

Peculiarities of the BDS Approach for Rural Development in Transition Country¹

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1. Economic situation of the country

- Small mountain country (5 million people and 65 % are rural population, average altitude is above 1 500 m, 7 % of land out of almost 200 000 km² are available for agriculture; main sectors: energy productions, agriculture and mining);
- A structure of the economy (Industry – 27 % of GDP, Agriculture and Forestry – 40 %, Services - 35 %);
- Real GDP growth: 1999 – 3.7 %, 2000 – 5.4 %, 2001 – 5.3 %, 2002 – 0 %, 2003 – 6.7 %, forecast 2004 – 4.5 %, 2005 – 5.5 %.
- Stabilised inflation rate 6.9 % (2001) – 3.0 % (2003); unemployment rate ~ 10 %;
- 96 % of enterprises are private. There is a private property for the land;
- Import (569 mil \$) exceeds export (435 mil \$) ;
- Literacy 97 %; 15.4 % of people with high education in urban area and 5.4 % in rural area, secondary education – 47.4 % in urban area and 44 % in rural area.

¹ Kyrgyzstan, Central Asia

2. BDS Market in Kyrgyzstan

2.1. Demand

- Number of operational enterprises

	1999	2000	2001	2002
Number of the Small Enterprises	7 993	7 557	7 555	6 893
Number of Medium-sized Enterprises	1 004	1 011	1 024	866
Total:	8 997	8 568	8 579	7 759
Agriprocessing Enterprises (micro, small and medium-sized)	622	566	548	475

- There are around 120 consulting and marketing companies, ~ 90 juridical and audit companies, ~ 200 trading companies, ~ 30 ISP and mobile communication companies;
- 95 % SPs situated in the capital (~ 0.85 mil people) and 85 % agriprocessing enterprises situated in rural area;
- Insignificant information flow about SPs and operational agriprocessing enterprises;
- Contradiction in understanding of market economy: Most of managers of agriprocessing enterprises are old Soviet style directors with plan economy and in opposite almost all directors of consulting, marketing and training SPS are young generation quite well adapted to market economy;
- Many high qualified specialists. High potential of local SPs;
- SMEs are ready to pay for the services when they have clear understanding of getting benefits (see. cases with the School of Practical Managers and the School of Farmers);
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2.2. Supply

- The project did in cooperation with the GTZ an Assessment of the Market for Business development Services in Kyrgyzstan among 500 SMEs in 2002;

3. Project Results

3.1. How it was?

- The project started in March 2001. At that time the SPs did not believe at all at possibility of selling services to rural agriprocessing enterprises. At the same agriprocessing enterprises did not believe at ability of local consultants to provide qualified services;

3.2. What were done?

- The project plays a real facilitation work. Project staff in 2001 and 2004 was 1.2 person (2 persons) and in 2002 – 2003 – 2.2. Administrative costs are very small.

