



Grant Assistance Report

Project Number: 40539
November 2006

Proposed Grant Assistance
Kyrgyz Republic: Improving Livelihoods of Rural
Women through Development of Handicrafts Industry
(Financed by the Japan Fund for Poverty Reduction)

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 21 October 2006)

Currency Unit	–	som (Som)
Som1.00	=	\$0.0256
\$1.00	=	Som39.1089

ABBREVIATIONS

ADB	–	Asian Development Bank
CMC	–	coordination and marketing center
EA	–	executing agency
FHU	–	field handicraft unit
GIU	–	grant implementation unit
JFPR	–	Japan Fund for Poverty Reduction
JICA	–	Japan International Cooperation Agency
KYRM	–	Kyrgyz Resident Mission
M&E	–	monitoring and evaluation
MITT	–	Ministry of Industry, Trade, and Tourism
NGO	–	nongovernment organization
RCO	–	regional coordination office

NOTES

- (i) The fiscal year of the Government of the Kyrgyz Republic ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

Vice President	L. Jin, Operations Group 1
Director General	J. Miranda, Central and West Asia Department (CWRD)
Director	A. Malik, Country Director, Kyrgyz Resident Mission, CWRD
Team leader	A. Chyngysheva, Project Implementation Officer, CWRD

71°00'E

78°00'E

KYRGYZ REPUBLIC

IMPROVING LIVELIHOODS OF RURAL WOMEN THROUGH DEVELOPMENT OF HANDICRAFTS INDUSTRY.

KAZAKHSTAN

42°30'N

42°30'N

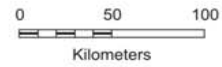


UZBEKISTAN

TAJIKISTAN

PEOPLE'S REPUBLIC OF CHINA

TAJIKISTAN



- National Capital
 - Provincial Capital
 - City/Town
 - Main Road
 - Railway
 - River
 - Provincial Boundary
 - International Boundary
- Boundaries are not necessarily authoritative.

38°00'N

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78°00'E

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JAPAN FUND FOR POVERTY REDUCTION (JFPR)

JFPR GRANT PROPOSAL

I. Basic Data	
Name of Proposed Activity	Improving Livelihoods of Rural Women through Development of Handicrafts Industry
Country	Kyrgyz Republic
Grant Amount Requested	\$2,000,000
Project Duration	3 years
Regional Grant	<input type="radio"/> Yes / <input checked="" type="radio"/> No
Grant Type	<input checked="" type="radio"/> Project / <input type="radio"/> Capacity building

II. Grant Development Objective(s) and Expected Key Performance Indicators

<p>Grant Development Objectives:</p> <p>The grant development objective is to improve the livelihoods of rural women in the Kyrgyz Republic by developing the handicraft industry. The specific objective is to increase income and job opportunities for poor women in selected rural areas by improving productivity, diversification, and products quality while establishing efficient marketing services and facilities.</p> <p>The Project will help organize the existing, mostly informal, handicraft centers in rural areas, improve quality and diversify the product, increase productivity and efficiency, and extend the centers' memberships to include more poor families. The Project will renovate and equip these centers; help establish a coordination and marketing center in Bishkek as well as a satellite center in the South; and build the centers' technical, management, and marketing capacities. More than 19,000 craft producers and their families will benefit from these interventions.</p>
<p>Expected Key Performance Indicators:</p> <p>(i) poverty incidence among women and their families in the target areas reduced by 15%, (ii) real income levels of direct beneficiaries increased by an average 20%, (iii) 15% new jobs created and sustained, and (iv) more that 80% of beneficiaries are women.</p>

III. Grant Categories of Expenditure, Amounts, and Percentage of Expenditures

Category	Amount of Grant Allocated in \$	Percentage of Expenditures
1. Civil Works	323,000	16
2. Equipment, Furniture, and Supplies	835,400	42
3. Training, Workshops, and Information Dissemination	297,600	15
4. Consulting Services	100,700	5
5. Project Management	243,300	12
6. Contingencies	200,000	10
TOTAL (Grant-financed)	2,000,000	100
Government and local communities (in-kind)	209,000	
Incremental cost of ADB project administration	50,000	

JAPAN FUND FOR POVERTY REDUCTION

**JFPR Grant Proposal
Background Information**

A. Other Data	
Date of Submission of Application	August 2006
Project Officer	Asel Chyngysheva, Project Implementation Officer
Project Officer's Division, E-mail, Phone	Kyrgyz Resident Mission (KYRM), Central and West Asia Department (CWRD), achyngysheva@adb.org , (+996) 312 900445
Other Staff Who Will Need Access to Edit/Review the Report	Baktygul Omurzakova, Assistant Project Analyst, KYRM, CWRD, bomurzakova@adb.org , (+996) 312 900445
Sector	Industry and trade
Subsector	Small and medium-scale enterprises
Themes	Sustainable economic growth, gender and development, private sector development, capacity development
Subthemes	Developing rural areas; gender equity in capabilities; client relations, network, and partnership development
Targeting Classification	Targeted intervention for households (TI-H)
Was JFPR seed money used to prepare this grant proposal?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Have SRC comments been reflected in the proposal?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Name of Associated ADB-Financed Operation(s)	The planned Vocational Education and Skills Training Project
Executing Agency	Ministry of Industry, Trade, and Tourism 106 Chui avenue, Bishkek 720002, Kyrgyz Republic

B. Details of the Proposed Grant**1. Description of the Components, Monitorable Deliverables/Outcomes, and Implementation Timetable**

Component A	
Component Name	Strengthening Field Handicraft Units (FHUs)
Cost (\$)	\$1,151,600 (including contingencies)
Component Description	<p>This component will focus on developing well-organized, legal, and well-equipped FHUs in the selected areas.</p> <p>It will support the following activities: (i) facilitating stronger organizational structure of existing FHUs and ensuring legal status¹ of its members, (ii) improving physical infrastructure and furnishing of the FHUs, and (iii) providing equipment for processing and production. FHUs will be located at the buildings provided by the Government based on ownership transfer agreements.</p> <p>The main output of the component will be well-developed FHUs established in the selected areas and providing services on processing, production, training, product promotion, and local marketing.</p> <p>The component will be implemented in two phases. During phase I, the Project will (i) implement nine pilot subprojects in the identified areas of Issyk-Kul, Naryn, and</p>

¹ The Project will help informal, existing centers for handicrafts activities to reorganize into and register as legal entities (nongovernment organizations, cooperatives, or any other appropriate legal institutions) and, thus, producers will become members of these legal entities.

	<p>Talas oblasts, starting from the first year of the project implementation; and (ii) identify non-pilot subprojects in other areas including Batken, Djalalabat, and Osh, oblasts. During phase II, non-pilot subprojects identified during phase I will be implemented, starting from the second year of the project implementation. (Please refer to Appendix 4 for implementation arrangements.)</p> <p>The pilot subprojects have been selected from the subprojects suggested by the Government using the same criteria as proposed for selection of non-pilot subprojects. All pilot subproject sites were visited and interventions were identified and discussed with potential beneficiaries. However, the subprojects designs will be adjusted during the implementation, if required, to ensure efficiency and sustainability.</p>
Monitorable Deliverables/Outputs	<ol style="list-style-type: none"> 1. Improved legal status of selected FHUs 2. Business plans developed for FHUs 3. Rehabilitated, furnished, and equipped FHUs 4. Number of people involved into FHUs' activities (FHUs' members and users of extended services)
Implementation of Major Activities: Number of months for grant activities	<p>The component will be implemented in two phases:</p> <p>Phase I: Pilot Subprojects</p> <ol style="list-style-type: none"> 1. Providing consulting services to pilot FHUs and organizing consultation workshops at FHUs level to improve their organizational structure and legal status (2 months) 2. Developing business plans by pilot FHUs with grant implementation unit (GIU) assistance (12 months) 3. Rehabilitating selected pilot FHUs' facilities (9 months) 4. Procuring and supplying furniture and equipment to pilot FHUs (18 months) 5. Identifying non-pilot FHUs (9 months) <p>Phase II: Non-pilot Subprojects</p> <ol style="list-style-type: none"> 6. Providing consulting services to non-pilot FHUs and organizing consultation workshops at FHUs level to improve their organizational structure and legal status (14 months) 7. Developing business plans by non-pilot FHUs with GIU assistance (14 months) 8. Rehabilitating selected non-pilot FHUs' facilities (18 months) 9. Procuring and supplying furniture and equipment to non-pilot FHUs (24 months)

Component B	
Component Name	Establishing a Coordination and Marketing Center (CMC) in Bishkek and a Satellite CMC in Osh
Cost (\$)	\$100,600 (including contingencies)
Component Description	<p>This component will focus on establishing a well-equipped CMC in Bishkek and a satellite CMC in Osh at buildings provided by the Government for at least 10 years. The CMC in Bishkek will operate as an apex body for pilot and non-pilot FHUs, while the CMC in Osh will coordinate activities and provide services to FHUs in the southern regions.</p> <p>The Project will support (i) developing and institutionalizing the CMCs' structure and ownership; (ii) developing and implementing a fee-for-services mechanism² to enable CMCs to recover their operational and other costs, and an exit strategy for</p>

² The CMCs will charge services fees for product promotion and marketing, training on design, use of environment-friendly materials, and other services rendered to FHUs.

