

**REPORT AND RECOMMENDATION
OF THE
PRESIDENT
TO THE
BOARD OF DIRECTORS
ON
A PROPOSED LOAN
AND
TECHNICAL ASSISTANCE GRANT
TO THE KYRGYZ REPUBLIC
FOR THE
SKILLS AND ENTREPRENEURSHIP DEVELOPMENT PROJECT**

31 October 2000

CURRENCY EQUIVALENTS

(as of 15 October 2000)

Currency Unit	—	Som
Som1.00	=	\$0.0210
\$1.00	=	Som48.00

In this report, the rate of Som47.00 = \$1.00 has been used, which was the approximate rate prevailing at the time of appraisal.

ABBREVIATIONS

ADB	—	Asian Development Bank
CDF	—	Comprehensive Development Framework
DES	—	Department of Employment Services under MLSP
DVTE	—	Department for Vocational Training and Education under MLSP
ESDP	—	Education Sector Development Program
ETF	—	European Training Foundation
GDP	—	gross domestic product
HDI	—	human development index
IEC	—	information, education and communication
IMF	—	International Monetary Fund
MESC	—	Ministry of Education, Science and Culture
MLSP	—	Ministry of Labor and Social Protection
MOF	—	Ministry of Finance
Natstatcom	—	National Statistical Committee
NFE	—	nonformal education
NGO	—	nongovernment organization
NTB	—	National Training Board
PIU	—	project implementation unit
PVE	—	primary vocational education
PVEI	—	primary vocational education institution
SBDC	—	Small Business Development Center
SFSMB	—	State Fund for Support of Small and Medium Business
SME	—	small and medium enterprise
TA	—	technical assistance
UNDP	—	United Nations Development Programme
UNIDO	—	United Nations Industrial Development Organization

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.
- (iii) The school year (SY) runs from September to June. SY before a calendar year denotes the year in which the school year ends.

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LOAN AND PROJECT SUMMARY

Borrower	Kyrgyz Republic
Project Description	<p>The Project aims to (i) improve the initial stage of vocational education and training, known as primary vocational education (PVE), which offers vocational training during the final two years of basic education (grades 10-12), and (ii) strengthen entrepreneurship development. The Project will reorient the PVE system to improve quality and relevance of programs, internal and external efficiency, and financial sustainability; and broaden access for all segments of the population, particularly out-of-school youth and disadvantaged groups. The Project will strengthen support activities such as accreditation, skills testing, and certification, and linkages between primary vocational education institutions (PVEIs) and private industry and communities. The Project will improve entrepreneurship training programs, and support activities both within and outside the PVE system, including business incubator (internship and start-up) services, entrepreneurship consulting services for small business, and small business club networks.</p>
Classification	<p>Primary: Human Development Secondary: Poverty Reduction</p>
Environmental Assessment	Category C. Environmental implications were reviewed and no significant adverse environmental impacts were identified.
Rationale	<p>The Government is faced with the immediate problems of increasing poverty and unemployment, and the medium- and long-term concern of skills development for economic development. Key reforms are needed in the PVE subsector to improve policy planning, management and administration, financing, training quality and relevance, equity and access, entrepreneurship development, and involvement of the private sector in skills development. The Asian Development Bank (ADB) has already provided technical assistance (TA) to formulate a master plan for the education sector, followed by the Education Sector Development Program, which addressed reforms and investment mainly in basic education. The proposed Project will be the next priority step in the Government-ADB development partnership.</p>
Objectives and Scope	<p>The overall goal of the Project is to improve the capability of the general population to obtain and maintain better means of livelihood through employment and self-employment, with particular attention to the inclusion of socially and economically disadvantaged groups. To achieve this, the Project aims to (i) provide more relevant and higher quality PVE programs, and reorient the PVE system to improve its efficiency and sustainability, as well as its outreach to disadvantaged groups; (ii) strengthen entrepreneurship development both within and outside the PVE system; and (iii) strengthen support institutions for PVE and entrepreneurship</p>

development and support for project implementation. The Project aims to improve public-private partnerships in these areas, involving Government, private business, industry, nongovernment organizations (NGOs), and civil society.

The Project will establish a labor market analysis system to link PVE programs to market demand. The Project will upgrade and consolidate 32 existing PVEs into 29 model resource centers, and improve 70 other PVEs around the country. Disadvantaged groups and out-of-school youth will be targeted through outreach programs. Production facilities and business incubators will be enhanced both as part of entrepreneurship training and for better PVEI financial sustainability. Technical certification and accreditation systems will be established and advocacy for policy reforms carried out through information, education, and communication activities to reach the community at large, PVEI administrators, central Government officials, and lawmakers. The Project will establish two development facilities, one for developing and financing training innovations, the other for supporting PVEI production and entrepreneurship activities. A microcredit fund will be developed on a pilot basis to assist start-up entrepreneurs trained by the project institutions.

Cost Estimates

The total cost of the Project is \$31.3 million, of which the foreign exchange cost is \$14.2 million (45 percent) and the local currency cost is \$17.1 million equivalent (55 percent).

Financing Plan

(\$ million)

Source	Foreign Exchange	Local Currency	Total Cost	Percent
Asian Development Bank	14.2	10.8	25.0	80.0
Government	0.0	6.3	6.3	20.0
Total	14.2	17.1	31.3	100.0

Loan Amount and Terms

A loan of SDR19.262 million (\$25 million equivalent) from ADB's Special Funds resources with a repayment period of 32 years, including a grace period of 8 years, and an interest charge of 1 percent per annum during the grace period and 1.5 percent per annum thereafter.

Period of Utilization

Until 30 June 2006

Executing Agency

Ministry of Labor and Social Protection (MLSP)

Implementation Arrangements

The Project will be implemented by the Department for Vocational Training and Education (DVTE) under MLSP. A multisectoral project steering committee that will include private sector representation will provide policy and operational guidance to DVTE during all phases of project implementation, and maintain private sector cooperation.

Procurement	All procurement to be financed from the proceeds of the loan will be carried out in accordance with ADB's <i>Guidelines for Procurement</i> .
Consulting Services	<p>The Project will provide 230 person-months of international consulting, including 144 person-months of international volunteers, and in addition, 475 person-months of domestic consulting.</p> <p>All international consultants will be selected and engaged through a firm in accordance with ADB's <i>Guidelines on the Use of Consultants</i> and other arrangements satisfactory to ADB on the engagement of domestic consultants.</p>
Estimated Project Completion Date	The Project will be implemented over five years, until 31 December 2005
Project Benefits and Beneficiaries	<p>The Project will improve not only the skills of the country's economically active segment of the labor force but also the capacity of unemployed and out-of-school youth and adults to seek livelihood through better skills and entrepreneurship. This will reduce overall unemployment and provide the country with a better skilled and more productive labor force in support of the Government's economic transition efforts. Educational benefits include the reorientation of the PVE system to be more responsive to market demand and the improvement of training curricula and programs, instructional materials, and school facilities and equipment. The reorientation will also make the nationwide PVE network more efficient and sustainable. The Project will increase the sense of partnership between the Government and the private sector (namely, industry and business, NGOs, and civil society) in skills and entrepreneurship development. Direct beneficiaries will be the students and graduates of the formal PVE system, the new entrepreneurs developed by the project facilities. The Project will have specific outreach programs targeting vulnerable groups such as students from poor families (as identified by the Government's poverty monitoring surveys), orphans and single-parent children, handicapped children, and refugees. An estimated 67,000 students and 32,000 graduates will benefit directly from the Project over its five-year lifetime, of whom about 38 percent come from the vulnerable groups and about 34 percent are females. The Project will also directly benefit about 212 administrators and policymakers; 112 PVEI directors and head teachers; and 2,041 teachers, instructors, and administrative staff nationwide who are working in the formal PVE system.</p>
Technical Assistance	TA grant of \$600,000 from the Japan Special Fund, funded by the Government of Japan, to improve the enabling environment for skills and entrepreneurship development accompanies the Project. The TA will help policymakers with policy-level strategic planning in both international and Central Asian contexts, and recommend improvements to the Government.

I. THE PROPOSAL

1. I submit for your approval the following Report and Recommendation on a proposed loan to the Kyrgyz Republic for the Skills and Entrepreneurship Development Project. The report also describes proposed technical assistance (TA) for Improving the Enabling Environment for Skills and Entrepreneurship Development, and if the proposed loan is approved by the Board, I, acting under the authority delegated to me by the Board, shall approve the TA.

