



ORGANIC COTTON PRODUCTION AND TRADE PROMOTION PROJECT

KYRGYZSTAN

Half yearly report

July 2012

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HELVETAS
Swiss Intercooperation

KYRGYZSTAN



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
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List of abbreviations

ATC	Advisory Training Centre
ACSC	Agricultural Commodity and Service Cooperative “Bio Farmer” (Cooperative)
ACTED	Agency for Technical Cooperation and Development
BCP	<h> Organic Cotton Production and Trade Promotion Project (BioCotton)
Bio FFS	Farmers’ Field School for Organic Cotton
Bio RAS	Rayon advisors for organic cotton in RAS JA
BioSuisse	Organic Standard for Swiss market
BS	Bio Service Public Foundation
CTNC	Center for Training and Consulting LLC
FAO	Food and Agriculture Organization of the United Nations
FFS	Farmers’ Field School
FibL	Forschungsinstitut für biologische Landwirtschaft (Switzerland)
FLO	Fairtrade Labeling Organization
GEF	Global Ecological Fund
GOTS	Global Organic Textile Standards
GIZ	Gesellschaft für Internationale Zusammenarbeit (German Development Agency)
GL	Group Leader
HSI	Helvetas Swiss Intercooperation
HACCP	Hazard Analysis and Critical Control Points
HIVOS	Dutch ‘Humanist Institute for Development Cooperation’
HYR	Half Yearly Report
IC	Internal Control
ICCO	Interchurch Organization for Development Cooperation, Netherlands
ICS	Internal Control System
IFOAM	International Federation of Organic Agriculture Movements
ILO	International Labour Organization
IMO	Institute for Marketecology, Swiss certifier
IPM	Integrated Pest Management
IPAC	Integrated Production of Agricultural Crops
JAS	Japanese Agriculture Standard
JICA	Japan International Cooperation Agency
KR	Kyrgyz Republic
KSAP	Kyrgyz Swiss Agriculture Programme
LARC	Legal Assistance to Rural Citizens Project
LESIC	Kyrgyz Swiss Forestry Support Programme
LMDP	Local Market Development Project
MAP	Medicinal and Aromatic Plants
MSF	Medicin San Frontiers – Doctor without borders, Humanitarian Organization
NOP	National Organic Program (North American Standard)
OFA	Organic Farmer’s Association

OFTCC	Organic and Fairtrade Competence Center
OD	Organizational Development
OVCD	Organic Value Chain Development Project in Tajikistan
PTD	Participatory Technology Development
PR	Public Relations
Prodoc	Project Document
RI	Regional inspectors
RAS JA	Rural Advisory Services Jalalabat
SAS	SugdAgroServ Joint Stock Company in Tajikistan
SECO	Swiss State Secretariat for Economic Affairs
SEP	On farm water management project, Helvetas
SIPPO	Swiss Import Promotion Programme
SKAL	Dutch Certifying Agency
TOR	Terms of Reference
TOT	Training of Trainers
YPO	Yearly Plan of Operations

Reporting Format:

BCP half yearly report for 2012 is designed according to the new logical framework for Phase III. The report comprises of a summary of the achievements projected for 2012 and conducted according to the Yearly Plan of Operations. The main focus is on the development of the organic sector, with involvement of the government of Kyrgyzstan, private sector and civil society. Along the established organic value chains and business strategies the project continues rendering support to the partner organizations: Agricultural Commodity and Service Cooperative “BioFarmer” and Public Foundation “BioService”. More details on the value chains and business strategies can be found in the Half Yearly Reports of the Agricultural Commodity and Service Cooperative “Bio Farmer” (ACSC) and the Bio Service Public Foundation (BS) which are attached to this report.

1. Executive Summary

The Organic Cotton Production and Trade Promotion Project (BCP) of Helvetas promotes the development of organic value chains in Kyrgyzstan. The second phase of BioCotton Project was planned to end in December 2010. Since the main donor, Swiss State Secretariat for Economic Affairs (SECO), wanted to conduct an external assessment of Phase II, the phase was prolonged by another half year by Seco. The external evaluation took place in the first half of 2011 to extract lessons learnt and suggestions for the next phase planning. The main objective of the next phase is designed as a consolidation and exit strategy in the midterm perspective and institutionalizing completely the BCP approach into the local context.

The period of the second half of 2011 was not clear and the project faced a so called “non-phase” period. In February 2012 the budget for the year was clarified and activities could start again. ICCO expressed their commitment for collaboration in the long term, particularly in the next phase, and for 2012 ICCO decided to support only the business planning process and the provision of a guarantee letter for Triodos bank.

The BioCotton project has submitted its project proposal for the consolidation phase for approval to Seco. The project activities for 2012 are derived from the Project proposal for consolidation phase and the objective is:

The producer organisation ACSC and the service provider BioService operate sustainable businesses in an organic market system which is populated by an increasing number of actors from the private and public sector and is embedded in a conducive environment.

The end of 2011 was marked by various topical discussions at national level about organic farming in the country. The strategy of the project to attend sector development events helped to define the role of Helvetas and express its presence in the organic movement in the country. For this reasons at the beginning of 2012 Helvetas together with GIZ organized an organic sector development workshop with inputs from international expert, Mr. Frank Eyhorn from Helvetas OFTCC, Zurich. Increasing interest in organic farming among various stakeholders pushed a local initiative, the Federation on Organic Development “Bio Kyrgyzstan” to be created on its own. The organization is not yet legally registered and is comprised of various stakeholders: producers, traders, processors, retailers, public associations from Kyrgyzstan. Helvetas continues to support sector development at national and regional level. A concept for a regional network called Silk Road Network was developed and shared with all member countries for feedback. Nowadays the Federation became more active in the country and clarifying its role as a national network for organic and fairtrade movement.

In parallel the project continues to provide support to the local organizations in organic value chain development. In the first half of 2012 both organizations finalized their strategic plans and defined their cost coverage indicator for 2012 (BS – 52% and ACSC – 60%). The strategic goals are reflected in their business plans which were revised and updated with the support of an ICCO consultant and a local financial expert. In March both organizations negotiated the services and fees of BioService and signed a Service Agreement for 2012. The grant agreements are planned to be signed in July because business plans were not finalized yet.

At organizational level both organizations had to go through staff changes. ACSC hired a new Board chairman and full time accountant and BS recruited new marketing manager from June. Production of organic crops started later than planned this year due to late winter season. ACSC managed to produce own cotton seeds and distributed to its members at lower prices compared to local market prices. Both organizations have revised the ICS system for 2012 with the support of

a BCP expert. ACSC took over more responsibility for implementation and quality management of ICS.

