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Fruit and Vegetable Processing Industry in Kyrgyzstan Development Strategy

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ABBREVIATIONS

AFVPE	Association of Fruit & Vegetable Processing Enterprises
WTO	World Trade Organisation
SRI	Scientific Research Institute
KR	Kyrgyz Republic
IO	International Organisation
MAWRPI	Ministry of Agriculture, Water Resources and Processing Industry
VAT	Value Added Tax
NSC KR	National Statistics Committee of the Kyrgyz Republic
SPIP	Support to Private Initiatives Project, Helvetas, a Swiss Association for International Cooperation
ADB	Asian Development Bank
EuropeAid	European Union Cooperation Programme
Helvetas	A Swiss Association for International Cooperation
GTZ	German Technical Assistance Society
FAO	UN Food and Agriculture Programme
MASHAV	Centre for International Cooperation within the MFA Israel
SDC	Swiss Agency for Development and Cooperation
USAID	US Agency for International Development
WB	World Bank

INTRODUCTION

In the mid 80s fruit and vegetable industry enterprises played an important role in Kyrgyzstan's economy. After the collapse of the Soviet Union the volume of products in that sphere declined significantly. The main reasons for the sharp decline in production were the severing of manufacturing ties between the raw material suppliers and buyers of the finished goods, which existed in Soviet Union and also the difficulties connected to crossing borders. The development of enterprises was significantly and negatively influenced by the internal problems of the enterprises – the owners were not used to the new system of relationships and there was a lack of qualified management personnel, which would be ready to work in conditions of economic transition.

The first indicators of improvement in the sector occurred in 2001. Since then the volume of production in the sector has grown by approximately 20%. However such a growth rate does not correspond to the requirements and potentials of Kyrgyzstan. Geographic and climatic conditions of the country and the economic structure, where more than 30% belongs to agriculture, dictate the need to accelerate the development of the sector in order to secure employment, increase the living standards of the population and reduce poverty.

This document is designed to help coordinate and concentrate the efforts of those interested in developing the fruit and vegetable processing industry, in order to achieve significant growth of the added value in the sector in 2004-2007.

The statement of the strategy for development of the sector includes an analysis of the current situation, definitions of the prerequisites for successful development of the sector and the main goal and direction of the activity for fulfilling that goal. The indivisible components of the strategy are the proposals for coordinating the efforts of all interested parties and monitoring and evaluating the system of strategy execution.

The initial material for developing this document was the fruit and Vegetable Sector Development Strategy Concept, which was developed by the private sector together with the for Support to Private Initiatives Project run by Helvetas, a Swiss Association for International Cooperation, which is in turn financed by the Swiss Agency for Development and Cooperation.

This concept was presented at the conference in July 2003, where the working group for developing the strategy was created. Later in December 2003 the group, consisting of 29 representatives of governmental and donor organisations, agricultural enterprises and their associations, consulting, marketing and trading companies, defined the main content of the Strategy and priorities for sector development, at a working seminar. Thus, this document is an important step in coordinating the activity of all interested parties in order to develop the sector.

1. CURRENT CONDITION OF THE SECTOR

1.1. INTERNAL AND EXTERNAL MARKETS

Internal Markets

According to the results of market research conducted in February 2004, the internal market for processed fruit and vegetables (juices, salads, jams, tomato ketchup and so on) in Kyrgyzstan is estimated to be approximately 1 billion soms a year (more than 20 million USD). Moreover the demand in recent years has been growing steadily and the forecast is quite favourable. The current insignificant scale of the internal market is explained by following reasons:

1. Not a big population. The potential consumers of fruit and vegetable processing industry are the urban population (1.7 million people), however in reality the market is almost entirely limited to Bishkek (nearly 800,000 people). Rural residents mostly do not consume processing industry products and use similar products they make themselves, instead.
2. The number of consumers is also influenced by the popularity of conserving food for winter among urban households¹, caused, on the one hand, by tradition (providing food security for the family against any eventuality, processing the dacha harvest, preserving family conservation recipes) and on the other hand, by the cheapness of fruit and vegetables during the harvest period.
3. The low purchasing power of the population, linked to the general economic condition of the country, also influences the narrowness of the internal market.

Tomato paste, natural juices and pickled cucumbers are the most demanded products in the local market. Pickles, jams, marinades and dried fruit are less popular. Local consumers value Kyrgyz products for their relatively low cost, taste properties, high vitamin concentration and few chemical additives. The weak sides of local products are: unattractive design and packaging of the product, absence of certification, irregular supply, refusal to take back inferior products and the impossibility of selling goods on credit to potential buyers.

Enterprises hardly ever advertise to promote their products. Only 10% of enterprises promote their products, participating in various exhibitions. The producers usually limit themselves to direct contracts with retailers and wholesalers. Only half of the enterprises have their own trademarks, however the consumers are not often aware of them.

In terms of product distribution, the Kyrgyz market is characterised by a large number of small trading agents who do not have strong relationships with the producers. The majority of producers have not yet created their own distribution network and sell their products through wholesalers. Only 14% of the enterprises regularly sell their products through retail shops.

In 2002, the biggest imports of processed fruit and vegetable products were from Russia, Kazakhstan, Moldova and Hungary. From 1997-2001 the majority of imported goods were juices (28%), citrus juices (24%) and pickled tomatoes (9%). Other groups of goods are imported irregularly into Kyrgyzstan in small consignments.

In terms of barriers to entering or leaving the market, our internal market is very open. One does not have to invest large sums of initial capital in order to achieve efficient sales. Enterprises of the sector are not aggressive towards newcomers and do not coordinate their activity to resist possible expansion. However there are barriers to exiting, which are connected to the low-development of the financial market and this decreases the opportunity to sell the main assists.

