

Maximizing Return on Investment
A low cost / high impact approach to linking producers to markets in
Armenia's Northern Economic Corridor

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Abstract

Enabling producers in developing economies to effectively link to markets is proving increasingly challenging and complex in a globalized world. More and more supply chains in the global economy are being redefined, and, according to Thomas Friedman, “flattened” presenting new opportunities for producers. In Friedman’s flattened world, exponential technical advances and diminishing trade and political barriers have converged and now make it possible to do business instantaneously with billions of other people across the planet. This phenomenon has led to the emergence of complex supply chains which allow for an increasing possibility of using labor and services in emerging markets.¹

At the same time, a growing regime of international standards and other quality, quantity, and consistency requirements present to small producers in developing economies an often intimidating system of rules, regulations, and trade conventions. While formal tariffs have been decreasing during the past decade, non-tariff trade barriers have in many ways made markets less accessible for developing economy producers. The International Standards Organization, for example, has published 14,9000 international standards and Perinorm, a consortium of European standards organizations, maintains a database of around 650,000 standards from 21 European countries.² Furthermore, as large multinational supermarkets and retail chains focus on expansion into developing economies, producers are being forced to compete not just for global recognition of their products, but for domestic market share as well.

The net result of these changes are that producers in every country, especially those in developing economies, are facing new and difficult business challenges in the form of changing consumer preferences and buyer requirements. This ever evolving environment presents a dilemma for international development practitioners. The dilemma is how to provide the most cost effective means of assisting producers to link to markets – maximizing outreach while at the same time ensuring that assistance amplifies producer’s penetration of markets.

This case study provides a summary of a development assistance strategy, known as the “economic corridors” approach, which addresses this dilemma and in doing so provides a low cost, market driven means of linking producers to markets.

¹ *The World Is Flat: A Brief History of the Twenty-first Century.* Farrar, Straus and Giroux. 2005.

² *World Trade Report 2005: Trade, Standards, and the WTO.* WTO. June 2005.

The Economic Corridors Approach

The economic corridors approach emphasizes connecting poor rural areas with cities, which in turn connect with other higher ranked cities on the commercial and production level. In order to maximize return on donor investment in operating offices within the economic corridor a certain scale must be achieved, local languages, culture, and socio-political differences must be breached, and the approach must provide outreach to areas which are often left out of the economies major supply chains. The economic corridors strategy addresses these challenges by hiring local corridors advisors with the intention of achieving the greatest possible outreach to small and rural producers with the highest possible impact.

Notable among the countries where this approach has been implemented is Peru. In Peru USAID has funded the Poverty Reduction and Alleviation project (PRA) which pioneered the corridors approach. Since then, this approach has been adopted and adapted in various ways by 10 USAID funded, Chemonics implemented, projects all over the world. Examples from some of these contracts are noted in this case study.

USAID-Armenia's Micro Enterprise Development Initiative (MEDI) is one of these ten projects implementing the corridors approach. As a means of providing entrepreneurs in Armenia with better access to markets, MEDI established the MEDI North Offices (MNO) in three strategic cities in the north of Armenia. The MNO are the primary focus of this study.

MEDI's strategic approach in establishing the MNO was based on a wealth of previous Chemonics' experience along with MEDI sponsored research and analysis which revealed a strong disconnect between producers and the buyers of their products. This research and analysis included business development services (BDS) supply and demand surveys and market linkages assessments. The key finding among these studies was that most Armenian producers, including those in the northern corridor, are struggling to respond to market conditions and adjust aspects of their production process in order to respond to buyers' demands. In essence, the vast majority of producers are relying on an, "if you build it they will buy it" mentality when making critical business decisions.

In order to address this disconnect between producers and their market, MEDI established the MNO through a competitive procurement. Through this procurement business advisors were interviewed and selected. All advisors selected are residents of the northern corridor and have been working in the business community for the better part of their careers. The advantages of hiring staff intimately familiar with northern corridor businesses clearly outweighed the realized need of building the advisor's capacity to implement the MNO's demand driven approach. Thus, once operations of the MNO were started, the MEDI team began a series of trainings, workshops, and capacity building exercises to ensure that the corridors approach was effectively implemented.

