

STDF PROJECT PREPARATION GRANT (PPG)

APPLICATION FORM

The Standards and Trade Development Facility (STDF) provides Project Preparation Grants (PPGs), up to a maximum of US\$50,000, for the following purposes (or a combination thereof):

- application of SPS-related capacity evaluation and prioritization tools;
- preparation of feasibility studies that may precede project development to assess the potential impact and economic viability of proposals in terms of their expected costs and benefits; and/or
- preparation of projects proposals that promote compliance with international SPS requirements, for funding by the STDF or other donors.

Applications that meet the STDF's eligibility criteria are considered by the STDF Working Group, which makes the final decision on funding requests. Complete details on eligibility criteria and other requirements are available in the *Guidance Note for Applicants* on the STDF website (www.standardsfacility.org). Please read the *Guidance Note* before completing this form. Completed applications should be sent by email (as Word documents) to STDFSecretariat@wto.org.

PPG Title	Preparation of a project proposal to promote compliance with international SPS requirements including Eurasian Economic Union Technical Regulations, for funding by the STDF or other donors.
Budget requested from STDF	44 790 USD
Full name and contact details of the requesting organization(s)	The Association of Food Industry Enterprises (AFIE) of the Kyrgyz Republic ¹ Address: Manas str. 101/1, room No. 303, Bishkek, 720033, the Kyrgyz Republic Telephone: +996 (312) 46-27-44, 694132 Fax: +996 (312) 694132 e-mail: fruit@elcat.kg
Full name and contact details of contact person for follow-up	Mr. Edil Kalashev (National SPS expert, English speaking) Tel: + 996 555 14 00 54 (international calls) e-mail: edil_kalashev@hotmail.com

¹ Also known as Kyrgyzstan.

I. BACKGROUND AND RATIONALE

1. What is the purpose of this PPG? Explain whether it is requested to: (i) apply an SPS-related capacity evaluation or prioritization tool; (ii) prepare a feasibility study (prior to project development) to assess the potential impact and economic viability of proposals in terms of their expected costs and benefits; and/or (iii) prepare a project proposal for consideration by the STDF or other donors?

The purpose of this Project Preparation Grant is to prepare a project proposal focused on strengthening capacity of stakeholders in the fruit and vegetable value chains (processed and fresh fruits, berries and vegetables) to meet SPS requirements and increase exports from the Kyrgyz Republic to regional markets (particularly Russia and Kazakhstan), for consideration by the STDF or other donors p.(iii).

Having in mind that the Kyrgyz government is not able to support funding of introduction of relevant international standards the Association have requested international and bilateral donors but so far no positive results have been attained. This is why the Association approaches the STDF for possible assistance. The Association has already made several researches with respect to potential impact of broad introduction of international standards, methods of testing, other conformity assessment procedures but those researches were not exhaustive, nor they have been focussed on entire production chain, i.e. from farmer`s growing practices to retail outlets.

2. Explain the key SPS problems and/or opportunities to be addressed. Clarify why these issues are important, with attention to market access and poverty reduction. Describe, if relevant, how these issues relate to SPS priorities in the Enhanced Integrated Framework's Diagnostic Trade Integration Studies (DTIS), the findings of SPS-related capacity evaluations, national poverty reduction strategies, sector development strategies or policies, etc. See Qn. 7. (b) – (d) of the Guidance Note.

The Association of Food Industry Enterprises (AFIE) of the Kyrgyz Republic is submitting this request to help its member companies strengthen their SPS capacity and increase exports of fruit and vegetables to regional markets. AFIE is a non-profit, non-commercial organization comprising 54 enterprises producing value added products from local fruits, vegetables and berries. The total output of these companies in 2015 was around USD 5 million. These companies employ around 3,500 people. Potential estimated growth is around 10-12 percent for 2016-2018.