Total number of organic farmers reached 1227 in 2012 and 21% of them are female farmers. 892 farmers renewed their contracts for 2012 and additionally 335 farmers were recruited newly. This year cotton was sown on 610ha and rotation crops on over 75ha. The ACSC promoted pulses (beans and chick peas) based on market demand. Also Medicinal and Aromatic Plants (MAPs) are promoted as one of the rotation crops. In May and June several crops were damaged due to frequent floods in the fields. As a result production estimates are reduced by 15% due to natural disasters. The harvest estimate for the first half of 2012 after floods is: 325tons of cotton (175 organic and 150 inconversion), 60tons of organic chick peas, 100 tons of organic beans and 1,5tons of organic calendula.

Triodos bank is ready to collaborate in terms of harvest loan with ACSC based on their realistic business plan.

In April a meeting of the BCP Steering committee was convened and approved the annual report of 2011 and plans for 2012.

2. Introduction and history

In 2003, the Swiss State Secretariat for Economic Affairs (SECO) together with the Humanist Institute for Cooperation with Developing Countries (Hivos) initiated the BCP Project (Organic Cotton Production and Trade Promotion Project) in Kyrgyzstan with the project goal:

“To promote organic farming in Central Asia and the trade organic cotton and other organic products in the international and domestic markets, allowing interested farmers to make their living.”

The major problems of farmers in the south of Kyrgyzstan such as degrading soil fertility and very low incomes of small farmers were addressed. This project was built upon the previous experience made by Helvetas and other organizations in organic cotton production in countries like Mali, Burkina Faso, India and Tanzania and in trade promotion of cotton to Europe. Past experiences confirm that switching from conventional to organic farming can contribute both to an improvement of the economic conditions of farmers and to the betterment of serious health and environmental problems.

Organic farming was a new concept in Kyrgyzstan. The idea of organic agriculture rests on balancing economic profit and sustainable management of natural resources. It does not allow the use of mineral fertilizers, synthetic pesticides and genetically modified organisms.

In the first phase (2003–2006), the project focused its activities in raising awareness, capacity building and market research to efficiently initiate trade promotion of agro products. The project was mainly targeted to develop and support the production and commodity chain of organic cotton and its byproducts in both the domestic and international markets. BCP had obtained a purchase guarantee from a cotton retailer in Switzerland thus enabling vertical integration of organic cotton producers and sellers.

In the second Phase (2007 – 2010 and prolonged to 2011), the project capitalized its objective as following:

“With the support and facilitation of BCP, a sustainable local structure for organic farming and trade is established. It manages the supply of a sizeable volume of certified organic and fair trade cotton and other (organic) products to international and domestic markets, while actively promoting the respective value chains”.

During this second phase, BCP changed its role, from that of an implementing agency (in phase 1) to that of an advisory structure (value chain facilitation). Gradually the local structures became the direct partners of the key stakeholders along the value chain. The two local support organizations Bio Service Public Foundation and the Bio Farmers Public Union were established. Later on the Farmers’ Union was reorganized into Agricultural Commodity and Service Cooperative in order to be able to sell on behalf of its members without additional taxes. Both organizations are equally strong functions and have developed their business plans with mid-term perspectives.

Today the project proposes to consolidate its activities into the next phase with the following objective:

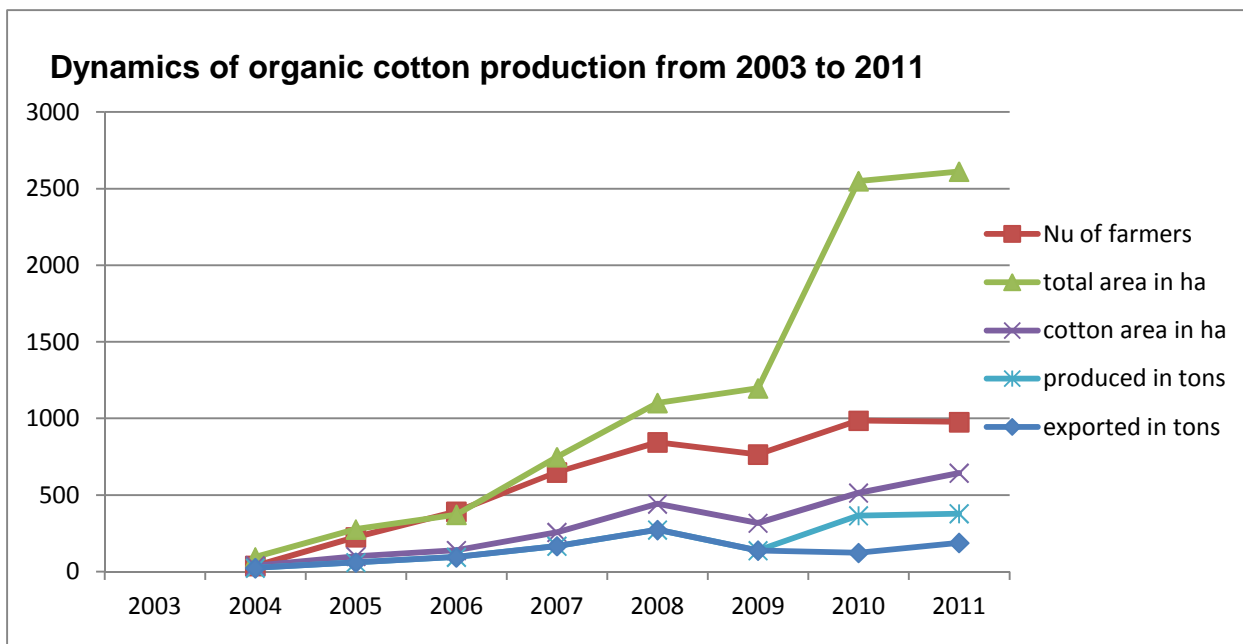
“The producer organisation ACSC and the service provider BioService operate sustainable businesses in an organic market system which is populated by an increasing number of actors from the private and public sector and is embedded in a conducive environment”

The project intervenes at two levels: it consolidates the organisational development of BS and ACSC, by supporting the further capacity and business development of these two organisations.

In parallel, the project supports the emerging organic sector by attracting more players to join the movement, supporting local market development and contributing to a more conducive environment.

The development of organic cotton production and trade from 2004 to 2011 for the BCP-supported organisations can be seen in Table 1.

