

Support to SMEs in Rural Areas

A contribution to the discussion on BDS
using Kyrgyzstan as an example

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Content

1. SOME BASIC FACTS ABOUT KYRGYZSTAN	4
2. THE PROJECT	6
2.1. STARTING POINT.....	6
2.2. MARKET DEVELOPMENT APPROACH.....	7
2.3. ASSESSMENT OF BDS MARKET FOR RURAL ENTERPRISES	8
2.4. WORKING GROUPS	9
2.5. WORKSHOPS AS A PLATFORM FOR STARTING COOPERATION	9
<i>Sub-sector workshops</i>	10
<i>Buyer/sellers meeting</i>	11
<i>Workshop between farmers and processing/trading companies</i>	12
2.6. RESULTS OF THE PROJECT	12
3. LESSONS LEARNED.....	15
3.1. THE PROJECT'S ROLE IS THAT OF A FACILITATOR	15
3.2. WORKING WITH SUB-SECTORS IS EFFICIENT	15
3.3. VALUE CHAINS ARE IMPORTANT	16
3.4. EXPORT PROMOTION IS IMPORTANT FOR POVERTY ALLEVIATION	16
3.5. COOPERATION WITH PRIVATE SERVICE PROVIDERS IS EFFICIENT.....	16
3.6. PARTICIPATORY PROJECT DEVELOPMENT IS AN EFFICIENT APPROACH	17
3.7. WORKING GROUPS ARE A USEFUL INSTRUMENT OF INTERVENTION	17
3.8. NETWORKING FURTHERS TRUST BUILDING	17
3.9. EMPOWERMENT OF LOCAL PARTNERS IS AN IMPORTANT PROCESS	18
3.10. SMALL ACTIONS BRING BETTER RESULTS THAN BIG STUDIES	18
4. FINAL DISCUSSION.....	20
BIBLIOGRAPHY	22

Introduction

At the beginning of 2001, the Swiss Agency for Development and Cooperation (SDC) decided to start a project to support SMEs in the food and wood processing sectors in Kyrgyzstan, called "Support to Private Initiatives". It was to be a complementary part of the Kyrgyz Swiss Agricultural Project (KSAP), implemented by Helvetas and the Kyrgyz Swiss Forestry Sector Support Programme (KIRFOR), implemented by Intercooperation, another Swiss NGO. It was in two parts: Helvetas was to develop the food-processing sector and Intercooperation was responsible for activities in the wood-processing sector.

In this brochure the authors, implementing the Helvetas part of the project, would like to share the experience they gained in the agricultural processing sector.

The brochure is for people engaged in development work and is a contribution to the current discussion on BDS, its possibilities and limitations. The experience draws on practical fieldwork, but it seems important to the authors to share these results with a broader audience in order to continue the discussion on BDS and to adapt theories and approaches to the realities of the field.

Of special interest, is the fact that, so far, very little information has been published on this topic from post-Soviet countries and although every country has its specific conditions, many features of the Kyrgyz situation

are typical for countries of the CIS and in particular, for the Central Asian region.

The first part of the brochure presents some basic information about Kyrgyzstan and the second part describes the project, its objectives, approaches, development and results. The experience the project gained is presented in the form of lessons learned in the third part and the results are discussed in the last chapter and the authors try to draw some conclusions.

Abbreviation

ACC Association of Kyrgyz Consulting Companies

APE Agriprocessing enterprise

BDS Business Development Services

CC Consulting Company

CIS Commonwealth of Independent States

KAFC Kyrgyz Agricultural Financial Corporation

KR Kyrgyz Republic

NGO Non-Government Organization

SECO State Secretariat for Economic Affairs

SDC Swiss Agency for Development and Co-operation

SME Small and medium sized enterprise

SPIP Support to Private Initiatives' Project

USAID US Agency for International Development

USD United States Dollar

WG Working group

Definitions

Business Development Services (BDS): Any non-financial service provided to businesses on either a formal or an informal basis. In this brochure, this term is interchangeable with Business Services.

Consumer: An entrepreneur/ SME that is a potential or actual user of BDS.

Customer: An entrepreneur/ SME that has purchased a particular BDS.

