system-building rather than primarily into the end-beneficiary part of it. Such an entry may pose a problem for IDC in terms of demonstrating efficiency and effectiveness: IDC's pressure is on showing outreach and impact at end-beneficiary level (poverty reduction) as convincingly as possible in the time-frame of the project. Building Potemkin villages to show at the end of the project has therefore been a temptation all along (e.g. the famous Swiss model farms in the early 1970). A systemic approach argues differently: a system is to be built which works by itself and continues generating benefits along the VC, including the poor, into the future.

Under such a purpose, the assessment of efficiency and effectiveness is a high call since contexts and VCs are so different, and so are project responses. How can market systems be built „efficiently“? By establishing effective projects. There are hardly any measurement standards except those defined by the projects themselves.

As mentioned above, the South Caucasus M4P portfolio is young. Few projects are at the stage where they can measure income changes at end-beneficiary level due to project interventions. It is therefore not possible to compare the present portfolio of CHF 27 million for M4P projects – or around CHF 9 million per year if roughly divided into three project years per phase – with the income change information available. Only one project – Syunik – has so far measured the effects and impact of their three year engagement (October 2008 to August 2011), which was preceded by a first smaller project of SDC with SDA.

This project (Livestock Development in The Syunik Region) worked with 3000 households (with on average 4.5 persons, i.e. 13'500 persons) in 16 communities. Its expenditures amounted to about CHF 2,2 million in phase II and CHF 0.2 in phase I. The project aimed at an income increase of its target groups during phase II of 20%. By August 2011, a representative survey among the 2000 target farming families with livestock registered an average 22% income increase from livestock (milk and meat) between 2008 and 2011, resulting in a cumulated additional income of USD 1,9 million. The rough corresponding „income increase – project cost“ ratio is, therefore, somewhere close to 0,8 after five years of operation. We consider this to be a satisfactory return ratio in view of the fact that a basis has been created for income trends to continue pointing upwards (improved breeds, improved VC installations, improved services, etc.). Also, the project continues its support (extension from 16 to 40 villages, i.e. bigger markets). M4P system-building points at increasing returns in the future.

The same project furthermore reports that poverty in the Syunik region has been reduced from 60 to 53% while it increased in the country by a similar percentage overall. While on-farm employment in

the region remained stable and the tendency to out-migration of young people from the region appeared to be slackening (according to information from regional government and interviewed farmers and vets), unemployment nation-wide increased by 7%.

These results need to be put further into perspective:

- a) *Context:* the country faced a strong recession in 2009/10, with income from agriculture falling 33% in 2010 compared to 2009; milk prices fell by 15%; since Russia cancelled the embargo of exports of Armenian products of animal origin, this provided opportunities to compensate for the fall of animal product sales by selling cattle, to both Russia and Iran; sheep and livestock mother herds were substantially reduced leading to an increase in meat prices. In Syunik, however, cattle herds *increased* (5% among milk cow herds) as both new cattle purchase and AI were intensified. Milk production grew regionally by 21%, with a 12% average milk volume increase per farm and a 15% increase in milk yields, in contrast to the rest of the country. This led to an average 81% income increase per farm from sales of dairy products. In the meat sector, the region produced and sold 60% more meat (on average a 7% increase per farm). Farm income from meat sales increased on average 49%.
- b) *Attribution:* The project adjusted the survey results for price changes. Of the 81% income increase from the sale of milk products, half could reasonably be tied to project interventions. The income increase from meat sales, on the other hand, was only to about 7% due to project influence.

Taking into consideration all aspects, it is fair to say that the project contributed noticeably to poverty reduction in the Syunik region and helps turning the tide from the long-term downturn in the agriculture of this region caused by transition.

The project reported on a substantial number of outcome indicators concerning service markets of both private and public origin, as well as enterprise and sector-level changes. These underpin the end result in terms of income and employment. Observing the satisfaction of interviewed farmer families, vets, milk collectors and processors, municipal and regional staff as well as the structures and mechanisms introduced in Syunik, an advance in terms of self-reliant development can clearly be observed. Results and impacts, therefore, point to an overall effective intervention.

While, as indicated above, the definition and arrangement of market facilitation tends to require time in contexts with the constraints mentioned in section 3.1 above, the slow start and modest results of projects like those in Racha, Meghri or Barda do pose questions on the effectiveness of the chosen intervention path in the respective contexts. The three cases need to be considered case by case, however, to identify the reason for low effectiveness of project intervention<sup>5</sup>. While it is not possible to enter into details here since this assignment did not evaluate projects but looked at their strategic approach, some relevant considerations can be forwarded.