Guiding Principles of the Corridors Approach

These trainings emphasized the following seven principles which form the basis of the corridors approach:

- 1. All assistance starts with the identification of buyers needs.*

A fundamental premise behind the corridor's approach to linking producers to markets is that demand drives supply and that producers must meet buyers' demands in terms of quantity, quality and delivery deadlines in order to grow and create jobs. This approach can be summed up in the dictum "produce what you can sell" and not "sell what you can produce". Putting this seemingly simple statement into practice in Armenia is no easy task given the command economy mentality that is the legacy of the Former Soviet Union.

In order to promote this customer driven approach, discussions about assistance opportunities with MNO advisors always start with the demand for products or services. From the outset of MNO operations we have encouraged the practice of asking simple questions of each other such as, "who is the buyer – what is their address and phone number?" Or, "what does that buyer specifically require in order to place an order?" And once these questions can be answered the next natural question is usually asked, "which businesses in this corridor might satisfy that buyer's needs?"

Shortly following the establishment of the MNO a training provided by Dr. Jim Riordan of Chemonics International was provided to MNO advisors. This training focused on the complexities of each individual opportunity to assist businesses in Armenia's northern corridor and a lot of time was spent discussing the importance of having a buyer in place instead of finding a supplier first and then searching for buyers (which is the natural tendency for advisors first implementing the corridors model). This technique quickly placed everyone in the room in the position of focusing on the deals which could or could not be identified and with the realization that identifying buyer's and their terms is a genuine need in order to assist corridor businesses. For example, as presented at this training, a known buyer of fat free cheese was requesting 700 kilos to be delivered once a week for which the buyer was willing to pay 450 AMD/kilo. Getting to this level of detail helps advisors to "keep their eye on the ball" which in the end is finding buyers and helping suppliers in the corridor satisfy their demand.

2. Efforts are concentrated in an economic corridor.

The corridors approach allows outreach to more rural areas often disconnected from the broader geographical network where goods and services flow more freely. Workers might migrate or commute from rural towns to urban centers because that's where the jobs are, and return to spend their income at home. The corridors approach emphasizes the fact that neighboring urban and rural areas are the best markets for each other's products, services, and labor, and the success of one is inextricably linked to the other.

The corridors traditionally follow transportation systems that link rural lands with intermediate cities, and intermediate cities with external markets. A natural corridor normally includes one, sometimes two, intermediate sized cities that act as the hub of the network's commercial activity. This hub serves as the distribution point for goods entering or leaving the region, and as the main link with other corridors, larger commercial centers, and export markets. In fact through its connection to other corridors, a broader network is revealed where individual corridors cooperate to form regional systems for the flow of commerce.

Taken together, these systems and subsystems reflect the geography of the flow of goods, services, capital, and labor throughout a nation's economy, and provide a logical mean for project's looking to increase commercial flows. If these networks exist and reflect how national and regional economies function, it makes sense to leverage their power as a tool for boosting

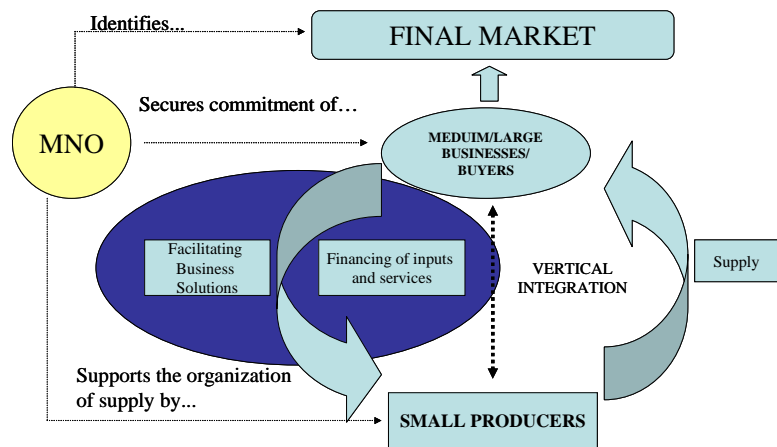
economic growth. They are an existing, often under realized, mechanism for spurring decentralized economic development, where a disperse group of people can be reached.