II. INTRODUCTION

2. At the request of the Government, the Asian Development Bank (ADB) approved TA¹ in 1998 to review the existing situation in formal and nonformal skills² training and entrepreneurship development in the country and assist the Government in preparing a skills and entrepreneurship development project. The TA was implemented in close collaboration with the Ministry of Labor and Social Protection (MLSP), and in a highly participatory manner, consulting stakeholder groups such as central and local government agencies, external aid agencies, schools and training institutions, private employers, nongovernment organizations (NGOs), teachers, principals, and communities at large. A rapid social assessment was undertaken as part of the TA and additional poverty assessments were conducted during loan fact-finding in February-March 2000 and loan appraisal. The Appraisal Mission³ visited the Kyrgyz Republic from 2 to 23 June 2000. This report is based on the findings of the TA, subsequent consultations with the stakeholder groups, and the Mission findings. The project framework is in Appendix 1.

III. BACKGROUND

A. Sector Description

1. Socioeconomic Context

3. Since independence in December 1991, the Government has embarked on a determined approach to transform the economy to a market-based system. After persistent economic contraction from 1991 to 1995, a significant turnaround in macroeconomic performance was achieved in 1996, only to be set back again severely⁴ by the economic crisis of the Russian Federation that broke out in August 1998. Meanwhile, income inequality appears to be increasing dramatically (para. 7). Inflation increased about 27 percent in the first half of 1999 compared with 12 percent the previous year, largely due to the weak currency, which depreciated from an average of about Som21 to the dollar in 1998 to about Som41.5 in May 1999.⁵ Faced with this deteriorating economic situation, the Government reached an agreement with the International Monetary Fund (IMF) on revising the enhanced structural adjustment facility program approved by the IMF board in February 1999. The policy package under the revised program has two main components: tightening fiscal and monetary policies, and

¹ TA 3084-KGZ: *Skills and Entrepreneurship Development*, for \$600,000, approved on 5 October 1998.

² The TA examined skill areas known to be important for the Kyrgyz economy, including the areas of agriculture and agro-processing, building and construction, electrical and mechanical trades, light industry, electronics and information technology, services (financial, tourism, food services, personal care), and arts and handicrafts.

³ The Mission comprised M. P. Perlas, Mission Chief; P. Kamayana, Programs Officer; E. C. Sison, Education Development Specialist (staff consultant); and J. Cortes, Microentrepreneurship and Microfinance Specialist (staff consultant).

⁴ Real gross domestic product grew by only 1.4 percent in 1998 and 0.4 percent in the first half of 1999 compared with 7.1 percent in 1996 and 9.9 percent in 1997.

⁵ At present, \$1.00 = Som47.6.

accelerating and strengthening structural reforms. Meanwhile, the country continues to confront serious deterioration of education and health infrastructure, high unemployment and underemployment, and sharp declines in income and social protection payments.

4. According to the preliminary results of the April 1999 census, the population is now about 4.8 million with a growth rate of 1.5 percent. About 2.5 million (51 percent) are female and 1.8 million (39 percent) are children under the age of 16. About 3.2 million (66 percent) live in rural areas, an increase from about 62 percent from 1990. This increase is principally due to migration to rural areas as large state enterprises ceased production in urban areas and emigration of urban citizens to other countries.⁶ Social indicators for the Kyrgyz Republic are provided in Appendix 2.

5. As of January 1998 (latest available information), the working age population⁷ was estimated at 51 percent of the total population. The labor force participation rate declined from 65.2 percent in 1997 to 60.0 percent in 1998.⁸ In the same period, the unemployment rate increased from 5.7 to 5.9 percent of the economically active population.⁹ This figure does not take into account the level of underemployment¹⁰ which in 1998 was estimated to be as high as 28.5 percent. The proportion of women in the labor force declined from 51 percent in 1992 to 47 percent in 1998. Because of a relatively young population mix, the labor force has grown from 2.26 million in 1992 to 2.35 million in 1998. Meanwhile, the employed population decreased from 1.84 million in 1992 to 1.70 million in 1998.¹¹ The number of unemployed registered with MLSP's Department of Employment Services (DES) dramatically increased from 1,800 in 1992 to 55,900 in 1998, reaching a peak of 77,200 in 1996. The rural oblasts (provinces) of Jalal-Abad, Naryn, Talas and Yssyk Kul had higher rates of increase in unemployment than the urban areas of Bishkek, Chui, and Osh. Women comprised about 58 percent of the registered unemployed in 1998.

6. The human development index (HDI)¹² of the Kyrgyz Republic declined from 0.715 in 1992 to 0.698 in 1998, reaching its lowest point of 0.676 in 1995. This places the country in the middle HDI level internationally. The country's HDI ranking has decreased from 82nd in 1992 to 113th in 1998.¹³ Among the three basic HDI indicators, educational attainment has remained relatively the most stable during 1992-1998, while real per capita gross domestic product (GDP) (1992 prices) declined steeply during 1992-1995, by as much as 26 percent annually.

⁶ Migration reached a peak in 1993 and has been decreasing ever since.

⁷ Working age is defined as 16-59 years for males and 16-54 for women.

⁸ In 1992, the labor force participation rate was 81.3 percent.

⁹ To be defined as unemployed, a person must be jobless throughout the year and have declared to the census interviewer that he or she has actively looked for a job (economically active). Also, according to the Law on Employment, farm dwellers and their families are considered employed because every villager is allotted a piece of land, and does not fall under the category of unemployed even if in fact he/she does not have a job.

¹⁰ People are defined as underemployed if they declare to the census interviewer that they worked during certain parts of the year but either were found unemployed during the time of interview or indicate that they were without paid work during parts of the year.

¹¹ The numbers of employed reached a low of 1.64 million in 1995, and has since been steadily increasing.

¹² The HDI, as measured by United Nations Development Programme in the *1999 Kyrgyzstan Human Development Report*, is a weighted index of three basic indicators: (i) longevity as measured by life expectancy at birth; (ii) educational attainment as measured by adult literacy (for people aged 15 years or older), and the percentage of children and young adults (aged 7-24 years) enrolled in the education system; and (iii) standard of living as measured by real GDP per capita.

¹³ In 1997, the Kyrgyz Republic ranked 107th among 193 countries, compared with the other Central Asian republics of Kazakhstan (93rd), Tajikistan (115th), Turkmenistan (85th), and Uzbekistan (100th).

Differences between the country's HDI and gender development index¹⁴ have remained small and stable over the past years (1996-1998). This is largely due to the comparatively high level of education for women in the country. On the other hand, women's share of earned income was low.

7. Since 1996, poverty levels in the Kyrgyz Republic are being monitored regularly through surveys by the National Statistical Committee (Natstatcom), namely the Kyrgyz poverty monitoring survey and the living standards measurement survey. Two poverty lines are defined: the food poverty line, which characterizes the "extremely poor," and the general poverty line which characterizes the "poor."¹⁵ The proportion of poor people was stable at about 51 percent in 1996 and 1997, but increased to about 64 percent in 1998, most likely due to the effects of the economic crisis in the Russian Federation. The proportion of extremely poor, which had improved from about 19 percent in 1996 to 15 percent in 1997, deteriorated to 23 percent in 1998.

8. Poverty appears to be predominantly a rural issue. An estimated 80 percent of the poor live in rural areas, and the gap between urban and rural areas appears to be growing. By geographic area in 1998, only Bishkek City and Chui oblast had populations that were less than 50 percent poor; the other oblasts all had over 60 percent poor, with Naryn having the highest at about 90 percent. The proportion of extremely poor was less than 10 percent in the urban areas of Bishkek, Osh, and Chui, but more than 20 percent in the rural areas, with Naryn having the highest proportion at about 59 percent. Income inequality has also worsened. In 1993, the poorest 20 percent of the country gained 11.5 percent of all income. In 1998, this share dropped to 4.7 percent.

9. The structure of employment has changed drastically during 1992-1998, mainly due to the downsizing and closure of state-owned enterprises. In 1992, about 60 percent of employment was in state bodies (comprising both state-owned enterprises and central and local government agencies) and 9 percent in collective farms. By 1998, state bodies employed less than 30 percent, and collective farms about 1 percent of the working population. Employment has been moving to individual farming (increasing from 16.5 percent to 35.1 percent) and joint-stock companies (from nil to 11 percent). Self-employment rose from virtually nil in 1992 to 8 percent in 1998. A significant yet unquantifiable employment source is the informal labor market, e.g., shuttle traders, baby-sitters, and intermediaries. Of the 1.7 million employed in 1998, the top five sector employers were agriculture (48.8 percent), trade and public catering (10.4 percent), industry (9.8 percent), education (8.2 percent), and public health (5.5 percent).