- The project did interventions at the three levels through established working groups. Membership for the working is an interest to work in the frame of the project. The working group (WG) 1 - Service Providers (consulting, marketing, trading, engineering and juridical companies). The project does not subsidize a provision of services. Enterprises have to pay full price of provided services. The WG 2: SME from ONE sector – fruit and vegetable processing industry. The project playing a facilitation role initiated demand for certain services from processing enterprises. For instance, the information about available credit resource; equipment for processing; customs regulation for export; training in management (of business, financial and human resources) and marketing; investment assessment of the enterprises; The WG 3 – Donor projects, Government and Credit Institutions working with agriprocessing sector. Cooperation in implementing some activities: A meeting between Kyrgyz and Russian processing companies; Investment Conference; Support of Associations.
- Members of the WG 1 and WG 2 organised the Kyrgyz Association of Consulting Companies (ACC, April 2002) and the Kyrgyz Association of Fruit and Vegetable Processing Enterprises (AFVPE, July 2003). Both Associations have quite big membership fees, one payable executive director and one assistant, Board of Director. Membership fees and income from services of the Association allow them to cover their expenses from 30 % (ACC) to 55 % (AFVPE). Each association has 12 members at the moment.
- The project together with WGs 1 and 2 did several studies: Market Assessment of BDS in Kyrgyzstan; Analysis of Fruit and Vegetable Processing Industry; Study of the Domestic Market for Selected Processed Agricultural Products. All these materials were published and available in Russian and English (the Study of the Domestic Market for Selected Processed Agricultural Products only in Russian).
- The project initiated and financed at pre-transaction phase elaboration of several information brochures, which are selling and updating yearly by three Service Providers: Directory of Consulting Companies (4 yearly issues published, in English and Russian); Directory of Fruit and Vegetable Processing Enterprises and their products (2 yearly issues, Russian); Directory of Credit Institutions working with agriprocessing enterprises (3 yearly issues, Russian); Directory of Producers of Agriprocessing equipment; Customs Regulations and Fees for Export Fresh and Processed Agricultural Products; Directory of Construction Equipment.
- One Trading Company shared their experience in Export Kyrgyz Products to Europe regarding European standard. The brochure was published in Russian and English and disseminated around interested parties.
- Five SPs – Consulting, marketing, designing, creative and juridical companies are developing a brand for processed products produced by members of the Association F&VPEs. Planned sales in the first year around 1 mil USD. Three processing enterprises and one trading company participate in introduction of the brand to the domestic market. Trading companies selling the products under this brand will pay to the AF&VPEs 2 % from turnover. On this commission the AVPEs will do quality management and promotion. Three donor projects: Helvetas, ADB and ITC did a contribution (~ 24'000 USD) for Market Study and elaboration of the Quality Management System. The contribution of private companies in this project ~ 51'000 USD.
- The project facilitated an elaboration of the Development Strategy for Fruit and Vegetable Processing for 2004 – 2007 among 24 stakeholders – donor and state organisations, private SPs and processing enterprises, the AF&VPEs. I suppose it is an unique experience in the world when private sector initiated and elaborated in close cooperation with state and donor organisation the Development Strategy.

3.3. What we have now?

- Three initiative working groups, which understand very well the project idea and work with each other. Some members did several activities together outside of the project (for instance the School of Farmers).
- Service Providers sold from spring 2002 – till now:
 - consulting on business and financial management, attraction investment for amount ~ 17'500 USD;
 - training on business, financial and human resource management, some specific topics for amount ~ 20'600 USD;
 - information through brochures and in electronic format for amount ~ 2'500 USD;
 - engineering services (including some equipment) for amount ~ 29'500 USD;
 - income from trading activities for amount ~ 330'000 USD.
- Agriprocessing enterprises – members of the WG 2 increases their sales in 2003 in comparison with 2002 on ~ 600'000 USD. Around 300 new farmers got a possibility to deliver their production for processing to the enterprises. This is significant contribution to poverty alleviation in rural area.

3.4. Example of Training Selling: School of Practical Managers

The Centre of Training and Consulting, private company, a member of the WG of SPs applied in 2002 to the project asking to support establishment of a School of Practical Managers. This school should sell four one-week training modules to top and middle-level managers. Proposed modules: 1. Business, 2. Financial, 3. Human Resource Management and 4. Marketing.

The project provided a grant of 13'000 USD for establishment this school with two requirements: 1. Senior Consultant with practical experience from corresponding companies have to provide the training in the school; 2. The Centre will get the grant in two steps (6'000 at the beginning and the second part will be provided when the school confirmed a receiving of 4'000 USD as income from selling training in 4 months).

The School started the first module in February 2003 and in four months confirmed receiving of income more than 4'000 USD. The project provides the second part of the grant. The school trained 149 top and middle level managers from Kyrgyzstan and 37 of them came to the training from neighbouring country Kazakhstan. The School got income ~ 19'000 USD and became profitable after 8 months of operation. The School opened their affiliate in Kazakhstan at the beginning of 2004 and offers the same training there.