Troubles in setting up and shaping a project intervention can have various causes:

- an unrealistic intervention concept
- an adverse context
- shortcomings of the professional implementing staff
- a lack of project leadership
- a disproportion between available means and task at hand

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<sup>5</sup> An evaluation in mid-2011 of the Rural Development in the Region of Racha-Lechkhumi (RDRL) came to the conclusion that it so far hardly managed to impact on poverty in the region. The Rural Development in the Region of Meghri, starting in December 2009, experienced a long start-up search phase without producing so far much impact. The SMART project in Azerbaijan is a recent project searching for ways to apply M4P in its adverse environment.

- etc.

The three mentioned projects face relatively unfavourable context conditions (e.g. in Racha: land fragmentation; lack of infrastructure, of VC partners including service providers, of finance, of capacity or cooperation by authorities, etc.). Meghri is a relatively remote region when viewed from the capital Yerevan, and so is Racha viewed from the Georgian capital. Barda suffers the neglect from a hermetic top-down power system leaving so far little room for bottom-up initiatives – public or private.

This consultancy responds as follows: M4P is an encompassing economic development concept which allows to identify weaknesses in the VC/sector and facilitates solutions by participating agents at different levels. It is a broad analytical tool to find ways to make markets work for the poor, also in situations where such markets only exist in rudimentary form (starting from barter – as also observed in Racha – to VCs which do not, but could, include poor producers and service providers, etc.). Adverse contexts are viewed as challenges to be dealt with rather than blocking factors.

In the mentioned three cases, the context may be less dynamic than in other regions attended by SDC's M4P projects (e.g. SJ and KK in Georgia), but also the Syunik region suffered from lack of dynamism in early 2000, and the neighbouring village to Barda, where the FARMS project is located, context conditions are the same but project management seems to search more for M4P-compatible solutions.

Still, the initial systems analysis may come up with a number of constraints, whose combination may be considered as largely blocking VC and market development for the poor. In such cases, a donor may want to concentrate on helping resolve one particular constraint (as e.g. SDC was doing with the Vocational Training project through UNDP in Georgia). Such a course of action does not question the appropriateness of the M4P approach and can be implemented in parallel. Care needs to be taken to ensure conceptual consistency so as to avoid conflicting signals being sent within the same programme, affecting its credibility.

While the concept of M4P provides a broad roof, its *application*, at the design stage and/or later by project managers, presents substantial challenges. The function of market facilitation is not always easy to define and requires particular skills – technical and „entrepreneurial“. A lack of adequate response capacity by project implementers may lead to an uncertain, sub-optimal start and may affect the effectiveness of M4P projects (similar to a business whose entrepreneur is not up to the task). The difficulty of having the required skills in place may be compounded where implementing institutions are new to the M4P approach, followed so far (easier) direct-support modalities to grassroots beneficiaries, and are constrained by salary limits for which such complex skills can hardly be brought into remote areas.

Summarizing, the complexity of the M4P approach and the challenges to apply it do call our attention and we think SDC needs to reconsider how to start such projects (tender procedures, selection, personnel issues) and how to support project managers so that they can learn from each other (not just workshops but exposure for a week or so in a successful project). M4P management requires, next to project management and leadership capacities, ample and detailed sector and product knowledge and experience in the VCs to be supported. Where project management does not avail of such knowledge, it needs to be secured from outside, e.g. from processors or traders with a broad view of respective VCs. The presence of such skills should be „conditiones sine qua non“ for the start of an M4P project by SDC.



## 5. Sustainability and up-scaling

An outstanding feature of the M4P approach is that the sustainability of effects (= a functioning market system in place) is its principle intervention logic. By facilitating market development, i.e. linking existing and potential market players and placing – non-monetary and monetary – incentives to lift their capacity to perceive and respond to market opportunities, it helps build self-functioning market systems. The driving force is the self-interest of market participants rather than incentives provided from outside the market. Project incentives may reinforce market incentives but should not replace them or distort market participants' behaviour. This cautious intervention logic „behind the scene“ aims at stimulating private and public initiative and facilitating opportunities (market or business incentives) for mutually beneficial economic interaction.