10. The Kyrgyz Republic continues to face severe social and economic difficulties. Although the economy is recovering slowly, some of the main problems faced include increasing unemployment, underemployment, and poverty largely due to general production decline and scaling down of state enterprises. The Government addresses its problems of unemployment and underemployment through DES, which is responsible for employment centers throughout the country where the unemployed register for possible jobs. DES arranges for upgrading and retraining of job seekers in cooperation with proximate institutions and employers. In 1999, MLSP estimated that about 173,300 people were unemployed¹⁶ in the country. Of these, about

¹⁴ The same indicators for HDI are used to measure the gender development index, the only difference is that indexes are adjusted in accordance with the differences for these indicators between men and women.

¹⁵ The food poverty line is the level of per capita consumption for each household below which, even if all resources were devoted to food, the minimum caloric requirement could not be met. The general poverty line represents the minimum level of consumption taking into account both food and nonfood basic needs.

¹⁶ This included 48,400 people laid off by state agencies and 13,300 employed part-time.

62,200 were registered with DES; DES found jobs for 23,800 and arranged training for 6,500 (about 14 percent more than in 1998).

11. There is also a serious mismatch between skill supply and labor market demand. Although substantial information on the labor market and employment is being gathered regularly by Natstatcom (since independence) and the National Observatory of Kyrgyzstan (since 1998),¹⁷ no regular consolidated labor market and skills needs analysis exists. There is no national employment strategy. Furthermore, a large part of the workforce needs retraining and upgrading to be able to meet contemporary skill needs arising from the changing nature of employment. Thus the technical and pedagogical content of courses at technical and vocational institutions and schools must be adapted to changes in the structure of labor market demands. Because of lack of employment opportunities, an increasing part of the population is seeking livelihood through self-employment, mostly in the informal sector. Because capitalist activities were discouraged during the Soviet years, entrepreneurship abilities are generally low and these abilities need to be developed among the population at large, and the legislative and taxation infrastructure improved for small and medium-size enterprises (SMEs).

2. General Education

12. The formal education system of the Kyrgyz Republic (Appendix 3) includes preschooling, general schooling (primary, basic secondary, complete secondary), primary and further vocational education and training, and higher education. Preschool education is available in day nurseries (for 1.5-3 years of age) and kindergartens (3-7 years of age). Primary education (grades 1-4, age 6-11), basic secondary education (grades 5-9, age 11-15), and complete secondary education (grades 10-11, age 15-18) are offered in various types of institutions: regular schools, grammar schools, lyceums,¹⁸ and specialized schools that have additional focus on particular subjects. In school year 1999/2000 (SY2000), a total of about 1.1 million students attended 1,941 schools, all under the Ministry of Education, Science and Culture (MESK).

13. The Government has made significant progress in developing the general education subsector. In 1995, the Government requested ADB assistance¹⁹ with conducting a comprehensive review and developing a national master plan for education and training, and then preparing a project to address the identified Government's priorities. This led to the approval of the ongoing ADB-funded Education Sector Development Program (ESDP)²⁰ that focuses on reforms and investments in basic education.²¹ The reforms pertain to three key policy areas: (i) sector sustainability and efficiency, by rationalizing the existing system of resource mobilization for basic education and the cadre of teaching and administrative staff, as well as promoting private sector participation in education; (ii) quality and relevance of basic education by reforming curricula, textbooks, learning materials, and student assessment and school evaluation; and (iii) access to and equity in preschool and basic education by formulating a national strategy to address the declining level of preschool services, rationalizing early

¹⁷ The National Observatory of Kyrgyzstan is part of a network of institutions established by the European Training Foundation, an agency of the European Union, with the aim of developing an information base on vocational training and its best practices in general, and on vocational training reform in the partner countries in particular (in Central and Eastern Europe and in Central Asia).

¹⁸ Lyceums offer a combination of general and vocational education subjects.

¹⁹ TA 2290-KGZ: *Education and Training Master Plan*, for \$900,000, approved on 17 January 1995.

²⁰ Loan 1554/1555-KGZ: *Education Sector Development Program*, for \$32.7 million, approved on 29 September 1997.

²¹ Basic education refers to grades 1-11.

childhood education provision, and providing assistance and funding for disadvantaged groups. Investments under the ESDP, all addressing basic education, include curriculum and textbook improvements, teacher development, improvement of the education delivery network, and capacity building and resource mobilization. The ESDP included TA²² to strengthen education planning and administration at central and local levels. The ESDP also includes key catalytic reforms for vocational education and training (para. 17) and higher education to prepare the Government for future development activities in these subsectors.

3. Vocational Education and Training

14. Primary vocational education (PVE)²³ and further vocational education and training are provided in 105 PVE institutions (PVEIs) under MLSP's Department for Vocational Training and Education (DVTE). Technical vocational programs, with less emphasis on general education subjects, are provided to about 22,600 students. The precursor of DVTE (before 1988) was an independent body whose purpose was to provide professional skills training. From 1988 to 1990, the Government attempted to place the PVE system under the Ministry of People's Education (the precursor of MESCC); however, this arrangement reverted to that of an independent state committee in 1991 because the single ministry arrangement placed more emphasis on general education and undermined the ability of the PVE system to produce enough specialists for the economy at that time. After independence, the prevailing economic situation called for PVEIs to assume more social functions, such as retraining the unemployed, providing skills training to out-of-school youth, and upgrading and retraining the adult population. At the same time, the transition to a market economy required new training in emerging skill areas (e.g., finance, management, information technology, and entrepreneurship), as well as reorienting existing training programs to be more flexible and adaptable to the demands of the labor market. In 1994 this dual employment and social protection role of PVEIs prompted the Government to place the PVE system under MLSP by establishing DVTE. As a result, PVE is embedded, in a more generalized form, in the general education curriculum of lyceums and specialized schools under MESCC, at basic secondary and complete secondary levels. Another 48 postsecondary institutions under MESCC and other ministries offer specialized technical and vocational programs in their speciality programs.

15. While the PVE system was included, in general terms, as part of the education system by the Law on Education (1992), a subsequent law passed in October 1999—the Law on Primary Vocational Education—distinguishes PVE from the general education system and sets out in more detail its legal, organizational, and economic basis. The goal of PVE is to satisfy the needs of citizens to receive labor training through education, the main components of which are initial training, qualifications upgrading, and retraining of workers who have not had vocational education. PVE curricula²⁴ are implemented by PVEI directors based on national standards promulgated by MESCC for education content, and DVTE for training content. Programs offered in PVEIs must be approved by DVTE and typically include theoretical and practical training, on-site internship, and student activities on work attitudes and ethics.

²² TA No. 2879-KGZ: *Strengthening of Education Planning and Administration*, for \$930,000, approved on 29 September 1997.

²³ PVE is the official term for the initial stage of vocational education and training offered in grades 10-11. In the past, it was referred to alternatively as vocational and technical education, or vocational education and training. Appendix 2 provides basic data on the PVE system.

²⁴ The Republican Scientific and Methodological Center within MLSP is responsible for PVE curriculum development and training of PVEI directors, teachers, and administrative staff.

While the PVE law recognizes the importance of private sector involvement, currently only one private PVEI²⁵ is operating, and cooperation between public PVEIs and business and industry remains ad hoc. This is largely due to the fledgling state of private industry in general.

16. The entry point to PVE is after completion of grade 9 of general education. Basic PVE subjects may be embedded in the general education system under MESC (i.e., offered in grades 10-11 or in three-year programs in lyceums or specialized secondary schools with the graduate having an option to continue for higher education). Vocational and technical subjects are offered with more depth of treatment and more practical, hands-on training in PVEIs, in which case the graduate enters the labor market after a two- or three-year program.

17. The ESDP included key catalytic reforms for the PVE system, namely, developing a strategic plan for reorienting PVE, establishing a national training board (NTB) to assume responsibility for policy and planning of PVE and promote links with business and industry, and establishing a task force to develop specific policies regarding private sector involvement in PVE delivery. The plan for reorienting PVE was developed under the skills and entrepreneurship development TA (footnote 1) and will be implemented by the Project. A multisectoral NTB and task force were established; however, both were rendered inactive by frequent changes at senior levels of Government. The NTB and task force were combined into the project steering committee for the TA and the proposed Project (paras. 57 and 77).

