



Onion pickers arrive by tractor at the yellow onion field in Hanareb, Barda, Azerbaijan. © Kieran Doherty/Oxfam

USING ‘MARKETS FOR THE POOR’ APPROACHES TO DEVELOP NEW VALUE CHAINS IN AZERBAIJAN

Smallholder farmers in Azerbaijan face many challenges in developing sustainable livelihoods. The Smart Farmers Project adopted a pro-poor approach to developing high-value agricultural value chains for onions and strawberries. The project focused on the formation of producer organizations and the implementation of changes in value chain and production practices in favour of smallholder farmers living in poverty – women and internally displaced people in particular. This case study explores what Oxfam has learned about the ‘markets for the poor’ approach, and about supporting smallholder agriculture in Azerbaijan.

INTRODUCTION

Agriculture in post-independence Azerbaijan has been slow to develop. However, although agriculture accounts for less than six percent of Azerbaijan's GDP, it employs almost 38 percent of the population.¹

Azerbaijan's rural population is mostly self-employed and relies to at least some extent on small and fragmented land plots, and communal or state-owned pasturelands. Smallholder farmers have very limited resources, and grow their crops primarily for subsistence purposes. Soil fertility is low. There is a lack of infrastructure including roads, water supply, irrigation and drainage systems, as well as a lack of efficient public services such as extension and market information. The selling of surpluses is made difficult by limited links to organized markets, and a widespread lack of crop processing, storing, handling, packing and distribution facilities. Farmers lack access to finance, and do not have sufficient skills and knowledge in relation to modern agricultural technology and practices, or the requirements of export markets.

High-value agriculture (HVA) – fresh fruit and vegetables in particular – is of particular importance to smallholder farmers in Azerbaijan. These products make an important contribution to family incomes and land use, domestic supply and international trade.²

The Smart Farmers Project (SFP) was a three-year project funded by the Swiss Agency for Development and Cooperation (SDC). Oxfam employed a 'markets for the poor' (M4P) approach to support the development of high-value agricultural value chains, specifically yellow and white onion, and strawberries. The overall objective of the project was to reduce poverty through sustainable income and employment opportunities for smallholders in the vegetable sector as well as for internally displaced people (IDPs) in the districts of Barda, Tartar and Agdam. The project sought to bring about systemic changes in the market system to support the profitable access of women and men smallholder farmers and IDPs to high-value agriculture value chains. A key part of the project was the formation of producer organizations and the identification of lead farmers who would be 'chain champions', in order to build stronger linkages between smallholder farms and HVA markets.

ABOUT OXFAM'S PROGRAMME

Onion value chain

Onions were one of the main agricultural vegetable crops where farmers in the project area possessed existing capacity in cultivation and marketing. The interventions in the onion value chain were designed to meet two main objectives:

1. Supporting farmers to access the winter market for onions.

Domestic production of yellow onion does not meet the current demand during winter. To meet this demand, traders and wholesalers import yellow onions. If farmers had access to onion varieties that could be stored successfully, this demand could be met locally.

2. Supporting farmers to develop farm enterprises that would complement their yellow onion production, providing a more predictable cash income.

Diversification would lower smallholders' dependency on a single product (yellow onions) and market (domestic sales of fresh onion). The project also aimed to develop local smallholder capacity to produce onion for the dehydrated onion market in partnership with an international buyer (Unilever) and a local processor.

Three key interventions were designed to bring about the desired systemic changes in the yellow onion sector. These were:

- **Building the role of producer organizations and lead farmers in messaging about winter season yellow onion production.**
Producer organizations and lead farmers (or farmer-entrepreneurs) play a critical role in bringing other market players into the intervention and in motivating these other market players to improve the services they are supposed to provide to the farmers. By increasing local capacity in crop aggregation and post-harvest activities, the project aimed to create incentives for traders to place orders with the producer organizations and farmers.
- **Improving services and governance in key input markets.**
Recognizing the particular problems faced by yellow onion farmers in accessing good quality seeds and the right varieties of onions, the project sought to work with input suppliers to improve their knowledge and the governance of the quality and varieties of seeds and other inputs. By improving the service of input providers, farmers' productivity can be increased, while at the same time building trust between farmers and suppliers and generating more sales for the supplier.
- **Developing post-harvest handling and storage services** to help link farmers to the existing marketing network of traders, storage owners and wholesalers who supply the winter season market.