Under this heading, the ToR ask for the following questions to be answered:

- Roles and capacities of private and public market actors: From what this consultancy has been able to perceive in the field visits, in both Georgia and Armenia there are enterprising individuals interested in taking private initiatives. Large and lively diasporas – of Armenians in particular – point to the existence of active entrepreneurship, a basic ingredient for self-generated sustainable development. In both countries, governments leave space to legitimate private entrepreneurship, whereby Georgia has followed a hands-off policy, leaving the private sector to its own initiative and providing minimal framework conditions (e.g. personal security). Both countries lack resources to support private sector development more actively. But both are interested to do more in this respect, as our conversations in Ministries, with regional and municipal governments suggested. An example is Qurbanj near Goris, Syunik, where the support by SDA and other agencies led to an increase in municipal tax income allowing it to start playing an active role in pasture management, financial service advice, vet service supply, municipal organisation and exchange, etc. In Azerbaijan, too, we perceived the willingness to invest but the legacy from Soviet times – control by central power – is still overwhelming and discourages private initiative – a serious drawback for bottom-up development and sustainability of such initiatives. While in the other two countries, all government levels openly expressed their interest in doing more for agricultural development if they had the resources, in Azerbaijan the government structure does have support instruments (even massive ones) but their application is skewed, not in favour of bottom-up development.
- Sustainability of results at domain level: what contributed, what impeded it? This consultancy has perceived the following factors as essential to achieve results with good sustainability prospects:
  - *Conceptual guidance*: Since M4P is not easy to understand and explain as an intervention strategy, guidance is indispensable; an important part of such guidance should come from hands-on experiences in the region – projects like the one in Syunik, for example;
  - *Project management*: IDC projects come in very different forms and shapes; M4P is of a more entrepreneurial type and requires corresponding capacities; in the ideal case, the project manager has a good M4P grasp, entrepreneurial capacity and initiative, organisational talent, communicational skills, internal leadership qualities, and (s)he is at the same time a specialist in the VCs to be promoted (see next point) – a rather demanding profile; in each of the three countries, at least one project can count on such a project manager, but since this is such a crucial function in M4P projects, ALL projects need to have good project managers;
  - *Sector/product/region/market knowledge*: Market facilitation requires very good knowledge of the technicalities of the VC and related products to be promoted, from production to processing to marketing; if such knowledge is not available in the project, it needs to be acquired, if ever possible from within the country (a processor, a trader – somebody with a broad view and understanding of VC relationships and opportunities);

- *Relationship with local/regional government:* this review considers it a happy coincidence that SDC insists today on both DRR and governance as „transversal themes“; they are ideal complementations within M4P, conceptually fully compatible with it; in several respects, municipal development is central for livestock VC development in the South Caucasus context; a „systemic“ strengthening of municipal capacities is an important enabling element in livestock market development;
- *Learning opportunities (exchange):* Visited projects have highly appreciated the opportunity to learn from other M4P projects; an intensification of such exchange may net further benefits in project implementation.

In the past strategic phase, all M4P projects received conceptual guidance, through courses and the backstopping by Springfield Centre. Given the cluster of M4P projects in the South Caucasus, a stronger regionalization of this function in the sense of creating a competence cluster between the most advanced and successful projects advising others may be recommendable for the coming strategic phase.

More problematic to put projects on track with reasonable sustainability prospects has been, in some cases, the selection processes for project implementation and management<sup>6</sup>. Personnel turnover in the Meghri and Racha projects substantially affected their gestation period, leading to an unsatisfactory grasp and application of the M4P concept.

- Capacity development and knowledge transfer to project partners: M4P projects have implemented a large number of training events. It has not been possible for this review to perceive the significance for sustainable change of knowledge transfer to project partners. Production and sales figures point to sustainable and profitable change of production and sales techniques and knowledge in the „older“ projects (Alliances SJ and Syunik).
- Positioning within IDC: In Georgia, one of the best informed interviewees<sup>7</sup> mentioned to this mission that SDC is the main, and one of the very few (next to USAID), donor agencies supporting rural development in Georgia. He suggests that SDC spreads the word of its approach and lessons to government institutions (the Ministry of Agriculture, e.g., is not aware of the M4P approach) and the donor community. In Armenia, SDC has so far been the major donor agency investing in Syunik. Other agencies are engaged more in the North of the country. Some agencies supported Meghri in the past but not to the extent planned by SDC; a larger biodiversity programme to be financed with a KfW loan (> 8m Euro) in a neighbouring region is in the regional pipeline, with which the SDC project should establish a link (could become a source for co-financing). In both countries, there is not much partnership with other donor agencies as others follow more traditional approaches. Azerbaijan, on the other hand, is a middle-income country which just lost its IDA status. Several agencies have been and are engaged in agricultural development (UNDP, GIZ, KfW, USAID, World Bank, etc.) and SDC's donor coordination efforts should be maintained. The Vice-Minister of Agriculture made clear that SDC's projects at grassroots level are insignificant for them (in terms of policy, outreach, growth impact).
- Up-scaling potential of the EDE portfolio: from the point of view of needs, there exists a substantial up-scaling potential in both Georgia and Armenia, less so in Azerbaijan where heavy government and collusion present a serious risk to grassroots initiatives. Before SDC thinks of an upscaling of its M4P portfolio, however, it should give the present projects the time to deploy and evolve; the portfolio is young and substantial and needs to be consolidated. Weaker projects require corrections.  
There are substantial agricultural sector „system“ development needs in the public and private sector which SDC and other donors, in addition to M4P projects as they stand now, can support:

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<sup>6</sup> For this purpose, tender procedures by SDC are not optimal (see recommendations).

<sup>7</sup> The Attaché (Project Manager) Agriculture, Rural Development and Food Safety of the Delegation of the EU

- ❖ Technical and business knowledge of farmers (mentality change) – help establish training facilities (not only through the market);
- ❖ Access to finance – incentivate MFIs in rural areas, provide risk mitigation instruments;
- ❖ Land fragmentation – incentivate association of producers to pool resources;
- ❖ Infrastructure, particularly at community level – co-finance and strengthen management.

Is SDC's approach to EDE leading to sustainable effects? The answer is yes, if the M4P approach is applied correctly and effectively. Can the approach be up-scaled? Certainly, there is very much to be done to develop markets which help pull farmers out of poverty.

Finally, the ToR ask to examine whether there have been any adverse or unintended effects from project interventions. This consultancy has not come across aspects which characterized or were caused by the projects or the programme but were evidently not intended. M4P project intentions are very broad and allow for positive and negative aspects within the project concept and framework.

## 6. Lessons

Some lessons can be drawn from the design and implementation of the present EDE portfolio.

- The South Caucasus programme has become more consistent during this strategic phase. It enhances the credibility of the EDE strategy when being devised under a unifying conceptual approach, as provided by M4P. This should be taken advantage of for policy dialogue (see below) and not be lost in the coming strategic planning phase.
- M4P is a broad concept for inclusive economic development which can take into account related, and accommodate additional aspects like governance, gender sensitivity, environmental concerns, etc.; it promotes and hooks into (market) growth dynamics, with improved system functioning as its central purpose; sustainability of intervention effects (systems which work and into which the poor are increasingly included) is a constitutive element of the approach which gives it an edge over more traditional direct-support modalities to beneficiaries. There is an issue of how broadly one defines the boundaries in the application of the M4P approach, narrower (in terms of business-led development) or wider in terms of market system building (see second last lesson).
- The Cooperation Strategy for the regional programme 2008 – 2012 has tried to provide a consistent strategic framework for disperse contexts with partly conflictive relationships between countries, as well as different portfolios of SDC and SECO. The resulting logframe is an overly ambitious, very high level framework characterizing aims pertaining to states rather than a donor agency. The future strategy should fit the Swiss intervention's realm and character more closely. It may not need to go as far as formulating a logframe at regional level but rather provide strategic guidelines.
- The M4P approach as proposed by Springfield Centre is complex, not easy to understand, to explain, and to apply. Finding and shaping responses to market system building requires substantial knowledge and management skills by project management and staff. Such institutional and personal capacities are scarce. More attention is required to secure them, particularly at the start of projects.
- M4P as a systemic approach takes time to deploy, at least 6 or 8 years. The portfolio initiated in the past strategy phase is ample (in terms of number of projects) and requires intensified exchange and consolidation in the coming strategic phase.

- As a consequence of a more consolidated approach, a policy dialogue (in Georgia and Armenia) under a M4P logic could spread and enhance EDE's development effectiveness.
- The broad M4P analytical umbrella allows different system-building intervention options, like the building of institutional capacities in public sector institutions (rule setting bodies, municipalities, training institutes, etc.), strengthening financial service supply (e.g. risk-mitigating instruments to incentivate financial service supply to farmers), etc. While such interventions must remain consistent with SDC's EDE approach, they allow for the kind of projects SDC is implementing in parallel to the core M4P projects (e.g. Vocational Training through UNDP). The connection and conceptual consistency of the entire project portfolio is to be established explicitly.
- The implementation of M4P projects in Azerbaijan raises questions about their effectiveness and impact possibilities for poverty reduction because of public sector context constraints. As recommended in the parallel report to SECO, donors facing these constraints could coordinate more than up to now their interventions in and for agricultural development (USAID, EU, GIZ and others).