18. The responsibility for policy, planning, and national level administration of PVE now rests with MLSP, within which DVTE plays the central role in coordination with MESC on matters relating to education curriculum requirements. At the oblast level, administration is maintained on behalf of the central Government by *akhims*²⁶ through the oblast departments of education. The Ministry of Finance (MOF) has significant influence on PVE policy and planning, as it plans and controls the budget according to key financial and training indicators submitted by DVTE.

19. The 105 PVEIs are dispersed throughout the country with a total of about 22,600 students and 2,200 teachers and instructors, giving a student-teacher ratio of about 10:1. The gender composition of PVE students in SY2000 was 66 percent male and 34 percent female. The industrial courses where females are traditionally enrolled are sewing, personal and consumer services, trade and public catering, and textile production. Enrollment in PVEIs has fallen dramatically since 1992 when there were a total of 115 PVEIs and a total enrollment of about 51,000. During SY1999, the system had 8,250 graduates and 10,800 new entrants. The decline in enrollment has been caused mainly by cutbacks in the central and oblast budgets since independence. Many PVEIs were left to cover their own costs, resulting in PVEIs having to reduce their capacity, which led to sharp cutbacks in enrollment. Another reason behind the decline was the general loss of interest of the population because of the perceived lack of relevance of programs to the emerging labor market demand, deteriorating infrastructure, obsolete books and materials, low teacher morale, and generally falling standards.

²⁵ There are, however, an undetermined (and increasing) number of private training agencies that focus on specific training in high-demand areas such as computer and information technology, accounting and business, and tailoring, without offering the entire PVE curriculum.

²⁶ The *akhim* is an appointed official who functions like a chief executive officer for the oblast or raion (district).

20. Apart from providing vocational education and training, the PVEIs also fulfil an important social protection role. Government policy (as stipulated by the PVE law and confirmed by the President and the Prime Minister during the Government's Comprehensive Development Framework [CDF] Workshop on Poverty Reduction and Social Protection²⁷ on 15-16 February 2000) states that PVEIs provide a mechanism to equalize employment and education opportunities for disadvantaged groups. About one third of PVE students come from disadvantaged groups such as the poor, orphans, children from single-parent families, disabled, and refugees. Full or partial subsidies are provided to "budget" students depending on their socioeconomic status as determined by means testing by MLSP's Department of Social Protection. Budget students comprise about 80 percent of PVEI enrollment; the other 20 percent are "contract" students, i.e., self-paying students or those on a short-term program for retraining or upgrading.

21. Generally, the PVE system is short of funds. This is reflected in the reduction of the share of public expenditure allocated to education in general and PVE in particular. The Law on Education 1992 stipulates that such allocation should not be less than 10 percent of GDP, which has not been possible under the prevailing economic situation. Due to insufficient levels of funding, PVEIs have been compelled to innovate and generate income by themselves.²⁸ However, heavy taxation of this income, which includes tuition paid by contract students, dampens the initiatives of many PVEIs.²⁹

22. Public expenditure for education as a percentage of GDP oscillated during 1991-1999, ranging from 3.7 to 7.8 percent. However, the relative share of the education budget allocated to PVE dropped steadily from 12.9 percent in 1994 to 6.9 percent in 1999. Likewise, in real terms (1995 prices), total expenditures for PVE declined from Som105.0 million in 1995 to Som63.2 million in 1998, a reduction of just under 40 percent. Public expenditure for PVE emanates from three general sources: the central (or republican) budget, the local budget, and alternative sources (such as contract students and income generation). The share of central and local budgets in the total expenditures decreased from 67 and 25 percent in 1994 to 62 percent and 21 percent in 1998. The share of alternative sources increased markedly from 8 percent in 1994 to 17 percent in 1998 as a result of PVEIs being forced by budget circumstances to generate their own revenues. Appendix 4 provides details on PVE financing.

4. The Nonformal Sector

23. There is no official definition of nonformal education (NFE) in the Kyrgyz Republic, although its main features are that it does not lead to an official certificate of educational attainment, and that it is lifelong education generally available to all segments of the population irrespective of age, gender, or educational attainment. In the Kyrgyz Republic, NFE has basically five forms: courses, seminars, circles, self-education, and media. NFE is provided in six general areas: professional skill upgrading, medicine and psychology, legal, moral, religion, and economics. The country has substantial NFE activities conducted by both state and private organizations, largely unregulated, and responding to labor market requirements or popular demand. At present, more than 250 NGOs are registered in the field of NFE, including those established under projects of multilateral and bilateral aid organizations. Depending on

²⁷ The Kyrgyz Republic is one of the pilot countries being assisted by the aid community using the CDF approach. The workshop was the first in a series of workshops convened by the Government for CDF planning.

²⁸ Some PVEIs report generating income adequate to cover up to 15 percent of their total operating costs.

²⁹ Taxation was 50 percent until July 1999, when it was reduced to 30 percent, the same taxation level as that of a business enterprise.

the subject and target group, NFE programs may range in duration from a few days to more than a year.

24. There has not been any comprehensive study of the status of NFE in the country. However, the National Observatory of Kyrgyzstan, in collaboration with the United Nations Educational, Scientific and Cultural Organization and the European Training Foundation (ETF), conducted a survey in mid-1999 of 63 heads of organizations involved in NFE activities and 50 people who have received NFE. The objectives were to assess the prevailing situation and develop recommendations for strengthening NFE to mitigate the impact of economic transition. The findings include the following.

- (i) Most people require training in fields related to economics and services.
- (ii) The majority of NFE students were 15-28 years and achieved up to secondary level of schooling.
- (iii) The most vulnerable groups of people (the unemployed, the needy, and the risk groups such as alcoholics, drug addicts, invalids) obtain NFE courses in skills upgrading, medical/psychological, and economic fields.
- (iv) The youth and the unemployed each comprise about 25 percent of all NFE students with risk groups comprising 14 percent.
- (v) More women than men use NFE to find work, upgrade their qualifications, obtain legal knowledge, and improve their health conditions. Men tend to obtain NFE to increase their economic activity or acquire a higher status or position in an ongoing career.
- (vi) The majority that NFE plays an important role in reducing tensions in society by increasing the individual's activities and improving employment opportunities.
- (vii) Among the survey respondents, 48 organizations offered NFE with funding from grants (25), student fees (9), the national budget (5), commercial organizations (4), noncommercial organizations (4), and credits (3).
- (viii) For training that was free of charge, the dropout rate averaged about 27 percent. For paid training, the dropout rate was about 7 percent.
- (ix) NFE is less expensive than regular education, with international organizations and NGOs providing courses at minimal fees. The most expensive courses address market economy needs.
- (x) The largest source of NFE funding is grants from international organization and local NGOs.

25. The survey recommendations include the need for (i) comprehensive national policy and a legislative basis for NFE; (ii) improved cooperation among Government NFE institutions and providers to avoid overlap and improve targeted programs; (iii) financially sustainable NFE that is not totally dependent on grant support; and (iv) applied research on NFE.

5. Entrepreneurship Development

26. Given the decreased production and lack of employment prospects in most economic sectors, self-employment through entrepreneurship is now regarded by the Government as a potentially promising engine of growth and employment generation in the medium to long

term. In 1998, over 27,000 SMEs³⁰ were registered in the Kyrgyz Republic with more than a million workers. About 54 percent of the SMEs were active in Bishkek. In addition, close to 50,000 agricultural enterprises and 90,000 nonagricultural enterprises were active. Since independence, the annual growth rate of the SME sector (in terms of numbers employed) has been between 7 and 12 percent, and the percentage of self-employed among the working population grew approximately 10 percent per year.

27. The idea of starting a business seemed very distant to many of the respondents interviewed during the project preparatory TA's focus discussion groups. The respondents lacked of understanding of the principles underlying entrepreneurship, such as business plan development, and marketing and sales strategies. More than 70 years of discouragement of entrepreneurial behavior is the major reason. Moreover, attention to improving technical skills inherited from the Soviet period is still prevalent in the PVEIs. Nevertheless the country has entered one of the most market-oriented reform paths among the Central Asian republics. Even though some regions are acutely poor and many people have difficulty adapting to market economic conditions, they have shown an understanding of the need to change.