Table 1



According to Table 1 the number of farmers shows a substantial increase between 2004 and 2011 and they have successfully passed certifications. The fallout rate or number of excluded farmers after internal control system in average reaches 10-12% of total number of farmers. Basically the main reasons of the fallout rate are low prices and challenges of converting into organic in the first years. In 2009 the world financial crisis and in 2010 volatile cotton markets and skyrocketing cotton prices heavily influenced on the organic businesses. The fallout rate in 2010 has reached 30% and the farmers' loyalty became an issue this year.

A strong increase of total organic area is observed due to additional lands from non-irrigated areas of farmers. The non-irrigated lands are mainly used for growing chick peas as rotation crops. Such lands strongly depend on the rainfall per year and there is always a risk during drought season. The export of cotton shows almost complete sales of all produced volume except the last two years. As mentioned earlier in 2010 the volatile cotton markets distorted fixed contracts of ACSC and in 2011 the Cooperative did not have enough capital to purchase all cotton. The current financial condition of ACSC allows acting only as an agent during the sales.

3. Summary of Results

3.1 SECO Key Indicators for BioCotton Project

Key Indicators					
	2008	2009	2010	2011	2012 plans
Charter and registration of the Organic Farmers' Association	X (12/08)	X (12/08)			
Number of members of the Organic Farmers' Association	500	765	986	998	1100
Support Unit legal form and charter defined	X (6/07)	X (6/07)			
Support Unit registered and operational	X (12/07)	X (12/07)			
Cost coverage Support Unit	25%	20%	30% (BS)	BS 42% ACSC 48%	BS 52% ACSC 60%
Volume of exported organic cotton fibre	155 t certified 40% labelled as organic*	137 t certified 60% labelled as organic*	72 t certified 59% labelled as organic* and 50t inconv	150 t certified as organic* and 36t as inconv	175 t certified as organic* and 36t as inconv
Volume of organic rotation crops sold	15% of the cotton sales	14,5% of the cotton sales	0,6 tons of MAPs exported	100kg of MAPs - stored, 17tons red beans sold locally	1.5 tons of MAPs, 100 tons of beans, 60 tons of chick peas
Fair trade label obtained	X	Yes	Yes	Yes	X
Share of products sold with organic premium price	40%	60%	59%	80%	
Share of products sold with fair trade premium price	40%	70%	40%	86%	

**All of the production shall be certified (complying with the requirements for organic farming), but only the third year cotton production can be labelled as organic on the markets.*

3.2 BCP Chronology 2012

In the first semester of 2012 the project activities were focused both on organic sector development and support to partner organizations. Interest of the government in organic agriculture and emerging new initiatives made the project work more at sector level. At the same time the partner organizations, BS and ACSC, are not yet fully independent of the project.

Month	Milestones
January	<ul style="list-style-type: none"> Strategic plans of local organizations are finalized including operational plans Organic sector development conducted and four groups identified, mission from OFTCC
February	<ul style="list-style-type: none"> Project budget for 2012 is approved BS and ACSC revised their business strategies with the support of BCP

	<p>Backstopper</p> <ul style="list-style-type: none"> • Potential contacts for the sector development identified at BioFach • 2 weeks of business planning workshop conducted by ICCO consultant
March	<ul style="list-style-type: none"> • Service package to farmers prepared and communicated during information campaign • Service agreement is signed between BS and ACSC • Audit reports are prepared by partner organizations
April	<ul style="list-style-type: none"> • Contact established with Investment Fund responsibility from Zurich • M4P training conducted: BCP and BS attended • Market system analysis discussed and inputs are integrated into Project document • Steering Committee meeting of BCP conducted
May	<ul style="list-style-type: none"> • Steering Committee of BS conducted • Coordination meeting on sector development moderated by BCP • Harvest estimates are ready: 325t of cotton fiber, 100 t pulses, 60 t chick peas, 1,5t MAPs • Marketing action plan is developed between OFTCC and BCP • MOU signed with GIZ on joint support to sector development
June	<ul style="list-style-type: none"> • Triodos is ready to collaborate with ACSC • Elmertex agreed to continue with flexible pricing mechanism • New private sector contacts established: private businesses, Agrobazar Cooperative • Local market players are explored for organic products

Expected result 1

Diversified production plan and value addition

Sub-objective 1.1: Production support is ensured

Indicator

- min 1 rotation crop in exportable volume produced
- proven economic profitability at farm level
- comparative analysis, including rotation crops

Result

- harvest estimates are ready: 60t of chick peas, 100t of beans, 1,5t of calendula
- gross margin analysis for rotation crops are presented to farmers
- data of rotation crops is collected

Process

At the end of 2011 ACSC visited all farmers to collect their planned crops for the next production year. Such overview of crop planning gave indication to ACSC to make strategic decisions for 2012 and efficiently use all certified area. Altogether 610 ha were sown under cotton and over 75 ha for rotation crops. ACSC promoted red skirt beans, chick peas and MAPs based on the market demand. The apricots in Batken are not in the strategic action of ACSC due to lack of capacities and market demand. The promoted crops are sown with reserve in order to prepare a minimum quantity for export.

During the annual farmer information campaign the trainers of BS and member of ACSC prepared gross margin analysis for each promoted crop. Based on the profitability of the crop the farmers were convinced to grow promoted crops. Nevertheless the external factors like floods, drought season are main risks for the Cooperative members for which ACSC needs to develop a reserve fund. After the floods in 2012 the overall volume of organic production is reduced by 15%.

Comparative analysis is continued on organic cotton which proved profitability of organic farming compared to conventional one. The analysis was presented during the Steering Committee of BCP and the government officials got interested to get such data. The local organizations are collecting the rotation crops data at the same time and it needs to be analyzed in the second half of 2012. For beans in Talas a separate comparative analysis needs to start in order to test the profitability of organic farming.

Successful marketing of rotation crops will contribute substantially to the success of organic farming in Kyrgyzstan in the long term. Several attempts by the project to promote the export of rotation crops failed so far due to external and internal factors. Therefore a guarantee fund has been developed to bridge the gap between demand and supply. Rotation crop development from 2005 to 2011 can be seen in Table 2. More explanations will come in the Annual report.