	<p>the Project; (iii) improving physical infrastructure and furnishings; and (iv) providing information and communication hardware, software, motor vehicle(s),³ and services for business promotion and marketing to FHUs and other producers.</p> <p>The main output of this component will be (i) well-equipped, sustainable, and market-driven CMCs established in Bishkek and Osh providing services to FHUs and additional extended services for coordination, marketing and product promotion, and capacity building; and (ii) a network comprising FHUs and the CMCs for effective and sustainable coordination, exchange of technical knowledge, and marketing.</p>
Monitorable Deliverables/Outputs	<ol style="list-style-type: none"> 1. Institutional and legal framework for CMCs (including their structure, ownership, and management arrangements), as well as a detailed business plan for the CMCs agreed among all stakeholders 2. A fee-for-services mechanism developed and agreed among all stakeholders 3. Rehabilitated, furnished, equipped, and operational CMCs in Bishkek and Osh providing services to FHUs and other extended services in a cost-effective manner based on a fee-for-services approach 4. An exit strategy developed in the form of a business plan for CMCs to operate as a commercial entity after project completion
Implementation of Major Activities: Number of months for grant activities	<ol style="list-style-type: none"> 1. Developing a detailed business plan and appropriate structure, ownership, and management arrangements for the CMCs through consulting services and consultation meetings among stakeholders (6 months) 2. Developing and introducing the CMCs' fee-for-services mechanism (24 months) 3. Repairing and upgrading the CMCs' facilities (8 months) 4. Procuring and setting up equipment and furniture at CMCs (12 months) 5. Developing an exit strategy for the Project (during last 12 months before project completion)

Component C	
Component Name	Capacity Building, Product Development, and Marketing
Cost (\$)	\$361,600 (including contingencies)
Component Description	<p>This component will support (i) consultations with private, nongovernment, and government stakeholders to confirm activities to be supported and facilities to be rehabilitated; (ii) information dissemination for FHUs' empowerment and networking, as well as product development and promotion; (iii) training of trainers and craft producers on design, use of environment-friendly materials, operation and maintenance of equipment, production, and marketing; (iv) training of the GIU and regional coordination office (RCO) staff (to be ultimately transferred to CMCs) and FHUs' leaders in preparing business plans, business management, and accounting; (v) training of the GIU and RCO staff in marketing; (vi) preparing booklets and training materials for processing and production; (vii) developing brochures and materials for product development and promotion; and (viii) facilitating various surveys and research projects required for marketing, product development, and promotion. Training will be provided through existing vocational institutes, nongovernment organizations (NGOs), private, and/or other available training providers.</p> <p>The main output of this component will be enhanced technical and management skills at the FHUs and CMCs and improved marketing services and product.</p> <p>The component will be implemented in two phases. During phase I, capacities will</p>

³ Given the remoteness of the selected subproject areas, the purchase of vehicle(s) is necessary for effective implementation and monitoring of the project activities. The vehicle(s) will be assigned to the GIU and will be retained at the CMC after the Project is completed.

	be built for the nine pilot subprojects starting from the first year of grant implementation. During phase II, the activities will be implemented at non-pilot subprojects, identified during phase I, starting from the second year of grant implementation. Training for the GIU and CMC staffs will be provided during the project implementation.
Monitorable Deliverables/Outputs	<ol style="list-style-type: none"> 1. Activities to be supported and facilities to be rehabilitated as confirmed through consultation workshops 2. Acquired skills in craft design, product quality, basic business management, accounting, and marketing for handicraft producers and trainers 3. Acquired skills in management, business, and marketing for staff of the CMCs 4. FHUs empowered and networking with CMCs for effective production and marketing 5. Brochures and materials developed and printed for product development and promotion 6. Various surveys and research projects conducted for marketing, product design, quality improvement, and product promotion
Implementation of Major Activities: Number of months for grant activities	<p>Phase I</p> <ol style="list-style-type: none"> 1. Conducting consultation workshops at pilot subprojects (3 months) 2. Conducting information dissemination for FHUs empowerment and networking, product development and promotion (24 months) 3. Developing training plan and recruiting training providers (individuals, institutions, or NGOs) (4 months) 4. Training of handicrafts producers in craft design, production, and basic business and marketing (18 months) 5. Training of GIU, RCO and CMC staffs on business and marketing (12 months) 6. Developing and printing brochures and informational materials for product development and promotion (24 months) 7. Conducting surveys and research projects for marketing, product design, quality improvement, and product promotion (24 months) <p>Phase II</p> <ol style="list-style-type: none"> 8. Conducting consultation workshops at non-pilot subprojects (9 months) 9. Developing a training plan and recruiting training providers (individuals, institutions, or NGOs) (14 months) 10. Training of handicrafts producers in craft design, production, and basic business and marketing (24 months)

Component D	
Component Name	Project Management, Monitoring, and Audit
Cost (\$)	\$386,200 (including contingencies)
Component Description	This component will support (i) coordination and management of project activities by supporting a GIU to be located in Bishkek and a satellite office for regional coordination to be located in Osh; (ii) development of the project monitoring and evaluation (M&E) system, including baseline and midterm surveys and monitoring of project benefits; and (iii) arranging annual audit of project accounts. This component will assess the achievement of the project objectives. The GIU and RCO will manage the CMCs in Bishkek and Osh, and their functions and assets will be transferred to the CMCs in the middle of the third year of project implementation.
Monitorable Deliverables/Outputs	<ol style="list-style-type: none"> 1. Effective project management and coordination <ul style="list-style-type: none"> - Project implemented on schedule - Progress reports by FHUs and GIU submitted on time - Performance monitored of GIU and RCO staff and of FHUs 2. Operational M&E system <ul style="list-style-type: none"> - Regular M&E reports providing for efficient decision making - Experience gained and lessons learned during phase I used for phase II

	implementation 3. Annual audit reports submitted on time
Implementation of Major Activities: Number of months for grant activities	<ol style="list-style-type: none"> 1. Effective project management and coordination <ul style="list-style-type: none"> - Developing project implementation plan (2 month) - Selecting staff (3 months) and consultants (24 months) - Supplying equipment and furniture - Preparing progress reports (quarterly) - Developing indicators for monitoring the GIU and RCO staff performance (to be completed during the first 2 months) - Monitoring GIU and RCO staff performance (semiannually) - Visiting project FHUs regularly to assess their performance (as required) 2. Operational M&E system <ul style="list-style-type: none"> - Training of the Executing Agency's staff in M&E (6 months) - Conducting baseline and midterm surveys and impact assessment (by local NGO) (first 6 months, then midterm surveys and annual impact assessment) - Conducting stakeholders workshops to discuss M&E results (annually) 3. Annual audit <ul style="list-style-type: none"> - Conducting annual audit (at the end of each financial year)

2. Financing Plan for Proposed Grant to be Supported by JFPR

Funding Source	Amount (\$)	
JFPR-	2,000,000	(excluding incremental ADB cost)
Government (in-kind)	200,000	(central Government contribution of about \$50,000 and local governments' contribution of about \$150,000) ⁴
Other Sources (in-kind)	9,000	(contributions of FHUs and other beneficiaries) ⁵
Total	2,209,000	

3. Background

In December 2005, the Government of the Kyrgyz Republic requested Asian Development Bank (ADB) to help develop an innovative project to improve the livelihoods of poor rural women through developing the handicraft industry. The request was based on the findings and recommendations of the European Union's technical assistance that reviewed the development potential of the handicrafts sector.⁶ The President of the Kyrgyz Republic, Kurmanbek Bakiev, has strongly supported the proposed project design and requested expansion of the proposed project activities to cover all regions of the country.

In the Kyrgyz Republic, more than 40% of the population lives below the poverty line and 70% of these poor live in rural areas. The rural population depends mostly on agriculture, the predominant sector that contributes about half of the country's gross domestic product and half of total employment. Crop and livestock production are the key activities for rural livelihoods. Due to agricultural activities' marked seasonality, almost all family members in remote rural areas become idle during winter periods. Wool-based cottage industry, run almost exclusively by women, is the only opportunity in remote livestock-rearing areas to supplement household incomes. In some places, small handicrafts centers have been established by local craft producers for coordinating crafts activities in the surrounding areas and assisting in raw material selection, procurement, and processing; training; and

⁴ Through providing buildings or spaces for the CMCs in Bishkek and Osh and FHUs.

⁵ Through initial consultation workshops and further training of newly engaged producers.

⁶ The study (i) profiled craft producers, types and quality of the product; (ii) assessed sales and marketing segmentation and current domestic and export markets; (iii) identified marketing strategies and tools; and (iv) recommended development strategies for domestic and international markets. The study concluded that the Kyrgyz crafts product is marketable and exportable and recommended to (i) improve the regulatory framework; (ii) improve product design and quality; (iii) enhance the sector's organizational structure; (iv) strengthen marketing and export services; (v) enhance technical and business skills; and (vi) improve machinery and technologies in production, marketing, and sales.

marketing. However, the capacity of these centers is limited. Although wool, the key raw material, is available from the home-reared sheep, an absence of appropriate processing equipment is a constraint on achieving high quality production. In addition, there is considerable scope for improving product quality through training the craftswomen in material selection and processing, designing, manufacturing, and diversification. Additional training in marketing, accounting, and developing business plans would enhance their business management capabilities and thus add to the efficiency and profitability of their operations.

The handicrafts—mainly felt, fiber, textiles, leather, fur, and wooden articles—are equally popular among the locals and foreigners. Some centers sell their outputs through shops, exhibitions, and seasonal bazaars, while some well-established ones sell almost all of their output to foreigners via the internet. The returns, however, are generally low because of the poor marketing channels and absence of adequate product promotion services. The lack of organization and coordination among the small crafts producers for product promotion, training, and other development opportunities gives an advantage to the traders or intermediaries who offer low prices. Hence, this is a major factor contributing to the low returns. Due to limited returns from these activities, families living in remote rural areas are often trapped in a vicious cycle of poverty. In order to help these producers to interact with the local and international markets and obtain proper returns they (i) need to be organized, and (ii) require more aggressive marketing. Also, an increase in the level of production would necessitate a matching expansion in marketing services. Considering that the key raw material is obtained from the home-reared sheep, the requirement of the running capital is reduced significantly. In some cases, when working capital is needed it is available from local microfinance institutions at reasonable terms.