## 7. Recommendations

For the coming strategic phase, this review makes the following recommendations:

1. Concerning the entire portfolio
  - On the market promotion side, consolidate the present M4P projects – including DRR and governance – and bring all of them up to an acceptable performance level (define minimum conditions for project management and implementation, also for the first phase);
  - The M4P portfolio in Azerbaijan faces serious limits under the present political circumstances; it is advisable to complement it more closely with SECO's EDE domain, i.e. SECO projects promoting regional service provision in the area where SDC implements M4P projects, in addition to SECO's present portfolio (business environment improvement; Azerpost financial service access; financial literacy)<sup>8</sup>.
  - Assure measurement of impact in concerted fashion for the entire programme (baseline studies, similarly structured surveys after 5 or 6 years of operation and at or after project end);
  - Analyse in each country central institutional deficiencies for rural development (access of farmers to technical knowledge; access to financial services; municipal service supply; etc.) and check with Ministries, private sector agents (e.g. MFIs) and interested donor agencies the prospect for combined support strategies for rural development to both public (municipalities) and private actors (farmers, service suppliers), strengthening their organizational capacities as well as their ability to conduct policy dialogue.

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<sup>8</sup> The parallel consultancy to SECO recommends in the region where SDC is active: a) support the *implementation* of improvements for SMEs in the business environment; b) facilitate access of SMEs to business-relevant knowledge through regional centres: on procedures and practices of obtaining licenses and permits; on product standards (in some cases, information is offered to businesses at a high price and is, furthermore, dispersed among several Ministries and Services); on government support measures (e.g. access to subsidized credit); on access to financial services in the market; on import/export requirements and customs tariffs; on non-financial service suppliers; and c) support the rise of a private supply of financial services.

- Clustering support – as in the case of SJ and KK in Georgia – may make sense as long as approach consistency is maintained; this is to be ensured.
- Reinforce regional exchange and learning between M4P projects and the entire portfolio, not only for project managers and collaborators but also for mayors and municipal professionals, for service providers and for young entrepreneurs in the agricultural sector.
- Once the M4P portfolio is further consolidated, initiate a policy dialogue among private, public and international partners with the aim to spread and enhance SDC's (and other agents') EDE effectiveness.

2. Concerning future selection of M4P operators

- SDC should adapt its selection procedures to the requirements for a successful project implementation; for joint Swiss-local partnerships, proof of adequate Due Diligence of the implementing partner institution is to be provided; the change of an offered project manager within one year after winning a tender should entail SDC's right to revoke the award except an equivalent alternative is offered to the satisfaction of SDC.

3. Concerning the next strategic EDE framework

- Rather than establishing a full-fledged logframe for the South Caucasus regional programme, it is suggested to summarize the intervention concept and formulate reachable objectives and guidelines.

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## **ANNEX 1**

### **External Review of SDC's Program on Rural Market Development in the South Caucasus**

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#### **Terms of Reference**

#### **I. INTRODUCTION**

According to the Swiss Cooperation Strategy South Caucasus 2008-2012, the domain of intervention "Economic Development and Employment" (EDE) comprises a range of rural economic development projects in Georgia, Armenia and Azerbaijan applying a market development approach<sup>9</sup>. The expected overall outcome for the domain was defined as follows: "Farmers and rural entrepreneurs acquire knowledge and capacities enabling them to make more informed and efficient use of market channels". A number of indicators were identified to measure the achievement of that outcome: a) Average income from agricultural activities in the targeted districts; b) Number of microfinance transactions in the targeted districts; c) Number of SMEs and independent specialists in agricultural support activities (input and service providers) in the targeted districts; d) Turnover generated out of trading of national products in designated, large market centers in the targeted districts

Most of the ongoing projects in the EDE portfolio (4 in Georgia, 2 in Armenia and 2 in Azerbaijan) apply the M4P approach in the framework of agricultural value chains such as meat, dairy, sheep, fruits and vegetables. With one exception all projects are implemented by international organizations (Mercy Corps, CARE, HELVETAS Swiss Intercooperation, HEKS/EPER, and Oxfam) in cooperation with local partner organizations. All projects have been launched between 2007 and 2011 and are at different stages of implementation and results.