Demand: The quantity and type of services that SMEs wish to purchase at any conceivable price. (Describes the behaviour of consumers.)

Intervention: A donor or government sponsored activity designed to develop a BDS market.

BDS Market: SME consumers, BDS providers and the transactions between the two.

Service Provider (SP): Any individual, firm or institution that provides BDS directly to SMEs. They may be private companies, state-owned companies, NGOs, national or sub-national government agencies, industry associations, etc.

Service: The product consumed by SMEs (e.g. auditing, technical training, advice, information).

Subsidized Services: Any BDS provided to SMEs by private sector or non-profit organization with costs covered by state or donor agencies.

Supply: The quantity and type of services that providers wish to sell at any conceivable price. (Describes the behaviour of suppliers)

Supplier: A private sector or for profit individual, organization or mechanism, that supplies BDS directly to SMEs.

1. Some basic facts about Kyrgyzstan

Kyrgyzstan is a former republic of the USSR that became independent in 1991. The country is in Central Asia bordering Kazakhstan, China, Uzbekistan and Tajikistan. The population is 5 million, 66 % of them being ethnic Kyrgyz, 12 % Russian, 14 % Uzbek and 8% of other origin. It is a mountainous country with an area of 198 000 sq. km, 90 % of which is at an altitude of more than 1000 m above sea level. The Kyrgyz economy relies on agriculture with about 50% of the population working in the primary sector. The sharply continental cli-

mate makes agriculture risky. The traditional source of income for the rural population is animal husbandry on the vast mountain pastures. In the valleys, the rich water resources offer good conditions for producing fruit and vegetables on irrigated arable land.

Today, the income level in Kyrgyzstan is very low. In Soviet times, the GNP per capita was about 3 600 USD. After the collapse of the USSR, however, it decreased dramatically and was 300 USD in 2001 (1996: 700 USD; 1999: 480 USD). In 2002, the GDP decreased by yet another 4.9%. Despite its reforms Kyrgyzstan

has not yet achieved economic growth and depends heavily on international assistance and 60% of the budget for 2001 was used for foreign debt repayments. Nevertheless, the inflation rate has stabilised and was 7 % in 2002 (1996: 18% 1999: 36%).

At present, there are about 8,500 SMEs, or 1.7 per 1000 inhabitants. This is a very small rate in comparison with Europe (~ 30) or even Russia (6.1). Most SMEs (85 %) are located in urban areas, though 70 % of the population lives in rural areas. 60 % of employed people are working in the SME sector.



The main problem for many businesses - and especially for most food-processing companies - is a lack of sales opportunities for their products. Purchasing power within the country is low, former markets disappeared and new market channels are having to be built up from scratch. Kyrgyzstan's geographical location means that thriving markets are very distant. This makes it nearly impossible for start-ups and small enterprises to reach external markets. Established companies also face difficulties delivering the required quantities to the quickly growing markets of Siberia. Kyrgyz enterprises will have to organise themselves in order to improve their market situation.

2. The Project

2.1. Starting point

Ten years after independence, primary production, especially agriculture, which is an important sector of the Kyrgyz economy, had recovered from the slump in production that occurred after the collapse of the former Soviet Union. However, the national economy has still not grown and the process is not supported sufficiently by the state. One of the main obstacles is the weak performance of the processing industry. The processing of primary products is considered essential for both the agricultural and the forestry sector, in order to give renewed strength to the economy of rural areas.

In 2001, the "Support to Private Initiatives" project began with a pilot phase of three years. According to SDC's overall SME approach, project intervention, focused on the promotion of business development services (BDS) for SMEs processing agricultural and forest products in rural areas.

The overall goal of the project was formulated as follows:

To contribute to the development (growth) of private small and medium enterprises involved in food and wood processing, whilst considering the protection of Kyrgyz forests.

The objective reads:

Improved availability of business development services in rural and urban areas for SMEs involved in food and wood processing.

Since there was not much experience available of BDS promotion in Kyrgyzstan, one of the expected results of the pilot phase was to analyse and test different BDS approaches and mechanisms.

As the objective says, the project intervention should be at the meso-level by supporting and encouraging provision of services to SMEs. It was projected that it would be necessary to introduce a demand stimulation system in the form of vouchers and to train and if necessary, build up, new service providers.