External Markets

In 2002, 43% of the sector enterprises exported their production totalling some 0.5 million USD. The Russian, Kazakh and Uzbek markets mainly represent foreign demand. Main target regions in Russia

¹ One might assume that 70% of urban households conserve food for winter.

are Western and Eastern Siberia, in particular Novosibirsk, Omsk, Ekaterinburg and Central Russia. However the Kyrgyz products make up only a small part (tenths of a percent) of the overall capacity of those markets.² The share of other markets – Turkey, Byelorussia, Tajikistan and others – does not exceed several percent of the overall sector export volume.

Semi-finished products such as – juices, jams, tomato and fruit pastes, dried vegetables, fruit (apricots) and spices predominate in the export mix. The characteristics of Kyrgyz exports in the external markets are good taste and the absence of chemical additives, thus Kyrgyz production is directly associated with natural goods.

The insignificant scales and irregularity of export consignments, both on the scale of the sector and each particular enterprise, undermine the opportunity of establishing strong connections with the potential buyers. The small volumes of products, which are transported by cars, significantly increase transportation expenses for enterprises and wholesalers and eventually increases the unit price. The small financial resources of enterprises do not enable them to conduct surveys and study external markets, select potential partners and establish firm trading relationships.

The structural adjustment process in Russian and Kazakh markets complicates the situation. The brand policy of large enterprises makes the consumers used to certain trademarks, thus the role of price as the primary factor for making a decision concerning purchasing the goods, is reduced. It means, that irregular, small-scale exports to different buyers in different regions are disappearing.

Until recently a serious barrier to exporting Kyrgyz products to the Russian market were Customs barriers, transit duties and products being ‘requisitioned’ along the road through Kazakhstan; however the situation has improved recently.

1.2. PRODUCTION

The sector now consists of about 30 enterprises with various capacities. In 2003 production of the sector grew by 49 % in comparison with the previous year and totalled some 3,600 tons of finished goods.³ The sector has small volume of processed goods and relatively narrow assortment, which hardly numbering more than 20 names. Despite capacity growth in 2003, the industrial component of fruit and vegetable processing enterprises is still unstable. The big seasonal prevalence in industrial activity is typical: almost maximum from July to October and full suspension of production during the winter period. Actually the sector enterprises only produce for 3 - 4 months a year. It results in increasing the cost of production and decreasing the competitiveness of the enterprises.

Two major factors define the industrial activity of the enterprises: raw material base and produced goods.

Raw material base

Currently the key problems with the raw material base of the enterprises are the low degree of its concentration and the presence of numerous small raw material manufacturers and suppliers. According to the German Technical Assistance Society (GTZ), Development of Commodity and Service Cooperative Societies Project, the majority of the 85,000 small farmers cultivate less than 10 hectares of land each, and in southern regions of Kyrgyzstan this figure is even less, at 3 hectares. Farmers are distinctly separated; the low level of cooperation in agriculture causes a lot of problems, negatively affecting the activity of the processing enterprises:

- absence on farms of professional knowledge about the cultivation of agricultural crops and farm management, at farm level;

² According to the data of the Konservprom Association the value of the Russian fruit and vegetable market is nearly 800 million USD a year and is growing dynamically. The SENTI financial company estimates the size of the Kazakh fruit and vegetable market to be not less than 50 million USD a year.

³ Data from NSC KR

- decreasing level of mechanisation, depreciation and appropriate repair of equipment;
- variable quality and absence of standardisation for raw material;
- difficulties with financial resources for developing the equipment base and conducting field work;
- decreasing volumes of fruit and vegetable production for processing;
- disproportion in the production of some crops;
- increasing cost of producing agricultural produce.

It is possible to define two basic initiatives directed towards solving this circle of problems. One of them derives from the separate processing enterprises forming and developing their own raw material supply on the basis of utilising various forms of interaction with agricultural producers. The second initiative derives from the projects of International Development Organizations: USAID Pragma, SDC Helvetas, ADB, GTZ, MASHAV, EuropeAid, WB and FAO. These initiatives complete each other and considerably stabilise the connections between processing enterprises and raw material suppliers, removing dissociation in planning agricultural produce and its further processing and raising the efficiency of the "farmer - manufacturer" chain.

Enterprise Production

The following elements are of chief importance concerning the production of fruit and vegetable processing enterprises: 1) commodity strategy and range management and 2) quality management.

Commodity strategy and range management. The under-utilisation of enterprises' capacities is determined by a lack of understanding of the requirements and preferences of the consumers. As a result of this the product mix of many fruit and vegetable processing enterprises does not equate to that demanded in the markets: some kinds of products are sold quickly while others accumulate in warehouses and shops.

Accordingly, the structure and volumes of product supply of many enterprises are currently formed, not on the basis of market research data or inquiries from trade networks, but on the basis of "non-commercial" factors: availability or absence of certain kinds of raw material, production technology, experience, habits etc.

Another essential factor influencing the industrial parameters of the enterprises is an insufficiently deep economic analysis of the mix. The enterprises have no exact data concerning the profitability or reliability of certain kinds of products; the methods used for calculating the cost and setting the price are frequently rather doubtful.

Quality management. Interviews with representatives of shops have shown that there are a lot of issues concerning both the ability of the products to satisfy trade requirements and service (regularity of supply, availability of the necessary product certification). As a result, local fruit and vegetable processing enterprises' products cannot compete for shelf space in shops.