Rotation crops development since 2005

Table 2

\What When	Promoted rotation crops	Planned production (in tons)	Harvest estimate (in tons)	Sold by local organizations (in tons)	Remarks
2005	Pulses (various beans)	7.2	1.9	0	
	Maize	13	3.9	0	
2006	White beans "Lopatka"	85	20	14	Sold on the local market as quantity was too low for Turkish buyer
2007	White beans "Lopatka"	189	20	20	Sold on the local market due to small volume for Turkish buyer; low yield due to drought season
2008	Red Beans	50	15	0	Harvest failed (drought)
	Chick peas	80	0	0	Harvest failed (drought)
	Peanuts	10	10	0	
2009	Sunflower seeds	26	25	0	
2010	Various MAPs	5.4	2.1	0.7	Exported to Switzerland with OFT prime
	Chick peas	80	6	0	Volume too low for export
	White beans (in Talas)	110	100	0	No demand for organic in-conversion beans
2011	Chick peas	20	0	0	Dry climate
	MAPs	2	0,1	0	Dry climate, stored at warehouse
	Red beans	20	17	7 (for seed material)	Farmers sold at local market
2012/1	Red skirt beans	40	40		
	White beans	60	60		
	Chick peas	60	60		
	Calendula	1.8	1.5		

Sub-objective 1.2: Quality management system is integrated (HACCP, QM, GMO) including certification
Indicator

- ICS handed over to ACSC
- ICS costs reduced by 50%
- HACCP applied

Result

- New system of ICS is applied
- The costs are reduced by 50%
- HACCP certificate is ongoing

Process

The efficiency of the ICS and certification system is an important issue for both organizations to reduce their costs. Up to today the ICS system was more focusing on number of visits rather than on risks management. In 2012 the cooperative decided to hand over more responsibility to farmers and reduce the number of visits. This way BS would be more involved in training of ACSC members to conduct inspections and organize external certification. At the same time both organizations would jointly share the risks and quality management throughout the production year. As BS is acquiring more mandates from other cooperatives and organic initiatives it has to hand over the implementation of ICS to the cooperative. In order to support the mission of Mr. Frank Eyhorn in January helped to analyze the handing over process and defined steps for the next years. Afterwards both organizations with the support of a BCP expert developed a concept for 2012 with gradual handing over of ICS to the cooperative. The project conducted monitoring of the new ICS system and gave recommendations for improvement.

The costs of ICS within BS have been reduced by 50% compared to 2011. The BS is based on the fees of days for its consultancy and taking less responsibility. The training mandate is slightly increased due to training ACSC staff in ICS competences. ACSC main investment is training new members into ICS and empowering farmer group leaders in production. Such a process might take 1-2 years for proper capacity building.

The more value is added into the product the more quality issues emerge. To date, only cotton processing was closely monitored for quality management. With new crops like pulses and MAPs it has become important to introduce also the HACCP system to ensure better quality. These crops require further processing like drying, sorting, cleaning, calibrating. In 2011 both partner organizations involved a local HACCP expert who developed procedures and trained the HACCP team. The next stage would be to develop a manual and organize centralized premise and equipment for further processing. Due to lack of capacities and funds these requirements are not yet in place within ACSC in 2012. This has been clearly communicated to buyers.

Expected result 2

Enhanced competitiveness and business strategies
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Sub-objective 2.1: Competitive business strategies updated

Indicator

- Strategic plans
- Business plans and main indicators for 2012
 - Cost coverage
 - Profit
 - Equity

Result

- Strategic plans developed including YPO and Budget for 2012
- Business plans are revised and key indicators defined for 2012

Process

The process of strategic planning of both partner organizations was moderated by BCP from December 2011. Both organizations analyzed their activities in 2011 and defined their strategy for next year. Their strategies were once more revised and analyzed during the mission of BCP Backstopper, Mr Markus Ehmann.

As a result ACSC decided on a growth strategy: diversification – focusing on 2 more crops besides cotton, concentration strategy - increase loyalty / accountability of farmers towards the cooperative and exploiting the existing organic area more effectively. The strategic plans of ACSC were approved by the General Assembly in May including the plans for 2012.

For BioService it was important to go into a strategy revision process because there were several options which needed to be analyzed. At the end three main options were defined and prepared for approval of the steering board. The strategic options in detail are described in the Half Yearly Report of BS for 2012. See Annex II HYR BS.

Revision of the business plans for both organizations started at the end of February with the support of an ICCO consultant. Two weeks (1 week each) of intensive workshop with both organizations defined the main fields of revision and still continued with remote support till June. At the same time the project involved a local financial consultant for the BioService business planning. To date, both business plans have progressed significantly and defined their key indicators for 2012 (Tables 3 and 4). The projections were made till 2016 when the project is fully phasing out.

Business plan indicators of BioService

Table 3

Key indicators	Fact 2011	Plan 2012
Organic production initiatives	0	2
New consultancy or training mandates	5	5
Payment from clients (in mio kgs)	SEP-3: 0,132 SEP-4: 0,104 ACTED: 1,07 JICA: 0,075 GIZ: 0,45 Agrotourism: 0,1 Other (GIZ AF, MAP):0,3 ACSC: 1 TASK (Feb 2012): 0,13 Total: 3,45	ACSC: 2,2 GIZ apricot: 0,9 GIZ MAP: 1 USAID: 1 TASK: 4,2 Agrotourism: 0,07 Total: 9,6
Expenditures of BS in mio	7,65	11,4
Gross margin (without donor contribution)	-0,2	0,26
Net operational result	-4,4	-1,7

% Cost coverage by service provision	42	52
Capital by 31.12.2011 in mio	1,987	2,25

According to the business plan the break even point of BS is planned to be reached in 2014. The risk analysis has been developed and several scenarios have been prepared to present to Steering Board members.

Business plan indicators of ACSC

Table 4

Key indicators	2011 fact	2012 plan
Number of farmers	977	1146
Turnover (mio kgs)	28, 638	41, 271
Gross margin (without donor contribution)	-581,523	-162,482
Net result in mio	5,604	3,762
% cost coverage (commission and membership fees)	0,48%	0,62%
Capital 31.12.2011 in mio	12,842	14,605
Fairtrade fund in mio	0, 802	1,343

ACSC has a major risk of natural disasters which can not be fully managed. If the projected volume can be produced and sold then Cooperative comes to break even point already this year. On the other hand ACSC needs to have solid capital in order to resist critical business environment like volatile markets and also shall be able to purchase the raw material from farmers.

Sub-objective 2.2: Profitability of the organization is increased through partnerships with private sector

Indicator

- Sales contracts - 2
- Cost covering price structure
- Service agreements signed
- ACSC pays BS according to agreement
- MOU with partners signed (at least 1)

Result

- Promo materials are ready with product offer sheets
- Flexible pricing scheme will be applied for rotation crops
- Service Agreement concluded
- Training services are completed and ready to be paid by ACSC
- Contacts established with new partners

Process

Good negotiation is a key to success in business. ACSC mandated BS to sell all organic products promoted for this year including the in-conversion cotton fibre. BS attended BioFach exhibition this year together with a BCP delegation and strengthened existing buyer relations. Also for potential buyers BS is preparing promotion materials together with product offer sheets. Negotiations will start in July and August.