During the first visits to rural Kyrgyz enterprises the project team found people sitting idle behind obsolete Soviet production lines with stores full of old fashioned products that could not be sold. It seemed to be of little value to make those enterprises buy sophisticated consulting services, even if heavily subsidized, as long as they were not able to produce a saleable product. It was clear that there was not only no BDS market in rural areas, but also very little production. The project felt that it was useless to start with a demand stimulation system for BDS as long as the market situation was not improved.

As a first step, the project decided to assess the situation of the food processing sector in the country, in order

to understand the situation better and to find ideas for possible interventions. The project did a rapid market analysis of agriprocessing enterprises and selected two branches – milk: and fruit and vegetable processing – to work with.

2.2. Market development approach

From the beginning, the project decided to follow a market development approach to BDS promotion. This approach is based on belief in sound market forces. It means that project interventions have to follow some basic principles of the market economy and, therefore, one should strive to avoid certain practices, which lead to market distortions that unfortunately, are still too often met in development programmes. These principles include:

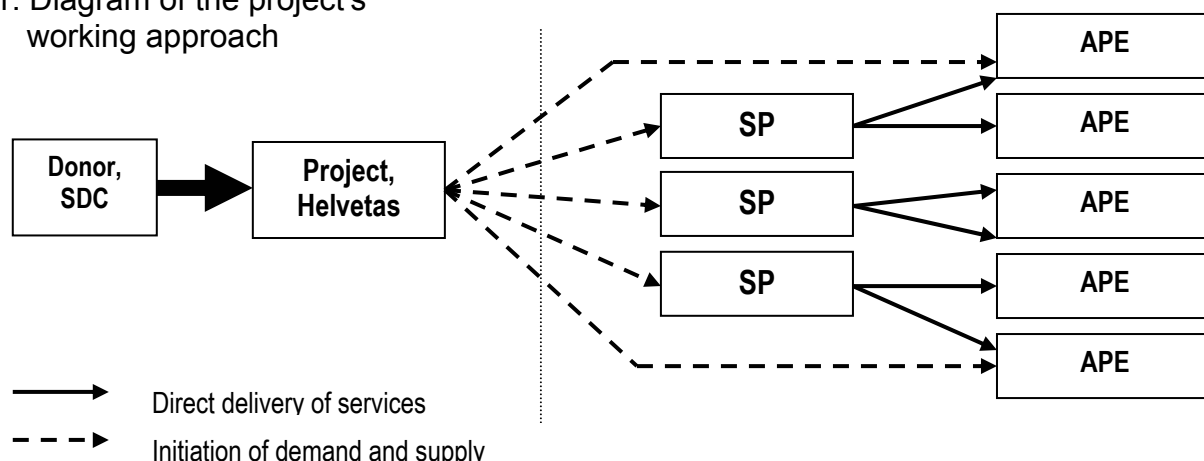
- Minimum intervention in the existing BDS market;
- No interference in transactions between service providers and their clients (Figure 1);

- Support through existing service providers rather than by direct intervention in the enterprises;
- Make a market assessment before planning interventions!

If one wants to avoid collisions with the existing BDS market, it is important to first study the market situation, to assess the market participants, their strengths and weaknesses and the existing demand and offer.

It was also clear from the beginning that, subsidizing services in a market as weak as Kyrgyzstan is very dangerous as it easily distorts the existing market balance. Therefore, the project rejected the idea of a voucher system for BDS promotion. On the contrary, it started from the assumption that a service, which brings tangible benefit to an enterprise, will always be paid for in full. Therefore, the task was not to lower the price for services, which the project thought would be useful to enterprises, but to help rural entrepreneurs define what services they really needed and to make them available to them.

Figure 1: Diagram of the project's working approach



2.3. Assessment of BDS market for rural enterprises

Since the project did not know much about the Kyrgyz food-processing sector, it decided to make its own market assessment. During the first half-year, the project team visited most of the agriprocessing companies in Kyrgyzstan. Although statistics show more than 350 companies working in the food-processing sector, only 87 companies could be found in the whole country. As laid down by the project documents, the team limited itself to formally working enterprises, which means that the many family-run businesses producing on a home-made basis were not considered. However, even assuming that only half of the existing companies were found, the amazingly low number shows the deplorable situation the country's food-processing industry is in.