Currently the enterprises, basically, use the results of the selective laboratory, chemical, biological and technical analysis, for quality control. Emphasis is placed on conformity of the product to certain standards while assessing the quality (GOST or TU).

According to the research into the fruit and vegetable product market in Bishkek, carried out at the beginning of 2004 by M-Vector, 65 % of consumers prefer to buy local products when all other conditions are equal. Consumers consider such properties of fruit and vegetable products as taste, ecological purity and external appearance to be the most import.

1.3. INDUSTRIAL INTEGRATION

Another key problem of the fruit and vegetable sector is the absence of close industrial coordination or integration of all the market participants connected to this sector: seed, fertiliser suppliers, raw material producers, accessory and packaging suppliers, processors, wholesalers and retailers. The economic crisis and change of economic system have destroyed the administrative mechanisms of interaction that existed before, between the parts of the industrial network. Constructing new, market mechanisms goes much slower, than is necessary to comply with the situation in the market.

One of the reasons for insufficient coordination is the sharp decline in mutual understanding and contacts between the raw material suppliers (peasants) and processors. Due to disestablishing the economic facilities in villages, the sector enterprises have faced the situation where, instead of cooperating with several large suppliers, they have to establish contacts with hundreds of small producers. On the other hand, the majority of enterprises cannot yet organise appropriate product marketing owing to lack of money, knowledge, and also the almost complete absence of trading companies engaged in selling advanced agricultural production. Small dealers cannot create an effective system for distributing and promoting product. State and donor activity for developing the export of agricultural products does not give any results because of the absence of trading companies with sufficient floating assets. There are also no guarantee funds stimulating the development of trade. The existing credit institutions give loans for trade, charging higher interest rates than for industrial enterprises. It is clear, that trade strongly differs from production in terms of risks and period of recouping money. The development of the fruit and vegetable processing industry is directly connected to the development of its trading section.

All of this is partly caused by the fact that the majority of enterprises of the sector have insignificant scales of production. In turn, this results in low capitalisation of the enterprises and reduces their opportunities to attract and develop additional financial resources, the necessity for which is, on the contrary, growing.

At the same time, Russian and Kazakh enterprises, being the basic competitors of the Kyrgyz companies, both in the internal and external markets, are now actively establishing close contacts, both with raw material suppliers and trading organisations.

Simultaneously, the enterprises of the fruit and vegetable processing sector of Kyrgyzstan have objective opportunities and advantages, which could be used as a basis for the integration processes:

- The geographical affinity of the Kyrgyz enterprises to raw material; it distinguishes them from the Russian and Kazakh enterprises significantly, since they depend greatly on imported raw material;
- The gradual changeover of Kyrgyz producers from independent attempts to distribute and promote their products and hand over the functions of selling to wholesale trading companies, which have well established connections with retailers' trading networks and more exact perceptions concerning the nature of the demand and tendencies in consumer preferences;
- The presence of the Association of Processing Enterprises (AFVPE), which now unites half of Kyrgyz enterprises and is engaged in developing and promoting new products that meet the requirements of both internal and external markets;
- The creation of a national brand for the production of fruit and vegetable processing industry under the auspices of the AFVPE, which would enable the Kyrgyz enterprises to increase their competitiveness.

1.4. FINANCING

Private assets are the main source for financing the capital investment of fruit and vegetable processing enterprises. Between 1998 and 2002 52 % of enterprises used this source of finance, 19 %

of the enterprises took loans for private entities, and only 13 % have taken advantage of bank loans⁴. Thus the majority of enterprises face capital shortfalls; for example, 67 % of the enterprises have no means of purchasing the needed equipment. It is partly connected to the insufficient level of development of the financial system in Kyrgyzstan and its inability to transform savings into investment. But frequently the enterprises are not ready to work with the capital markets.

To the number of problems connected to financial assets, could be added a too conservative, cautious and frequently inadequate approach of the credit organizations to assessing mortgaged property. Often the sum of the required pledge is twice the sum of the credit. Quite frequently such a large pledge is preconditioned by the unclear legal status of the pledge (property or equipment) and its low liquidity. Another barrier for working with credit institutions is the long term for considering applications, technical and bureaucratic complexities in receiving loans and sometimes the need to give an extra fee to the employees of the financial company.

In addition to these technical barriers there is the systematic problem of high interest rates reflecting the high level of various risks (currency, legal), insufficient development of the financial system and the low level of savings in the country.

As to demand for financial resources, there are barriers connected basically, to the low level of financial management in the enterprises. The quality of the documentation provided by the enterprises to financial institutions, - business plan, application and legal documents – is frequently very low. Another side to this problem is the low official profitability of the enterprises and general non-transparency of the financial reports caused by high taxation rates and uneven distribution of the taxation burden. As a result, only a few enterprises are able to satisfy the requirements of the financial sector, get loans, develop their own credit history and gain the trust of the loan-provider.

All the problems mentioned above are aggravated by general mistrust between the sides in the producer-processor-trading company chain and the absence of an effective mechanism for solving disputes (unclear, frequently changing legislation and inefficient judicial system).

As a consequence of all the above-listed, 33 % of enterprises know nothing about credit organizations, 30% are not satisfied with their activity and only 15% evaluates their activity positively. Half of the enterprises consider the Kyrgyz Agricultural Financial Company KAFC to be the most real source of credit resources. Many enterprises find it difficult to name a financing organisation that would be best for them.