One of the key problems is that only few local companies have introduced international standards in their production, while the majority of processors continue to rely on either outdated Soviet standards or Kyrgyz national standards which are not recognized internationally. This problem became a serious obstacle to export since the accession of the Kyrgyz Republic to the Eurasian Economic Union (EAEU). Local companies are expected to face challenges to remain competitive in the domestic market and in regional export markets in EAEU after the full introduction of the EAEU's Technical Regulation on "Safety of Food Products". Processing plants and primary producers which fail to implement improved food safety management systems and these new technical regulations are expected to make significant economic losses or exit from the market.

There are two key normative acts in the Eurasian Economic Union governing the production and circulation (placing on market) of processed fruits and vegetables:

- *the Technical Regulation "On safety of Food Products" prescribes general conditions for food products such as procedural and administrative conditions. It sets Maximum Residual Level (MRL) of chemicals and additives allowed to remain in food products. It also lays down responsibilities on part of producers, importers as well as on competent bodies in member countries of the EAEU. This technical regulation clearly states that food producers (including those producing beverages) shall introduce HACCP system in their production.*

- The Technical Regulation “On safety of beverages made of fruits and vegetables” sets Maximum Residual Levels for chemicals and food additives present in the end product. It also sets responsibilities on part of producers, importers as well as on competent bodies in member countries of the EAEU.

In the Kyrgyz Republic existing Technical Regulation “On safety of non-alcohol beverages” shall be replaced once the EAEU regulations “On safety of Food Products” and “On safety of beverages made of fruits and vegetables” come into force in 2018. It shall be noted that MRLs in the existing Kyrgyz TR are more tolerant than those in the EAEU’s regulations.

Prior the accession to the EAEU, local producers limited their selling market to Kyrgyz territory with only few companies which were able to compete in regional markets. However, the situation started to evolve negatively after the accession to the EAEU when Russian and Kazakhstan products (mostly juices) became more competitive by price and quality. Companies producing processed fruit and vegetables in Russia and Kazakhstan have introduced best international production practices, methods of production, HACCP, GHPs, GMPs, etc. which put them on competitive edge. It is difficult for Kyrgyz companies – which have not implemented or improved food safety management systems and cannot demonstrate their ability to meet food safety and quality requirements – to compete in regional markets and even in domestic market.

In addition to food safety standards, IPPC standards are also not fully implemented in the Kyrgyz Republic. For instance, problems have been identified in the area of plant quarantine control and surveillance², laboratory testing³, etc. One case concerns a ban by Kazakhstan of import of persimmon (HS code 0810 7000000) and dried fruits (HS code 0813) from the Kyrgyz Republic on the basis of phytosanitary concern.⁴

Food industry development in the country, as well as overall development of agriculture where more than 60% of total population is employed, are part of national development strategies. The National Strategy for Sustainable Development of Kyrgyzstan for 2013-2017⁵ has Chapter 10 “Development of strategic industries of the economy” where agriculture and food processing are main objectives for government to focus. The problem of quality control and lack of appropriate conformity assessment practices are clearly stated in the text of the Strategy, which states: “The development of production of foodstuffs is adversely impacted by trade barriers that impede access of the Kyrgyz producers to markets of neighbouring countries. Another issue holding back export growth is the low quality of domestic agricultural products and processed products. Further exacerbating the situation is an undeveloped system of control and certification of agricultural products which does not provide proof of conformity of the quality of products to international requirements and standards”.⁶

Agriculture in the Kyrgyz Republic is the sector of economy with lowest salary rate on average in the country. The overall level of mechanization, methods of collection of berries, fruits and vegetables are mostly outdated with extensive use of farmers` physical force. Another problem is that farmers cannot afford buying effective and efficient chemicals for protection of plants, nor they are able to use fertilizers for better yields. Although the proposed PPG is not fully intended to address economic situation in the rural areas across the country, we believe that application of international standards and best practices (Codex, EAEU standards based on Codex standards, HACCP, GAP, GMP, etc.) in the production and processing of fruit and vegetable products would contribute to increased regional trade and support economic development.

² Responsible plant quarantine agency – the State Inspectorate for Veterinary and Phytosanitary Safety under the Government of the Kyrgyz Republic – has not adopted many ISPM standards.