Strawberry value chain

The project to develop the strawberry value chain was a response to the challenges faced by IDPs and wage workers³ to secure living wages and a sustainable livelihood. IDPs and wage workers often own little or no land, and there are more women amongst these target groups.

Strawberry production can be commercially feasible even in small plots.

Oxfam's analysis showed that the strawberry value chain required low financial input from farmers (and was therefore low risk), and had the potential for large profit margins. There is an untapped local market for fresh strawberries. National processors import frozen fruit from China, Turkey and Iran, but are interested in local produce if sufficient volumes can be supplied at affordable prices.

The project interventions focused in two main areas:

1. Improving access to quality strawberry plants and production technology.

Research during the inception phase suggested that the existing production approach (seed variety, sowing and growing techniques) were preventing the development of a more secure and stable strawberry market. The project strategy was to develop a micro-nursery in a project site, and link this to a network of support services that the strawberry farmers could benefit from.

2. Strengthening access to fresh fruit market opportunities.

The project assumption was that by using the right varieties and benefiting from timely information and advice, the farmers would increase their production volumes. Strengthening the role of lead farmers/farmer-entrepreneurs and/or producer organizations would then increase the efficiency of local aggregation. The farmers and producer organizations would need support to develop better linkages to the existing marketing network of traders, storage owners, wholesalers and fruit processors.

The intervention focused particularly on responding to the lack of available good quality seedlings. A nursery was established in one village, Irevanli, to produce seedlings of a new strawberry variety, Victoria. The nursery was run mainly by women. Facilitation activities focused on developing the value chain between potential rural farmers and the Irevanli nursery. The facilitation intervention also involved developing business links between agricultural supply merchants for inputs into the value chain, and working with large fruit processor businesses to raise their awareness of the potential for home-grown strawberries. The project incorporated exchange visits to strawberry farmers in Turkey and in Jalilabad, a strawberry-growing region in southern Azerbaijan.

What was achieved?

In the strawberry project, the initial results were promising, with a new sustainable Victoria strawberry value chain established in the target district. The project team was able to persuade several large processors to invest in the development of an outgrower scheme and a nursery. The project also piloted a joint venture between three traders, the Irevanli nursery and nine women farmers. The traders paid for the seedlings and bought the strawberries from the farmers, the farmers cultivated the strawberries, and the nursery provided extension services. Drip irrigation, plastic sheeting, were demonstrated and distributed to traders, farmers and nursery members during open days, where they also had the chance to meet with agricultural input suppliers. By the end of the project, 124 smallholder farmers were cultivating the new variety of Victoria seedling across 7.25 hectares.

Results in the vegetable sector were more complex. Using seed dealers to distribute advice and information to farmers, and employing seed sowing machinery, the onion crop productivity increased significantly. At the same time, production costs decreased as a result of the formation of five producer organizations. Two producer organizations tested aggregation services through the use of a temporary shed and a storage facility as part of a pilot model. They claimed that by proper grading, sorting, cleaning and bagging they were able to attract more customers.

However, in winter 2011 the price for yellow onion dropped drastically, as a result of the European Union's decision to begin subsidising onion production in Poland. Due to the fall in price, smallholders were reluctant to store onions for the winter premium price. Two thirds of farmers who were interviewed subsequently did not grow onion in 2012. Pre-subsidy, the market players in Poland had imported onions from the Ukraine which in turn had imported onions from Azerbaijan. The collapse of the market was so quick and devastating that rural farmers stopped cultivating their onion fields due to financial risk. This has strengthened the risk-aversion of small farmers to storing their onion, and in June 2012 the project withdrew from the two onion value chains

WHAT DID OXFAM LEARN?

1. Learning from the onion value chain intervention

The onion project faced a number of challenges, including high resistance to the new 'markets for the poor' (M4P) approach, untested new products (white onion and the storable yellow onion variety), and a lack of experts with the ability to facilitate M4P approaches.

Developing a new supply chain – learning from a challenging project

The project to develop a new supply chain for dehydrated white onion was ambitious and challenging, and this experience has generated a number of lessons for the project team.

Firstly, there were important contextual factors in Azerbaijan that made it a particularly challenging place to begin a new supply chain and to produce goods at a competitive price for global markets. In retrospect, the choice of location and the project design did not take sufficient account of the contextual barriers and opportunities.