1.5. MANAGING THE ENTERPRISES

One of the major reasons for the inefficiency of the fruit and vegetable processing enterprises is the low quality of business management. The majority of fruit and vegetable processing enterprises were privatized during the first half of the 1990s. Meanwhile the new owners did not always have the qualifications necessary for operating a business in market conditions. As a result we got an inefficient management style where the following traits are typical:

- Dominance of authoritative management methods;
- Excessive centralisation of administrative decision-making functions;
- Absence of a clear development strategy for the enterprise;
- Concentrating on current problems at the expense of creating long-term competitive advantages;
- Absence of critical analysis of management quality.

This management style has generated a certain stereotype of thinking and behaviour. Frequently, on the basis of activity and administrative decisions, there is 'small company' logic. An insignificant

⁴ According to the survey conducted by SENTI financial company

objective, minor change, orientation to eliminating the consequences instead of the source of the problem, derives from here. It is extremely difficult for the enterprises to escape from being hostages to momentary interests and pressure of the environment. Orientation towards the process and volume of production instead of the market situation and profitability, dominates in the management of enterprises.

Low management quality causes mistrust towards enterprises on the part of potential investors and credit organisations, since the weakness of management inevitably results in low efficiency, low profitability and non-competitiveness. It is extremely important to comprehend that qualitative management is not simply one of the enterprises' assets like personnel, equipment and financial resources, but it is the only important condition under which those resources could be effectively used.

1.6. LEGISLATION AND STATE REGULATION

The general principles of entrepreneurship stated in the Constitution of the KR, Civil Code, Tax Code and other legislation of the KR meet the standards of a market economy. Requirements for obligatory licensing do not cover the fruit and vegetable sector; as in other sectors, the manufactured produce should meet GOST and TU standards requirements.

At the same time, the practice of implementing the legislation and state regulation creates significant problems for the sector. High tax rates (VAT) and payments to the Social Fund and corruption among representatives of taxation bodies and other controlling organs create the stimulus and opportunity for two-tiered bookkeeping and shadow activity. This in turn, weakens the competitive positions of those enterprises, which wish to obey strictly the existing legislation. The situation is aggravated by frequent changes and contradictions in tax legislation. All of these circumstances reduce the opportunities for the enterprises to attract external sources of finance and create additional difficulties for increasing production.

According to businessmen, big problems for them are created by complexities connected to receiving VAT refunds. It concerns both refunding the VAT on exports and the VAT refund paid on importing the basic means or necessary materials. The taxation laws do not provide such a good stimulus for investment as the accelerated amortisation or deduction from taxable profit of re-investment means.

The GOST standards established during Soviet times and still used in Kyrgyzstan, do not correspond to the international systems of standardisation and certification of products. The absence of authorised laboratories in Kyrgyzstan, which could issue certificates recognizable worldwide, is frequently a barrier for exporting to markets outside the CIS.

In terms of property law the barriers to development are as follows: the pledge-holders do not have a right to decide the destiny of the property; creditors do not have the right to sell the pledged property before a court decision and the absence of private property for legal entities and foreign private persons.

In terms of raw material supply, the registration threshold along with VAT on agricultural produce, which complicate the opportunities for necessary cooperation and consolidation of village economies, proves to be problematic.

1.7. COORDINATING THE ACTIVITY OF THE PARTIES

Currently it is possible to define the following groups involved in the development of the fruit and vegetable sector of the Kyrgyz Republic.

1. Sector enterprises There are about 30 working enterprises in the sector. Some of them do not work every year. The Association of Processing Enterprises of the KR (AFVPE) was created in 2003, and by the beginning of 2004 it had 12 members (11 enterprises for processing agricultural produce and one trading company).

2. State organisations The Ministry Agriculture, Water and Processing Industry (MAWRPI), the Ministry for Economic Development, Industry and Trade and the Ministry of Finance. To the number of organisations influencing sector development should be added the Kyrgyz Scientific Research Institute of Agrarian Economy and Processing Industry, Kyrgyzstandard and the Kyrgyz Scientific Research Institute of Irrigation.

3. International organisations and their projects. Among them:

- Helvetas a Swiss Association for International Cooperation (the Support to Private Initiatives Project, SPIP, financed by the SDC until June 2004);
- The Asian Development Bank (Regional Development of Agriculture Project, working in the Chui oblast of Kyrgyzstan);
- The German Society for Technical Cooperation (Development of Commodity and Service Cooperative Societies Project and the Agro-marketing Centre Project, together with EuropeAid);
- MASHAV Programme (The Centre for International Cooperation within the Ministry of Foreign Affairs of Israel);
- The World Bank (Agro-business and marketing Project);
- The Project for Entrepreneurship Development, financed by USAID, and carried out by Pragma Corporation;
- The International Trade Centre (The Programme for Promoting Regional Trade);
- The International Financial Corporation (Leasing Development project).

4. Credit organisations and, first of all, the Kyrgyz Agricultural Financial Corporation (KAFC). Potential strategic investors go into the same group (both residents and non-residents of Kyrgyzstan).

5. Suppliers of services and material/financial resources, including trading organisations, consulting companies, equipment producers and suppliers and packaging companies.

6. Agricultural producers: farms and agricultural cooperatives. This group is the most disparate and the process of coordinating its efforts is at an initial stage.

The attempts to coordinate the activity of these parties are undertaken now by two organisations:

- Helvetas/SPIP - through the activity of two working groups uniting the companies, rendering services and also the fruit and vegetable processing enterprises;
- MAWRPI - through the activity of a working group for developing a, Marketing Strategy of the System of Purchases, Processing and Sales Development for Agricultural Produce (within the frameworks of the activity concerning the IV Investment matrix, article 5.4.a).