³ Russian Federation is assisting relevant Kyrgyz authorities with financial aide by providing finances for laboratory equipment, testing methods, training, improvement of capacities at border points but it does not cover all needs faced by Kyrgyz plant quarantine service.

⁴ The Order by relevant Kazakhstan authority was signed on 01.02.2016.

⁵ http://www.president.kg/ru/news/ukazy/1466_tekst_natsionalnoy_strategii_ustoychivogo_razvitiya_kyrgyzskoy_respubliki_na_pe_riod_2013-2017_godyi/

⁶ National Sustainable Development Strategy, 2013-2017, page 87.

The export from Kyrgyzstan is destined predominantly to CIS markets, of which majority is sold in Russia and Kazakhstan. Only 20% of export of processed fruits, vegetables and berries are shipped to other foreign markets. Research by SLAR Consulting agency found that Kyrgyz exported products were competitive by price but quality and safety were not always good enough to enter overseas markets and compete abroad. The overall import share from Kyrgyzstan in Russian and Kazakhstan markets remain marginally low. The government and industry believe there is potential to expand export of fresh and processed fruit and vegetable products provided that outstanding capacity building needs related to food safety and quality are addressed.

Fruit and vegetable juices account for most value-added products and showed significant export increase (6.5 times) in the last decade. Apple juice is the most important product (50-70% of exports depending on harvest). Yet the quantity of value-added products (such as juices and/or concentrates) sold domestically and abroad is low, in comparison to unprocessed fruits, vegetables and berries. Members of the Association report a real fall in the export of juices, jams and other products from the Kyrgyz Republic to the EAEU and other countries since joining the EAEU in August 2015. The Kyrgyz government and local enterprises are working together to change this pattern focusing on facilitation of investments with the view to improve capacities of domestic plants and factories, including to implement improved food safety management systems. In order to promote their products in foreign and domestic markets, 29% of Kyrgyz enterprises have introduced some quality standards, and some processing plants have introduced ISO 22000.

3. Which government agencies, private sector, academic or other organizations support this PPG request? Letters of support from each of these organizations would be advantageous (Appendix 1). See Qn. 7. (e) of the Guidance Note.

This PPG is supported by the Ministry of Agriculture, Melioration and Food Industry of the Kyrgyz Republic, the Ministry of Economy of the Kyrgyz Republic is also very much concerned over existing SPS measures being in place. Private companies producing fruit and vegetable juices, food processors, farmers are also supportive to the proposed activity. The respective letters are attached to this Application Form.

4. How does this PPG complement and/or build on past, ongoing and/or planned national programmes and/or donor-supported projects? See Qn. 7. (f) of the Guidance Note.

This PPG is considered as complementary to the National Export Strategy and Sustainable Development Strategy of the Kyrgyz Republic. These two substantial documents lay down provisions, schedule of implementation and responsible agencies for implementation of tasks to promote trade and sustainable development. We believe that the Project to be developed through this PPG would contribute to these efforts.

The project to be developed would also contribute to ongoing GIZ (German Agency for International Cooperation) projects aimed at HACCP introduction in two Kyrgyz food processing enterprises but no significant assistance is provided to introduce other international standards, guidances and practices, like ISO 22000, GMP, GHP, and, extremely important, the ISPM standards in phytosanitary area. GIZ financial contribution, though intensive in the area of milk and meat production, with some fragmented component targeting specific berries, is not enough in terms of coverage to include processed fruit and vegetable. The financial assistance by GIZ is welcomed by local stakeholders but it seems that there is significant gap to be filled in through the support of other donors. Until recently Switzerland has provided assistance in the area of organic production of cotton, certain fruits and berries but this assistance did not include broad introduction of international standards. ITC, supported by Swiss Government, would cease its activity in the area of introduction of international standards.