From November 2011 the project started actively exploring public and private partnerships in the organic sector. Various workshops and meetings organized by the project helped to identify new actors already involved and/or potentially interested in organic businesses in the country. Additionally the project established a contact with Agrobazar cooperative which is involved in trade relations with Russian market players. This contact could assist ACSC in exploring the Russian market demand for organic products. Another contact is established with a private company dealing with organic products from Kyrgyzstan. Follow up with these contacts will be done in the second half of 2012.

In the field of finance new Investment Fund ResponsAbility from Switzerland got interested to provide a harvest loan to ACSC. The meeting was held in April and due diligence visit is expected end of July. On the other hand the cooperative developed long term relation with Triodos bank and therefore offered to ResponsAbility to support the rotation crops.

The flexible pricing scheme from last year served both parties: the buyer and the seller. The textile company, Elmertex agreed to go on with the same scheme also in 2012. BS and ACSC shall be ready to apply different pricing mechanisms for different buyers considering all the risks involved. For rotation crops both organizations are willing to apply flexible pricing because only this way they could attract farmers to deliver the product. In order to support the sales of rotation crops the project developed a guarantee fund which will push the first business.

In March BS and ACSC successfully signed a Service Agreement for 2012. Lengthy negotiations and discussions between the two organizations took place without interference of the project. This way it got clear that partner organizations developed an ownership and realized importance of such Agreement. According to the agreement the payment will be done based on the act of fulfilled works. For the first half of 2012 training services are completed and shall be invoiced to the cooperative for payment.

Expected result 3

Marketing and local market development
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Sub-objective.3.1: Local market development and access of organic products to local market is piloted / explored

Indicator

- Local market analysis report study produced
- Number of people reached through PR campaign
- Organic products sold with prime on local market

Result

- TOR for market research study developed
- BS is involved in several PR activities
- New actors are identified for access to local market

Process

In order to assess the profitability of organic products the project planned to explore both local and regional markets. This will provide additional market opportunities for producers and support services in the local market. The terms of reference have been prepared by the project and will be outsourced to a professional company in the second half of the year. It is also very important to identify the comparative advantage or unique selling proposition of Kyrgyz products when focusing on regional and international markets. Due to high transport and production costs the products might not have competitive advantage even though they are organic certified. Additionally strong promotion activities are necessary in order to raise awareness.

BioService has been very active in lobbying and awareness creation among the local population. Together with other stakeholders interested in organic farming (Agrarian Platform) BioService is planning to organize an organic forum in September. This could give a chance to BS to cover a wider range of people (local and international) and to increase awareness about organic farming.

This year ACSC is focusing on increasing farmers' loyalty. Involving the farmer groups in small income generation activities will contribute to the group empowerment. The project of JICA "One village – one product" offered the ACSC to supply with products from farmers and enter the local market. Further elaboration of this collaboration will be developed in the second half of 2012. Additionally project is planning to identify local businesses for textile products.

Sub-objective 3.2: Improved international marketing + local/ regional

Indicator

- Marketing strategy of BS (document)
- Feasibility study of walnuts, MAPs and apricots

Result

- Action plan on marketing developed
- BS acquired USAID support for apricots in Batken, GIZ support for MAPs in the north, walnuts are planned for second half

Process

The marketing function is a core activity in an organic value chain. In order to fill this gap the project invested major resources in the marketing capacities of BS. At the same time OFTCC provided substantial support in marketing activities by linking to potential buyers and making first contacts abroad on behalf of the producer organization. It is obvious that Helvetas shall design clear exit strategy which shall sustain in the future. As the first step towards sustainability OFTCC and BCP developed an action plan on marketing in February. The main focus of the plan is to build local capacities in marketing and gradually handing over fully the marketing function. In May BCP moderated marketing meeting between BS and ACSC. The actions are defined and

implemented by partner organizations. Further support will be needed from the project side in the second half of the year.

Project experience since 2004 has shown that in the organic world the farmers in Kyrgyzstan shall focus on niche products or have very strong competitive advantage. For this reason it is necessary to conduct feasibility assessment for all potential products. Apricot assessment in Batken is mandated to BioService from USAID project. And assessment of MAPs in the north is supported by GIZ. In the second half BioService will be involved in feasibility study of walnuts with the support of OFTCC.

Expected result 4

Strengthened capacities of producer organization

Sub-objective 4.1: ACSC

Indicator

- Audited financial statements
- Funds are managed and reported on time and correct
- Loyalty of members strengthened
- => delivery rate,
- => payment of credit
- Report on share-holder system study
- HRD plans + implementation
- Administrative processes defined, operational manual developed

Result

- Audit report for 2011 submitted
- New accountant is hired for 100%
- Communication flow is strengthened
- Shareholder system is explored/ ongoing
- HRD plan developed
- Administrative manual updated

Process

With the new manager stepping in the organizational structure of ACSC was changed. There are 6 permanent staff members managing the Executive Board of ACSC. In the first half of 2012 the staff management of ACSC remarkably improved. Each staff member got updated TORs and signed their contracts for 2012. The accountant position was increased from part time 40% basis to full time 100% basis and ACSC recruited a new accountant. At the same time 1C accounting system was installed within ACSC and the new accountant was trained.