Previously, bright synthetic colors were used for dyeing wool. Due to increasing interaction with international customers demanding natural colors, however, the use of the synthetic colors is phasing out. Moreover, natural dyes used for crafts are extracted from plants growing locally. This represents a healthy trend in environmental protection that should be further promoted.

This sector has a significant potential to grow, diversify, and improve the quality of production. Through organizing the existing informal handicraft centers in rural areas, renovating and equipping them, improving the quality and diversity of their products, and extending their membership base to include more families, the proposed project would increase incomes and improve livelihoods of poor rural women and their families. To improve access to marketing services and coordinate activities of these centers, a coordination and marketing center in Bishkek will need to be established. Given the remoteness of the southern regions, a satellite coordination and marketing center would be required there. Through these activities, the Project would improve livelihoods of poor women in remote areas, a vulnerable population group, and that is fully consistent with the objective of the Japan Fund for Poverty Reduction.

The basis of the proposed project's design is very similar to that of Aarong, the handicraft-marketing arm of the Bangladesh Rural Advancement Committee. The components of both projects were based on close consultation with the stakeholders, address the system constraints, and include marketing support and skills development. In Bangladesh, a lack of capital was found to be a serious constraint and, hence, providing capital was included as a project component in that project. In the Kyrgyz Republic, a lack of appropriate legal status and organization among the producers and FHUs is a major drawback, and so the proposed project would address these issues. Both projects aim at poverty reduction and women's empowerment.

4. Innovation

The Project is innovative. It will implement in a comprehensive way strategies that are most appropriate for increasing income-earning opportunities for women in rural areas. It will enhance existing, traditional activities that do not require the women to leave their homes. By consulting with project beneficiaries throughout the implementation period and involving them in the decision making and ownership rights, the Project will create proper incentives to ensure sustainability of the project outcomes. Unlike earlier, very limited interventions, the Project will address the most critical problem of lack of organization among poor small-scale producers. It will reorganize the informal handicraft centers into formal and legal entities while institutionalizing their marketing and business promotion channels and establishing their ownerships in the CMC. This will mobilize small-scale handicraft producers to address their skills and marketing constraints.

The Project will demonstrate innovativeness by establishing public-private partnerships through regular consultations and dialogue involving beneficiaries and local and central governments to identify priorities and implement various activities. The Government has initiated creation of the Kyrgyz Crafts Council, an NGO representing handicraft producers of various scopes and maturity, and it is drafting a craft sector development strategy. It already has identified a building for the CMC in Bishkek. Local governments will provide buildings for FHUs free of charge and, in some places, have already confirmed transfer of ownership to FHUs. The Ministry of Industry, Trade, and Tourism, the Executing Agency (EA), will help in promoting the products and strengthening links among the handicrafts, tourism, and recreation industries. The facilities, support, and legal protection provided by the Government to the grassroots beneficiary organizations will set a good example of public-private partnership.

The Project has been designed to empower the beneficiaries and build their capacity to undertake marketing without the involvement of large business entities. This will eliminate exploitation, reduce marketing costs, and facilitate producers' direct contact with end-users that will provide useful feedback as to the nature and quality of demand.

5. Sustainability

Long-term sustainability of the project outcomes will be achieved by supporting the entire product chain—from product research and design, to training of craft producers and marketing. The Project has been based on the European Union's thorough analysis of the market and the project preparation team's close consultations with all stakeholders. Rather than to embark upon a new initiative, moreover, the Project aims to improve the performance of ongoing activities. By supporting local and export marketing, product development, and promotion through the CMC, marketing channels will be established that will contribute to the Project's long-term sustainability. During the first 2-1/2 years of implementation, the Project will facilitate access to inputs and services while developing incentives and pricing mechanisms for FHUs' participants. Subsequently, in the third year, a self-sustaining, profit-oriented traditional marketing network of FHUs and the CMCs will be established. Sustainability will be reinforced through formalizing and institutionalizing the sector at all levels. Incentives will be ensured by the fact that the FHUs and CMC will be owned by their members, who also will be the primary beneficiaries. To prepare the CMCs and FHUs to pick up the operating costs in the future, each FHU will follow its individual business plan developed under the Project. A detailed business plan for the CMCs will be developed during the initial stages of project implementation. An exit strategy in the form of a business plan for CMCs to operate after the Project's completion will be developed by the end of the Project.

The staff of the GIU and the RCO, where capacities will be built during the Project, will be transferred to the CMCs after project completion. The CMCs in Bishkek and Osh will be owned by the FHUs and provide a wide range of services to them. The Project will initially support training and marketing services. These tasks will be fully taken over by the beneficiaries by the end of the Project. After project completion, operational costs of FHUs and the CMCs will be funded from their own revenues. For this purpose, a fee-for-services approach that is appropriate to local conditions will be developed in consultation with the participating producers and other stakeholders organized under the Project.

The Government is keen to develop the handicrafts industry and expand these activities to all regions of the country while building on successful experiences under the JFPR project. With a strong chance of replication, therefore, the Project can catalyze development of the crafts industry throughout the country.

6. Participatory Approach

During the project design, local community-based groups of women, potential beneficiaries of the Project, community-based and national NGOs, and governments at all levels were consulted to obtain their (i) views on issues relevant to developing the handicrafts area to improve the lives of poor rural women and their families, (ii) comments on ADB's assessment of the situation and initial findings, and (iii) recommendations for fine-tuning the proposed interventions. The potential beneficiaries were highly satisfied with the extent to which their views were considered and demonstrated high levels of commitment and interest in the proposed activities. Local participation and control over decision making in designing and implementing the grant activity will be ensured through beneficiaries' ownerships in FHUs and the CMCs.

The Project is designed to build on the participatory process. The initial consultations with all stakeholders during the project preparation have catalyzed public-private collaboration and facilitated the Government's and Parliament's activities in developing the legal and regulatory framework for handicrafts development. The Kyrgyz Crafts Council has been established to protect the rights of various crafts producers and to develop the sector. The Council, which represents various stakeholders, including community-based and national NGOs, the private sector, and the Government, will create local-level councils with local stakeholders' participation to ensure that the poor benefit from the Project. Participatory processes will be maintained throughout the project implementation period. Crafts producers will be mobilized and organized through consultations and workshops. Various stakeholders in the crafts sector, including civil society organizations, Government, and development partners, will be coordinated through steering committee meetings.

Primary Beneficiaries and Other Affected Groups and Relevant Description	Other Key Stakeholders and Brief Description
<p>The direct and primary beneficiaries will be handicrafts producers in poor remote areas, mostly women, (both those currently involved and others attracted to crafts by the Project), who will be organized into formal entities and benefit from the immediate technical and other assistance provided by the Project. About 900 handicrafts producers in the nine pilot subproject areas and many more in the non-pilot subproject areas will be direct project beneficiaries.</p> <p>Secondary beneficiaries will be (i) their family members, including children, who will benefit from increased income from the handicrafts production; and (ii) other households in subproject areas who will benefit from use of the FHUs' services. In total, about 18,000 people will be secondary beneficiaries of the Project.⁷</p> <p>Other beneficiaries: Various training providers, including vocational institutions, NGOs, private and/or other available training providers who will participate in training of trainers related to craft design, production, marketing, preparing business plans, business management, and accounting.</p>	<p>The Ministry of Industry, Trade, and Tourism will be the Project's EA.</p> <p>The GIU will be responsible for day-to-day project coordination.</p> <p>The already established Kyrgyz Crafts Council, a national level NGO that represents NGOs, the private sector, Government, and other stakeholders will create local-level councils with local stakeholders' participation to ensure that poor craft producers benefit from the Project.</p> <p>The CMC will be owned by FHUs. It will coordinate activities and provide services to FHUs.</p> <p>The FHUs to be supported by the Project will coordinate activities at the community level.</p> <p>The training providers will train handicraft producers, trainers, and GIU and CMC staff.</p> <p>Japan International Cooperation Agency (JICA) has expressed interest in providing services of Japanese volunteers on business and marketing development and/or product design and quality development.</p>

7. Coordination

During project preparation, consultations were held with key external funding agencies, including Eurasia Foundation, German Agency for Technical Cooperation, JICA, Swiss Agency for Development and Cooperation, Soros Foundation, United Nations Development Programme, and World Bank. The World Bank is not directly involved in handicrafts development, although it provides some support to community-based initiatives with no specific targeting of handicrafts. Swiss Agency for Development and Cooperation has assisted a very few centrally located crafts-related vocational institutions. The Project will coordinate its activities and complement efforts of the United Nations Development Programme, which plans to use Japanese grant funds to support regional initiatives for handicrafts development in Central Asian countries, and German Agency for Technical Cooperation, which provides assistance in business training and cooperatives development. The JICA office has been consulted on possible areas for cooperation and it has expressed interest in providing assistance through volunteers in the areas of product development and design,

⁷ Through the handicrafts industry's linkages, the poverty impact will be much broader than just those households actually involved in the FHUs.

and of business and marketing development for the CMC in Bishkek. Mr. Tatsuhiko Kasai, Charge D'Affairs, Embassy of Japan in the Kyrgyz Republic, joined the Fact-Finding Mission on 7 April 2006 and was consulted on the project design at the subsequent meeting held on 8 June 2006. Meetings were also held with JICA representatives on 30 May 2006 to brief them on the development of the JFPR proposal. They expressed interest in cooperating with the proposed JFPR project.