Switzerland has supported the "Local Market development" project in Kyrgyzstan since 2005 funded by ICCO and Helvetas to improve smallholder incomes through the production of vegetables and fruits for local markets. This project provided support to produce the "Development Strategy of Fruit and vegetables processing Industry in the Kyrgyz Republic for the Period 2008-12" but Swiss projects seized their implementation in this sector. As far as we know there were no plans to resume the assistance in the area of sanitary and phytosanitary measures.

The PPG would build on and address the recommendations of relevant previous studies including the following:

- *In 2013-2014, a Consultant conducted an "Analysis of the national laboratory system to control safety of food products in the Kyrgyz Republic. The analysis was based control system in milk and dairy products;*
- *In May-June 2014, an Expert developed the Guide on Labelling of Canned Vegetables in accordance with the requirements of the "Technical Regulation on Labelling" of the EAEU;*
- *In October-December 2014, the Director of the Association together with a group of experts took part in development of the Guide based on HACCP principles for fruit and vegetable processing enterprises.*

5. Have you discussed this PPG request – or funding for the project proposal which would result from it – with any potential donors (bilateral, multilateral, Enhanced Integrated Framework, etc.)? If so, provide details below and indicate potential sources of funding for the resulting project. See Qn. 7. (g) of the Guidance Note.

The Association has approached the European Union Project with the view to consider funding of HACCP introduction in the food sector, and the application is being studied with potential donor. This could be done within the framework of the Central Asia IV of the EU Project but it appeared that the Project is still under consideration with the donor. Summing up information mentioned in the pp. 4 and 5 we hope, firstly, that those Projects would be eventually accepted for financing but, secondly and importantly, potential involvement of GIZ and the EU projects aimed at HACCP introduction in food industry enterprises would not be sufficient for several reasons: (1) they would not cover all members of the Association (presently GIZ Project supports only two of them), (2) those projects would target specified number of fruit and vegetable enterprises though there are many companies among the Association members which produce unprocessed or primarily processed fruits, berries and vegetables. Therefore, HACCP system is not sufficient, though mandatory under the EAEU technical regulation rules, as our members are very much interested in getting knowledge and effective introduction of Good Hygiene Practice, Good Manufacture Practice, and (3) the members of the Association, which produce unprocessed or lightly processed fruits and berries, are very much concerned over inadequate assistance on part of relevant government authorities responsible for protection of Kyrgyz territory against pests. Indeed, government agency for veterinary and phytosanitary safety has not yet effectively introduced many International Standards of Phytosanitary Measures (ISPMs) developed by the Secretariat of the International Plant Protection Convention (IPPC).

6. Briefly explain how cross-cutting issues (e.g. related to gender, the environment) are relevant for this PPG and, if appropriate, how they will be addressed.

If this Project Preparation Grant is approved and followed by a successful project, funded by interested donors, it is believed that the use of international standards, HACCP principles and new technologies, which are friendly to the environment, would have positive impact on local environment (e.g. reduced and/or more appropriate use of pesticides), efficient use of labour and capital.

Please also note that the level of employment of women in the primary production of fruits and vegetables is high. The number of women employed in the agricultural processing industry is also prevailing over men. We fully aware of positive side effect on poverty reduction should the Project is successful as this sector would be more attractive for investments both from local stakeholders and those from abroad. We can add that Kyrgyz producers of primary and secondary goods would tend to show their production practice (farms, herds, gardens, etc.) to larger number of potential customers as international best agriculture practices, standards would provide more trust, thus adding more transparency in this sector.

II. IMPLEMENTATION & BUDGET

7. Who will take the lead in implementing this PPG? If particular national experts and/or international consultants are proposed, attach a copy of their Curriculum Vitae and record of achievements (Appendix 2). If no names are provided, the STDF will provide a shortlist of consultants if the PPG request is approved.

The Association of Food Industry Enterprises (AFIE) of the Kyrgyz Republic would lead implementation of this PPG, with support from an international consultant (identified by the STDF).