The key deficiency of these coordination mechanisms is the temporary activity of the working groups. There are also problems of interaction between various parties, which are capable of reflecting negatively upon the execution of this strategy, in particular:

- Some of the international projects have their own “corporate” interests, which are not in line with the interests of the majority of market participants;
- Complexity in achieving mutually agreed positions between various organizations, integrating the actions between and within the groups (state structures, international organisations and business - communities).

2. MACROECONOMIC PRECONDITIONS FOR SECTOR DEVELOPMENT

The necessary conditions for the successful development of the fruit and vegetable-processing sector include further macroeconomic stabilisation and continuation of structural reforms oriented to improving the climate for investments and entrepreneurship at the scale of the whole economy. It is very important for this industry to achieve the following results at macro level:

- The growth of real incomes of the population of Kyrgyzstan as a result of total economic growth averaging 6-7% annually. That will increase the number of middle class people who are the main internal consumers of the industry and to increase their demand.
- Keep inflation at a low level (up to 5% annually), and stabilise the som against the currencies of the countries, which are the basic export markets of the sector – Russia and Kazakhstan. That will avoid increased production costs of the industry's enterprises, and will provide price competitiveness of goods in both the internal and external markets.
- Changes in the tax regime in the country towards more even distribution of the tax burden among all economic agents, reduction of the shadow economy, and elimination of excessive taxation of the industrial sector.
- Elimination of barriers and the provision of access to all potential external markets for products of Kyrgyzstan's enterprises, including solving such problems as transit, Customs procedures, import tariffs etc, that should raise the export potential of the sector.
- Total reduction of risks in the economy of the republic that is going to lead to a decline in real interest rates and increased accessibility to credit resources for sector enterprises.
- Improving the operation of state structures, removing unnecessary regulation of the economy, strengthening property rights, providing for strict observance of contracts, reducing the level of corruption that will improve forecasts and transparency of economic relations, reduce transaction costs of enterprises, and, on the whole, will increase the attractiveness of Kyrgyzstan for direct internal and foreign investments;
- Adjusting the state system of technical regulation (obligatory technical requirements and standardisation, measuring conformity to technical standards) to WTO standards, and approaches and procedures recognized in world practice.

3. THE GOAL AND MAIN DIRECTIONS OF SECTOR DEVELOPMENT

The above-mentioned analysis of the current situation of the sector leads to the goal of the Development Strategy of the Fruit and Vegetable Processing Industry and the main directions of activities for its implementation.

Goal of the Strategy: increase production in the fruit and vegetable processing industry and sales volumes of its goods in both external and internal markets.

Strategy Timeframe: 2004-2007.

Target Sector Indices in 2007:

- Double the sales volumes of sector enterprises in comparable prices compared with the base year of 2003.
- Increase export volumes of products by 50% compared with the base year.

- The sales volume of products under the national brand amount to 3 million US dollars (2007).

The main directions of development of the sector for the purpose of achieving strategy goals are as follows:

- Increase sales in the internal market;
- Expand exports;
- Increase financing;
- Internal sectional integration;
- Efficient interaction with state structures.

3.1. INCREASE SALES IN THE INTERNAL MARKET

The main condition necessary for achieving the strategic development goals is expanding the production of the fruit and vegetable processing industry up to the level, which allows it to use its production capacities effectively and to compete successfully with foreign enterprises. Achieving this expansion demands taking measures oriented to increasing both supply and demand.

A central point is the creation of the AFVPE (Association of Fruit and Vegetable Processing Enterprises) with a national brand for fruit and vegetable products. The decision to create the brand has been already made, however AFVPE members should work out the mechanisms for using this brand, observance of quality standards of goods, support and raise production volumes and range, distribution, marketing, price policy and financing of all these tasks.

Creation of a national brand does not mean the automatic rejection of enterprises' own trademarks as it is aimed at increasing supplies for the potential market.

Development of distribution entails close contacts (both within the AFVPE framework and separate producers) being established with wholesale companies, which possess efficient systems for distributing foodstuffs in Kyrgyzstan. The optimum situation is when manufacturers conclude long-term contracts with wholesalers for the delivery of a definite mixture and quantity of products at a definite price. The mechanism for such deals could be supported by financial guarantees from the foundation created by AFVPE, by enterprises and international donor organisations.

On the other hand, long-term contracts demand research into market trends and forecasts of future development. This task should be implemented by consulting companies financed by the AFVPE and separate trading and processing enterprises, initially financed with support from international donors.

One of the main tasks of the market research should be determining the range of goods demanded. The fruit and vegetable processing industry should have a wide product range, including both bulk products in great demand and products, which occupy niches with particular consumer characteristics and high added value.

Processing enterprises should also pay more attention to improving the packaging of goods produced. It is planned that for the first year of the strategy's implementation (2004) the production value of goods in European standard (twist-off) jars will reach 1 million US dollars. By 2007 100% of the industry's production should be in European jars.

As for activating demand, the planned measures include:

- A wide-scale marketing (advertising) campaign supporting the national brand, the details of which are already being worked out;
- Actively presenting goods at retail trading points (including tasting sessions) by interested enterprises;

- Developing a website providing information about the sector, producers and products, under the aegis of the AFVPE.