Secondly, unforeseen challenges arose from the fact that the smallholders and the local processors had limited power to influence several key project decisions, such as the choice of crop, farming and contracting models. Most importantly, because white onions had no domestic market, the project required the processor and Unilever to make strong commitments, and relied on developing parallel markets to expand the pool of buyers.

The third lesson concerns the scale of impact of the project in Azerbaijan. Stakeholders spoke of a number of misunderstandings around potential scale. For example, there was confusion about the real demand for dehydrated onions. The level of demand was set by Unilever's commitment to source 10 percent of its requirements through this project. This limited the number of smallholders who could be involved initially to a few hundred. However, many did not understand this reality, and led to the expectation that the project would give farmers across Azerbaijan the opportunity to grow onions for processing.

For projects where 'scaling-up' is a priority, it is important to ensure sufficient technical agronomic knowledge is available within the project team. The project experience also suggested that there is considerable value in building direct relationships between those leading the project and smallholders. The benefits of direct relationships include upfront learning, creative innovation, and transparency. There is a risk of losing

these aspects of the process when designing larger-scale projects with many intermediary actors between the project owners and smallholders.

Finally, there were clear challenges for communication and decision-making within the white onion value chain project. This was driven by the multi-stakeholder nature of the team (each organization brought different cultures and norms to the group), the existence of a large steering group relative to the delivery team on the ground, and the fact that the project had several reporting lines. This created a burden on project staff and led to several incidents of confusion and frustration.

Learning about collaboration

The white onion project was based on a collaboration between Oxfam and Unilever. This experience has generated learning about how to manage collaborations between business and development actors.

The project had the potential to create the foundations for wider systemic change through building wider stakeholder engagement. More explicit alignment and clarity between Unilever and Oxfam on the systemic nature of the work would have improved the strategy for achieving this change.

The project would have benefited from a clear shared understanding of the different drivers, objectives and overall ambitions for Unilever and Oxfam respectively. Many stakeholders commented that Sunrise was trying to do too much, all at once, which suggests the need for better alignment on what the ambitions of the project were, and the strategy for achieving them. In retrospect this conversation may have benefited from independent facilitation, to ensure the development of a clear theory of change for the project as well as a framework for making decisions and tracking progress. Similarly, it is important to agree how to manage expectations, what the project exit strategy should be, and under what circumstances it would be implemented.

Relatedly, project stakeholders experienced confusion in relation to the capacities, skills and competencies that each organization brought to the partnership. An honest, tough conversation at the outset of the project would have surfaced the real strengths and experience of each organization, and indicated where the gaps were for the success of the project. These gaps could then have been managed proactively, with additional organizations potentially being engaged at an early stage to bring necessary additional capacities to the project.

The white onion project was an innovation for Unilever, and an opportunity to show business leadership in relation to development objectives. However, the project lacked clear metrics to assess progress on social objectives such as 'improving livelihoods'. Unless it is clearly spelled out how an innovative project like this serves Unilever's core business objectives, the project can easily become diluted to 'business as usual' activities. Everyone needs to understand why the company is going beyond its usual business activities, and all the relevant stakeholders need to be committed to the project.

Plan the project in accordance with the agricultural calendar... and allow enough time

Economic activity in the crop sector is governed by the agricultural cycle – the tilling, sowing, growing, and harvesting. There is little flexibility during these seasons which means that interventions must be planned well in advance. Certain types of intervention, such as facilitating economic feasibility studies, business planning, financial planning, and business plan training are more effective during the growing season. Messaging via training, demonstration and field visits can be most effective when tilling, sowing, or harvesting are being done. However, when organizing events at these times it is important to take care to avoid placing additional burden on the farmers.

The decision to create onion demonstration plots was influenced by the urgency of the sowing season in November 2011. Further planning time would have been desirable. However, recruitment problems and the needs for the project staff to be well-trained in the new M4P approach took up a lot of time at the start of the project. It is important to allow sufficient time for recruitment, induction, and project planning with consideration given to the agricultural calendar.

The ability to increase the level of engagement with stakeholders – and the private sector actors in the value chains in particular – was also constrained by seasonal cycles that dictate the farmers' workload and therefore the time and resources that they can dedicate to the project implementation.