The assessment showed that the majority of managers did not know the meaning of the word 'consulting' and bought only a minimum of services externally. Apart from the usual statistics, the team made a list of problems the managers of the companies had to solve in order to be able to develop their business. The priorities were very clear: first of all an increase in sales, then getting suitable equipment and, thirdly, access to finance.

On the other side, the project started to look for companies on the supply side of the service market. It was quite easy to find companies providing con-

sulting and marketing services as all of these companies are located in the capital, Bishkek, and many of them had connections with donor programmes. The team found more than 20 companies and started to work with interested companies in a working group. It became clear that there would be no need to train service providers because these people had a much higher level of knowledge and skills than the managers of the target group - the rural food-processing companies. However, the service providers worked mainly in the urban Bishkek market and did not know rural processing companies and vice versa.

To overcome this problem, the project organised round tables between agriprocessing companies and service providers, where every company could represent themselves and inform the other side about the problems, opportunities and offered services. The results of these meetings showed that there was no response from the enterprises to the offers of the service providers. The two sides had different expectations. Most service providers offered strategic services like management, marketing and so on, whereas rural enterprises needed operational services like sales agents, intermediaries, packaging, transport and legal advice.

Therefore, the project had to find service providers who were able and willing to offer the demanded services

and bring them together with the enterprises.

In the first place, the project started to look for trading companies. Since Kyrgyzstan is a country with an agricultural background and weak internal demand, it is dependent on export markets for the development of its processing industry. An initial rapid analysis showed that there were hardly any companies exporting food products from Kyrgyzstan. It seems that this business is only in its initial phase of development. The project decided to actively support companies willing to export food products from Kyrgyzstan and to bring them together with the processing companies.

2.4. Working groups

The project started to intensify cooperation with service providers in parallel with working on the market assessment. The working group with service providers held regular monthly meetings and the participants of the group were involved as much as possible in the project planning, implementation and evaluation process.

The project took the role of facilitator and delegated as much initiative and responsibility as possible to its local partners. This approach helped to make the project lean and cost effective, since the resources of the local partners were used efficiently. It also ensured that the project activities were in line with the needs and objectives of local partners.

The group members who had not known each other before the working group was formed, started to cooperate among themselves, which also led to unplanned activities, which went beyond the project's objectives. For example, the members of the working group decided after one year of cooperation, to found an association of consulting companies.

The experience the project gained from this, as the team calls it, "participatory project implementation" approach, was positive throughout. However, it needs a maximum of transparency from the project and a readiness to accept local companies as equal partners in the project's development scheme. This particularly applies to decisions on allocating the available project budget.

2.5. Workshops are platforms for starting cooperation

One of the main impediments to the development of a BDS market for rural companies was the completely different perception of the problems by the managers of the processing companies and the consultants. The processing companies were looking for solutions to their everyday problems and had no clear picture of the problems of the sector as a whole. The consulting companies saw the main reason for the problems of the companies as the low managerial capacities of the managers. Even if this were right, the managers of the proc-

processing companies would not admit it and they would not spend money, which they more urgently needed for the solution of every day problems like sales, packaging and equipment, on personal training.

To create a common awareness of the problems the project started to organise workshops where all stakeholders of a chosen sub-sector were invited. These include processing companies, service providers interested in working with the sector, state organs, donor agencies, credit institutes and others. The workshops were organised in a remote place so that participants had to leave their daily work behind and the duration was three days. At the beginning of the workshop, the participants jointly formulated the problems of the sector and prioritised them. Later, the participants were organised into working groups by interest and each working group worked out a common action plan to overcome a certain prioritized difficulty. The project did not actively intervene in the process. Its task was limited to organising the workshop and moderating the discussions.

Finally, at the end of the workshops a common action plan was elaborated, the responsible people for its implementation were determined and a permanent working group was elected, which would monitor the implementation of the action plan and work out further activities.

The response to these workshops was positive throughout. Many stakeholders in a sector did not know each

other before. The joint discussion of problems and the personal acquaintance during three days of intensive work created an atmosphere of trust between the participants, which served as a basis for common action and future activity.