28. At the macro level, growth in self-employment has been generated by the country's trade agreements mainly with the Russian Federation, Turkey, and the European Union, and through the establishment of special free economic zones for developing companies. Other Government programs include the establishment of the State Fund for Support of Small and Medium Enterprises (SFSMB) in 1991 and partnerships with international aid organizations and NGOs in entrepreneurship development projects such as the Small Business Development Center (SBDC) assisted jointly by United Nations Development Programme (UNDP) and the United Nations Industrial Development Organization (UNIDO), and various microcredit projects. However, these efforts are hampered by obstacles such as the absence of a comprehensive policy on entrepreneurship development, an unfavorable tax code and legislative environment, a cumbersome system for permits and certificates,³¹ the prevalence of rent-seeking activities, lack of sources of credit, lack of reliable information for entrepreneurs on current regulations in the sector, and poor training in entrepreneurship and business-related subjects. Such inefficiencies have fostered the growth of a large informal economy that has resorted to tax evasion; bribery; and informal, often usurious credit.³²

29. The overall high level of education of the population does not necessarily translate to entrepreneurial competence. Attitudes, work ethics, and service orientation are just as important in developing a successful entrepreneur. Most entrepreneurs learn on the job; however, entrepreneurship training is available at the PVEIs as well as business support centers of government programs such as those offered at DES and SBDC. In SY2000, a total of 76 PVEIs

³⁰ Natstatcom has two ways of classifying an enterprise: by number of paid employees and by annual turnover volume in som. Definitions differ depending on the type of business production or nonproduction (i.e., trade and services). For production businesses, a microenterprise would have 15 or fewer employees or turnover of up to Som150,000; a small enterprise 16-50 employees or turnover of Som150,000-Som500,000; and a medium enterprise 51-200 employees or Som500,000 to Som2 million. For nonproduction businesses, the corresponding ranges are (i) microenterprises—up to 7 employees or up to Som230,000; (ii) small enterprises—8-15 employees or Som230,000-Som500,000; (iii) medium enterprises—16-50 employees or Som500,000 to Som2 million. If the number of employees and the turnover do not match a category, Natstatcom is free to determine the classification as it sees fit.

³¹ Entrepreneurs interviewed during the TA bewailed the fact that over 30 signatures are needed on various papers just to open up a small business.

³² Apart from moneylenders, informal financing from family and friends is a major source of credit. More than 50 percent of entrepreneurs interviewed during the TA started their businesses by borrowing from relatives and friends.

provided entrepreneurship training as part of the full-time PVE curriculum to a total of 5,366 students (about 24 percent of total PVE enrollment) in subjects relating to farm management (3,333 students), accounting (1,295), business management (247), small business enterprise (188), hotel and restaurant management (121), office management (98), and tourism (84). Short-term training was also provided to 451 adults in the areas of accounting (285), farming (87), SMEs (67), and business management (12). That same school year, there were 2,681 graduates in those entrepreneurship subject areas. An estimated 40 percent of graduates started their own businesses.

30. Notwithstanding the significant number of students enrolled in the entrepreneurship subjects, many PVEI directors fail to appreciate the importance of entrepreneurship training, and consequently do not take measures to develop their training programs and encourage students. This lack of vision and appreciation is compounded by the fact that most books and syllabi are obsolete, and economics teachers need retraining relevant to a market economy. A number of externally funded initiatives³³ have been carried out to develop more relevant subjects with accompanying textbooks and materials and to train PVEI directors and teachers both in-country and out-of-country. However, these initiatives have had mixed results. Some of the shortcomings mentioned during interviews with officials concerned included the fragmentation of initiatives that led to lack of dissemination of successful programs throughout the PVE system, and the inability to adapt the foreign programs to the Kyrgyz setting. Another factor influencing the effectiveness of entrepreneurship programs is the attitude of the students themselves. Interviews with young PVEI students show that (as is to be expected for 17-19 year olds) very few aim to start their own business immediately after graduation. For the unemployed undergoing retraining, the situation is different. Generally, these persons have matured and gained some working experience that can help them if they start a business. Many have limited access to capital for a start-up, usually borrowed from friends and relatives.

31. In theory, the Kyrgyz Republic has good fundamentals for the promotion of small businesses, namely, active promotion and support by the Government, adaptable attitudes among a well-educated population, and relatively workable (although sometimes cumbersome) legislative infrastructure. However, in practice, the business climate is difficult. During the project preparatory TA, focus group discussions³⁴ were convened with local entrepreneurs in Bishkek, and Yssyk Kul and Osh oblasts. Findings are as follows:

- (i) Regardless of supportive government policy, legislative provisions, and advisory programs supported by external funding agencies and NGOs, entrepreneurs face enormous difficulties in starting and sustaining a small business (para. 28). There are few business clubs or entrepreneur associations³⁵ that could serve as a platform for united action.
- (ii) Business subjects taught in PVEIs are not regarded as relevant to the needs of microentrepreneurs. Programs quality differed widely among PVEIs. The entrepreneurs feel that the problem is systemwide, from irrelevant curricula and courses, to poor quality of teachers, to lack of appropriate instructional materials.

³³ Sources of external assistance include the World Bank (through its Social Safety Net Project), the Danish International Development Assistance, International Labour Organization, and the German Gesellschaft für Technische Zusammenarbeit.

³⁴ A typical focus group comprised about 5-8 entrepreneurs with 10-140 employees, most of whom have been active for more than two years. Some focus groups had representatives from PVEIs.

³⁵ The Rotary Club of Bishkek was founded during the TA, and interest among employers and entrepreneurs was enormous.

The concept of business incubators, or internship programs,³⁶ has been actively supported by externally funded programs since the early years of independence; however, the programs have not measured up to expectations in boosting the start-up of microenterprises. The main problems identified are that (a) new businesses cannot survive the prevailing taxation environment and need tax breaks for one or two years to stabilize growth; (b) business incubators are subjected to the same tax structure and many have had to close; and (c) business support activities sometimes evolve into social support programs, and new entrepreneurs are unable to cope with the business environment outside the incubators. SBDC provides business advice for a fee through an officer in Bishkek and one in each oblast, but the program's coverage is modest.

- (iii) Typically, entrepreneurs have difficulty finding sources of credit. Due to the unstable banking environment, commercial banks are cautious in lending money to businesses that seem risky. Microbusiness poses a higher lending risk than a large company, and the entrepreneurs find banks to be extremely hesitant to grant loans. There are other sources of credit such as SFSMB, the Financial Company for Credit Unions, (assisted by ADB), the Kyrgyz Agricultural Finance Corporation (assisted the World Bank), the Foundation for International Community Assistance (assisted by the United States Agency for International Development), and Mercy Corps International.³⁷
- (iv) The entrepreneurs provided mixed views of the quality of students produced by PVEIs. In Bishkek, the entrepreneurs admitted reluctance in hiring PVEI graduates because they lack the right motivation and training, and the current program offerings are largely irrelevant. In Osh, however, most of the entrepreneurs, particularly the farmers, had positive attitudes to PVEIs and their graduates. The consensus was that PVEI training is too specialized and many entrepreneurs are willing to cooperate in influencing the design of curricula and in actual training. Under these conditions, they are also open to paying for their employees' training.

6. Skills and Entrepreneurship Development Issues

a. Ability of the PVE System to Respond to Market Needs

32. The PVE system at present is mostly supply-driven with little regard to relevancy, employability, or self-employability. PVEIs are told by DVTE how many budget students they may accept; funds are allocated accordingly. DES augments data from Natstatcom and the National Observatory of Kyrgyzstan, and conducts regular surveys and data gathering on employment and the labor market. It has no overall consolidating and coordinating mechanism to develop a comprehensive national analysis. As a result, some PVE programs are flourishing with waiting lists of applicants (e.g., printing, tailoring, bank management training, computer and information technology, and English) where employment and self-employment prospects are good, while other programs (e.g., building and construction, mining and metallurgy, electricity and energy, and tourism and handicrafts) are maintained well under capacity. This has led to lack of funds to expand the high-demand courses. A regular mechanism needs to be

³⁶ A business incubator provides the environment and resources for business survival and growth. The incubator consists of both production and training facilities. Most incubators also provide on-the-spot consulting services to help the entrepreneur during the vulnerable start-up. Other facilities can be shared, such as conference rooms, telephones, and computers.