Demonstrate results – to build engagement

Although the Smart Farmers Project consistently informed the value chain partners of the progress of the project and its successes – for example in drawing good practice lessons and messages from the demonstration plot, crop trials and micro-nursery – many partners were mainly concerned with its profitability. However, this could only be shown after the harvest. Once the project team was able to present financial figures to the stakeholders, their level of engagement increased. For example, the level of active participation in the open field days and demonstrations increased sharply when the farmers became aware of the increased yields of the autumn demonstration plots.

Good extension services are essential

The lack of competent and professional extension service providers proved to be a big constraint for the project. White onion was a new product in Azerbaijan, and the farmers were unfamiliar with the appropriate agronomic practices needed to grow and store the onions successfully. It was difficult to recruit a competent expert able to train the farmers, demonstrating a clear lack of agricultural extension services within Azerbaijan. This difficulty was also reflected in the other project value chains. The strawberry farmers made an exchange visit to farmers in Turkey in order to learn new techniques, while farmers in the vegetable

seed value chain said they were reliant on a Turkish agricultural TV channel for advice and information.

Good analysis supports innovative interventions

In October 2012, with the support of Oxfam's Global Adviser for Private Sector Development, the project team organized meetings and workshops with seed dealers and retailers and the extension providers (AKTIVTA) in the three project districts. The result was a distribution map of the seed supply chain from the international suppliers to the dealers and retailers, with a description of the constraints that prevent the sector from achieving efficiency and market growth, and an analysis of potential options and interventions. Using this information the team was able to create a comprehensive intervention plan, focusing on improving the information loop in the seed distribution network.

2. Learning from the strawberry value chain intervention

Managing project risk

The fact that the strawberry project was reliant on a single nursery was clearly a risk to the project. To meet the project goals, a small nursery business with an initial turnover of less than 100,000 AZN⁴ (approximately \$95,000) would need to grow to a medium-large business with a turnover of around two million AZN – in just three years. Moreover, the whole nursery could potentially be wiped out by disease or poor irrigation.

This project risk could have been reduced through developing nurseries in the other target areas. The 22 smallholder farmers – the majority of whom lived close to the nursery – bought 13,000 seedlings – a quarter of the nursery's sales in Spring 2013 – demonstrated that the initial market reach of the nursery was concentrated around Irevanli. The project could have increased the rate of farmer engagement, or 'crowding in', through the creation of several nurseries across a number of communities, possibly on a smaller scale.

Since the nursery was so vital to the project success, the selection of the nursery members was very important. The success of the intervention was dependent upon their capability to work together, to embrace new ideas, their social standing in the community and their self-belief in that this venture could work. Informal communication mechanisms such as weddings and funerals held at the nursery members' houses provided a perfect opportunity for community members to discuss the strawberry project, and to see the benefits achieved by the strawberry growers – such as the new cattle shed being built, or new children's clothes.

Learning about the M4P approach

The Azerbaijan experience suggests there is a fundamental flaw in the M4P approach as implemented in this value chain. In Azerbaijan, the poorest people – such as IDPs – own extremely small plots of land. Their

land was allocated to them by the government, and is of poor quality with limited access to water. People with such tiny plots of land can only enter the value chain on such a small scale that they cannot gain economies of scale and therefore do not reap the same benefits as larger farmers. For example, IDPs who attended the demonstration days were proposing to plant on only 0.01ha. The project would have benefited from the introduction of another variety of strawberry to complement the Victoria. A variety such as 'Sweet Charlie', which is more labour intensive but also high-yielding might have been a better option for growers with the tiniest plots.

The M4P approach also requires a mandatory contribution from the participants as part of their commitment to the project. Obviously the very poorest people are unlikely to have resources to contribute. As such it may be important to consider how people living in extreme poverty can begin as indirect beneficiaries within the project, with a view to benefiting directly over time. For example, the strawberry project was designed so that IDPs with tiny plots began by working in the strawberry fields. They received strawberry seedlings as part of their salary, as well as free training on the best practices for growing strawberries. This should enable them to become direct beneficiaries over time, notwithstanding the limitations above.

Finally, the fact that M4P requires the project participants to make a contribution to the project meant that the approach met with some initial resistance from both staff and participants. As a result of the long-term conflict between Armenia and Azerbaijan, there are around one million IDPs and refugees in Azerbaijan. International NGOs have often focused on humanitarian responses in the past, and this means that both staff and communities have an expectation that NGO projects should be focused on free distribution of goods and services. For staff, these types of free distributions offer an 'entry' point for engaging with communities, and it was a challenge to build collaboration and cooperation with the communities without them.