8. Detailed Cost Table

The total cost of the Project is estimated at \$2,209,000 equivalent, including physical and price contingencies. It was proposed that the JFPR will provide a grant of \$2,000,000 equivalent to finance 91% of the total project cost. The remaining \$209,000 equivalent, or 9%, will be provided mainly in-kind by the Government and local communities. In addition, ADB will require \$50,000 for project administration. Please refer to Appendixes 1 and 2 for the summary cost table and detailed cost estimates and Appendix 3 for the fund flow arrangement.

To avoid start-up delays, the Government has requested advance procurement action and retroactive financing in an amount not exceeding \$20,000 for (i) recruitment of GIU staff, including a project manager, disbursement specialist, procurement specialist, civil engineer, and legal experts; (ii) civil works; and (iii) equipment and furniture. The Government was advised that ADB's approval of advance action and retroactive financing does not commit ADB to financing of the Project.

C. Linkage to ADB Strategy and ADB-Financed Operations

1. Linkage to ADB Strategy

Document	Document Number	Date of Last Discussion	Objective(s)
<i>Country Strategy and Program 2004–2006: Kyrgyz Republic</i>		October 2003	Overall objective is to reduce poverty. It focuses on three priority areas: pro-poor economic growth, regional cooperation, and human development. Within rural development, the focus is on reducing rural poverty and unemployment.
The Government's Comprehensive Development Framework to 2010 and Medium-Term National Development Strategy 2006–2010		Framework in 2003; Strategy will be finalized in 4th quarter 2006	The documents aim at economic growth, poverty reduction, and sustainable human development with particular focus on rural development and employment opportunities.

2. Linkage to Specific ADB-Financed Operation

Project Name	(i) Project preparatory technical assistance for the proposed Vocational Education and Skills Training Project (ii) The proposed Vocational Education and Skills Training Project
Project Number	(i) Project preparatory technical assistance (TA) 4672-KGZ (ii) The project is being processed.
Date of Board Approval	(i) Project preparatory TA was approved on 24 October 2005. (ii) The project is planned for approval in 2007.
Loan Amount (\$ million)	Estimated at \$10 million

3. Development Objective of the Associated ADB-Financed Operation

ADB has included in its 2007 program a project to support vocational education and skills training. It aims at helping improve access to demand-driven vocational education and skills training for youth and adults. The project preparatory technical assistance started in November 2005 and the consultant team was fielded on 20 March 2006. In addition, ADB is preparing a new JFPR project to promote nonformal skills for unemployed youth and adults in rural areas. Although the proposed JFPR project on improving livelihoods of rural women through development of the handicrafts industry would not specifically focus on vocational education, it would pilot test strategies to promote public-private partnership by strengthening linkages between handicraft training providers and the handicraft industry. The proposed project would be implemented in close collaboration with these two projects. Interventions that prove to be successful in the JFPR project could be included under the proposed vocational education project.

4. Main components of the Associated ADB-Financed Operation:

No.	Component Name	Brief Description
TA 4672-KGZ: Vocational Education and Skills Training Project:		
1.	National policy framework and financing mechanisms	Draft recommendations for a comprehensive national policy framework and sustainable financing mechanisms conducive to the provision of demand-driven vocational education and skills training for youth and adults.
2.	Rationalizing and strengthening the current professional vocational education system	Draft strategies and investment needs to rationalize and strengthen the current professional vocational education system for youth, including to build capacity in that system's institutions and to rehabilitate and upgrade selected training facilities.
3.	Increasing training and retraining opportunities	Draft strategies to improve the availability of skills training and retraining opportunities for adults by mobilizing public and private training providers.
4.	Promoting public-private partnership	Draft strategies to promote a public-private partnership, strengthening linkages between vocational education and skills training providers and industries, including to establishing a labor market information system to guide such programs in adjusting to changing labor market needs.
The proposed Vocational Education and Skills Training Project will improve access to demand-driven vocational education and skills training for youths and adults and ensure its quality, relevance, and efficiency.		

5. Rationale for Grant Funding versus ADB Lending

In view of the debt sustainability issue, the International Monetary Fund recommended restrictions on the Kyrgyz Republic regarding public sector borrowing. Also, in order to ease the debt burden and reduce debt payments, the Government has expressed its interest in participating in the Heavily Indebted Poor Countries initiative, which will free resources for social sectors. In view of the above, the Government has restricted its borrowing to a minimum. Such funds as it does borrow are used for infrastructure and other sectors with higher economic returns and it is seeking grant financing for social sector projects. To help the Government address its fiscal problems while still maintaining its support for the social sectors, ADB in 2005 started providing 50% of its assistance in grants and the remainder from the concessional Asian Development Fund resources. The proposed \$2.0 million grant from JFPR will help the Government assist rural women in the mountainous areas—representing the most vulnerable part of the society—to improve their livelihoods without any burden to the Government. It will also be in line with the current ADB policy of helping the Government fight poverty without further burdening its fiscal resources.

The proposed project is highly innovative with regard to the activity to be supported and the target groups. Although handicrafts production is not a new activity for the target areas, organizing the sector and involving the new producers require considerable support for capacity building, updating equipment and building infrastructure, and facilitating marketing services. Due to the nature of these activities, the JFPR financing is essential to promoting them and thus to bring the poorly organized producers up to a point where they can themselves use lending sources to scale up these activities.

The Project as such starts with improving the quality of the existing production. However, if the market research provided for under the Project identifies scope for scaling up that production, then the Project interventions would be designed and implemented accordingly. It is likely that project evaluation during review missions and/or after completion will prove the Project’s worth and impact on poverty reduction to the extent that such future interventions could be included in ADB’s normal pipelines.

D. Implementation of the Proposed Grant

1. Executing Agency	Ministry of Industry, Trade, and Tourism
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The Ministry of Industry, Trade, and Tourism has the mandate to develop various industries, including handicrafts and light industry, and to promote trade and tourism. A steering committee, chaired by the State Secretary and consisting of representatives from the EA, Office of the Prime Minister, Ministry of Culture, Kyrgyz Crafts Council, and other relevant stakeholders will be established to oversee implementation of the Project and advise on the need for adjustments in the scope if any will be required.

A GIU will be established and adequately staffed to implement the Project. The GIU will be physically located at premises of the apex CMC to be established in Bishkek. The GIU will operate during the first 2-1/2 years of project implementation, and provide necessary support for establishing and operationalizing the CMC. Subsequently, the GIU will be merged into the CMC, which will operate as an apex body and will provide services for coordination, product promotion, capacity building, and operation and maintenance of equipment.

An NGO, cooperative, or any other appropriate legal institution will be identified or established for each FHU to manage it before the FHU obtains any support from the Project. The FHUs will follow the business plans developed under the Project, and will provide services in processing, production, training, product promotion, and local marketing. After project completion, the activities of the FHUs and the CMC—particularly in facilitating management, training, and product design—will be financed from their own revenues.

All procurements under the JFPR grant will be conducted in accordance with ADB’s *Procurement Guidelines* (2006). The staff of the GIU and, subsequently, the CMC will be recruited by the EA in accordance with ADB’s *Guidelines on the Use of Consultants* (2006) to provide the services for implementation, management and progress monitoring of the JFPR grant. All local consultants, including training providers, will be contracted by the EA in accordance with ADB’s *Guidelines on the Use of Consultants*. Details of the implementation arrangements are in Appendix 4.

2. Risks Affecting Grant Implementation

Type of Risk	Brief Description	Measure to Mitigate the Risk
Lack of commitment from beneficiaries and stakeholders	Stakeholders’ commitment is imperative to fulfilling the Project’s objectives.	Consultations with beneficiaries and other stakeholders were initiated during the project processing stage, during which stakeholders expressed strong ownership. Consultation will be continued during project implementation to strengthen this ownership and commitment.
Institutional risk	Coordination and cooperation among government, private sector, and local handicraft producers are essential to achieving sustainability of	Clear definition of roles and functions of the Government, private sector, and local handicrafts producers in project implementation will mitigate the risk.

	project outputs.	
Legal and regulatory environment risk	The legal and regulatory framework pertaining to handicrafts development needs to be improved.	The Project will support services of legal experts to help the Government develop an appropriate legal and regulatory framework to improve existing legislation and ensure removal of barriers to handicrafts development.
Lack of managerial and technical capacity of the counterpart staff	Lack of capacity of counterpart staff can be a significant obstacle to project success.	EA staff will be trained in project implementation and administration. KYRM will liaise closely with the EA to ensure understanding of ADB procedures and requirements on disbursement and procurement, audit, and monitoring.

3. Incremental ADB Costs

Component	Incremental Bank Cost
Amount requested	\$50,000
Justification	The incremental costs will be utilized for (i) developing the grant implementation manual and (ii) project administration, including annual and midterm reviews.
Type of work to be rendered by ADB	(i) a staff consultant, to be hired under ADB's <i>Guidelines on the Use of Consultants</i> , to help develop the grant implementation manual; (ii) field visits of ADB review missions to project sites; and (iii) international and local staff consultants, firms, and/or NGOs, to be hired under ADB's <i>Guidelines on the Use of Consultants</i> , to assist during the annual and midterm reviews with analyzing the monitoring data and evaluating project progress and outcomes.

4. Monitoring and Evaluation

The performance M&E for the Project will comprise the following: (i) baseline data and output targets set up at the overall project level by the GIU and by an NGO recruited for baseline survey and poverty impact assessment, (ii) midterm surveys and annual impact assessment collected by the recruited NGO and recorded by GIU, (iii) quarterly implementation-related performance data collected and recorded by GIU, (iv) annual social passport surveys by the Government, and (v) performance and impact data collected by the recruited NGO on project completion.

In addition, international and local consultants, firms and/or NGOs will be hired during the annual and midterm reviews under ADB's incremental cost to assist in analyzing the monitoring data and evaluating project progress and outcomes.