#### **II. PURPOSE OF REVIEW**

In view of the elaboration of a new Swiss Cooperation Strategy for the period 2013-2016, and to take stock of the achievements and lessons learnt in the EDE domain so far, SDC decided to commission this external review. The review is expected to critically assess assumptions made and methodologies applied by SDC and its implementing partners, and to identify success factors, shortcomings and potentials for improvement.

#### **III. SCOPE OF ANALYSIS**

The review shall focus on the following issues:

##### **a) Relevance of the domain in general and the M4P approach in particular**

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<sup>9</sup> SDC uses the Making Markets Work for the Poor (M4P) approach as a practical guidance. In brief, the M4P Approach aims at developing market systems so that they function more effectively, sustainably and beneficially for the poor people, offering them the capacities and opportunities to enhance their lives.

In general terms, the review shall critically assess to what extent the interventions of SDC under the EDE domain are appropriate for helping to transform rural farming from subsistence agriculture to commercial farming and employment.

The strengths and weaknesses of the M4P approach in the context of the three countries shall be reviewed by answering the following questions:

- What economic (and other) constraints end-beneficiaries face for accessing markets, and does the M4P approach effectively address those constraints? Are there constraints the M4P approach cannot deal with (e.g. international market conditions, poor infrastructure), although they are important because they hamper the realization of planned outcomes?
- How consistently are SDC's implementing partners applying the M4P approach during project implementation?
- Does co-funding at intermediary level lead to the expected spillover effects at end-beneficiary level?
- Are Public-Private Partnerships exploited to their maximum? How? Are the interests of end-beneficiaries sufficiently taken into consideration?
- Are implementing partners and their staff sufficiently knowledgeable about the targeted value chains?
- How are new production techniques/methods incorporated into the projects?
- To what extent are governmental partners (regional and local authorities, state extension services, etc.) integrated into project implementation and contributing to achieving the set results?
- Have projects developed relevant monitoring systems for measuring results?
- How do projects communicate their results (and failures)?
- Are projects supporting the development of a competitive environment among service providers? Are there any adverse or unintended effects from project interventions?

#### b) Efficiency and effectiveness

To what extent are the set domain objectives/outcomes achieved or on track to be achieved, namely with regard to the expected increase of farmers' income and the strengthening of the different value chains? Where can SDC and its project partners have a real influence and where are the limitations?

Provide an overall estimate of the ratio between invested fiduciary funds and income increase at end-beneficiary (farmer) level.

#### c) Sustainability/Up-scaling

1. To what extent do roles and capacities of private and public market actors contribute to (sector) sustainability?
2. What can be said about the sustainability of results achieved so far at domain level (or by individual projects), in particular concerning impact at end-beneficiary (smallholder farmer) level? Which factors contributed to that sustainability, and which impeded it?
3. To what extent is capacity development and knowledge transfer to project partners (co-facilitators, etc.) taking place?
4. How is SDC's EDE portfolio positioned in the landscape of private sector and market development in Georgia, Armenia and Azerbaijan, and to what extent does it make use of the potential linkages and synergies with other programmes or initiatives?
5. What is the up-scaling potential of SDC's current EDE portfolio in all three countries, both in terms of improving, deepening and broadening the current portfolio and a possible

widening of the portfolio to a multi-sector intervention with a broader variety of stakeholders and strategic alliances (e. g. infrastructure, finance sector).

#### d) Lessons Learned / Recommendations

Based on the assessment of above-mentioned questions, the Consultant is expected to come up with a number of key lessons learnt and corresponding recommendations allowing SDC (and its partners) to reorient the programme so as to increase effectiveness and scale of interventions.

### IV. METHODOLOGY

The Consultant is expected to critically review the project documents and annual reports of the implementing partners. The Consultant will carry out desk work, conduct meetings/interviews with key stakeholders and present the findings at SCO and SDC HQ.

The review shall cover selected rural development projects in at least two of the three countries (Georgia and Armenia, possibly also Azerbaijan). Where applicable, the Consultant shall assess not only the current project phase, but also the sustainability of results achieved during the previous phases.

The following stakeholder groups are to be considered for the review:

- Field office staff of implementing partners
- Beneficiary farmers and private sector representatives
- Control groups
- Representatives of regional/local authorities, information and research centres, other donor agencies, etc.

List of references for the review:

- Swiss Cooperation Strategy South Caucasus 2008-2011 (extended until the end of 2012)
- *A Synthesis of the Making Markets Work for the Poor (M4P) Approach* (2008)
- Proceeds of SDC e+i network's e-dabates on "Facilitation change in M4P programmes"; "Limiting factors of applying M4P"; and "Results measurement in Private Sector Development"(2010/11) (cf. [www.sdc-employment-income.ch](http://www.sdc-employment-income.ch))
- Gender Backstopping Report of Julian Walker, December 2011
- Outcome Monitoring System of Swiss Cooperation Office South Caucasus
- Project documents of selected rural development projects
- End of phase and recent annual reports of selected projects

The Consultant will receive an electronic version of all documents at the very beginning of the assignment.