The Association would hire one national expert and one international expert with relevant and sound expertise in the area of introduction of international standards such as ISO 22000, HACCP, GMP and or GHP. Knowledge of ISPM standards is also very important for potential international expert. Overall coordination is proposed to be done by the Association Director. Proposed National expert and the Association's Director have extensive work experience in many bilateral and international projects funded by such donors as UNDP, USAID, GIZ, SECO, OECD, etc. Majority of those projects were aimed at improvement of sanitary and phytosanitary situation in the country and production of fruits and vegetables, and processed food among the Association's members. The Association's staff (ranging from 2 to 3 persons including the Director) is to be mobilized to assist the National and International SPS experts in all aspects of proposed activities, including translation and interpretation services for International expert (English speaking). It includes but not limit to gathering necessary economic, sanitary and phytosanitary information from relevant state agencies, from members of the Association, Kyrgyz farmers and wholesalers and retail outlets where products of Kyrgyz origin are sold.

The Association will enter into contacts with relevant organizations and companies from the Russian Federation and the Republic of Kazakhstan to get information on trading practices in those markets, volumes of sales in various regions in those countries.

8. In the table below, briefly describe the main activities to be carried out under this PPG and specify who would be responsible. Provide an estimate of the budget required (e.g. for national/international expertise, travel and DSA of consultants, stakeholder meetings or workshops, general operating expenses, etc.).

Activity	Responsible	Estimated Budget (US\$)
<i>To assess the preparedness of local companies to introduce ISO 22000, HACCP, GMP, GAP</i>	AFIE and National expert (NE) 15 man\days for AFIE	300 USD per man\day x 15 =4500 USD

	16 man\days for NE International expert (IE) working from home country	300 USD per man\day x 16 = 4800 USD 10 m\days x 600 USD = 6000 USD
<i>Assessment of the economic costs (financing required, return on investment) to enable companies to implement standards, etc. and increase their exports to regional markets</i>	AFIE NE	5 m\day x 300 USD = 1500 USD 10 m\days x 300 USD = 3000 USD
Market study to assess opportunities to increase fruit and vegetable exports from Kyrgyz Republic to regional markets (Russia and/or Kazakhstan) and relevant SPS requirements in these markets	AFIE NE	5 m\day x 300 USD = 1500 USD 5 m\days x 300 USD = 1500 USD
<i>To meet potential customers in the EAEC countries (Russia and Kazakhstan) in order to learn how introduction of international standards would facilitate Kyrgyz export</i>	AFIE	Travel to Moscow (Russia), 3 days 1200 USD Travel to Almaty (Kazakhstan), 3 days 550 USD
<i>To prepare comprehensive report encompassing findings by experts. Preparation of the Project Proposal and Feasibility Study</i>	AFIE NE IE	10 man\days x 300 = 3000 USD 10 man\days x 300 = 3000 USD 10 man\days x 600 = 6000 USD
<i>To meet local stakeholders to discuss problems that need to be resolved through the Project</i> <i>Presentation to key stakeholders (preliminary project)</i>	AFIE NE IE Travels for IE ⁷ , total 2 trips to Bishkek (preliminary)	1 man\day = 300 USD 1 man\day = 300 USD 3 man\day = 1800 USD 400 USD return air ticket x 2 = 800 USD Hotel: 7 days (total) x 120 USD = 840 USD DSA: 7 x 300 = 2100 USD Terminal expenditures: 100 USD for two trips

⁷ It is presumed that International Expert (IE) would travel to Kyrgyzstan at the beginning of the Project to familiarise with situation in the country, to meet the team, to meet key stakeholders like Members of the Association, Government Agencies, i.e. Ministry of Agriculture, Ministry of Economy. Next visit of the IE would take place for presenting the results to stakeholders at the end of the Project.

	Other costs	Leasing of Conference Hall including coffee break and administrative expenditures 1500 USD Other expenditures (simultaneous translation during the conference) = 500 USD TOTAL: 44 790 USD
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Appendixes

Appendix 1: Letters of support from each of the organizations supporting this proposal, including the Ministry of Economy, the Ministry of Agriculture, Melioration and Food Industry, private sector.

Appendix 2: Curriculum Vitae and record of achievements for any consultants proposed to implement this PPG.