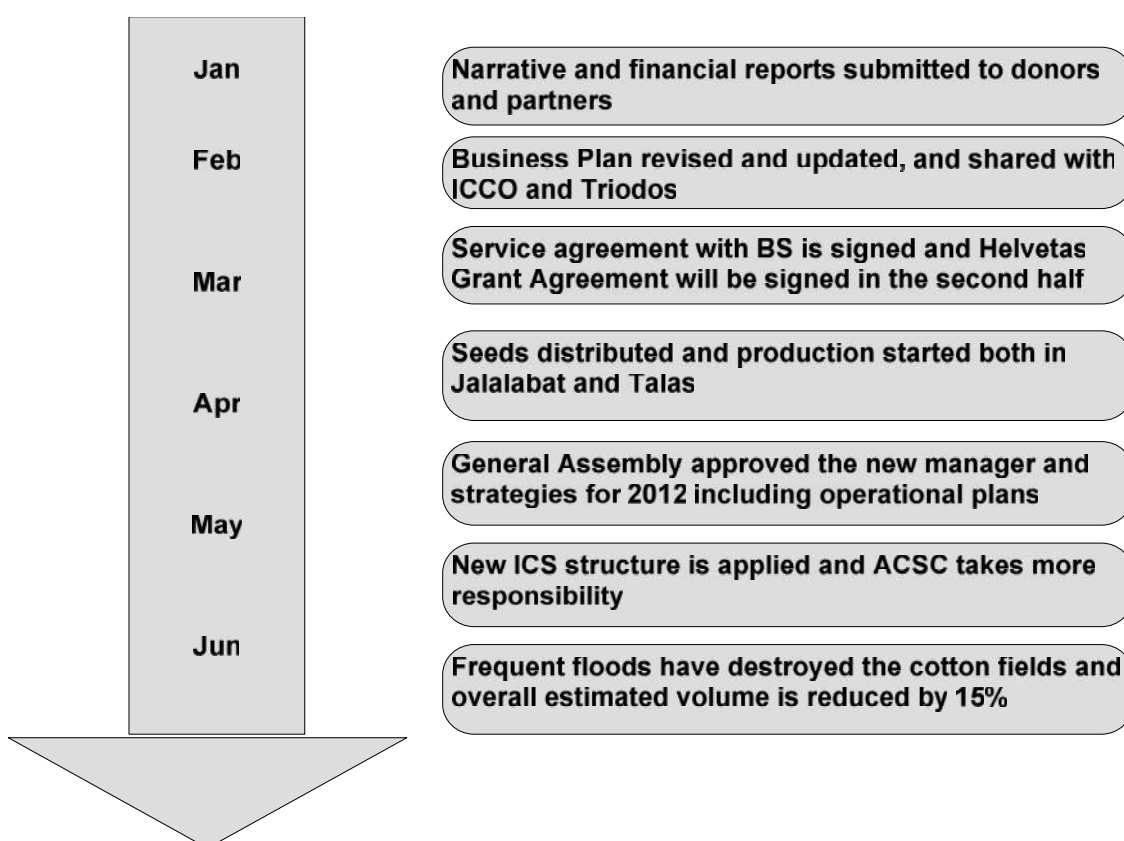
Financial reports to donors and Triodos were prepared only in March due to lack of capacities within ACSC. Later on the audit inspection reported several bookkeeping errors in the accounting system of ACSC done in 2011. By mid of May all errors were corrected within given period and shared with donors. The project continues to build capacities within ACSC because financial management is a core function.

The HRD plan needs to be developed and integrated into internal procedures. Besides on the job training the management of ACSC and their accountant participated in financial management training. The administrative manual has been updated and internal regulations are in place.

The loyalty of farmers or accountability remains as an important issue in ACSC management. In the first half of 2012 the measures to increase loyalty were rewarding active farmers, visiting farmers more often, supporting during disasters and keeping closer communication flow. Additionally the project will explore a shareholder system as an alternative organizational set up which will keep farmers more accountable towards cooperative and at the same time compliant to Fairtrade rules.

In January 2012 ACSC was invited to the General Assembly of Fairtrade Network of Asian Producers conducted in Chennai, India. The production manager of ACSC and BCP assistant represented Kyrgyzstan and they established several contacts and exchanged their experiences. The ACSC member was elected as a Board member of NAP.

Figure 1 illustrates the main organizational development of ACSC in 2012/1.



Sub-objective 4.2: BioService Public Foundation

Indicator

- HRD on acquisition
- Marketing implemented

Result

- Several proposals are submitted to donors
- New marketing manager hired

Process

BioService is the only service provider which is specialized in organic farming in the country. For the last 2 years BioService positioned itself mostly towards donor organizations. Several proposals have been submitted by BioService and three of them are supported in 2012. According to the Seco evaluation this strategy will be sustainable in the short term. For the long term perspective the organization shall acquire mandates from the value chain operators like producers, processors, retailers. For today only ACSC is the main client as producer organization which gets services in training, certification and marketing.

In order to stay active in the market the organization shall have a pool of experts or freelancers. At the same time the core staff shall be regularly upgraded. For today BioService staff members are competent in organic farming, ICS, marketing, irrigation techniques, conflict mitigation and small scale processing activities like bakery and jam making.

As the Seco evaluation highlighted, the marketing department of BioService needs to be strengthened. And beginning of the year the marketing officer resigned and BioService had difficulties to fill the gap in a short period of time. Therefore only in June it was possible to find the suitable candidate and new marketing manager was hired.

The figure 2 below shows the organizational development of BioService in the first half of 2012.



Figure 2. Organizational development of BS in 2012/1

Expected result 5

Conducive environment

Sub-objective 5.1: National organic sector stakeholders platform initiated / piloted

Indicator

- Minimum 2 platform events
- Action plan 4 of working groups developed
- Regular contribution / participation in development of organic sector at national level

Result

- Organic sector development workshop conducted
- 4 groups identified and got inputs for action plans
- Coordination meetings conducted, MOU signed with GIZ

Process

The project started working in sector development from 2011 by organizing workshops with various stakeholders. In January 2012 a national workshop on organic sector development was organized by Helvetas and GIZ. The aim of the workshop was to consolidate various actions moving towards the promotion of organic agriculture and the identification of potential stakeholders who would act as drivers. As a result four groups were identified: production organization, local market development, lobbying at national level and private sector involvement. All four groups assigned one leading organization that would coordinate actions within the group. With this it will be possible to create a national network on organic agriculture. More details of the workshop can be found in the minutes attached to this report. See Annex III.

Organic agriculture became a most discussed topic at national level in 2012. The Ministry of Agriculture drafted a law on organic agriculture which was circulated among all other ministries. Additionally a concept for organic farming with a mid-term perspective was also developed and shared with other government agencies. Several working groups were formed at national level to develop agricultural strategy. Their main focus in the strategy is to promote organic farming in the country.

In the second quarter there were two coordination meetings organized by the project with participation of government, NGOs, private sector and donors. The more meetings are organized the more clarity comes to organic strategy at national level. For example, national agrarian strategy with focus on organic has been developed. At the same time the meetings help to have linkages between stakeholders, share knowledge, make joint marketing and coordination of activities related to promotion of organic farming. From the international agencies ICCO and GIZ are willing to support organic sector development in Kyrgyzstan. In May GIZ and Helvetas signed a Memorandum of Understanding on joint development of the organic sector.