There are some rural areas where there is limited access to roads, and where the population outstrips agricultural productivity, bringing about intractable poverty that cannot be solved through technological inputs. In this case, as a part of the broader goal of reducing poverty, it would be expected that growth experienced in intermediate cities, and the related increased demand for labor, would provide incentive for domestic migration to regions that can bear the burden of higher populations. Thus, a fundamental premise of the corridors approach is that labor is mobile and will move to where the jobs and opportunities exist.

Locating the MNO in the northern economic corridor of Armenia was based upon two basic criteria - economic potential and producers access to medium and large enterprises. In each of the three MNO offices MEDI placed, through a subcontractor, one or two business advisors for a total team of five. The approach to operating these offices is significant in that it offers a low cost/ high impact means of mobilizing investment and increasing sales in businesses in some of the most remote regions or Armenia.

3. Focus on client sales growth is the primary objective.

At the heart of increasing producer linkages to markets is assisting firms to make transactions that generate increased sales. The corridors approach as stated above starts by identifying buyers with first and last names, and follows with tailored assistance to expedite transactions. Whether facilitating a product design change or solving a logistics problem, the corridors approach support clients in making transactions through cost-effective innovation. In so doing the approach supports producers in various parts of the value chain and facilitates strategies to address the gaps detected in these value chains as illustrated by the graphic to the right.



A final technique conveyed during Dr. Riordan’s training helped advisors to prioritize their opportunities based on an estimated return on investment (with investment as the advisor’s time and MNO budget and return as client sales). In general, a five to one ratio is the minimum point at which the advisor should spend time and resources assisting the client beyond the initial contacts to identify the opportunity. In the case of the MNO, the incentives scheme is maximized with \$1 million in sales, and given the fact that the operating budget for the MNO is around \$100,000, the group agreed that a ten to one ratio would be optimal. This technique, along with the value chain analysis discussion, helped to guide the analysis of fourteen potential clients during Dr. Riordan’s training, and in the end narrowed the list to the four cases that the group agreed were the best to pursue.

4. Advisors are provided incentives to achieve corridor sales and investment goals.

William Easterly's *The Elusive Quest for Growth* eloquently argues that the key to private sector development is incentives. The incentives scheme adopted with the establishment of the MNO is meant to encourage advisors to set their priorities around efforts to create sales for businesses in their corridor. The starting point for aligning the priorities of the MNO advisors with those of their sub-contract (and therefore USAID-Armenia's MEDI) was establishing an incentives system which encourages advisors to make daily decisions that: 1) lead to increased client sales in the short-term, and 2) reinforce the idea of return on investment. The MNO incentives scheme is meant to reward MNO advisors for creating client sales but it also reinforces the decision making process which allows the advisors to prioritize their efforts and make these sales happen.

The incentives system offers advisors performance bonuses if they exceed agreed upon sales targets³. At its best the incentives system triggers spontaneous actions by advisors to identify and assist client firms in ways that programmed project activities could not have predicted or achieved. Examples of these actions are captured in the illustrative cases provided below.

5. *Only services which have a public good are provided.*

One crucial, yet nuanced, point of the assistance that corridor advisors supply is that the services provided are by their nature a public good.⁴ The foundation of providing public good services is that the volume of economic activity in most, if not all, areas of the corridor is anemic and an increase in economic activity is needed in order create commercial opportunities for supporting or competing businesses. Once advisors have successfully identified a buyer's needs, there is potential for commercial opportunities to be developed and realized.