³⁷ Apart from SFSMB and Financial Company for Credit Unions, the other programs have specific target groups such as the poor, women, and rural areas.

established to link PVE program planning to labor market signals. The Project will establish a labor market analysis system that will be linked to PVE program offerings to make them market-driven.

b. Quality and Relevance of PVE Programs

33. A major defect of training programs is that they are inflexible and do not allow elements to be combined to suit individual needs or the particular requirements of future employment or self-employment.³⁸ Nor do they provide a broad platform of basic skill and knowledge covering a wide occupational area on which different programs of increasingly specialized content can be designed. Program content is generally out of date, and textbooks and other study material need replacement. Program curricula needs improvement and training methods expanded by increasing the use of modern training aids, and developing methods that use information processing as well as information learning more effectively. While faculties are generally well-qualified, their knowledge in their respective fields and in teaching methodology need upgrading. However, virtually no funds are available for teacher training. The Project will reorient the PVE system to provide more relevant and higher quality programs, along with the requisite curriculum and instructional materials development, teacher training, and facilities and equipment upgrading. The Project will also provide funds for innovative PVE training programs.

34. The target outcomes of programs are not generally expressed in terms of skills and knowledge to be mastered, but rather in subjects to be covered in a prescribed number of hours. There is no structure of standards and qualifications to which outcomes are linked. The only controls in place are students' examinations, which cannot be moderated externally. A World Bank project (para. 50) introduced methodology for developing competency-based curricula; however, only the nine model PVEIs set up by that project and their neighboring PVEIs have been able to avail of the methodology. No systematic mechanism exists for sharing successful programs across the entire PVE system. Two centers share this responsibility under MLSP, the Republican Scientific and Methodological Center and the Information Center. Currently both centers lack the institutional capacity for this task. The Project will provide consultants and training to strengthen support institutions, including key units of MLSP.

35. The TA consultants noted that the quality standards for some craft skills would be totally unacceptable in Organisation for Economic Co-operation and Development countries. In this respect, enterprises have an important role in insisting on high-standard output from training institutions, while enterprise managers themselves need training in skill-demand definition and enforcement of standards. The Project will establish a technical certification and accreditation system, and provide staff development and operational support to implement and maintain the system.

c. Efficiency of the PVE Delivery System

36. The existing network of small PVEIs is inefficient, with an average enrollment of about 200 students each. During project preparation, the Mission found that the majority of PVEIs were running under capacity, some were operating at about 20 percent capacity. While some consolidation may be desirable, the process must be undertaken with care and due attention to special factors. First, at least in rural areas, PVEIs have a social role. Their very existence

³⁸ MLSP has been moving away from the overspecialization that was prevalent in Soviet times to more flexible skills preparation for future career mobility. However, former attitudes and habits are deeply embedded in the PVE system and improvements have been piecemeal.

provides economic activity and employment, and they are vehicles of social assistance for the disadvantaged. Second, the country is, on average, lightly populated, with some 23 people per square kilometer, and distances between PVEIs are already quite large. Under present economic circumstances, students generally cannot afford to pay for public transport to come for daily training, nor can they or their families afford private transport. Boarding facilities are sometimes available, even if buildings are usually dilapidated. However, the system itself cannot afford to establish and maintain more boarding facilities. Third, the experiences of some PVEIs that are self-sustaining shows that the existing network could be sustainable, particularly if PVEI physical facilities are downsized to more modest capacity and operated more efficiently instead of being closed outright. Certain programs offered in several institutions could be consolidated in one PVEI if programs are sufficiently improved to attract participants from a wider area. Thus the PVEI network and offerings need to be rationalized. The Project will (i) carry out a nationwide school mapping exercise with the aim of addressing efficiency issues, and (ii) rationalize the existing PVE delivery network into a combination of model resource centers and regular PVEIs that will optimize resources and programs, as well as improve sustainability and outreach to disadvantaged groups.

d. Financial Sustainability of the PVE System

37. With diminishing public budget support,³⁹ each PVEI is left to fend for itself. This is exacerbated by a 30 percent taxation of gross extrabudgetary revenue. As a result, enrollment is reduced, access to PVE is limited, and technical and teaching staff are reduced. Also, production activity has become a necessity for survival in many PVEIs; however, this should be regulated properly so that it does not have a detrimental effect on academic and training pursuits. In view of this, financial and in-kind support of the surrounding community possibly augmented by external funding agencies becomes invaluable in the short to medium term. For the longer term, sustainable sources of revenue must be developed for the PVEIs with the assistance of the surrounding communities, business, and industry. The Project will, as part of improving the efficiency of the PVE delivery system, convert excess PVEI capacity into production units and farms (where these can be viable) and support innovative income-generating strategies among PVEIs.

e. Equitable Access to PVE

38. The PVE system is not available to all those who might benefit from vocational training but do not apply for it for reasons such as poverty and gender stereotyping. Since students cannot afford to pay for daily public transport, catchment radii are limited to a few kilometers. Also, there is a tendency for poor rural families to keep children at home to take on family work while their elders are at school. Girls are more likely to be kept at home while boys go to school. On the other hand, PVEIs are vehicles of social protection, and students from poorer families are given special assistance as far as the limited resources of each PVEI permit. A number of residential PVEIs cater to orphans and youth who are physically or mentally handicapped. However, no special training facilities or equipment are available for the handicapped, and PVEIs are not equipped or professionally prepared to accept handicapped people in mainstream training. Of the approximately 40,000 refugees of all ages from other countries, only about 15,000 are officially registered and are thus entitled to attend PVEIs.⁴⁰ The PVE system

³⁹ The central budget has constantly been reduced. In mid-1999, the original budget was reduced by 10 percent. Meanwhile, payments from the oblast budgets are irregular and not subject to central control.

⁴⁰ Government policy focuses on training and retraining refugees to enable them to adapt to Kyrgyz society as soon as possible.

must provide equitable access to these disadvantaged groups. As part of optimizing the PVE delivery network, outreach programs will be piloted and supported by the Project.

f. Linkages with Private Industry and the Community

39. Private industry is currently weak; its links with the PVE system are inevitably weak as well. Linkages take place at the level of individual PVEIs, and depend on the interest and personal contacts of the PVEI director, e.g., getting experienced private practitioners and/or employers for part-time teaching and participation in examination panels. These personal contacts come into their own when PVEIs are trying to build up the nonformal, specially commissioned training on which many rely, but community contacts in general are given more importance than those with private industry. At the national level, employers have been invited and sometimes agreed to take part in developing national standards. However, the scale of standard setting activity at DVTE is modest and there are no funds to pay for employers participation. More PVEI-industry-community partnership mechanisms are needed. The Project will support the strengthening of private industry, NGO, and community cooperation with PVEIs.

g. Capacity Building and Institutional Strengthening

40. Overall financial difficulty in the sector adversely affects DVTE's capacity to manage and operate the PVE system. Fragmentation of the education and training delivery system, with schools under MESCC, PVEIs under DVTE, and retraining under DES further weakens its capacity. The situation is not helped by PVE's weak public image, partly derived from the history of PVEIs being sources of trained blue-collar workers for large-scale industry and collective farms, and partly from the perception, more or less correct, that the system serves a social protection role and accepts students who are not suitable for general education. Internal management rationalization and training for headquarters and institutional manager is clearly needed, together with specialized training for technical staff involved in financial management systems, training, and development, not only at DVTE but also in other MLSP units. Capacity building and institutional strengthening will be included in the Project.

h. Skills Testing and Certification

41. No system or structure of national skill standards exists. Curricula describe what is to be taught and the hours to be devoted to each component, but without any outcome targets. Under such circumstances skill testing becomes a rather arbitrary affair and each PVEI sets its own examinations, without formal external quality control or moderation, although sometimes under the observation of employers' representatives. The quality of examinations depends on the quality of the instruction, which is often adversely affected by the lack of training materials and equipment. Employers interviewed during the TA complained that they could not trust a PVEI graduation certificate to reflect the actual level of skill competency. The Project will develop a reliable national skills standard system and the accompanying accreditation and certification systems (paras. 33-35).

i. Entrepreneurship Development

42. The entire system of entrepreneurship development needs either strengthening or reform, namely, the establishment of an overall policy framework; provision of training (both within and outside of PVEIs) in core and specialized entrepreneurial skills; provision of technical and advisory support for existing and future entrepreneurs; improvement of the taxation and legislative framework; more efficient dissemination of fresh business information, tax regulations, and credit sources; and stronger partnerships between PVEIs and surrounding

SMEs. Within the PVE system, there is a need to develop a standard curriculum design, retrain PVEI directors and teachers, update books and instructional materials, and upgrade facilities. Production facilities at PVEIs can be used both as income generating units and as a training ground for student entrepreneurs. A functional assistance approach for fresh graduates starting their new businesses is also needed. This could be addressed by combining business incubators and access to microcredit. A major component of the Project will address these needs, including providing PVEIs with revolving funds⁴¹ for production activities and microcredit schemes for microentrepreneurs trained under the Project.