This case shows a main difference in provision of training by donor's SME Development Projects and private business. Most of trainers in projects are people who never did any business in their life and their training is too theoretical. At the same when they offer their training the real businesses do not like it and therefore do not want to pay. Later the projects make a statement that the SME are not able to pay for the training and thus it should be offered free of charge. The School offers practical training and never did any advertisement. All trainees came to the School by recommendation their friends or other businesses. One-week module for one trainee costs 200 USD. You can get detailed information about the School of Practical Managers at <http://srm.to.kg/>. Unfortunately, the information at the moment is only in Russian.

3.5. Example of Embedded Services: Agro School

Four members of the WG of the SPs initiated at mid of 2003 an establishment of the Agro School. One of them was the School of Practical Managers, than the Centre of Training and Consulting, the agriprocessing enterprises Nuristan and the company Arst-N importing fertilisers to Kyrgyzstan. The

financial resources (~ 15'000 USD) for initial work were provided by the ADB project, the member of the WG of Donor agencies and Credit institutions.

The Agro School provides one-week (6 days) training for farmers on agriculture involving different specialists and later they coach farmers till the harvest. Training is on payable base. The scheme looks like this:

1. The Agro School conducts one – week training and coaching of the farmers. The Agro School links farmers with agriprocessing enterprise and they produce and deliver demanded products. At the same time the Agro School provides a guarantee for increasing yield at least on 30 %.
2. The farmers from each kg delivered for processing product pay 5 % to the Agro School for received training and coaching. Actually, the agriprocessing enterprise pays to both sides: farmers and Agro School.
3. The same scheme is used for the SPs, the company supplying fertilizers: Training and coaching on right use of fertilisers with a guarantee for increase of yield.

The Agro School trained 35 farmers in winter 2003 – 2004. A few of them paid 50 USD for their training. Most of them were paid by the ADB project. But the Agro School did contracts with seven farmers by abovementioned scheme. They will deliver 1'000 tons by 2 soms (Kyrgyz currency, 42 KGS=1 USD) of carrot for processing to the enterprise. The processor in the autumn will pay to the Agro School 100'000 soms or ~ 2'350 USD.

4. A Message to BDS Approach Users in CIS² Countries

- **The donor project should play the facilitation role in SME Development.** There are local service providers in CIS countries, which sell their services to the SME. The project should motivate them to offer demanded services;
- **The work with sub-sector** is clear for all stakeholders involved in the project activities and efficient because their efforts focused at the problems specific to the sector. For instance the dairy and fruit and vegetable processing industries in Kyrgyzstan and other Central Asian countries have different problems and priorities;
- **Working along value chains is important.** CIS countries are transition countries from planned to market economy. In former Soviet economy many countries produced certain products which were delivered to other countries. After collapse of the Soviet Union market links were destroyed. There are many enterprises production of those are not demanded at domestic market and has to be exported. For establishment new links should be trust between businesses and project can facilitate it;
- **Working groups are useful and efficient intervention instrument.** Open discussion with businesses makes creative atmosphere among members and initiatives sustainable. Members they consider the project activities as their own and make significant contribution in means of time and money. Some initiatives besides the project frame are appeared and continued by businesses without any project involvement. Networking among them furthers trust building;
- **The project should use a participatory approach for planning, implementation and monitoring.** This makes the project focused at real needs of business and not on project

² Commonwealth of Independent Countries, former USSR without Baltic Countries

objectives achievement. Cooperation with private SPs makes the project efficient. Some planned by the project activities can be simply refused by the private companies because they were elaborated in heads of project staff and do not reflect the real situation at the market;

- **Small actions with SPs bring better results than big studies.** Undoubtedly, it is important in project work to analyze the situation before taking any action, but the opposite is also true that studies should be followed by actions.