For example, Aida Khachatryan, an MNO advisor based in the city of Gyumri, made contact with a textile producer, Saro Zargaryan, whom she assisted in making inroads into a nearby region within the northern corridor of Armenia. Once this relationship was established and the textile company had increased its sales by accessing this market, Khachatryan turned her attention to the much larger market for underwear in Yerevan. After meeting with buyers in Yerevan, the owner of Saro Zargaryan began to understand that his line of products needed to be redesigned. At this point Khachatryan, at Mr. Zargaryan's request, identified two tailors from Gyumri, one of which was hired to redesign the businesses line of products. By acting as an "honest broker" and providing a public good of building linkages between the producer and his markets, commercial opportunities were generated.

6. *Industry sectors are not predefined.*

³ It should be noted that in some instances such as USAID-Peru's PRA project the incentives system was based upon sales and jobs and that investments, exports, and other measures could and are being used in various corridors incentives systems.

⁴ A public good (or service) is said to be public if the amount consumed by one individual or firm does not reduce the amount available for consumption by others. In other words, it is impossible to exclude other producers from consuming the good (or service) and the benefits that accrue to others are an "externality". From: *Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention*, 2001 Edition; Prepared by the Committee of Donor Agencies for Small Enterprise Development; Secretariat: SME Dept., MSN F2K-207 World Bank Group 1818 H Street NW Washington, DC 20043 USA Fax: (202) 522-3742 February 2001 (found at: <http://www.ilo.org/public/english/employment/ent/papers/guide.htm>)

The corridors approach does not presuppose to select businesses or sectors upon which the advisors will focus. Instead, we insist that the advisors have an open mind when looking for buyers and demand for corridors products and services. This open minded approach is founded on the basic realization that individual businesses - not products, sectors, industries, clusters, or projects - make investments. Although businesses have shared problems and sometimes collective action is necessary to resolve them, the individual business is the place to start to have an impact.

Many donors and projects continue to initiate assistance with constraints and restrictions in the form of predefined businesses or sectors. In many cases this is done for expediency's sake or to coordinate assistance with other projects. While it is tempting to pre-select a project's products or sectors, we strongly argue that such a decision could come at high opportunity cost. If designers of USAID-Peru's PRA project had prescribed sectors on which to focus, they most likely would have ruled three of the project's top five businesses off limits. Similarly, in Armenia the corridors advisor clients range from dairy producers, to textile companies producing medical gauze, to entrepreneurs supplying retail goods to remote regions of the northern corridor. It is hard to imagine that a planning committee or working group could have selected the broad set of businesses and sectors that encompass the current list of MNO clients.

7. Monitoring and evaluation is an integral component of implementation

Many projects look to monitoring and evaluation systems simply to report results to financiers, and essentially nothing more. To achieve, and then verify, agreed upon sales targets the corridors approach requires a strong monitoring system. Beyond simply reporting and verifying sales targets, this system is critical in providing the corridors advisors an ongoing, hands-on management tool. Advisors, and the projects that manage them, use sales results to identify failures and successes in working with clients. In this way they learn rapidly what really works and what does not, and spot problems and make mid-course corrections. As an example, early on MNO advisors discovered that working with large- and medium-sized buyers led to far more consistent and efficient sales growth than those efforts focused on one-off deals linking producers to consolidators or individual traders.

According to this system, only results from clients who have signed approved contracts, submitted to baselines, and received assistance can be counted toward MNO advisor incentives. The incentives pool is paid out on a graduated scale based upon increased sales in client firms, making the monitoring system an integral part of MNO operations.

To ensure that the monitoring of MNO activities is a transparent, organized and logical process, the MEDI team has developed an electronic MNO monitoring system. This system is fully web-enabled allows daily monitoring of MNO activities from any IT portal in the world. The system allows for inputs and feedback by both the MNO and MEDI management teams.

Many projects hold themselves accountable for what they do, not for what they achieve, making the impact of their work a matter of faith. Raising the bar to measure results not only makes much more sense, but is also wise management practice. In this regard, the corridors system intentionally creates incentives and monitoring systems that are synonymous in that one depends upon the other to function. The practical application of these systems in advisor's approach to their work is described below.