Key Performance Indicator	Reporting Mechanism	Plan and Timetable for M&E
Poverty incidence among women and their families in targeted areas reduced by 15%.	(i) Project progress and monitoring reports (ii) Surveys and impact assessment (iii) Social passport statistics	(i) Quarterly by GIU and EA (ii) Baseline during the first 6 months, midterm surveys, and annual impact assessment by an NGO (iii) Annual social passport survey by the Government
Real income levels of direct beneficiaries increased by an average 20%.	(i) Project progress and monitoring reports (ii) Surveys and impact assessment	(i) Quarterly by GIU and EA (ii) Baseline during the first 6 months, midterm surveys, and annual impact assessment by an NGO

	(iii) Social passport statistics	(iii) Annual social passport survey by the Government
Number of new jobs created and sustained at 15%.	(i) Project progress and monitoring reports (ii) Surveys and impact assessment (iii) Social passport statistics	(i) Quarterly by GIU and EA (ii) Baseline during the first 6 months, midterm surveys, and annual impact assessment by an NGO (iii) Annual social passport survey by the Government
More than 80% of beneficiaries are women.	(i) Project progress and monitoring reports (ii) Surveys and impact assessment (iii) Social passport statistics	(i) Quarterly by GIU and EA (ii) Baseline during the first 6 months, midterm surveys, and annual impact assessment by an NGO (iii) Annual social passport survey by the Government

5. Estimated Disbursement Schedule

Fiscal Year (FY)	Amount (\$)
FY 2007	400,000
FY 2008	1,000,000
FY 2009	600,000
Total Disbursements	2,000,000

Appendixes

1. Summary Cost Table
2. Detailed Cost Estimates
3. Fund Flow Arrangement
4. Implementation Arrangements
5. Design and Monitoring Framework

SUMMARY COST TABLE

(\$)

<div style="display: flex; justify-content: space-between;"> <div style="text-align: center;"> <p>↓ Inputs / Expenditure Category</p> </div> <div style="text-align: center;"> <p>→ Grant Components</p> </div> </div>	<p>Component A Strengthening Field Handicraft Units</p>	<p>Component B Establishing a CMC in Bishkek and a Satellite CMC in Osh</p>	<p>Component C Capacity Building, Product Development, and Marketing</p>	<p>Component D Project Management, Monitoring, and Audit</p>	<p>Total (Input)</p>	<p>Percent</p>
<p>1. Civil Works (including technical surveys and designs, and supervision of construction)</p>	303,000	20,000	0	0	323,000	16.2
<p>2. Equipment and Supplies (including processing equipment, office equipment, communications devices, audiovisual, computing and other office equipment, and furniture)</p>	707,000	61,000	0	67,400	835,400	41.8
<p>3. Training, Workshops, Seminars, and Information Dissemination (including training specialists, community organizers, venue rental, travel, per diem for participants and other related costs)</p>	0	0	291,600	6,000	297,600	14.9
<p>4. Consulting Services (for surveys, assessments and reviews, technical experts, external auditors, including related costs such as travel, accommodation and per diem)</p>	21,600	9,600	40,000	29,500	100,700	5.0
<p>5. Project Management (including PIU staff salaries, travel costs and per diem, operation and maintenance, recurrent costs and other costs)</p>	0	0	0	243,300	243,300	12.2
<p>6. Other Inputs</p>	0	0	0	0	0	0.0
<p>7. Contingencies (Use of contingencies requires prior approval from ADB.)</p>	120,000	10,000	30,000	40,000	200,000	10.0
<p>Subtotal JFPR Grant Financed</p>	1,151,600	100,600	361,600	386,200	2,000,000	100.0
<p>Government Contribution (including buildings/spaces for FHUs and CMCs)</p>	150,000	50,000	0	0	200,000	
<p>Other Donors Contributions</p>	0	0	0	0	0	
<p>Community's Contributions (in-kind): (including training of newly engaged producers, participation and organizing initiation consultation meetings and workshops at FHUs level)</p>	3,000	0	6,000	0	9,000	
<p>Total Estimated Costs</p>	1,304,600	150,600	367,600	386,200	2,209,000	
<p>Incremental Costs</p>					50,000	

DETAILED COST ESTIMATES
(\$)

Code	Supplies and Services Rendered	Costs				Contributions				
		Unit	Quantity Units	Cost per Unit	Total \$	JFPR		Central/ Local Government (in-kind)	Other Donors	Communities (in-kind)
						Amount	Method of Procurement			
Component A: Strengthening Field Handicraft Units					1,184,600	1,031,600		150,000	0	3,000
1.1	Civil Works			Subtotal	303,000	303,000	NCB/S			
1.1.1	Repairing facilities for nine pilot subprojects:				93,000	93,000				
1.1.1.1	FHU facility in Naryn town, Naryn oblast	unit	1	13,000	13,000	13,000				
1.1.1.2	FHU facility in Kochkor raion, Naryn oblast	unit	1	9,000	9,000	9,000				
1.1.1.3	FHU facility in At-Bashy raion, Naryn oblast	unit	1	13,000	13,000	13,000				
1.1.1.4	FHU facility in Ak-Talaa raion Naryn oblast	unit	1	9,000	9,000	9,000				
1.1.1.5	FHU facility in Djungal raion, Naryn oblast	unit	1	9,000	9,000	9,000				
1.1.1.6	FHU facility in Naryn raion, Naryn oblast	unit	1	9,000	9,000	9,000				
1.1.1.7	FHU facility in Tyup raion, Issyk-Kul oblast	unit	1	13,000	13,000	13,000				
1.1.1.8	FHU facility in Ak-Suu raion, Issyk-Kul oblast	unit	1	9,000	9,000	9,000				
1.1.1.9	FHU facility in Talas raion, Talas oblast	unit	1	9,000	9,000	9,000				
1.1.2	Estimated cost of repairing facilities for non-pilot subprojects	unit	21	10,000	210,000	210,000				
1.2	Equipment and Supplies			Subtotal	707,000	707,000	NCB/S			
1.2.1	Equipment and furniture for nine pilot subprojects:				224,000	224,000				
1.2.1.1	FHU in Naryn town, Naryn oblast	set	1	29,000	29,000	29,000				
1.2.1.2	FHU in Kochkor raion, Naryn oblast	set	1	23,000	23,000	23,000				
1.2.1.3	FHU in At-Bashy raion, Naryn oblast	set	1	23,000	23,000	23,000				
1.2.1.4	FHU in Ak-Talaa raion Naryn oblast	set	1	23,000	23,000	23,000				
1.2.1.5	FHU in Djungal raion, Naryn oblast	set	1	23,000	23,000	23,000				
1.2.1.6	FHU in Naryn raion, Naryn oblast	set	1	23,000	23,000	23,000				
1.2.1.7	FHU in Tyup raion, Issyk-Kul oblast	set	1	30,000	30,000	30,000				
1.2.1.8	FHU in Ak-Suu raion, Issyk-Kul oblast	set	1	27,000	27,000	27,000				
1.2.1.9	FHU in Talas raion, Talas oblast	set	1	23,000	23,000	23,000				
1.2.2	Estimated cost of equipment and furniture for non-pilot subprojects	set	21	23,000	483,000	483,000				
1.3	Training, Workshops, and Seminars			Subtotal	3,000					
1.3.1	Initiation consultation workshops (beneficiaries' contribution)	unit	30	100	3,000					3,000
1.4	Consulting Services for FHUs			Subtotal	21,600	21,600	IC			
1.4.1	Legal experts to advise on institutional arrangements at FHUs level	p-m	12	1,800	21,600	21,600				
1.5	Other Project Inputs			Subtotal	150,000					
1.5.1	Buildings / space for FHUs (local governments' contribution)	unit	30	5,000	150,000			150,000		
Component B: Establishing a Coordination and Marketing Center (CMC) in Bishkek and a Satellite CMC in Osh					140,600	90,600		50,000	0	0
2.1	Civil Works	lump sum		Subtotal	20,000	20,000	S			
2.2	Equipment and Supplies			Subtotal	61,000	61,000	S			
2.2.1	Equipment for CMC in Bishkek ^a	lump sum	1	25,000	25,000	25,000				
2.2.2	Equipment for CMC in Osh ^b	lump sum	1	7,000	7,000	7,000				