43. Groups that should be especially encouraged in the field of entrepreneurship include those that have strong potential for success, e.g., women,⁴² and those that most need a source of livelihood but are unable to find work, e.g., the long-term unemployed, the poor from rural areas, and the handicapped. According to the Bishkek office of SFSMB, less than 20 percent of all new ventures in 1998 were started by women.

j. Developing a System of Lifelong Learning

44. Despite the steady drop in enrollment over the years since independence, many PVEIs continue to insist that they have more than four applicants for every place. However, most of these applicants likely are those who have failed to access the presently prescribed routes to higher education, which are desired by the majority. At present, applicants who are not accepted at PVEIs generally remain unemployed. Alternative approaches in NFE and lifelong learning are needed for these applicants. Also, the support and cooperation of employers, NGOs, and community-based organizations are needed locally, regionally and nationally. The Project will provide support for nonformal training through business incubators and advisory centers in each oblast.

k. Legislative and Regulatory Framework

45. The existing legislative framework such as the law on private property, and the tax code, and lack of clarity of regulations for business start-ups, limit PVEIs' initiatives to develop and become self-sustaining. These limitations are unsuitable for a world of work where employable skills require more complex background knowledge and enhanced personal abilities such as problem solving and autonomy, and where everyone has the right, and is encouraged, to pursue educational opportunities as far and as long as their interest and talents will allow. Also, NGOs and community-based organizations, which have an important role to play in skills development for the local market, need an effective legislative basis for such activities. Legislation and regulations relating to entrepreneurial activities and entrepreneurship development hamper more than help. In fact, legislative obstacles, licensing red tape, and onerous taxation are seen as the main reason why many small- and medium-size businesses are failing. There is a clear need for reform and/or reduction of regulation in these areas.⁴³ The TA accompanying the Project will address the need to improve the enabling environment for skills and entrepreneurship development.

⁴¹ These funds will be a one-time provision under the Project and will be sustained by the PVEIs thereafter.

⁴² Experience in other countries shows that, apart from the developmental aspects of empowering women through entrepreneurship, women entrepreneurs fare better than men under similar circumstances.

⁴³ Areas that need attention are tax regulations for PVEIs that operate production farms and units as part of their training programs, and the idea of not-for-profit agencies and how they are treated under tax and licensing regulations.

B. Government Policies and Plans

46. The Economic Development Strategy of the Government of the Kyrgyz Republic up to the Year 2005 is the Government's medium-term national development plan. Based on this strategy, the Government's Indicative Plan for the Years 1999-2001 stipulates concrete measures for implementing the program to stabilize the economic and social situation. The main goals of the plan include ensuring sustainable growth, decreasing unemployment, and improving the living conditions of the population.

47. Even before developing the medium-term national development plan, the Government launched several programs relating to skills and entrepreneurship development as part of a holistic strategy with a theme of human development, poverty reduction, and employment generation. These include the Bilim (knowledge) Program and the Cadres of the 21st Century Program both established in 1996, the National Strategy for Sustainable Human Development in 1997, and the National Poverty Alleviation Program (Araket) and the National Program for Labor Market and Employment (Emgek) both in 1998.

48. The Kyrgyz Republic is one of the pilot countries being assisted by the aid community using the CDF approach (para. 20). The Government's priorities for poverty reduction include (i) pursuing sustainable economic growth by strengthening the most important branches of the economy, especially agriculture; (ii) adopting labor-intensive approaches to employment generation; (iii) promoting entrepreneurship development throughout the country, especially in the rural areas; and (iv) providing social protection to vulnerable groups. The priorities are based on good governance, decentralization of administration to the rural governments at the village level (*ayil okmotu*), and stronger partnerships with the private sector and civil society. Under the CDF approach, ADB, IMF, UNDP, and World Bank are helping the Government develop its national strategy for poverty reduction. IMF will provide support for the macroeconomic framework and external debt management; UNDP, World Bank, and ADB will support different aspects of poverty, sustainable pro-poor policies, and governance issues, ensuring that the national strategy is built through participatory processes. An ADB-financed TA⁴⁴ is focusing on poverty analysis and critical targeted interventions, and the production of reports covering community development, children, women, a labor market study, SME development and microfinance, export promotion, fiscal decentralization, and anticorruption.

C. External Assistance to the Sector

49. Within the framework of the Consultative Group for the Kyrgyz Republic, ADB is acknowledged as the lead aid agency for education and training. The ADB-funded education and training master plan (para. 13) has guided the Government's development programs in the sector, the first phase of which was the ESDP. The Project is the second phase in this Government-ADB development partnership. A third education project, included in ADB's country program for 2002; is to review the master plan and reforms undertaken under the ESDP, and build upon them to further develop the basic education subsector.

50. Since independence, support for PVE has been broad, though fragmented. A World Bank-financed training component of the Social Safety Net Project (1995-1998) aimed to establish adult retraining capacity, including the upgrading of nine PVEIs into model PVEIs in selected specialization areas. The World Bank's ongoing Social Sector Adjustment Credit includes an employment component that aims to improve the effectiveness of active and

⁴⁴ TA 3458-KGZ: *Support to the National Strategy for Poverty Reduction*, for \$600,000, approved on 14 June 2000.

passive labor market programs. Deutsche Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation) has assisted in providing long-term advisory services to strengthen DVTE and selected PVEIs, teacher training, development of training methodologies, and development of active labor market measures. The Canadian International Development Agency is assisting PVEIs in Yssyk Kul oblast and supporting twinning arrangements between Kyrgyz and Canadian training institutions. The European Union's TA for the Commonwealth of Independent States has assisted in setting up the National Observatory of Kyrgyzstan, and ETF is developing pilot training of entrepreneurship trainers. A number of aid agencies are active in SME development and training such as UNDP, UNIDO, ETF, and the Swiss agency Helvetas. A UNDP project is presently supporting the SBDC in Bishkek and five other oblast branches until 2001. Danish International Development Assistance has helped with textbook development and production for the PVE sector. Appendix 5 summarizes major externally assisted projects in the skills and entrepreneurship development sector. During the project preparatory TA and project processing, ADB missions regularly consulted with and briefed representatives of major funding agencies active in vocational training and entrepreneurship development to ensure that the Project would complement and not overlap with their activities.

D. Lessons Learned

51. ADB's experience with the ESDP has been satisfactory, with MESC as the executing agency; experience with MLSP during the TA to prepare the Project has likewise been satisfactory. In both cases, an important factor was the strong ownership both ministries had for their respective projects. This will be crucial to the success of the proposed Project. Another factor in implementing the ESDP was the frequent changes in ministry leadership. These changes delayed some ESDP components; however, the problem of loss of institutional memory and momentum of implementation was rectified through close monitoring by ADB staff. A similar situation was experienced with the NTB (para. 17), which has been reconstituted as the project steering committee. Taking these lessons into account, the Project was designed to foster ownership among stakeholders, and close monitoring will be conducted during implementation whenever changes in key personnel occur.