Below are described the three types of workshops organised by the project and their main results:

Sub-sector workshops

In the course of the work, the project team understood that the problems and their respective solutions vary greatly for different sub-sectors of the food-processing sector. If the project wanted to be more problem oriented and offer concrete solutions, it had to get closer and work with sub-sectors. A study was made on the potential of different sub-sectors and the two that were chosen had the biggest development potential: the milk and fruit & vegetable processing sectors.

A workshop was organised for all interested stakeholders in each of these sub-sectors. As a result of these workshops for both sub-sectors, a working group was formed which had regular meetings.

- ◆ The milk-processing sector working group was not very active for several reasons and "died" after half a year of existence. One of the main reasons was that the members of the group were not decision makers at the enterprises and it appeared that there was not enough interest in solving the problems together.

- ◆ The fruit & vegetable processing sector was much more active from the start and the project decided to continue working for the time being only with this sector. On the one hand, the members of this group were all leading managers in their companies and some of them showed a lot of initiative. On the other hand, the common work on the sales issue was attractive to its members and the project made a considerable contribution by helping to find new market links.

This market channel allowed the project to find 11 Russian companies from Siberia that were interested in buying products from Kyrgyz processing companies. However, many questions were still unsolved on the Kyrgyz side: quantities, quality, transport, customs clearance, logistics and raw material procurement. Furthermore, the Russian companies did not trust the Kyrgyz companies enough and wanted to find reliable partners. To provide more information and improve the level of trust, a visit to Kyrgyzstan was organised for interested Russian



buyers. The working group of the fruit & vegetable processing sector and the project organised a buyers/sellers meeting attended by 11 Russian companies, where the problems and possibilities of cooperation between Russian and Kyrgyz companies were discussed. The managers of the processing companies understood that their main problem was being solved and, therefore, they took

part in the discussion very actively.

Buyer/sellers meeting

One of the trading companies supported by the project was exporting fruit and vegetables to Novosibirsk. It got a bank guarantee from the project to develop its business. The project assessed the market opportunities for Kyrgyz food products in this Siberian town by using the business links of the trading company.

During the workshop, the weak points of the value chain between producers and consumers, were identified and discussed. An action plan to tackle problems like customs clearance, quality standards and information was established. The fruit & vegetable processing sector working group continued its activities.

Workshop for farmers and processing/trading companies

During the discussions at the buyers/sellers' meeting it became clear that one of the weakest points in the value chain was raw material procurement by the processing companies. Although, by its natural resources, Kyrgyzstan has a huge potential to produce vegetables and fruit, the processing companies have problems finding enough raw material to process. The reason is partly a lack of working capital, but also the high level of mistrust between processing companies and farmers and the lack of a functioning system of cooperation. Therefore, the project organised a workshop between farmers and processing or trading companies. Five different cooperation systems were discussed and the weak points on this side of the value chain identified. The work with farmers was already leading outside the limits of the project framework, but as a result of this workshop, other cooperation programmes, working with farmers, started to implement the action plan elaborated at the workshop. Hence, inviting other donor agencies to the project workshops resulted in fruitful cooperation at field level.

2.6. Results of the project

Two and half years are a short period to produce concrete results for a cooperation programme. However, in order to give the reader a closer understanding of the project work, some

results of the project activities are presented below:

- The consulting companies involved (members of the working group) provided services to APE (training on management, marketing, business info etc) valued at 870,000 Soms (19,500 USD).
- The project supported two companies with grants for pilot sales of, in one case, walnuts and beans to Europe and by a bank guarantee for increasing sales of apples to Siberia, in the other case. Both companies established permanent sales channels, set up special trading houses and increased their sales considerably. Turnover in the first year of operation was 12million Som (280,000 USD). About 250 additional jobs were created in rural areas.
- Two engineering companies sold equipment to milk and fruit processing enterprises valued at about 1.4 million Som (29,000 USD).
- Five guide books were published with the support of the project, giving information on the following issues: Consulting Companies in Kyrgyzstan, Credit Institutions working with APE, Equipment for processing companies, The Fruit and Vegetable Industry in Kyrgyzstan and Customs Procedures. All these books are constantly updated and more than 600 copies worth 75,000 soms (~ 1,800 USD) have been sold.