Code	Supplies and Services Rendered	Costs				Contributions				
		Unit	Quantity Units	Cost per Unit	Total \$	JFPR		Central/ Local Government (in-kind)	Other Donors	Communities (in-kind)
						Amount	Method of Procurement			
2.2.3	Furniture for CMC in Bishkek	lump sum	1	25,000	25,000	25,000				
2.2.4	Furniture for CMC in Osh	lump sum	1	4,000	4,000	4,000				
2.3	Consulting Services			Subtotal	9,600	9,600	IC			
2.3.1	Legal expert to advise on institutional arrangements for CMCs	p-m	12	800	9,600	9,600				
2.4	Other Project Inputs			Subtotal	50,000					
2.4.1	Building / Space for CMC (Central Government contribution)	unit	1	50,000	50,000			50,000		
Component C: Capacity Building, Product Development, and Marketing					337,600	331,600		0	0	6,000
3.1	Training, Workshops, Seminars, and Information Dissemination			Subtotal	297,600	291,600				
3.1.1	Training - Trainees' per diem:				164,500	158,500				
3.1.1.1	Technical skills for FHUs (10d course-30 FHUs)	trainee	900	150	135,000	135,000				
3.1.1.2	Business skills for FHUs (3d course-30 FHUs)	trainee	300	45	13,500	13,500				
3.1.1.3	Training materials	lump sum	1	10,000	10,000	10,000				
3.1.1.4	Training of newly engaged producers (FHUs' contribution)	trainee	600	10	6,000					6,000
3.1.2	Trainers' remuneration and per diem (NGO/Institute/Individuals):				52,500	52,500	QCBS/IC			
3.1.2.1	Technical skills trainers for FHUs (10dys*30FHUs)	course	30	1,200	36,000	36,000				
3.1.2.2	Business skills trainers for FHUs (3dys*30FHUs)	course	30	500	15,000	15,000				
3.1.2.3	Business and marketing trainers for GIU/CMC	course	1	1,500	1,500	1,500				
3.1.3	Workshops:				60,600	60,600	DC			
3.1.3.1	Consultation workshops and seminars at oblast level	unit	36	600	21,600	21,600				
3.1.3.2	Consultation workshops and seminars at central level	unit	6	4,000	24,000	24,000				
3.1.3.3	Information dissemination (by NGOs or other institutions)	lump sum	1	15,000	15,000	15,000				
3.1.4	Brochures and materials for product development and promotion	lump sum	1	20,000	20,000	20,000	S/DC			
3.2	Consulting Services			Subtotal	40,000	40,000				
3.2.1	Marketing, product design and quality surveys and researches	p-m	40	1,000	40,000	40,000	IC			
Component D: Project Management, Monitoring, and Audit					346,200	346,200		0	0	0
4.1	Equipment and Supplies			Subtotal	67,400	67,400	S/DC			
4.1.1	Office supplies and stationary	month	36	900	32,400	32,400				
4.1.2	Supplies - Vehicle(s) ^c	unit	1	35,000	35,000	35,000				
4.2	Training, Workshops, Seminars			Subtotal	6,000	6,000	DC			
4.2.1	Monitoring workshops and seminars	unit	8	600	4,800	4,800				
4.2.2	Training of the EA staff in monitoring and evaluation	unit	1	1,200	1,200	1,200				
4.3	Consulting Services (Monitoring and Audit)			Subtotal	29,500	29,500	QCBS			
4.3.1	Baseline and Midterm Survey and Impact Assessment (by NGO)	unit	4	4,000	16,000	16,000				
4.3.2	External Audit	unit	3	4,500	13,500	13,500				
4.4	Project Management and Coordination			Subtotal	243,300	243,300				
4.4.1	Component D - GIU Staff ^d				186,900	186,900	IC			
4.4.1.1	GIU Manager	p-m	36	2,000	72,000	72,000				
4.4.1.2	Disbursement Specialist	p-m	36	500	18,000	18,000				

Code	Supplies and Services Rendered	Costs				Contributions				
		Unit	Quantity Units	Cost per Unit	Total \$	JFPR		Central/ Local Government (in-kind)	Other Donors	Communities (in-kind)
						Amount	Method of Procurement			
4.4.1.3	Procurement Specialist	p-m	18	450	8,100	8,100				
4.4.1.4	Handicrafts Development Specialist	p-m	24	500	12,000	12,000				
4.4.1.5	Accountant	p-m	30	300	9,000	9,000				
4.4.1.6	Marketing Specialist	p-m	30	400	12,000	12,000				
4.4.1.7	Training / Design Specialist	p-m	30	400	12,000	12,000				
4.4.1.8	Sales Specialist	p-m	30	300	9,000	9,000				
4.4.1.9	ICT Specialist	p-m	24	400	9,600	9,600				
4.4.1.10	Civil Engineer	p-m	18	300	5,400	5,400				
4.4.1.11	Office Manager/Translator	p-m	36	300	10,800	10,800				
4.4.1.12	Driver	p-m	36	250	9,000	9,000				
4.4.2	Component D - RCO Staff				10,500	10,500	IC			
4.4.2.1	Coordinator for South Regions	p-m	30	200	6,000	6,000				
4.4.2.2	Sales Specialist	p-m	30	150	4,500	4,500				
4.4.3	Local Travel and Per Diem	lump sum	1	17,100	17,100	17,100	DC			
4.4.4	Other Miscellaneous Administration Costs	month	36	800	28,800	28,800	DC			
Components A to D = Subtotal				Subtotal	2,009,000	1,800,000		200,000	0	9,000
Contingencies						200,000				
TOTAL Grant Costs						2,000,000			0	
Incremental Cost Details										
	Preparation of Grant Implementation Memorandum	p-m	1	1,500	1,500					
	Annual and Midterm Review Costs	lump sum		48,500	48,500					
TOTAL Incremental Costs					50,000					

CMC = coordination and marketing center, DC = direct contracting, GIU = grant implementation unit, IC = individual consultant selection, NCB = national competitive bidding, NGO = nongovernment organization, S = shopping.

^a Including computers, printers, facsimile machine, projector, laptop, and other equipment.

^b Including computers, printer, facsimile machine, and other equipment.

^c Vehicle(s) will be used to support the day-to-day field activities of the JFPR GIU in subprojects' areas, and handed over to the CMC upon JFPR completion.

^d Amounts are for budgeting purpose and will be subject to Government regulations related to the salaries in donor-financed projects.

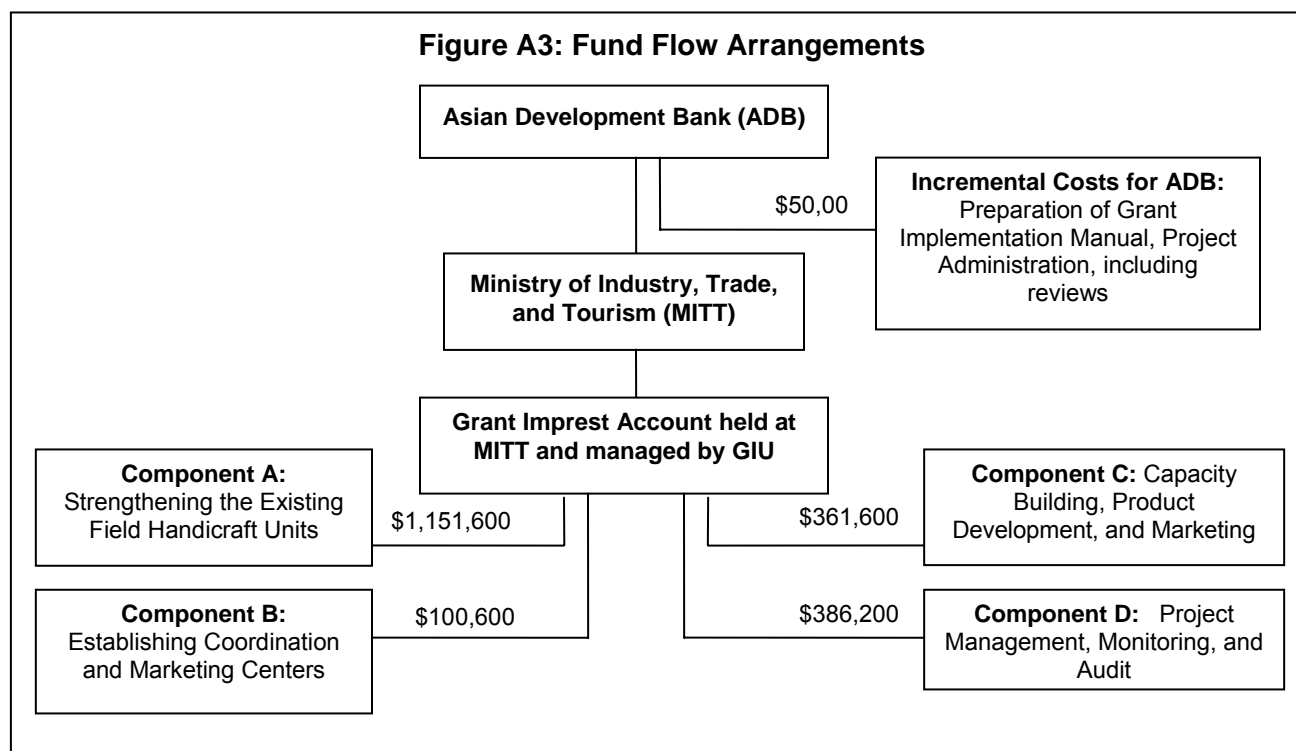
Source: Asian Development Bank estimates.

FUND FLOW ARRANGEMENT

1. Asian Development Bank (ADB) will channel the Japan Fund for Poverty Reduction (JFPR) funds directly to a JFPR imprest account, which will be opened and maintained by the Ministry of Industry, Trade, and Tourism, the Executing Agency (EA), in Bishkek at a bank endorsed by the Ministry of Economy and Finance and acceptable to ADB. This aims to facilitate day-to-day local expenditures from the grant. The JFPR imprest account will be managed by the EA on the principles of co-signatory arrangement with the Ministry of Economy and Finance. Initially, this will be based on the first six-month activity plan and related budget; afterwards it will be based on the approved annual work plan and budget. The JFPR imprest account will be established, managed, replenished, and liquidated in accordance with ADB's *Loan Disbursement Handbook* and detailed arrangements agreed upon by EA and ADB. The grant implementation unit (GIU) will manage the expenditures for the grant and submit all relevant documents to the EA for liquidation and replenishment of the imprest account by ADB. It will also receive copies of all financial statements and audit reports.

2. The imprest account will be established after the JFPR letter of agreement has been signed. ADB will initially channel an advance for 6 months of estimated expenditure or 10% of the grant amount, whichever is less, to the imprest account for day-to-day project implementation during the inception period, and it will replenish funds every 3–6 months, based on the replenishment requests from the GIU through the EA and in accordance with ADB's statement of expenditures procedure. The statement of expenditures procedure will apply for all payments and transactions under \$50,000 to ensure speedy project implementation. Details of implementation arrangements, such as the flow, replenishment, and administrative procedures, will be given in the grant implementation manual, and be established between ADB and the Government through the JFPR letter of agreement. The schematic flow of funds is shown in Figure A3.