3.2. EXPAND EXPORTS

In addition to the measures to increase production considered in 4.1 and improve the competitiveness of the sector, expanding exports demands the following measures:

- Supporting trading companies promoting Kyrgyz fruit and vegetable products in external foreign markets;
- Searching for and establishing permanent relationships with wholesale companies that have retail trading points in Russia and Kazakhstan;
- Researching foreign markets, including collecting information by trading companies and the AFVPE, participate in exhibitions and conduct studies by consulting companies and financed by the AFVPE and international donors;
- Developing new kinds of products based on the results of demand research in foreign markets;
- With the increase in production volumes, quality and range, the national brand envisages the gradual promotion of products in external markets with the participation of not only the AFVPE and enterprises, but international donors, because initial costs to promote products in foreign markets will exceed the financial capacities of the sector;
- Establishing AFVPE trade missions in Russia and Kazakhstan, supported by donors and the Government.

3.3. INCREASED FINANCING

Despite the under-utilised production capacities, the medium-term perspective will demand additional capital investments by fruit and vegetable processing enterprises. Furthermore, the growth of productivity and production volumes will aggravate the problem of providing enterprises with short-term financial resources for the start-up period, purchasing raw materials and packaging materials. From season to season many enterprises suffer from such problems. Thus, there are two interconnected problems: attracting long-term and short-term investments.

It is evident that solving the problem of attracting financial resources depends, first of all, on the enterprises themselves, on their readiness to increase the transparency of their activity, to improve the quality of management and reorient it to satisfying market demands and increasing the value of enterprises and on strengthening horizontal and vertical economic ties.

The potential for wide-scale financing of the sector will grow considerably by creating vertically integrated structures (see 3.4), which would dispose of the output of several enterprises, their own raw materials and the system of providing resources and distributing goods.

Creation of inner-sectional financial mechanisms based on shares in the value of enterprises will favour the inflow of financial resources to the industry. There is a need for them just because traditional services of financial institutions are too expensive/ inconvenient for enterprises of this sector. These mechanisms can shape the foundation of mutual guarantees, cross financing and the reserve of the vertically integrated structure, etc.

Another way to mobilize financial resources may be by implementing an information campaign about the enterprises, which envisages a cardinal increase in the transparency of the industry. The executor of this task should be the AFVPE. It will collect and concentrate information about the sector and improve access to data, which could be interesting for potential investors and/or credit organizations. In particular, it is necessary to create an AFVPE site on the internet, to publish reports

on the AFVPE's activity and its enterprises, about implementing projects, the course of the strategy's implementation, issuing sectoral reference books, monitoring the situation in the sector, participating in exhibitions and other meetings.

As well as providing all interested parties with data about the industry, it is also sufficient to carry out well-directed work with actual potential investors. All participants in the strategy's implementation should favour enterprises in their search for investors in the form of, for example, organising conferences on attracting investments into the sector, attended by enterprises and potential investors, such as the conference held by Helvetas in November 2003.

High risks connected with the vulnerability of the raw materials base and its dependence on climatic and other uncontrolled factors, impede attracting investors into the sector and demand the creation of efficient insurance mechanisms. In this connection, it is necessary to initiate the development of services to insure different risks in fruit and vegetable processing enterprises' activities, taking into account their specific characteristics (initiatives of both the enterprises themselves and insurance companies), as well as using alternative capacities of insurance, in particular, forward and/or futures contracts.

3.4. HORIZONTAL AND VERTICAL INTEGRATION

The small size of enterprises and the and lack of resources, need close coordination between suppliers of raw materials and resources, and customers and dictate the need for inter-sectoral horizontal and vertical integration. Integration should:

- Create the necessary scales of production to maximise effective output;
- Reduce costs at all stages of the production process, in particular, by increasing the loading of the equipment, centralising marketing, advertising, distribution channels and joint purchases;
- Keep risks connected with the interaction of different partners in the sector and the stability of deliveries, to the minimum;
- Improve quality control and create a single quality management mechanism;
- Optimise and stabilise the range of finished goods;
- Expand the use of workers' potential and train the necessary specialists;
- Raise the quality of management of separate enterprises as a result of the appearance of the mutual control of partners inside the integrated structure and increasing the distribution of managerial experience.

Integration mechanisms should be selected by enterprises themselves on the basis of principles of mutual benefit, transparency, and clear definition of relations among participants, strict observance of arrangements and the development of efficient mechanisms of mutual control. Beside sector enterprises, potential strategic investors, credit organisations, trading companies, and suppliers of raw materials can become initiators of integration mechanisms (through consolidation). State and international organisations should promote integration processes by creating a favourable economic and legislative climate and the state keeps control over the observance of antimonopoly legislation.

At present, enterprises in the industry are considering the variant of establishing a vertically integrated structure based on the mechanism of absolutely strict, clear, and long-term contracts. This structure should provide:

- Continuous interaction between all participants in the production chain;
- Compilation of plans-orders of trading companies for processing companies and producers of raw materials, and signing of delivery based thereon;

- Coalescence of agricultural producers, their creation of trading and procurement cooperatives for fulfilling the orders from the fruit and vegetable processing enterprises;
- Support for an information system for the exchange of information among farmers and processing companies.

Measures aimed at integrating agricultural producers and creating the mechanism of concluding trade deals, which would minimise transaction costs and risks, should strengthen the processing enterprises. An effectively operating raw material and commodity exchange can work in this mechanism, and state structures (MAWRPI), interested agricultural, processing and trading companies could combine their efforts in order to found such an exchange.

3.5. INTERACTION WITH THE STATE STRUCTURES

The main contribution of the state into the development of the fruit and vegetable processing industry includes measures on macroeconomic stabilisation, and improving the climate for investments and business as a whole (see 4 Strategies).