The Process of Implementing the Corridors Approach

Corridors advisors work to link producers to markets in a highly defined process meant to maintain consistency in approach and quality in service provision – both gauged by a regimented monitoring process. This process, while specifically defined, does not restrict advisor’s focus to one client, sector, or cluster. In this way, the process provides for the flexibility needed to ensure that corridor advisors can seize upon opportunities which present themselves in pursuit of their sales goals. In Armenia for instance (and generally in other countries where the corridor approach has been adopted), the approach to MNO work follows seven steps:

1. The MNO advisor identifies demand and actual buyer requirements (names and addresses – not just market studies) for products or services.
2. The MNO uses these demand conditions to identify businesses in the northern corridor which have the ability to respond to the buyers demands.
3. If potential clients can meet the buyer’s demand conditions, the MNO advisor signs an MOU with the client. In order for an advisor to undertake formal assistance to a client (that is, assistance whose sales results will be counted toward advisor incentives) an MOU has to be submitted and approved by the MEDI management team (via the online monitoring database), and then signed with the client. This agreement is used, among other things, to identify the buyer of the client’s production, and identify the problems that the client has in satisfying the buyer’s demand. The MOU provides both the client and advisors commitment to the project and the expected outcome in terms of actual sales growth.
4. Once the MOU is approved, the MNO advisor takes a baseline of the last twelve months of sales, exports, production and employment at the firm. The baseline is submitted to MEDI via the online monitoring system. The MEDI management team then verifies the data through data analysis, interviews with the advisor, and interviews with the client firm. The data is either approved or, if inconsistencies are found, the data is rejected and the MEDI management team works with the advisor to ensure that the data is reported correctly. The data verification function is performed by a Monitoring Specialist who reports directly to the MEDI Chief of Party and whose job is independent of all other MNO functions.
5. MNO then begins assistance to the client in fulfilling the identified demand for their product or service (according to the terms of the MOU). Examples of the assistance provided can be found below.
6. Throughout the period where MNO assistance has caused a change which continues to help the client’s growth, updated sales, export, production, and employment data are collected and submitted for verification and approval in the same manner as baseline data is submitted.
7. The assistance process is repeated with existing clients if additional value can be gained through advisor efforts. In the case where additional assistance is provided sales growth is expected to exponentially increase so no new baseline is needed. The MOU employed by MEDI allows for an annex to be added describing the terms and expected outcomes of the new assistance. The exception to using existing MOUs and baselines occurs only when a new product or service is the subject of assistance and the sales results data is segregated from the initial data collected.

Lessons Learned and Techniques Used In Implementing the Corridors Approach

A number of key lessons have been learned which illustrate the challenges faced when establishing operations in an economic corridor. The following examples show the work that goes into ensuring that the corridor advisors fully understand and adopt the approach. These examples also provide some useful ideas for establishing and maintaining high performing corridors offices.

- ***Start with what you know.*** Given the MNO advisor's initial indisposition in contacting businesses due to their lack of complete understanding of the corridors approach, MEDI started by assisting the advisors in identifying potential clients. This began at the first meeting of the MEDI and MNO team called the "induction workshop" where MEDI encouraged the advisors to identify business owners who they knew and with whom they felt comfortable. These businesses, it was agreed, would be the first contacts of the advisors thus keeping them from getting stuck in the gate and still allowing for meaningful contact with businesses in the corridor. Plus as Krist Marukyan, previous MNO Team Leader put it, "this way we are able to make mistakes and learn with people we knew and feel comfortable with."
- ***Market linkage assessment.*** Prior to establishing the MNO MEDI undertook a "market linkages assessment" (MLA) covering seven out of eleven of Armenia's Marzes (regions). Through this survey 227 medium and large sized firms were identified and interviewed. Interviews focused on the level of outsourcing and subcontracting that the firms currently undertook and would potentially buy. From this survey over \$42 million of potential outsourcing opportunities were identified. During the induction workshop the MEDI team worked with the MNO advisors to look at these leads in order to better understand the products and services being bought and sold throughout Armenia and especially in the northern corridor. The MLA also provided MNO advisors with specific companies which they could contact and a host of information which was extremely useful for guiding their meetings with these potential clients.
- ***Mapping the corridor.*** MEDI also encouraged the MNO team to better understand what is being bought inside and outside of the corridor. As such MEDI assisted the MNO in mapping current buyers and sellers relationships based upon their knowledge of the market and resources available such as the market linkages assessment. When talking through this approach with Zarmail Mardanyan, an advisor in the Tavush Marz in Armenia, it became clear that many berry producers were selling ad hoc to local markets and directly to consumers on the side of the road. From this realization MEDI lined-up several meetings with berry buyers and processors around the Yerevan area. Through these meetings two potential buyers were identified who are currently importing a large portion of their berries from Russia in order to meet their juice and ice cream production needs and who could potentially represent a market for local berry collectors.
- ***Consistent client management.*** Once a solid list of corridor businesses was developed MEDI helped MNO advisors to develop an effective approach for facilitating meetings with these potential clients. A three day training on how to approach clients, manage expectations, represent the MNO, identify opportunities through client interviews and follow-up with