Sub-objective 5.2: Regional network is initiated

Indicator

- Concept for regional network
- Platform established

- 1 F2F event conducted
- Broad range of stakeholders (FLO, IFOAM, SIPPO)

Result

- Concept for regional network developed and shared with all members
- Federation on organic development emerged
- Preparations for organic forum ongoing
- FLO, SIPPO, IFOAM are in contact

Process

After the Organic and Fairtrade conference in November 2011, Helvetas took over the facilitation role of the regional network. The participants from Afghanistan, Uzbekistan, Tajikistan, Pakistan, Iran and Kyrgyzstan initiated to form a regional platform in order to have joint marketing, planned production and joint certification activities in organic and fairtrade context. As a starting point Helvetas developed a concept which was called Regional Silk Road Network concept. The concept mainly describes the roles of stakeholders and key objectives of such network. In the beginning the network will link various stakeholders and regions and coordinate organic agriculture related activities. Once the regional market developed and there is a demand for local products it will be necessary for the Network to lobby for regional rules and regulations.

The latest development of the organic sector in Kyrgyzstan joined various stakeholders into a Federation on Organic Development “Bio Kyrgyzstan”. The Federation emerged on its own and is still developing its internal rules and regulations in order to get legally registered. It has balanced representation from all sectors. In case the Federation would take over the role of a national Network then it will be the right organization for the project to work with in the next Phase.

Currently the Federation members are planning to conduct an organic forum in the second half of 2012. The agenda and programme is being prepared by BioService which is one of the members of the Federation. Helvetas will support in organizing the event and also attract other donors, such as GIZ and ICCO for support.

After the market system analysis the project identified different entry points to develop the organic sector in the country. For this a Kyrgyz delegation has met with IFOAM, SIPPO and FLO during BioFach and discussed potential collaboration with the project.

Project management

Project structure

After prolongation of the project Phase II till July 2011 the decision for continuation was not made by the main donor for the next period. Until 2012 the project faced a so called “non-phase” period. Jointly with head office the project document for the next phase was drafted and submitted to Seco. The period from 2011/2 to 2012 has an agreed budget from SECO and Helvetas. Phase III is proposed to run from 2013 to 2016.

In 2012 the objectives of the project are set in accordance with new Phase III objectives and recommendations of Seco evaluation (conducted in June, 2011). Basically the project continues providing support to partner organizations to develop their business strategies and help them to

reach sustainability. At the same time the project will focus on organic sector development with involvement of private sector, government and civil society and developing a clear exit strategy by 2016.

Human resource management

The project is managed by a local manager, supported by 40% of an Agronomist, 50% of a Technical Advisor and Backstopper from Zurich. Additionally there are support staff members: project assistant and driver. In the first half of 2012 the project structure changed because new assistant translator and new Technical Advisor were hired. Former assistant translator resigned due to family reasons from July onwards. And new Advisor is hired for LMD and BCP projects starting from June and is based in Bishkek. The process of handing over of both BCP positions was completed by the end of June. The project structure with new team members is responsible for project cycle management and continues provision of support to partner organizations. The core value chain functions of the project will be fully handed over to BS and ACSC. Still coaching and capacity building functions remain important in the project exit strategy.

Project achievements so far

Starting from the end of 2011 the Project Document for consolidation Phase III was developed. The project organized stakeholder workshops in order to see potential new partners for future and shape the strategies for the next phase. To support this objective the mission of Frank Eyhorn also covered the organic sector development workshop which has strengthened the presence of the organic movement in Kyrgyzstan. A BCP Steering Committee meeting was conducted in April and minutes of the meeting are attached to this report for more details. See Annex IV. The grant agreements are not signed with partner organizations due to lengthy business planning process and late approval of the project budget. The partner organizations used their own funds (Fairtrade fund and from other mandates) from last year for the expenses of the first semester. In July both organizations will have a cash deficit and it will be necessary to conclude grant agreements.

BS and ACSC are developing relatively well. Both organizations managed to sign the Service Agreement without major interference of the project. The business planning process started end of February and still till June the managers are continuously working on it.

For the consolidation phase the project developed an exit strategy which gradually hands over the core functions of the value chain to partner organizations and other key value chain operators.

Gender:

Gender refers to social differences between men and women, which are learned, changeable over time and vary widely within and across cultures.

Gender is a socio-economic variable for analyzing roles, responsibilities, constraints, opportunities, and needs of men and women in a given context.

Gender is considered as a transversal theme in Helvetas Kyrgyzstan. The Jalalabat office of Helvetas took over the role of focal point on gender and social equity. A workshop on transversal themes including gender was conducted for all projects. It was concluded that there is a need to build capacities in gender even though many projects were required by donors to integrate gender issues. In order to mainstream the topic all projects will consider the transversal themes in yearly operational plans and strategies.

BCP partner organizations, BS and ACSC continue including gender activities in their yearly plan of operations. BS has still strong female trainers in organic farming, irrigation, conflict management, agrotourism. The training and marketing department of BS is headed by female staff members. In ACSC number of female farmers is always indicated in the data base. In order to increase involvement of women in organic farming the cooperative started signing the production contract with those who work in the field. Mainly it was women. Also Fairtrade certification requires women empowerment in decision making position in ACSC. The council and auditing committee of ACSC have female members. Additionally ACSC is planning to empower women groups by involving them in handicrafts projects. During the general assembly some active female farmers were rewarded.

4. Lessons learnt & Conclusions

This chapter describes the main lessons learnt and conclusions with regard to the Seco evaluation findings conducted in June, 2011 and the main expected results of project for 2012.

The evaluation was conducted as part of a joint consultancy mandate with the other organic cotton projects of Helvetas, Burkina Faso and Mali, West Africa. The recommendations listed below were already addressed by specific measures in 2011 and continued in 2012 with new objectives. The respective measures are integrated in the project proposal for the consolidation phase which is submitted for approval.

Evaluation findings for Kyrgyzstan	Measures undertaken in 2012
Bring in additional management capacity to BioFarmer	New manager has fully integrated in the team and fully took over the management. Staff has clear roles and responsibilities and internal procedures are in place
Develop clear strategy and business plans	ACSC developed clear strategy for 2012 and plans are being implemented. Business plan is revised based on the new strategic goals and contains risks analysis. BS developed several strategic options and integrated into the Business plan. In July the next Steering Committee meeting will approve the Business plan of BS.
Build up working capital, manage cash flow	Both partner organizations got consultancy support for cash flow management (ICCO consultant and local expert). The working capital in partner organizations is still an issue. The project is exploring collaboration with private investors and financial institutions.
Improve portfolio management	ACSC production planning is done based on the market demand.
Marketing function is weak	BS hired a new marketing officer with direct coaching from BCP and OFTCC. The Service Agreement is signed between ACSC and BS with clear indicators and results on marketing
Recommendations at programme level:	
Explore possibilities for more private sector approach	Private sector involvement is strengthened in project plans for 2012. Private sector group is formed and needs to be followed up in the second half.
Sector view dimension needed	Project plans for 2012 are focused not only on two local organizations but also into the wide range of stakeholders (government, civil society and private sector)
Sustainability: more time needed due to	Business plans of partner organizations revised

drawbacks caused by external factors	with realistic scenario. The project developed an exit strategy in the project proposal for consolidation phase.
Effectiveness	
Institutional and economic viability of producer organisations: <i>Low capture rate due to lack of pre-finance</i>	Flexible pricing mechanism allowed the ACSC to compete in the local market and collect the required volume. The same scheme will be applied for crops 2012 including rotation crops. The major issue to be addressed is negotiations with buyers.