- A private consulting company established a Centre for Technical Information where processing companies can get advice and information on equipment, credit lines and business consultancy. The centre got a grant from the project for the start-up and although it is planned to run this centre on a for-profit basis, up to now, this objective has not been achieved.
 - A School for Practical Managers was organised by a private consulting company. It offers one-week training modules for managers on specific subjects, such as management, marketing, finances and others. The response from urban companies to this offer is positive, however, rural companies have not bought this training so far. The school got a grant from the project for start-up costs. The school covered its full costs after six months of operation. Total income is 390,000 soms (9,240 USD) and 41 people have been trained.
 - Six members of the Service Providers working group established an Association of Consulting Companies in Kyrgyzstan. The objectives of the association include: developing the local consulting market, training member consultants and defending the Kyrgyz consulting market from inappropriate interventions by donor agencies (market distortion). At present, the association has 10 members. The ACC has an executive director. The membership fees are 120 USD per year.
 - Six members of the working group of fruit & vegetable processing companies are currently establishing their own Industry Association. The objectives of this association include promoting Kyrgyz products on internal and external markets, coordinating sales activities among members, providing business information, organising training for food technologists, joint purchase of packaging material etc. The association has an executive director. The membership fee is 200 USD per year.
 - The project started activities to attract investors to the Kyrgyz fruit & vegetable-processing sector. For this purpose, a concept for the development of the sector was worked out with service providers and members of the fruit and vegetable working group. At a conference attended by state organisations the activities were coordinated and several Kyrgyz companies interested in cooperation with foreign investors were selected. In the next phase potential foreign investors will be informed about investment possibilities in Kyrgyzstan. In autumn 2003, a conference with potential investors and Kyrgyz companies in the fruit & vegetable processing sector is planned.
- The project team is convinced that results will grow further and get more tangible during the coming years, if the project is allowed to continue its work.

The promotion of exports is essential for fighting poverty in Kyrgyzstan. Access to foreign markets for processed and semi-processed products from Kyrgyzstan will create income opportunities for local farmers and their families (more than 50 percent of the Kyrgyz population).

The direct impact of the project on job creation is still in its initial stage and difficult to quantify, but the impact will undoubtedly grow with the continuation of project activities.

The main outcome for the team at this point is the strong feeling that the chosen approach is working.

3. Lessons Learned

Supporting SMEs in rural areas through the promotion of business development services is not an easy undertaking, especially, in such a difficult business environment as Kyrgyzstan. It is obvious that a BDS market with a target group of no more than a hundred enterprises scattered over a whole country and engaged in different kind of businesses, differs completely from a market in a big urban area where thousands of SMEs need more or less the same kind of services. Nevertheless, based on the experience of the project, it shows that the approach can work, if one finds the right mix of tools and if one is patient enough to wait for lasting results.

Below, the main elements of the project approach are presented in the form of lessons learned. Probably, some of these points are obvious and some might be overlapping or even contradictory. Nevertheless, since the project is acting in a multifactorial environment on different levels and with different partners, it is not possible to bring it all down to a simple denominator. It is a complex approach with a network character. Some of the ingredients in this approach are typical BDS tools, others may be considered as not being BDSs, depending on the definitions used by the observer.

3.1. The project's role is that of a facilitator

The project's role is that of a facilitator. It means that the project tries from the outset, to keep its interventions to a minimum and hand over as much responsibility as possible to the local partners. Nevertheless, there might be vital functions, which are not assumed by anybody and in this case, the project plays the role of a temporary partner and takes over functions that are not available on the market, but withdraws as soon as a private service provider or another stakeholder takes over.

3.2. Working with sub-sectors is efficient

In order to be able to offer concrete solutions to the enterprises one has to go really close to the actual enterprises. The problems of the food-processing companies are different and each sub-sector needs its specific solutions. Working with sub-sectors has proven to be efficient and makes it possible to discuss common problems among enterprises and look for common solutions. As soon as their main problems were discussed the reaction of the managers was positive and they began to actively take part in the search for a solution - the more concrete the offer for a service, the more concrete is the response.