clients was conducted. This training included at least two meetings between each MNO advisor and a prospective client business which the trainer attended and helped to facilitate. Following these meetings a one day group training was held in which the lessons learned from these business meetings were discussed. As basic as some of the training was – for example, saying what the MNO’s purpose is in one sentence when approached by someone on the street – it helped MNO advisors to have confidence in their knowledge of the demand driven approach which in turn allowed them to get out of their offices and start knocking on prospective clients doors. By the end of month three MNO advisors had contacted 196 firms.

- ***Look at the value chain.*** In many cases the advisors by virtue of their previous experience working with businesses in the corridor knew buyers and sellers of products and services but they had not really considered how these businesses fit into the value chain. For example, when a textile manufacturer was presented and discussed it became clear that the cost of raw materials, specifically cotton imported from Central Asia, was a real impediment to the business. The question naturally followed if the producer could buy cotton locally or if they could switch production to locally produced wool which is readily available in the northern corridor. The next point of conversation was to discuss the final destination of the product. In other words, who is the buyer of the finished goods? Were they exporters to foreign markets or local retailers selling directly to consumers? By using the value chain as a tool to discuss the specific inputs and outputs of a business the advisors began to naturally ask about buyers and consider their demand conditions.
- ***Evaluate the client’s ability to meet demand conditions.*** In some cases a buyer’s very specific demands for a product may be easily met by a supplier. However, in many cases after the hard work of identifying a buyer and securing their commitment to engage advisor clients in discussions is accomplished, the real hard work begins. As an example, the MNO has identified an Armenia doctor who wants to produce plaster of paris cast kits. This doctor has provided the MNO with specific requirements for the gauze he needs including such things as density and absorptiveness. The MNO team contacted a Chinese manufacturer and Swiss distributor to gain further understanding of global medical gauze standards. They also located one local textile manufacturer, Maralik, who agreed to attempt to meet the identified standards. Maralik realized that their gauze was not being cut correctly so the MNO assisted them in identifying another entrepreneur who fashioned a technique for cutting the gauze. The doctor also has realized that his production line was too slow to produce the plaster of Paris packages at the rate needed to turn a profit and the MNO helped this doctor to find a consultant who improved the efficiency of his production line. When working with new technologies, competing local and international suppliers, and facilitating the production of a product which has a number of complex standards, the assistance needed can be complex and involved. However, even in this case the basic question which the MNO advisors are always forced to ask is if their clients can meet the demand conditions for the product and if not, what can be done to assist them in doing so.
- ***Identify the key constraints which are not allowing for demand to be met.*** In Ijevan, Armenia a cheese producer, Saraghar, is supplying mozzarella cheese to a number of restaurants and distributors (who sell the product to small grocery stores). Saraghar can not meet the demand for their product because they don’t have access to enough milk. The lack of supply of milk is an obvious key constraint identified by Zarmail Mardanyan, the MNO

advisor in Ijevan. To address this need Mardanyan arranged a meeting between Saraghar and thirteen large milk producers and cooperatives from around the northern economic corridor. Three suppliers were engaged at this meeting and contracts between these suppliers and Saraghar soon followed. But in order for these suppliers to meet the terms of the contract further constraints, such as transport for the milk to collection points and a system for collecting the milk and testing quality had to be addressed. Based upon these specific needs that were subject to the Saraghar and supplier contracts, Mardanyan is now working with the milk suppliers to address the key constraints preventing their businesses from increasing sales through the Saraghar contract.