In order to realize the strategy, enterprises should clarify and lobby their interests and needs in state legislation and have well-developed channels of interaction with representatives of the Government and the Jogorku Kenesh. That demands a well-organized system of analysing the existing legislation, constant monitoring of its changes and amendments and controlling the activity of state structures. This work should be carried out by the AFVPE with support from donors and in cooperation with the state and non-governmental analytical centres. It is envisaged that during the first two years of the strategy's implementation, the AFVPE will expand its potential in this sphere, as well as its experience, which will let it shift to more efficient lobbying of the sectoral interests.

A well-worked out information policy of the industry, including disseminating information in the mass media, press conferences, organising seminars and round tables, working meetings with representatives of donor organisations and other associations, is also going to favour this process.

The industry will have to develop close cooperation with state structures and institutions of higher and professional education in order to provide a constant inflow of highly qualified specialists into the industry.

4. COORDINATING AND MONITORING THE ACTIVITIES OF SECTOR DEVELOPMENT PARTICIPANTS

4.1. THE MAIN PARTICIPANTS AND THEIR ROLES

The roles of different participants in the development process of the fruit and vegetable processing industry are shown in the table.

Participants	Roles in implementing the strategy
Fruit and vegetable processing enterprises, AFVPE	Support and develop sources of raw materials Producing goods in the necessary volumes and of necessary quality, in accordance with market needs Strengthening marketing functions Interacting with interested parties and lobbying of sectoral interests
State Organisations	The key role is: creating a favourable environment for developing the sector, including legal regulation, improving the investment climate, combating corruption, protecting exporters' interests, support for and provision of different measures within the framework of this Strategy.
International Organisations	Organising and stimulating dialogue and cooperation between the Strategy's participants Technical assistance and consultations: Agricultural Projects; Supporting projects within the framework of the Strategy's implementation; Elaborating the regulatory and legislative environment in the sector; Training, probation, demonstrations; Supporting associations; Supporting communications (exhibitions, demonstration trips).
Investors and Credit organisations	Supporting efficient enterprises and thus creating a demand for well managed businesses. Developing terms and conditions and forms of crediting and increasing flexibility Providing experience, qualified management and access to distribution markets (strategic investors)
Suppliers of Services and Material Resources	Consultancy companies: communicating knowledge and skills for efficient business administration, analysis of markets, working out necessary recommendations and information services Trading companies: organising the access of consumers to products and their efficient promotion Juridical companies: protecting the legal interests of the business, and providing its legal administration Trade and procurement enterprises: concentration (accumulation) of raw materials and other material resources Logistics: forwarding and customs escort
Producers of raw materials	Observance of delivery contracts Cooperation, unification Raising the quality and volumes of raw materials manufactured Developing an agrarian culture

4.2. COORDINATION PROCESS

Successful implementation of the development strategy needs an efficient coordination mechanism. The AFVPE should play the main role in this process. Today, the AFVPE does not yet have the potential to successfully coordinate the implementation of the strategy and the many tasks it requires. That's why, initially, part of these tasks should be taken over by SPIP and other projects financed by international donors. Simultaneously, these projects and the AFVPE's members should develop the association in such a way that by 2007 it will be able to carry out the coordinating role without assistance and in full measure. It is necessary to provide the following conditions for that:

- Necessary financing (successful introduction of the national brand can solve this problem);
- Selection of specialists – a lawyer, economist, accountant and technologist who will be able to implement the tasks of the Strategy (management of the national brand, quality control of products, monitoring of the legislative base and lobbying) and some tasks can be done by external specialists;
- Training for the AFVPE and its members.

In order to summarise the annual results of the Strategy's implementation, a working seminar attended by all interested parties, should be organised annually. Before the seminar all participants should get the report containing information about the operation of the sector, including basic indices used for monitoring.

The mechanism of working with donors, the Government, consulting companies and the financial sector will be determined by the AFVPE. It is also reasonable to organise an AFVPE working group on a project basis.

The participation of other interested parties in the coordination process will consist of the following items:

Participants	Role in coordinating activities
Fruit and Vegetable Processing Enterprises	Financing and controlling AFVPE activities. Coordinating their activities within the framework of integrated structures, and working under the aegis of the national brand.
State Organisations	Coordinating the activities of different state organisations between each other. Coordinating donor activities in accordance with national and sectoral priorities. Information and organisational support of the AFVPE in organising coordinating measures (providing statistical information, if necessary, use of state apparatus to coordinate strategy implementation activities)
International organisations	Technical and financial assistance to coordinating activities (presentations, workshops, publications, etc.) Supporting the AFVPE in coordinating activities along with the Government
Investors and Credit Organisations	Provision of highly qualified external expertise to improve coordinating measures. Providing internal coordination – between consultancy companies and inside the financial sector.

4.3. MONITORING AND ASSESSING IMPLEMENTATION

Monitoring the strategy implementation will be based on using the main indicators of the sector activity shown at the beginning of Section 4 and assessing the measures taken as stipulated by the attached Action Plan. Besides, additional statistical information will be collected and participants will be interviewed as necessary. The AFVPE, supported by the state organisations (mainly, MAWRPI and the National Statistical Committee) and research/consultation organisations, is due to collect and analyse the information.

All parties concerned will be assessing the strategy implementation and making the necessary changes in the course of the annual working seminars.