3. Interest earned on the imprest account can be used for project purposes within the approved total amount of the JFPR project, subject to ADB's approval, and any unutilized interest should be returned to the JFPR fund account maintained in ADB upon completion of the Project and before closing the JFPR account.



GIU = grant implementation unit; MITT = Ministry of Industry, Trade, and Tourism.
Source: Asian Development Bank.

IMPLEMENTATION ARRANGEMENTS

A. Executing Agency and the Steering Committee

1. The Ministry of Industry, Trade, and Tourism will be the Executing Agency (EA) for the Project. The EA will appoint one of its deputy ministers as a national project director. A steering committee, chaired by the State Secretary and consisting of representatives from the EA, Office of the Prime Minister, Ministry of Culture, Kyrgyz Crafts Council, and other relevant stakeholders, will be established to oversee implementation of the Project and advise on the need for adjustments in the scope if any are required. Coordination with agencies involved in the craft sector, including civil society organizations, the Government, and development partners will be maintained throughout the project implementation period through consultation workshops, retreats, and steering committee meetings. The schematic project implementation arrangements are shown in Figure A4.

B. Grant Implementation Unit and Regional Coordination Office

2. **Grant Implementation Unit (GIU).** The GIU will be established and adequately staffed to implement the Project. It will be responsible for implementing and coordinating the grant activities and will report to the EA and Asian Development Bank (ADB). Responsibilities of the GIU will include, but not be limited to, (i) financial management of the grant accounts and disbursement of funds; (ii) procurement of civil works, goods, and services; (iii) submission of progress, financial, and audit reports to ADB; (iv) ensuring timely submission of audited accounts for the grant; (v) coordination of monitoring and evaluation activities; and (vi) coordination of grant supervision.

3. **GIU Manager.** The GIU manager will be a local staff member hired for 36 person-months, who will subsequently become a manager of the apex coordination and marketing center (CMC) in Bishkek. The GIU manager will be competitively selected and endorsed by the steering committee based on the following minimum qualification criteria: (i) at least 10 years of practical experience in implementing business development projects; (ii) at least 7 years of holding managerial positions in the public or private sector; (iii) at least 2 years of working in the field of handicrafts sector development; and (iv) other criteria, such as trust and credibility, as required.

4. **GIU Location and Staffing.** The EA will recruit local GIU staff, which will be physically located at the CMC premises in Bishkek and will use the CMC facilities until project completion. Besides the GIU manager, the GIU staff in Bishkek will include the following full-time specialists: (i) disbursement specialist (36 person-months), (ii) procurement specialist (18 person-months), (iii) handicrafts development specialist (24 person-months), (iv) accountant (30 person-months), (v) marketing specialist (30 person-months), (vi) training and design specialist (30 person-months), (vii) sales specialist (30 person-months), and (viii) information and communication technologies specialist (24 person-months). The GIU will be supported by the following domestic consultants: (i) civil engineer (18 person-months); (ii) legal experts (24 person-months);¹ (iii) experts for marketing, product design, quality surveys, and research projects (40 person-months); and (iv) combined office manager and translator (36 person-months). Detailed terms of reference for these specialists will be provided in the grant implementation manual.

5. **Regional Coordination Office (RCO).** The Project will also establish an RCO, to be staffed with (i) a coordinator and (ii) a sales manager, to coordinate and implement project activities in Batken, Djalalabat, and Osh oblasts. These specialists will be hired locally and will be located at premises provided by the Osh oblast administration while the furniture and equipment will be provided by the Project.

6. The staff of the GIU in Bishkek and the RCO in Osh will initially operate to implement the project activities, and then, by the middle of the third year of project implementation, their positions will be converted into those of CMC staff to be fully funded from the CMCs' own resources.

¹ Legal expertise will be required for the indicated period to (i) improve the legal and regulatory framework, (ii) remove the barriers to handicrafts development, (iii) help organize and establish FHUs as legal entities, and (iv) ensure that the rights of FHUs and its members are protected.

C. Field Handicrafts Units and the Coordination and Marketing Center

7. A field handicrafts unit (FHU) is a nonformal organization of handicraft producers at community or raion level in some cases run by local nongovernment organizations (NGOs). A cooperative or any other appropriate legal institution will be identified and/or established for each FHU to manage it before the FHU obtains any support from the Project. Qualified legal specialists will be hired to help improve or establish such institutional arrangements at FHUs. The FHUs will follow the business plans that they have themselves developed with GIU assistance under the Project, and will provide services in processing, production, training, product promotion, and local marketing.

8. The Project will establish the apex CMC in Bishkek at a facility already identified by the Government. A satellite CMC will be established in Osh at facilities to be provided by the local administration.² Both CMCs will be owned by the FHUs. The CMC in Bishkek will operate as an apex body for pilot and non-pilot FHUs, while the CMC in Osh will coordinate activities and provide services to FHUs in southern regions. The CMCs will provide services for coordination, product promotion and marketing, and training on design, use of environment-friendly materials, and equipment operation and maintenance. They will also serve as selling outlets for FHUs. The Government or other agencies will provide a suitable building with enough space for each FHU in selected areas. An agreement on transferring ownership to an FHU will be signed between the local government and the FHU. The Project will renovate and furnish these buildings in a cost-effective manner.

9. A detailed development and business plan for the CMC that includes its structure, ownership, and management arrangements will be developed by GIU during the initial stages of project implementation. The services of a legal expert will be engaged to develop legal arrangements acceptable for the Project. These arrangements will have to be cleared by the steering committee and FHUs. During the first 6 months, the GIU will also develop the detailed guidelines and terms of reference for FHUs and the CMC that then will be approved by the project steering committee.

10. The Project will facilitate management, capacity building, and product design until the middle of the third year of project implementation. Thereafter, these activities will be funded by the FHUs and CMCs from their own earnings. For this purpose, a fee-for-services approach commensurate with the local conditions will be developed and implemented in consultation with the participating producers and other stakeholders organized by the Project.

D. Selection of Project Areas

11. The Project will be implemented in two phases. During phase I, the Project will (i) implement pilot subprojects in the selected nine pilot areas in Issyk-Kul, Naryn, and Talas oblasts; and (ii) identify new subprojects in other areas, including Batken, Djalalabat, and Osh oblasts, using the following selection criteria: (i) high mountainous areas or areas with harsh climatic conditions, (ii) current involvement in handicraft manufacturing, (iii) poverty incidence in the area greater than 50%, and (iv) minimum of 30 potential beneficiaries. Grant review missions will specifically evaluate the experience in implementing the pilot subprojects to draw lessons for implementing the non-pilot subprojects during phase II. During phase II, the Project will support the non-pilot subprojects using the experience gained and lessons learned during implementation in phase I.

12. The nine pilot subprojects identified during the project preparation are located in (i) Ak-Suu and Tyup raions of Issyk-Kul oblast; (ii) Ak-Talaa, At-Bashy, Djumgal, Kochkor, and Naryn raions of Naryn oblast and Naryn town; and (iii) Talas raion of Talas oblast.

E. Procurement and Consulting Services

13. The grant will be administered by ADB in compliance with the procedures prescribed by its *Loan Disbursement Handbook*, *Procurement Guidelines*, and *Guidelines on the Use of Consultants*.

² The Government has confirmed that the building in Bishkek has been provided and the building in Osh will be provided after the Project is approved.

14. All procurement will be conducted in accordance with ADB's *Procurement Guidelines*. Goods and services costing less than \$10,000 will be procured using direct contracting. Goods and services costing between \$10,000 and \$100,000 will be procured using shopping; and goods and services costing between \$100,000 and \$500,000 will be procured using national competitive bidding procedure acceptable to ADB or limited international bidding procedure, whichever is appropriate. For civil works, shopping or national competitive bidding procedures acceptable to ADB will be used. No international competitive bidding is envisaged under the Project.

15. The consultants will be hired following ADB's *Guidelines on the Use of Consultants*. Only domestic consultants for the total 472 person-months will be recruited under the Project. Terms of reference for consultants will be developed and summarized in the grant implementation manual to be prepared before project inception. The GIU will engage local individuals and/or NGOs or other community-based organizations for information dissemination, training, and M&E in accordance with procedures acceptable to ADB. The GIU will propose individuals and/or NGOs or community-based organizations based on criteria agreed with ADB and submit terms of reference and contracts for ADB's review and approval. The GIU will be responsible for selecting consultants for the CMC and other consultants as required. Domestic legal experts will be engaged to help (i) develop an appropriate legal and regulatory framework for handicrafts sector development; and (ii) facilitate drafting of various agreements for establishing the FHUs and the CMC, as well as for other purposes as required under the Project.

16. A project management expert will be hired under the ADB incremental cost provision to prepare the grant implementation manual. Individual consultants, firms and/or NGOs will be recruited to provide services related to project administration. ADB KYRM will be responsible for developing the detailed terms of reference for these consultancies.