- ***Assess the client's ability and willingness to change identified constrain.*** Continuing with the previous example, ten of the thirteen businesses and cooperatives invited to the meeting with cheese producer, Saraghar, did not want to or could not change their production to meet Saraghar's needs. Although it was tempting to push for agreements with more than three of thirteen suppliers, the correct decision was made to work with those who were willing and able to make adjustments and investments in order to make the terms of the contracts work. Our feeling is success breeds success and three successful cooperatives and producers supplying milk will make a better example than four successes and three failures. In the end, this initial success with these three cooperatives/producers has led to an interest expressed by several producers who are currently in talks with Saraghar with Mardanyan's help.

Corridors Approach Services Provided - Limitations and Advantages

The cases below illustrate some of the services provided through the corridors approach as well as some key advantages of the approach.

- ***Better supply chain management.*** Armenia is renowned for a dairy product called Narine which is thought to be one of the reasons why the caucuses region is home to more centenarians than any other place in the world. In the northern corridor a small business, Kara and Karen, has been able to obtain a license to produce and distribute Narine. However, due to poor supply chain management Kara and Karen's product has not penetrated any market outside of the city in which it is produced and has fallen short of higher priced rival products from Yerevan. MNO advisors have assisted Kara and Karen in meeting with buyers from other cities in order to understand their needs. Kara and Karen discovered that they were often unaware of key times when the market for their product peaked and that they were not distributing their product in a consistent manner leaving many buyers unhappy. Through MNO assistance Kara and Karen have a better understanding of buyer's demands and have outsourced their distribution. MNO has helped them to focus on key buyers in major neighboring cities and as a result they have now expanded production and distribution to cover all three regions in the north of Armenia and are moving to establish themselves in a fourth region neighboring Yerevan.
- ***Organic cluster formation.*** The Shipibo-Conibo tribe in the jungle of Peru had always produced beautiful ceramics, but had never mass produced for large-volume sales. Most traders were reluctant to source from them. The president of a Lima-based export company decided to try, and secured an order from Pier One to buy 25,000 pieces. On receiving the

order, he wondered how they would ever succeed in delivering anything near that volume on time and in accordance with quality standards. He therefore approached USAID-Peru's PRA project, which agreed to assist him. For its part, the company committed itself to bring in new technology to facilitate production in volume and advanced funds to the artisans to get the operation off the ground. PRA hired a technician to train the artisans in the new technology, monitor production, and exercise quality control. After many twists and turns, the company and the artisans succeeded. About 200 community members – mostly women - - worked directly in the operation, and 200 others benefited indirectly from jobs as well. In addition, four micro-enterprises learned how to organize production for future orders, thus, catalyzing from the bottom up the formation of a ceramics cluster in the area.

- ***Building competitiveness from the ground up.*** The Ucayali River, located in Peru's eastern jungle, recedes every year, leaving approximately 100,000 hectares of rich soil in its beds. In 2001, two Peruvian exporting companies solicited support from USAID-Peru's PRA project to grow beans, a short-cycle crop, on the Ucayali during the four-month dry season. Both companies had buyers abroad to whom they could sell, and were looking for land to grow for those markets. Under an agreement with the two companies, PRA brought in a consultant with experience in riverbed farming and shared the costs of the companies' technical supervision of small growers. For its part, the companies up-fronted the costs of seeds and supervised the entire operation. In the first cycle, the companies planted 1,600 hectares, an expanse that boosted the demand for labor in the region and raised the wage rate 30 percent – a dramatic, widespread effect on poverty. Today five companies are involved, working almost 5,000 hectares, a scale that has attracted seed, fertilizer, and machinery companies, nurturing the creation of a cluster in the area.