COORDINATING AND MONITORING ACTIVITY UP TO THE END OF 2004

Event	Term	Organizer	Supported by	Results	Parties involved
Strategy Presentation Conference	March 2004	Helvetas Kyrgyzstan, SPIP	MAWRPI	The strategy has been adopted. This plan has been coordinated and approved.	All the parties concerned
Strategy implementation meeting	March 2004	AFVPE	Helvetas Kyrgyzstan, SPIP	Priorities and specific tasks for the period till the end of 2004 have been determined. Working groups have been formed (as necessary) and the interaction mechanism has been coordinated.	Enterprises
Strategy implementation meeting	September 2004	AFVPE	Helvetas Kyrgyzstan, SPIP	Reports on tasks' implementation. Exchange of information and opinions.	Participants working on priority tasks
Review of the current situation	November 2004	AFVPE	Consultancy companies, IO	Information about the results and implementation of the work in all spheres of the strategy has been collected	All parties concerned
A working conference to assess implementation	December 2004	AFVPE	IO, MAWRPI	Results of the review of the current situation have been submitted. Amendments to the strategy have been made. The work plan for the period till the end of 2005 has been developed.	All parties concerned

ATTACHMENT: PLAN OF ACTIONS

	Measures to fulfil the task	2004	2005	2006	2007	Parties involved ⁵				Monitoring
						SO	DO	PE	CC	
I	Increased sales in the domestic market									Double the sector enterprises' sales volumes;
1.	Creating the national brand for fruit and vegetable produce	X					X	X	X	Ensuring sales volumes worth 3,000,000 US dollars under the national brand by 2007
2.	Establishing close contacts between wholesale companies and producers	X	X	X			X	X	X	Long term contracts have been made
3.	Researching market tendencies and forecasting their development	X	X	X	X		X	X	X	Results of the conducted research
4.	Determining the required range of goods	X	X	X	X			X	X	Wide range of goods
5.	Improving produce packaging	X	X	X	X			X		In 2004 the volume of produce in European jars (twist-off) will amount to X. By 2007 100 % of produce in the market must be produced in European jugs.
6.	A powerful marketing (advertising) campaign to support the national brand		X				X	X	X	Details - M-Vector, AFVPE and SPIP
7.	Increased effectiveness of goods presentations at retail sales outlets (including product tastings) by certain enterprises	X	X	X	X			X		Held presentations
8.	Creating the AFVPE website giving information about the sector – producers and produce	X	X	X	X			X		A working website
II	Increasing exports	X	X	X	X					50% growth in exports by 2007 and achieving exports of not less than 50% of the total consumer goods produced
1.	Supporting the development of trading companies' initiatives to promote Kyrgyz fruit and vegetable produce in external markets	X	X	X	X		X	X		
2.	Searching for and establishing close relationships with wholesale companies having retail sales networks in Russia and Kazakhstan	X	X	X	X		X	X	X	Long-term contracts have been made
3.	Researching external markets	X	X	X	X		X	X	X	Results of the research
4.	Developing new types of products meeting the external requirements	X	X	X	X			X	X	Sales volumes of new types of goods in external markets

⁵ SO – state organisations DO – donor organizations PE – processing enterprises and the association CC– consultancy and trading companies.

	Measures to fulfil the task	2004	2005	2006	2007	Parties involved ⁵				Monitoring
						SO	DO	PE	CC	
5.	Promoting products in external markets			X	X		X	X	X	Sales volumes in external markets, expenditures connected with the promotion of goods
6.	Establishing trade representation offices in Russia and Kazakhstan			X	X	X	X	X		Effective trade representation offices
III	Increased financing									
1	Horizontal and vertical integration	See p. IV								
2	Creating an internal funding mechanism in the sector			X	X	X	X	X	X	An inter-sector financing mechanism has been created
3	Implementing an information programme	X	X	X	X	X	X	X	X	Implementation of the annual AFVPE information programme
4	Attracting investors	X	X			X	X	X	X	
5	Risks insurance system			X	X			X	X	The adjusted risks insurance instruments
IV	Horizontal and vertical integration									
1.	Ensuring unbreakable interaction of all added value chain participants	X	X	X	X			X	X	
2.	Attracting financial structures and investment companies to solve company tasks	X	X	X	X			X	X	
3.	Re-orientation of production to import replacement and export	X	X	X	X			X	X	
4.	Developing order plans by trading companies for processors and producers based on contracts	X	X	X	X				X	Trading companies submit order plans to enterprises annually
5.	Creating wholesale operations using trading companies		X						X	Functioning wholesale bases
6.	Uniting agricultural producers, establishing trading and purchasing enterprises to fulfill processors' orders	X	X	X	X	X	X	X		Functioning agricultural producers' cooperatives, availability of contracts for the supply of raw materials to enterprises by cooperatives
7.	Inviting consultancy companies and donor organisations to assess the local and external markets, conduct investigations, special research, etc.	X	X	X	X				X	
8.	An obligatory system of personnel training	X	X	X	X				X	
9.	Supporting the participation of enterprises in exhibitions	X	X	X	X	X	X			
10.	State support of entrepreneurs abroad		X	X	X	X	X			
11.	Developing an information system for the exchange of information between farmers and processors; providing	X				X	X	X	X	A functioning information system

	Measures to fulfil the task	2004	2005	2006	2007	Parties involved ⁵				Monitoring
						SO	DO	PE	CC	
	information									
12.	Establishing a trade and raw materials exchange for selling agricultural raw materials and processing industry products	X				X	X	X	X	Auctions regularly taking place at the exchange
V	Interaction with state bodies								X	
1.	Analysis of the existing regulatory acts	X	X	X	X		X	X	X	Results of the analysis – prepared reports and investigations and recommendations
2.	Regular monitoring of the developed changes in the normative base and control of the government's activity	X	X	X	X		X	X	X	Prepared reports and recommendations
3.	Sector information policy	X	X	X	X	X	X	X	X	Mass media information, organising seminars and round table meetings and working meetings of the parties concerned