3.3. Value chains are important

Working along value chains makes the discussion of services more concrete and the needs are clearly defined, especially for such a small market, as is the case in Kyrgyzstan. Services should not be looked upon as a category in itself, but they should be closely linked to the needs of the value chain.

If one link in the value chain does not work then the whole system stops. This is important in a country where the closest markets are more than 2000 km away. Distance to markets is one of the reasons why most Kyrgyz companies are not in a position themselves to make the chain work .

Therefore, it is important to look at the whole system from the market side, which is actually an obvious thing, but gets all too often forgotten. In such a situation, vertical integration is much more important than impact by horizontal integration or quantity. Likewise, it makes no sense to push certain services for enterprises as long as there is no income from sales. On the contrary, increasing business services in a situation where there is no market will weaken the position of the company, because every external service is an additional cost factor. If this service is rendered for free, for example subsidized by a donor, because it would otherwise not be consumed, then it is not needed.

3.4. Export promotion is important for poverty alleviation

Kyrgyzstan is an agricultural country with a small internal demand and it depends, therefore, on export markets for its food production industry. The establishment of reliable sales channels is one of the important conditions for bringing growth opportunities to rural areas. Most companies have no access to permanent sales channels, because they are small and too far away from potential markets. Every additional quantity of exported agricultural goods creates jobs and income in rural areas. Export promotion is, therefore, an effective tool for supporting the rural poor.

For Kyrgyz processing companies the production of semi-processed goods is a good solution, where they are likely to be competitive. Further upstream on the value chain, the farmers profit from increased production and market opportunities.

3.5. Cooperation with Private Service Providers is efficient

Despite the fact that the market for services in the agriprocessing sector is very small, the experience of the project shows that working with private service providers without subsidizing them is possible and brings concrete results. The project tries to create an enabling environment, assesses needs among all stakeholders and supports service providers in developing demanded services. A thor-

ough assessment of markets at all levels, both for products and services and a smooth adaptation of interventions to market needs is central for this approach.

Though at first glance traditional support by direct subsidies seems to be the easier way for service providers, most of them appreciate the no-subsidies-approach, because they understand that they are working for the future and that this way they become more competitive in the market. What the project actually does is to coach them on the job and to improve their ability to grasp market opportunities.

3.6. Participatory project development is an efficient approach

The integration of a wide range of local partners into project implementation starting from the planning phase, ensures that the project profits to a maximum from the resources of local partners. This approach also guarantees that the project activities and objectives are in line with the needs and possibilities of local partners.

The members of the working group share their experience and this intensive exchange leads to a mutual learning process. However, it needs a high level of communication and openness from the project side. If these conditions can be fulfilled the project is rewarded by the high level of commitment of the partners. They consider it to be their "own" project.

3.7. Working groups are a useful intervention instrument

In Kyrgyzstan and especially in rural areas, lack of information is a big problem. In parallel with that, the level of mistrust in post communist societies is very high, whereas state and other structures are still weak and not very efficient. In this situation, trust building between the different subjects of society is one of the most effective means of encouraging economic activity. The trust basis between stakeholders of a sector will be increased by personal acquaintance and the free flow of information. The organisation of working groups brings people with the same objectives together. Personal acquaintance furthers trust building and leads, together with the exchange of information, to joint activities. The participants undergo a mutual learning process, which leads to the empowerment of its members. This, in its turn can lead to activities that go far beyond the original project objectives.

3.8. Networking furthers trust building

Networking among all stakeholders of a sector is an important task of the project. The level of information between the different sectors of the economy is sometimes amazingly low. Therefore, exchange of information is an important step towards a better understanding between the different actors. However, networking

should not be limited to an exchange of information, but also lead to common action. If this is the case, the trust basis between the different stakeholders will be increased and solutions to problems can be worked out much more easily.

Of special importance is the integration of credit institutions into all economic support activities. The example of Kyrgyzstan shows clearly that the existence of credit lines is not enough to make credits accessible to rural enterprises. The companies have to be in a position to successfully work with credit and the links between credit institutions and their clients must be supported.