Below the achievements and challenges are analyzed on the basis of each expected result of project activity.

Lessons learnt	Conclusions
<i>Diversified production plan and value addition</i>	
Production is planned based on market demand. The natural disasters which occurred in the first half have brought severe damage into the fields and reduced the estimated volume by 15%.	ACSC needs to develop a reserve fund and take preventive measures in the areas having frequent floods
The loyalty of farmers depends on internal and external factors. ACSC capacity is not sufficient to keep their 1000 members loyal and cooperative	New organizational set up is being explored. It is a shareholder system which will also increase membership feeling of farmers and accountability (loyalty)
<i>Enhanced competitiveness and business strategies</i>	
Lack of working capital in partner organizations does not allow being competitive in the market.	New partnerships with private investors are explored.
Business plans are revised and new strategies are set. Risks analysis as part of the business plan shall be developed in order to take preventive measures.	Both business plans contain risk analysis and has to be operationalized in the second half.
<i>Marketing and local market development</i>	
Building marketing capacities within BS remains as a key challenge. The private sector is not yet interested to invest in organic business.	The project is providing direct coaching to marketing department of BS. Project exit strategy includes the marketing as core function. Other service providers are explored for marketing of organic products.
As a safety net for new value chains the project suggested so called guarantee fund supported by donors. Such mechanism would make a push to start a new business and establish additional value chains.	Application of the guarantee fund in 2012 is needed
Access to local market requires public	Synergies are explored with JICA on one

awareness increase and collaboration with existing businesses	village one product project. BS will be involved in public awareness campaign
<i>Strengthened capacities of producer organization</i>	
ACSC revised internal procedures and roles of team members are clearly distributed. Project continues to build capacities by direct coaching and supports with external consultants. It is difficult for ACSC to focus on production and promotion at the same time.	Service agreements or outsourcing specific functions shall become essential for ACSC in order to be able to pursue their mission to provide services from the farmer to the market.
BS acquires more and more mandates from donors, cooperatives. Different mandates allow BS to develop different strategic options which need prioritization	BS strategic options shall be analyzed for effectiveness and sustainability and approved by its Steering Board
Conducive environment	
The current interest in organic at national level is the ideal moment to support the development of an organic sector.	ICCO, GIZ are interested to support organic sector development. Any support to promote organic shall be coordinated with each other in order to have common strategy
Federation on organic development has emerged on its own. It consists of various stakeholders and has to be legally registered.	All emerging initiatives shall be thoroughly analyzed for sustainability and used as a network for national organic sector development
The newly developed organic law might become a hurdle to develop markets if the regulations are too strict. The right approach at the right time is a key to success.	Organic sector development workshop opened the doors for all sectors in the country. Helvetas will support the IFOAM expert to develop a strategy / common policy on organic at national level.

5. OUTLOOK

This chapter describes the challenges of project for the second half of 2012 based on each expected result and an assessment of the main risks involved.

General:

- The project proposal for consolidation phase is developed and submitted for approval. According to decision note of Seco the next phase will be funded under one umbrella for all three countries (Kyrgyzstan, Burkina Faso and Mali).

If the Project Document for consolidation phase will not be approved soon funds will not be assured then project activities can not be continued as planned. At the same time the partner organizations (BS and ACSC) will not get necessary support on their way to sustainability and the organic sector might develop as “organic by default”.

Opportunities based on the expected results

- The value addition to organic products will increase profitability. To date, organic and fairtrade certificates have been obtained. Additionally HACCP standards will improve the quality management procedures.

Fairtrade certificate alone for inconversion cotton fiber is difficult to market. This way ACSC will have to find another value demanded by the market for its organic products. Based on the experience in the past it got clear that fairtrade in combination with organic status has more chances at the market. For food products HACCP certificate is value added option. The ACSC needs to have a centralised workshop / premise for primary processing in order to meet basic HACCP requirements.

- Pricing mechanism for rotation crops will be updated based on the flexible scheme. This helps ACSC to secure required volume and act as agent in front of a buyer.

The buyers usually opt for fixing the contracts and the flexible pricing requires more transparency and trust between the buyer and seller. With flexible pricing the producer organization can secure and guarantee volumes. For this ACSC needs enough capital to purchase the raw material and manage the cash flow.

- Triodos loan shall be obtained in order to manage the cash flow during the harvest season. The loan would cover only 60% of the contract value and therefore pre-finance from the buyers shall be requested.

The loan is provided if the sales contracts are concluded with buyers. This requires early start of negotiations with buyers about volumes and prices.

- Business plans of partner organizations are revised and shall be a guiding document for their business strategies. End of the year the analysis of the strategies shall take place in order to adjust business plan indicators.

The partner organizations shall have full ownership to their business plans in order to react to the changing business environment. The strong management capacity is one of the main aspects to accelerate the process of acting according to business plan indicators.

- Marketing capacities of BS need further support from project in order to fully take over the marketing function and serve the Cooperative. BioService shall strengthen its marketing function in order to sustain in a long term.

New mandates obtained by BioService shall be more with producers organizations or trade companies. This way BS can pave its future as the professional service provider in organic businesses.

- In order to increase loyalty of farmers towards ACSC the communication flow shall be strengthened. Additionally the organizational set up will be revised for the shareholder system.

Loyalty and membership feeling within the producer organization is important aspects to increase accountability and responsibility of farmers. In a result the ACSC can become strong and competitive organization which provides services from the farmer to the market.

- In order to keep the overview of the organic sector development the project will support the face to face event.

Helvetas is very supportive to expand organic within the country. Other donors like GIZ, ICCO are also contributing to this development. In order to consider the sustainability it is important to direct the funds to local and reliable organizations who are competent to promote organic.

List of annexes:

Annex I: Half Yearly Report 2012 ACSC - in Russian

Annex II: Half Yearly Report 2012 BS

Annex III: Minutes of BCP Steering Committee meeting, 25th of April, 2012

Annex IV: Minutes of organic sector development workshop, 23rd of January, 2012