

**PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No: AB198

Project Name	KYRGYZ AGRIBUSINESS AND MARKETING PROJECT
Region	EUROPE AND CENTRAL ASIA
Sector	Agricultural marketing and trade (85%); Agro-industry (15%)
Project ID	P049724
Borrower(s)	KYRGYZ REPUBLIC
Implementing Agency	Ministry of Agriculture, Water Resources and Processing Industry; Kievskaya ul. 96A, Bishkek 720040; tel. (996-312) 623-616
Environment Category	[] A [X] B [] C [] FI [] TBD (to be determined)
Safeguard Classification	[] S ₁ [] S ₂ [] S ₃ [] S _F [X] TBD (to be determined)
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1. Key development issues and rationale for Bank involvement

As part of the agricultural growth strategy for Kyrgyzstan, stronger and more developed linkages need to be built between farms and downstream processing and marketing, and service providers. The problems to be dealt with are substantial – poor business environment, lack of entrepreneurial and business management skills, small farming structures and the lack of strong farmers' associations, poor access to credit, barriers to export development, and small size of the domestic market. Since the mid-90's, Kyrgyzstan has experienced strong agricultural growth. But this growth has relied heavily on expansion of subsistence agriculture and the expansion of the agricultural labor force that came as a result of shrinkage of other sectors of the economy. Simply sticking with this approach will threaten the ability of the country to maintain agricultural growth rates at a level necessary to meet aggregate economic growth targets essential for dealing with debt-payment and poverty reduction targets. At present there is very little value added downstream of the farmgate. It is estimated that only about 15 percent of agricultural produce by value goes to manufacturing sub-sectors. Value chain linkages are weak and unreliable. The Agribusiness and Marketing Project (ABMP) will support the Government's efforts to build more reliable and efficient value chains between the farmgate and the final consumer, and will contribute to increased value added in the agro-food sector and increased commodity sales both domestically and abroad.

Government recognizes the need to shift its growth strategy for the agriculture and food sectors in the direction of increased value added and competitiveness. The Ministry of Agriculture, Water Resources, and Processing Industry (MAWRPI) has been designated as the counterpart agency for the Project and a Project Unit to prepare the ABMP is established within the Ministry.

The need to assist the Government in areas to be covered by the Project are reflected in the recent CAS, and the Project is contained in the CAS paired with a new irrigation project as the Agriculture Modernization Project.

Efforts have been underway by other donors and earlier Bank projects to improve agricultural services, the development of producers' organizations, to support development of small and medium size enterprises, and to promote the export of Kyrgyz agricultural and food commodities. Other donors that have taken an important role in these efforts include the Swiss Cooperation Office, USAID, the ADB and GTZ. The ABMP task team has carefully reviewed this experience and is working actively with these organizations. The task team has also carefully reviewed the Bank's own experience in these areas of work both in ECA and other regions. The major lessons are that for projects of this type there needs to be an appropriate delineation between public and private sector roles and a cooperation between the two, a comprehensive and professionally competent oversight of efforts to strengthen supply chains and build trade linkages, a careful combination of international and local skills so as to build needed domestic skills and capacities, and lastly a critical mass to be able to deal with the issues in a comprehensive manner.

The Bank is in a unique position to support the ongoing donor efforts in the area of agribusiness and marketing by supporting expansion of tested and proven pilot work, and to serve to bring those efforts together in a comprehensive way by strengthening links among these efforts and by dealing directly with needed regulatory and policy change.

2. Proposed objective(s)

The direct project development objectives will be to expand the level of activity of processing, marketing, and trade enterprises downstream of the farmgate, increase the number and economic importance of producer organizations, and to build trade linkages between producers, primary and secondary level trade organizations. The ultimate objective of these efforts will be to increase the amount of value added to Kyrgyz agro-food commodities, to increase sales of those commodities both domestically and abroad, and to improve the performance of agricultural markets.

3. Preliminary description

The Project will have a two-pronged approach. It will address regulatory and policy issues effecting agro-food trade and commerce on a broad front. It will also work directly with identified producer organizations and business enterprises in improving value chain linkages for specific commodities. The approach on value chain development will be to work with those business opportunities that are relatively close to achieving higher sales of commodities, rather than to take on higher-risk areas where a substantial list of issues needs to be addressed and large amounts of investment would be required.

The Project will be composed of two components; a Market Development Component and an Access to Credit Component. For the business decisions that need to be taken with regard to value chain development and strengthening, it is imperative that decisions be taken by objective and competent bodies free from political influence. For this purpose it is proposed that an independent body be established to manage activities under the Market Development Component. This will be modeled on the basis of organizations set up under the Moldovan First Private Sector Development Project and the Georgia Private Enterprise Development Project that have proven successful in supporting the development of domestic institutional capacity and skills in the private sector. For the Access to Credit Component, participating Financial Institutions (FIs) will have autonomy to control credit allocation decisions.