3.9. Empowerment of local partners is an important process

No doubt the process of empowerment is central in development work, however, there are many ways to prevent empowerment from taking place, but only a few recipes on how to make it happen. Empowerment is a dynamic process, which in the best case leads to new strength and activities within a group of people. In our working groups, this process could be clearly observed. People who did not know each other before sat together and formulated their common problems. They started to think about solutions and took common actions. This led to a mutual learning process and as a result they became aware of their own capacity to solve many of their

problems. They identified themselves as a group and formulated their common positions.

The project's role was to find the relevant issues that are important to the stakeholders. If the local market situation is not assessed and taken into consideration from the very beginning, the process can already go astray at this stage. Furthermore, it is important that all participants show a certain level of commitment, which means that the project should not do the job itself, though this often seems to be the easier way, but has to wait for an active response from its local partners. Then the project has to give its partners space and allow them to go through a learning process. This includes making mistakes, which might be obvious from the project point of view, but it is important that the partners go through this process themselves. They should not be used for the project's objectives, which by the way, happens quite often, but the project should serve the needs of its local partners. This can only be achieved, if they are acknowledged as equal partners.

If this process takes place successfully, the trust basis between the project and its partners is strengthened.

3.10. Small actions 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. Studies and training alone do not move people enough. Since all information has only a limited validity in time, information should be used for activities as soon as possible. By supporting pilot sales, for example, the project received a lot of information, created business links and gathered experience that led to further action. Financing such activities might be risky, but small actions often bring more and much quicker results than big studies that nobody will ever really use. It is also advisable to start project activities on a small basis, just enough to gain the necessary experience. Once the approach is fine-tuned, activities can be expanded quickly and effectively.

4. Final Discussion

A pure BDS approach is not sufficient

The experience gained during this pilot phase shows that market development in BDS is a valuable approach. However, it also became clear that a pure, traditional BDS approach does not bring the desired results. Entrepreneurs in this difficult environment need more than the availability of services in order to be able to develop their businesses. The more important part of the support from the project to the enterprises consists of non-payable services that have a mobilisation character: the workshops and working groups offered a platform for discussion with colleagues, exchange of information and analysis of the situation. In this sense, the project works more like a catalyst helping people to make up their mind. In this process the exchange of information and cooperation among local partners are much more important than training and knowledge transfer.

The same applies to the service providers the project worked with. Their theoretical knowledge is quite good, but they have to make the step from theory to practice and must be able to apply their knowledge in a concrete market situation. The project tries to direct them towards the rural enterprises, which have a considerable, but not yet developed, market potential for the service sector.

Close cooperation with financial institutions is another important part of this networking and enabling process. As

a result, enterprises and service providers are better able to define their needs and expectations towards donor interventions.

Post communist societies have big potentials for quick development

With generations of Soviet experience behind it, Kyrgyzstan is a country with a typical post communist society. Economic relationships are characterised by a high level of mistrust between business partners. The attitude of people towards the market economy is still dominated by fears and doubt, because many people have no, or only negative experience of, commercial transactions. There exists no business culture as a reference basis, communication is fragmented and casual and work discipline is low. People still have a weak understanding of efficiency and result-oriented work. On the other side, there is a huge potential for quick improvement, because the level of education is high and the younger generation in particular, is quick in taking in positive experience.

SMEs and SPs in Kyrgyzstan are all private and they know that they can't expect any support from the state and as soon as the barriers of mistrust are eliminated and cooperation begins working, they develop a lot of initiative on their own.

Real partnership increases efficiency

As far as the question of partnership in development work is concerned, this issue has been widely discussed and is acknowledged as a major fac-

tor of success, but close analysis of many cooperation programmes shows that the word partnership often has a more declarative character and that only one side takes decisions. Real partnership includes, trust between partners, full information, project budget transparency, joint decisions, risk sharing and a maximum of flexibility.

Empowerment is only possible in a participatory project environment and in this respect, the planning and implementation procedures of many cooperation programmes are too rigid. Experts who often have little or no local experience define the needs at the initial stage of a project and after that the project sticks to the project documents and changes according to local needs become difficult. The widely spread belief in experts is, therefore, contradictory to the idea of participation, as a consequence, the efficiency of the project is low.

On the other hand, if partnership is developed to its full extent and the trust basis between the project partners is strong, the project profits from the high level of commitment of its partners and the efficiency of the allocated means is high.

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