### V. DELIVERABLES / REPORTING

The Consultant is expected to produce/submit the following deliverables:

- Detailed debriefing at SCO
- Draft review report, to be submitted within 14 days after the end of the field mission
- Final review report (in English language, Arial 11, standard margins, not more than 20 pages of main text plus annexes, in accordance with structure given by SCO), to be submitted not later than 14 days after receiving the comments of SDC on the draft report
- Presentation of review findings at SDC HQ in Bern/Switzerland



## VI. IMPLEMENTATION ARRANGEMENT

The external review shall be conducted by an experienced international team leader (referred to as "the Consultant"), assisted by national experts (probably one for Georgia and one for Armenia). The national consultants will be mandated by SCO and their terms of reference will be finalized prior to the mission in consultation with the Consultant. Besides providing context information and technical inputs, the national expert will be responsible for the logistical (driver, interpreter and accommodation) and administrative organization of the field missions, supported by SCO which will organize the most important meetings.

The following table gives an indicative overview of the volume of work in terms of consultancy days. The exact time allocation is subject to negotiations between SDC and the Consultant prior to concluding the contract.

<i>Task / Activity</i>	<i>No. of days</i>
Desk work abroad (study of references, preparation)	4
International travel	2
Field assessments in all three countries (incl. regional travel and briefing/debriefing in Tbilisi)	up to 20
Report writing (incl. debriefing at SDC HQ)	4
Total amount (maximum)	30

The tentative time schedule for the assignment looks as follows:

Beginning of the mandate	January 2012
Briefing at SCO Tbilisi	mid-January 2012
Debriefing at SCO Tbilisi	mid-February 2012
Draft report sent to SDC for comments	end of February 2012
Final report sent to SDC	mid-March 2012
Presentation of review report at SDC HQ	end of March 2012

## VII. QUALIFICATION PROFILE

The Consultant is expected to have the following professional qualifications:

- Experience with external reviews in the area of rural (market) development
- Applied knowledge of agricultural value chains (dairy, beef, sheep, fruits, vegetables) and agricultural finance
- Basic understanding of the M4P approach
- Experience in working in the South Caucasus region is a strong asset

Tbilisi/Bern

January 2012

**ANNEX 2**

***External Review of SDC Program on Rural Market Development in the South Caucasus – Georgia, Armenia, Azerbaijan***

**Mission schedule**

***9 January, 2012 - 21, 2012***

***and 8 -17 February, 2012***

BJ: Buba Jafarli (Georgia); IT: Ia Tsagareishvili (SCO); MR: Markus Reichmuth (international consultant); RS: Rudolf Schoch (Regional Director SDC/SECO); SM: Sergey Matevosyan (Armenia); SS: Sophia Svanadze (SCO)

<b>Monday, 9 January, 2012</b>		
11:00-13:00	Briefing at SCO Tbilisi Office (the current SDC SC strategy, clarification questions, detailed agenda, logistics)	RS, MR, SS, IT
14:00-18:00	Kick-off workshop of the consulting team	BJ, MR, SM; RS, IT, SS
<b>Tuesday, 10 January, 2012</b>		
10:00- 11:00	UNDP	MR, BJ; Sophie Kemkhadze, Assistant Resident Repres.
14:00-17:00	- Ministry of Agriculture - EU	MR, BJ; Gigla Mikautadze, Deputy Head of Agricultural Development Department; Juan Echanove, EU
<b>Wednesday, 11 January, 2012</b>		
9:00-13:00	Meetings in Tbilisi (Mercy Corps Kvemo Kartli Project Director, HEKS Regional Director and Project Director, CARE)	MR, BJ; Helen Bradbury, Mercy Corps; Thomas Reynolds and George Glonti, CARE; Nana Topuridze, HEKS/EPER; Andrew Wilson Helvetas
13:00-16:00	Departure for Akhaltsikhe	MR, BJ
17:00-19:00	Meeting at the Mercy Corps Office	MR, BJ; Davidson Highfill and project team
<b>Thursday, 12, 2012</b>		
09:00-18:00	Samtskhe-Javakheti project visit:	MR, BJ, Davidson Highfill