MAWRPI has expressed support for the basic project approach laid out above. Based on discussions with the Ministry, though, it is clear that MAWRPI has a broader agenda of issues that it would like to address through the ABMP. These tend to be rather supply-driven in nature and include proposals such as an automated information system controlled by the Ministry, support to research institutes affiliated with the Ministry, support to the establishment of technical input and supply centers in the countryside to provide both inputs, services and advice to farmers, and direct investment in processing enterprises. It is highly likely that these interests will continue to influence the position of the MAWRPI with respect to this Project. Whether MAWRPI is the appropriate counterpart for the ABMP is something that needs to be examined carefully and a question upon which the task team seeks guidance. Regardless of implementing agency, a broader forum of stakeholders will need to be established to oversee Project implementation, to deal with policy and regulatory issues, and to serve for bringing together the full range of parties involved in improving trade linkages. In the Project design it is proposed that a Consultative Council of stakeholders be formed, chaired by a high level official in Government, and composed of representatives from MAWRPI, MOF, other Government bodies, representatives of the private sector, other donors, and NGOs.

1. Market Development Component – This component will focus on bringing together parties involved in the value chains of specific agricultural commodities and providing them the foundation to work together more effectively so as to provide more competitive products to the market. The objective of the component will be to provide successful models of value chain development that can then be expanded more broadly throughout the economy. The commodities to be addressed will be identified through interaction with processors, traders, and agricultural producers with the objective being to work with those commodities or products with the best prospect for success in terms of the goals of increased sales and value added. Commodity and market analysis is available for most major agricultural products. This provides an indication of where market development prospects are more promising and where they are less so. However, the Project will not set a priori limitations on the set of commodities that would be eligible for consideration.

The model for value chain development will be a clusters approach as demonstrated in the Georgia Enterprise Rehabilitation Project and in projects in other regions of the Bank, with appropriate adjustments to the Kyrgyz situation. The clusters approach envisioned will involve working with groups of related enterprises or producers to identify business opportunities for specific commodities and then to pull into the group related up- and down-stream actors in those

value chains. For the model to work it is critical to have coherent and professional management of value chain issues, proper delineation of public and private sector roles, and careful combination of international and local skills in building institutional capacity.

The types of services to be provided under the component will include basic business and technical training programs, support to development of producer organizations, a matching grant program for commercial innovation, and the identification of relevant regulatory, policy, and infrastructure constraints impeding increased competitiveness.

This program would be managed by an independent body established by the Government that would be responsible for combination of international expertise with available local consulting services to work with selected enterprises. The objective would be to carefully define and target the foreign technical assistance to provide needed skills both to the enterprises in question as well as to domestic Kyrgyz business consulting capacity.

2. Access to Credit Component – The package of interventions under the Market Development Component would be supplemented with activities addressing the question of access to credit. The task team has analyzed the question of access to credit for the agro-food sector of the economy through interviews with financial institutions and review of available data. The main factors restricting the flow of credit resources to support value chain development in the sector include: (i) perceived high risks to agricultural and rural lending; (ii) lack of good business proposals and lack of capacity in the businesses to operate in the market conditions; (iii) the short-term nature of the liquidity in the banking sector; (iv) inefficient operations of the commercial banks; and (v) lack of collateral acceptable to banks.

Under this component a credit line will be extended with two objectives: (a) to address the shortage of longer-term capital; and (b) to assist in the development of innovative working capital relations between processors and traders on one hand, and producers and suppliers of agricultural commodities on the other. The credit line would be disbursed through participating financial institutions (PFIs) and the PFIs would have full autonomy in assessing risk and taking lending decisions. The credit lines would likewise be open to the entire agro-food sector and not be restricted to the clusters being developed under the Market Development Component, nor would the PFIs be under any obligation to lend to the beneficiaries of the Market Development Component.

Capacity of participating financial institutions will be enhanced through in-house training in specifics of agricultural lending, appraisal of financial and operational sustainability of investment proposals, including commercialization opportunities, and appraisal of the associated risks and setting of the margin. In addition, the Project will provide training to PFIs in: (a) the use of price risk management mechanisms by those involved in agro-food supply chains and the role of banks in the operation of those mechanisms; and (b) the use of other financial mechanisms to support development of the agro-food sector of the economy, such as the use of supplier credit and warehouse receipts and/or other commodity-based financing programs.

4. Safeguard policies that might apply

Based on information currently available, the only safeguard policy that would apply is Environmental Assessment (OP 4.01). The purchase of pesticides is not intended under the Project. No land expropriation is expected. Land transactions, if any, will be private on a willing-seller, willing-buyer basis. Social and environmental assessments will be carried out during project preparation. Actual project interventions will depend on decisions made during implementation with respect to credit allocations through participating financial institutions and on the commodity clusters that will be selected. Appropriate follow-up analysis will be necessary. The task team recommends the environmental category FI for this Project.

5. Tentative financing

Source:	(\$m.)
BORROWER/RECEPIENT	2
INTERNATIONAL DEVELOPMENT ASSOCIATION	10
Total	12

6. Contact point

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