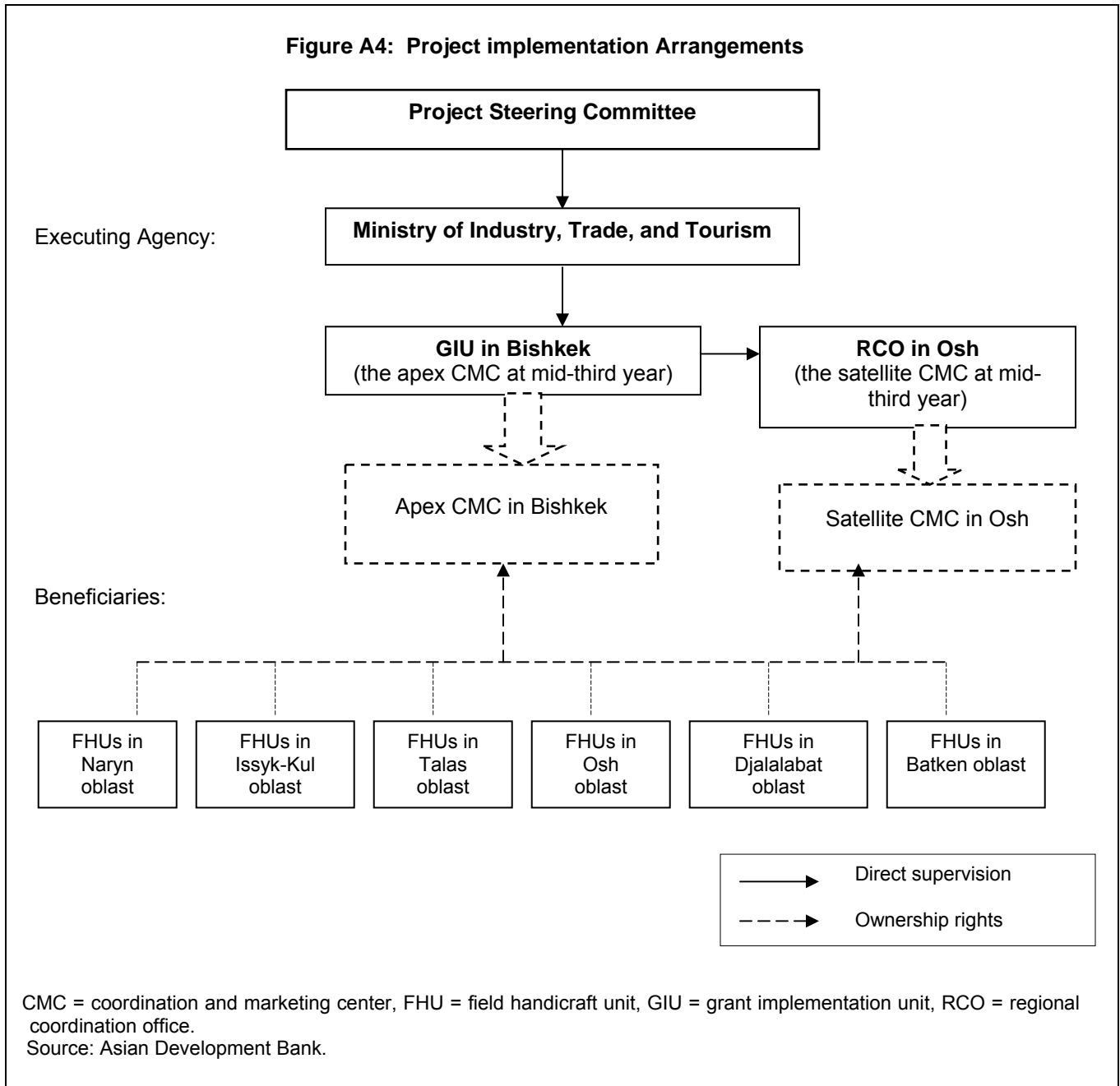
F. Auditing and Reporting

17. The GIU will submit through the EA to ADB (i) quarterly implementation progress reports, and (ii) annual audited reports and financial statements. The audited reports and financial statements will be submitted to ADB not later than 6 months after the end of the fiscal year. The annual audits will include an audit of the imprest account and statements of expenditure records, a separate opinion regarding which will be included in the audit report.

G. Implementation Schedule

18. The grant will be implemented over a period of 3 years, commencing in December 2006.

Figure A4: Project implementation Arrangements



DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact</p> <p>Improved livelihoods of rural women in the Kyrgyz Republic through development of the handicraft industry</p>	<p>Poverty incidence among women and their families in targeted areas reduced by 15%</p>	<p>Social passport statistics by the Government</p>	<p>Assumption</p> <p>The general socioeconomic situation remains stable</p>
<p>Outcome</p> <p>Increased income and job opportunities for poor women in selected rural areas by improving productivity, diversification, and quality of the products, and establishing efficient marketing services and facilities</p>	<p>(i) Real income levels of direct beneficiaries increased by an average 20%</p> <p>(ii) Number of new jobs created and sustained at 15%</p> <p>(iii) More that 80% of beneficiaries are women</p>	<p>Social passport statistics by the Government</p> <p>Surveys conducted under the Project</p> <p>Project progress and monitoring reports</p>	<p>Assumptions</p> <p>Legal and regulatory framework pertaining to handicrafts development is favorable</p> <p>Local, national, and international markets absorb improved and diversified products</p>
<p>Outputs</p> <p>1. Well-organized, legal, and well-equipped field handicraft units (FHUs) established in the selected areas providing services in processing, production, training, product promotion, and local marketing</p> <p>2. A well-equipped, sustainable, and market-driven coordination and marketing center (CMC) providing services to FHUs and other extended services for coordination, product promotion, training, operation and maintenance of equipment, etc.</p> <p>3. A network comprising FHUs and the CMC for effective and sustainable coordination, exchange of technical knowledge, and marketing</p> <p>4. Enhanced technical, management, and marketing skills at the FHUs and CMCs</p>	<p>(i) Total number of FHUs organized into formal entities, equipped and furnished by end 2008</p> <p>(ii) CMC fully operational by end 2007</p> <p>(iii) Number of FHU participants and CMC staff trained</p> <p>(iv) Sales by direct beneficiaries increased by 30%</p> <p>(v) Productivity of handicrafts makers increased by 20%</p>	<p>Social passport statistics by the Government</p> <p>Surveys conducted under the Project</p> <p>Project progress and monitoring reports</p>	<p>Risks</p> <p>Lack of stakeholders' commitment would hinder fulfilling the objectives and achieving a sense of ownership</p> <p>Lack of coordination and cooperation among government, the private sector, and local handicraft producers</p> <p>Lack of capacity among counterpart staff members can be a significant obstacle to project success, as they are key project implementers.</p>

Activities with Milestones	Inputs
<p>Component A. Strengthening Field Handicraft Units (FHUs): Phase I. – Pilot Subprojects</p> <ol style="list-style-type: none"> 1.1 Providing consulting services to pilot FHUs and organizing consultation workshops at FHUs level to improve their organizational structure and legal status (2 months) 1.2 Developing business plans by pilot FHUs with grant implementation unit (GIU) assistance (12 months) 1.3 Rehabilitating selected pilot FHUs' facilities (9 months) 1.4 Procuring and supplying furniture and equipment to pilot FHUs (18 months) 1.5 Identifying non-pilot FHUs (9 months) <p>Phase II. – Non-pilot Subprojects</p> <ol style="list-style-type: none"> 1.6 Providing consulting services to non-pilot FHUs and organizing consultation workshops at FHUs level to improve their organizational structures and legal status (14 months) 1.7 Developing business plans by non-pilot FHUs with GIU assistance (14 months) 1.8 Rehabilitating selected non-pilot FHUs' facilities (18 months) 1.9 Procuring and supplying furniture and equipment to non-pilot FHUs (24 months) <p>Milestones: Phase I will be implemented within 18 months and Phase II will be implemented within 24 months after start of the Project.</p> <p>Component B. Establishing a Coordination and Marketing Center (CMC) in Bishkek and a Satellite CMC in Osh:</p> <ol style="list-style-type: none"> 2.1 Developing a detailed business plan and appropriate structure, ownership, and management arrangements for the CMCs through consulting services and consultation meetings among stakeholders (6 months) 2.2 Developing and introducing the CMCs' cost-recovery mechanism (24 months) 2.3 Repairing the CMCs' facilities (8 months) 2.4 Procuring and setting up equipment and furniture at CMCs (12 months) 2.5 Developing an exit strategy for the Project (during last 12 months before project completion) <p>Milestones: CMCs will be established within 24 months after start of the Project.</p> <p>Component C. Capacity Building, Product Development, and Marketing: Phase I</p> <ol style="list-style-type: none"> 3.1 Conducting consultation workshops at pilot subprojects (3 months) 3.2 Conducting information dissemination for FHUs empowerment and networking, product development and promotion (24 months) 3.3 Developing training plan and recruiting training providers (individuals, institutions, or nongovernment organizations) (4 months) 3.4 Training of handicrafts producers in craft design, production, and basic business and marketing (18 months) 3.5 Training of CMC staff on business and marketing (12 months) 3.6 Developing and publishing brochures and informational materials for product development and promotion (24 months) 3.7 Conducting surveys and research projects for marketing, product design and quality improvement, and product promotion (24 months) <p>Phase II</p> <ol style="list-style-type: none"> 3.8 Conducting consultation workshops at non-pilot subprojects (9 months) 3.9 Developing training plan and recruiting training providers (individuals, institutions, or nongovernment organizations) (14 months) 3.10 Training of handicrafts producers in craft design, production, and basic business and marketing (24 months) <p>Milestones: Capacity building support, including training and workshops, will be provided for 30 months from the start of the Project.</p> <p>Component D. Project Management, Monitoring, and Audit:</p> <ol style="list-style-type: none"> 4.1 Effective project management and coordination 4.2 Operational monitoring and evaluation system 4.3 Annual audit 4.4 Conducting annual audit. <p>Milestones: The management, monitoring, and audit will be maintained throughout the project implementation.</p>	<p>Japan Fund for Poverty Reduction: \$2,000,000</p> <ul style="list-style-type: none"> - civil works - goods - services <p>Central and Local Governments: \$200,000</p> <ul style="list-style-type: none"> - in-kind (including buildings or spaces for FHUs and CMCs) <p>Communities: \$9,000</p> <ul style="list-style-type: none"> - in kind (including training of newly engaged producers, participating in and organizing initiation consultation meetings and workshops at FHUs level)

CMC = coordination and marketing center, FHU = field handicraft unit, GIU = grant implementation unit.