A number of key lessons emerge from this experience. First, providing support to one or two companies does not necessarily create monopoly positions for them. On the contrary, their success is the linchpin to attract others to invest. Second, clusters form in reaction to market forces. When the scale of operations takes on a large enough scale, the incentive to make money attracts both copycat investors and ancillary industries. Third, and in a similar vein, the best people to provide technical assistance to small growers are their buyers. Why? Because they have a commercial interest in the quantity, quality, and timeliness of the product. Fourth, the government limited its role to facilitation, regularizing the rights of the investors to farm what previously had been “no man's land.”

- ***Honest brokering.*** Piscifactoría de los Andes, a trout processing company in Hunacayo, Peru, had exported frozen trout to Europe for years. Although Europe could absorb up to three times the production from its own ponds, Piscifactoría, a conservative firm, was reluctant to source from others. By the time USAID-Peru's PRA project came along, the SAIS was bankrupt and suspicious of overtures from outsiders, and Piscifactoría had dismissed working with them as a losing proposition. In short, there was a virtually complete lack of trust between the two parties. PRA's corridors advisors recognized that an alliance between the two parties would not only make more money for Piscifactoría but provide jobs for poor SAIS campesinos. So, despite the odds, PRA spent almost a year nurturing trust between the two, breaking down preconceptions, and convincing them to join together in a business relationship. In the end, Piscifactoría agreed to invest \$70,000 in rehabilitating the

SAIS's ponds and to furnish raw materials and technical assistance. For its part, the SAIS agreed to abide by the company's technical direction and sell to Piscifactoría at a mutually agreed upon price. The relationship has now matured, and the SAIS sources Piscifactoría on a regular basis.

This example serves to illustrate a fundamental point made in PRA's independent mid-term evaluation: "what is most lacking to the successful forging of the marketing link along the value chain is trust between the parties to a deal. The long history of mutual deception between buyer and seller has left an attitude of mutual distrust that is extremely difficult to overcome. In fact, the evidence of this investigation suggests that the role of the ESC advisor as a 'moral guarantor' of the performance of the parties to a deal is as important as any technical or informational input."

The power of the starting with demand. In 2002, Odila Baez, the owner of a wood moldings manufacturer in Paraguay, approached the USAID-Paraguay Vende project team members with a specific request: could they help her find buyers for the moldings produced by Xtreme? In April of 2004, Ms. Baez and Xtreme's general manager, accompanied by one of Vende's advisors, came to the U.S. and visited potential clients. In their meetings, Ms. Baez told the story of Xtreme and why its moldings were worth buying, and in so doing was able to build confidence in her company and form personal relationships with potential clients. By the time she left the U.S., Ms. Baez established formal business relationships with 12 companies and soon after returning to Paraguay, received orders for moldings from a few. As a result of these orders Xtreme has generated over \$85,000 of new sales in 2004 which in all, Xtreme's success has had significant economic ripple effects, generating more than 10,000 additional days of labor for local workers, and leading to over \$735,000 of local investment in fixed assets and \$400,000 in primary materials and working capital. The solutions employed by Paraguay Vende helped achieve this by bringing Ms. Baez and her company what every business person wants: clients.

- ***Focus on both sales and investment.*** Initially, the MNO focused solely on improving sales in client firms but MNO advisors are increasingly seeing investment opportunities. This has led to the MEDI team playing a more active role in assisting the advisors to attract appropriate investment for their client's operations. To date, 23 loans have been attracted to one of the regions of the Northern Corridor and several more opportunities are being explored including the formation of an angel investor's association. Now investment has been adopted along side of sales as the second key objective for MNO advisors.

The dilemma of maximizing outreach to rural and small producers while ensuring that assistance results in deals that link those producers to markets is one shared by anyone providing economic development assistance. The economic corridors approach not only provides a means of accomplishing this difficult to achieve objective but does so in a manner which ensures that all parties are held accountable, that the impact of the assistance can be measured and the approach adjusted accordingly, and that the approach itself maintains the flexibility needed to ensure that all opportunities identified are seized upon.