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	- Machinery Dealer - Rural cheese production facility - Municipality of Aspinza (DRR, etc.) - Rural Advisory Services (Agrosupplier)	... Producer cooperative Mayor and collaborators Guram Jinchveladze, RAS
<b>Friday, 13, 2012</b>		
9:00 – 13:00	Departure for Ambrolauri (Racha region)	MR, BJ
14:00 - 18:00	Meeting at the Care Office	MR, BJ; Paula Higgins and project team
18:00 – 19:00	Meeting with the Governor of Racha	MR, BJ, Paula Higgins
19:00	Meeting with farm manager of the Blauenstein Company	MR, BJ, Paula Higgins, Bruno ...
<b>Saturday, 14, 2012</b>		
08:30-09:30	Machinery Group, Oni	MR, BJ, Paula Higgins
09:30-10:30	Farmer family near Oni	MR, BJ, Paula Higgins
11:00-16:00	Departure for Tbilisi	MR, BJ
<b>Sunday, 15 January, 2012</b>		
09:00	Departure for Armenia	MR
<b>Monday, 16 January, 2012</b>		
09:00	Meeting in SCO with	MR, SM, Zara Allahverdyan
10:30	- Meeting with SDA - Departure for Sisian Goris	MR, SM; Mkrtich Ayvazyan, Chairman SDA;
15:00	“Livestock Development in Syunik”	Karina Harutyunyan; SDA team in Sisian
16:30-18:30	Qarajunj community	MR, SM; Karina; Mayor of community, Fin. Service advisor
<b>Tuesday, 17 January, 2012</b>		
	Visit to Harzhis Community – milk collection point, meeting with milk producers group	MR, SM, Karina, SDA team
	Visit to Tegh community – veterinary and AI services	MR, SM, Karina, SDA team
	Visit to Akner milk collection point and cattle farm, meeting with milk producers group	MR, SM, Karina, SDA team
	Visit to Elola milk processing company	MR, SM, Karina, SDA team

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	Meeting with Mr. Ara Dolunc, Deputy Governor of Syunik	MR, SM, Karina, SDA team
<b>Wednesday, 18 January, 2012</b>		
Morning	Departure for Yerevan	
14:00	Meeting with IC/Shen "Markets for Meghri"	MR, SM; Shen Director; Project Director, Nara Aslanyan, Supply Chain Expert
<b>Thursday, 19 January, 2012</b>		
9:00	Meeting with CARD (Center for Agribusiness and Rural Development)	MR, SM; Sevak Manukyan, Deputy Director
11:00	Meeting with Armenian Harvest Promotion Center / AHPC	MR, SM; Vardan Torchyan, Greenhouse Engineer
14:00	UNDP	MR, SM; Babken Babayan, Project Coordinator
<b>Friday, 20 January, 2012</b>		
09:00	Debriefing in SCO Yerevan	MR, SM; Zara Allahverdyan
12:00	Meeting with Ministry of Territorial Administration	MR, SM; Vache Terteryan, 1 <sup>st</sup> Deputy Minister
14:00	Departure for Tbilisi	

<b>Wednesday, 8 February, 2012 (Azerbaijan)</b>		
09:00	SDC Officer in SCO Baku	Zahir Ahmadov
<b>Friday, 10 February, 2012</b>		
11:00	Ministry of Agriculture (in SCO)	Baxram Aliyev, Deputy Minister of Agriculture
12:00	Project Team Leader FARMS	Stefan Joss, Team Leader
<b>Tuesday, 14 February, 2012</b>		
11:00	SDC Officer in SCO Baku	Zahir Ahmadov
<b>Thursday, 16 February, 2012</b>		
08:00	Departure to Agjabedi	
11:00	Meeting with FARMS project in Agjabedi; Visit to a miller (rural SME)	Jeyhuna ....., Ilkin Ibrahimov, Project Manager and project team
14:00	Meeting with SMART project in Barda; Visit to a strawberry cooperative and	Joel Rodriguez, Programme Manager and project team

Assessment of SDC's Program on Rural Market Development in the South Caucasus

	meeting with mayor	
18:00	Departure to Yevlak	
<b>Friday, 17 February, 2012</b>		
07:00	Departure to Tbilisi	
14:00	Debriefing in SCO Tbilisi	IT, BJ, SM; Philipp Keller, IT, Beka Tagauri, colaborators of SCO

Post-mission telephone conversations with

- Matthias Herr, Helveras/IC, responsible for the Meghri project
- David Elliott, Springfield Centre