3 Learning from both value chains

Lack of access to affordable finance is a major restriction

One of the major challenges for the improvement of agricultural value chains in Azerbaijan is farmers' lack of access to finance at affordable interest rates. Microfinance institutions are only able to offer finance at interest rates above 12 percent, the level guaranteed by the government. This is a major restriction for smallholder farmers who need to borrow during the cultivation period and are only able to repay after they have sold their harvest. Within the strawberry project, this resulted in the nursery sometimes giving the seedlings on credit, with payment due after selling of the harvest. The seed dealers also sometimes do this. However, a more equitable arrangement would be for the buyers to secure finance from a third party and offer this to the growers at affordable rates.

Monitoring and evaluation needs more support

The project implemented an online monitoring and evaluation (M&E) approach. This was innovative, but it proved to be challenging, and did not generate the expected results. One problem was that the project team did not have sufficient capacity at national level to cope with the requirements of the new approach. This was compounded by a lack of clarity about what and how the M&E system would contribute to the project. That contribution became further limited by the change of direction in the project after the failure of the onion market, and a lack of continued participation by the control groups. Where monitoring and evaluation systems seek to integrate control groups, learning from this experience suggests that it may be necessary provide incentives to keep control groups engaged, especially over longer project periods.

Market incentives are key to establishing new producer organizations

Project interventions need to be implemented in ways that will facilitate 'crowding in', because this is critical to achieve systemic change. For this reason, the project worked to promote the establishment of producer groups to enable farmers to take advantages of economies of scale through the aggregation of production and improved access to multiple markets and services.

In Azerbaijan there is a lack of legislative basis for the formalization of producer groups, a lack of knowledge and understanding amongst farmers about the advantages of collective action, and widespread lack of trust among farmers and other market actors in relation to collective farming. In both value chains, strong market incentives were essential for promoting the establishment of the producer groups. Oxfam's facilitation also played a critical role in organizing farmers. Given the challenges, it was not surprising that the producer organizations that were created often had close internal family ties or were based on geographical proximity. Higher levels of cooperation going beyond these close farmer relationships would be more challenging to implement. In addition, the established POs were quite fragile to any shocks such as the fall in the onion price, or the withdrawal of bigger markets.

CONCLUSIONS AND NEXT STEPS

Learning from the project suggests that it would be worthwhile to develop future interventions focusing on the geographical expansion of the strawberry value chain and the development of other soft fruit crops. Suitable crops would be those that are not currently being produced on a large scale by commercial organizations, and which are traditionally grown in Azerbaijan – such as raspberry, redcurrant, blackcurrant and blackberry.

Secondly, the markets for the poor approach could be promoted in all future value chain interventions. The experience in Azerbaijan suggests that it supports sustainability and mutual responsibility – notwithstanding its limitations in terms of reaching the very poorest people. Indeed, the core principle of the M4P approach suggests mandatory contribution from the beneficiaries and further resources is a good approach to maintain the project impact, as long as this is alongside support to the poorest – even if it's indirect support, it gives an opportunity to those who cannot contribute in kind to be part of the activities and eventually become contributors to the project.

As a first step, the results and learning from this project have been used as inputs for a new project to develop strawberry and local seed production value chains. This is currently being implemented under the Rural Regeneration Project funded by the European Union.

NOTES

¹ FAO (2012) *Assessment of the Agriculture and Rural Development Sectors in the Eastern Partnership countries, The Republic of Azerbaijan*, FAO Regional Office for Europe and Central Asia (REU), <http://www.fao.org/3/a-aa671e.pdf>

² *Ibid.*

³ Definition: Wage and salaried workers (employees) are those workers who hold the type of jobs defined as "paid employment jobs," where the incumbents hold explicit (written or oral) or implicit employment contracts that give them a basic remuneration that is not directly dependent upon the revenue of the unit for which they work. Source: International Labour Organization, Key Indicators of the Labour Market database.

⁴ The currency of Azerbaijan is the Azerbaijani Manat. One Azerbaijani Manat equals around \$0.95.

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For further information on the issues raised in this paper please e-mail programme learning team at programmelearning@oxfam.org.uk

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