52. The Project design also took into account lessons learned from evaluation findings on other ADB projects⁴⁵ involving technical and vocational education and training. One of the most important lessons identified by the evaluation studies was the need for training institutions to forge a strong partnership with the private sector, particularly to get management and teaching input from industry people. The Project will incorporate several initiatives to strengthen private sector cooperation: advisory boards will be established for each PVEI comprising school, community, and private sector representatives (paras. 62-63), a development facility for training innovations will encourage private institutions and individuals to contribute curriculum and methodology innovations (para. 64), and information, education, and communication (IEC) campaigns will advocate cooperation with the private sector and funds will be provided to operationalize such cooperation (paras. 64 and 71). The evaluation studies highlight the importance of matching training programs with the skill demands of industry. The Project will reorient the PVE system specifically to address this need by improving curricula and instructional materials, training trainers, and establishing a labor market analysis system that will link PVE program offerings to industry demand (para. 61). The evaluation studies identify the

⁴⁵ ADB. 1999. *Impact Evaluation Study of the Technical and Vocational Education Projects in Malaysia, Pakistan, Papua New Guinea, and Sri Lanka*. Manila; ADB. 2000. *Sector Synthesis of Evaluation Findings in the Education Sector*. Manila.

need to shift from a predominantly safety-net orientation⁴⁶ to a market-driven orientation. The Project will reorient PVE programs to address skills demanded by the market, while maintaining the social protection role of PVEIs by strengthening outreach programs (para. 63). The evaluation studies point out that final-year students of the evaluated training projects were often well-prepared for further studies and/or employment, but not for self-employment. The Project is strongly oriented to entrepreneurship development (para 65). The evaluation studies cite the need to raise the level of Government commitment to support technical and vocational education and training. In the case of the Kyrgyz Republic, budgetary constraints may make this impossible. The Project, instead of fostering reliance on government budget, provides for improving sustainability at the PVEI level by developing and strengthening production units and farms, and providing a development facility to help PVEIs establish revolving funds for their production activities (paras. 68-69). The evaluation studies note that a one-shot approach to development of technical and vocational education and training should be avoided and instead the focus should be on long-term involvement. For the Kyrgyz Republic, the Government-ADB development partnership in the education and training sector (para. 49), of which the Project is the second phase, embodies this long-term focus.

53. Some lessons learned from the experience of the World Bank's Social Safety Net Project are relevant. A core of resources has been built up at nine model PVEIs under that project, and these will be used and expanded. The modular model for curriculum development will reduce the necessary number of consulting person-months for the Project. The experience from the World Bank project shows the need to build an information dissemination mechanism from the very beginning of a project. A plan for dissemination of the expected outputs should be elaborated for each activity. Experience from the entrepreneurship training and development projects carried out by, among others, Danish International Development Assistance and the ETF, shows the need to make a thorough adaptation of any study material that is imported from other countries. Mere translation, change of names and currency, and other cosmetic editorial changes are not enough. These will be taken into account during implementation of the curriculum and textbook development activities under the Project.

E. ADB's Sector Strategy

54. ADB's education policy paper⁴⁷ is being updated to incorporate lessons learned in the last decade and link education more closely to ADB's overarching objective of poverty reduction. The current policy notes DMCs that suffer from a pronounced mismatch between education and labor will need assistance to expand and improve secondary schooling, including structural reforms of technical-vocational education within and outside the secondary school system, if they are to become more responsive to structures and prospects of labor markets. The updated draft policy paper points out that while priority, in the interests of poverty reduction, should continue to be given to basic education, skills development and higher education are also important if a country's labor force is to increase productivity and acquire new skills relevant in a competitive, globalizing environment. However, support for these areas should aim to increase the role of the private sector, strengthen government capacity to set and monitor standards, maximize cost-effectiveness, and give special attention to equity of access for the poor.

⁴⁶ The studies cited in footnote 45 point out that in most of ADB's developing members countries technical and vocational schools have the traditional role of providing economically disadvantaged or intellectually less-gifted youth with access to high-quality and relevant training. This situation also prevails in the Kyrgyz Republic.

⁴⁷ ADB. 1988. *Education and Development in Asia and the Pacific*. Manila. .

55. Within the framework of poverty reduction, human development is an essential cornerstone of ADB's strategy.⁴⁸ Investment in education and skills development must focus on maximizing impact on the poor and vulnerable groups. In this context, ADB continues to support the Government's education reform efforts that started with the ESDP, and in meeting the country's requirements for basic, technical, and vocational education. ADB's 1996 country operational strategy for the Kyrgyz Republic remains broadly relevant; however, it is to be revised in 2001 in the light of changing economic conditions, ADB's new poverty reduction policy, and lessons learned under the existing strategy. The main objectives of the strategy include enhancing the medium and long-term potential of the country by investing in human development to preserve the gains under the Soviet system, and reorienting service provision to a market-based economy. Operational strategies include assistance for education and training, improvements in the provision of public services including social services provided by local governments, and investment in rural finance. All these areas will be touched upon by the Project. In addition, targeting of vulnerable groups through the PVE system will be addressed by the Project through outreach programs.

F. Policy Dialogue

56. The education master plan developed under ADB TA and the ESDP are major milestones in policy dialogue with the Government in the education and training sector. While dialogue focused initially on basic education, a review of the PVE subsector was undertaken under the ESDP to provide a sound foundation for reorientation and future development. Key catalytic reforms in PVE included under the ESDP were (i) developing a strategic plan for the orientation of PVE, including a needs analysis for institutional capacity and assessment of the existing policy environment; (ii) establishing the NTB to assume responsibility for policy and planning of PVE, and to promote links with industry and business; and (iii) developing specific policies regarding the registration and operation of private PVEIs, including taxation, licensing, as well as curriculum/program and accreditation requirements.

57. Experience with implementing catalytic PVE reform was mixed mainly because frequent changes in MLSP leadership disrupted the reform activities. Policy dialogue during the TA to prepare the Project helped to mitigate the effects of the disruptions. The development of the Law on Primary Vocational Education was a significant boost for concretely establishing the Project. Due to policy dialogue during TA implementation, the NTB was reconstituted into a multisectoral body with three permanent committees, one for planning PVE policy, one for strengthening social protection of the population,⁴⁹ and one for overseeing project implementation. While curriculum/program requirements are being addressed progressively, the development of specific policies on private PVEIs, taxation, licensing, curriculum, and accreditation will be carried out under the Project and its accompanying TA.

IV. THE PROPOSED PROJECT

A. Rationale

58. The Government is faced with the immediate problems of overcoming increasing poverty and unemployment, and the medium and long-term concern of providing skills for the labor force

⁴⁸ R179-99: *Fighting Poverty in Asia and the Pacific. The Poverty Reduction Strategy of the Asian Development Bank.*

⁴⁹ This covers programs and activities of DVTE, DES, and the Social Protection Department, all under MLSP, including social protection within the framework of ADB's Loan No. 1645-KGZ: *Social Services Delivery and Finance*, for \$10 million, approved on 27 November 1998.

for economic development. A competent, productive, and flexible workforce and improved self-employment opportunities are critical, with a particular focus on the poor and vulnerable groups. The existing PVE system does not effectively address these needs and has to be reoriented. Key reforms are required for skills and entrepreneurship development related to policy planning, management and administration, financing, training quality and relevance, equity and access, and involvement of the private sector. Within the framework of ADB's overall education strategy for the Kyrgyz Republic, the ESDP assisted the Government with reforms and investments mainly in basic education and dealt with PVE only peripherally by initiating key catalytic reforms (para. 17). The Project will directly address these needs, and is the Government's next priority step in the Government-ADB development partnership within the framework of the education master plan. Poverty reduction is an important aspect of the Project, as the exclusion of the poor and disadvantaged groups in socioeconomic development will be addressed. The PVE system is traditionally one of the Government's vehicles to provide training to disadvantaged groups to enhance their opportunities to seek gainful employment and self-employment. The Project has been designed to improve the outreach of PVEs training programs, particularly in rural areas, and includes entrepreneurship development specifically to address this poverty reduction objective. The Project is consistent with ADB's priorities for assistance to the technical-vocational education subsector (paras. 54-55).

B. Objectives and Scope

1. Objectives

59. The overall goal of the Project is to improve the capability of the general population to obtain and maintain better means of livelihood through employment and self-employment, with particular attention to the inclusion of socially and economically disadvantaged groups. To achieve this, the Project aims to (i) provide more relevant and higher quality PVE programs, and improve the efficiency and sustainability of the PVE system as well as its outreach to disadvantaged groups by reorienting the PVE system; (ii) strengthen entrepreneurship development both within and outside the PVE system; and (iii) strengthen support institutions for PVE and entrepreneurship development, and support for project implementation.

2. Scope

60. The Project will have the following four components: (i) reorientation of the PVE system to address the issues of quality and relevance of PVE programs, the ability of the PVE system to respond to labor market needs, the efficiency and financial sustainability of the PVE system, and equitable access for all segments of the population; (ii) microentrepreneurship development to address the need for improving entrepreneurship training programs both within and outside the PVE system; (iii) strengthening of support institutions to address the need for capacity building and institutional strengthening; and establishing accreditation and certification systems, and linkages in the private industry and communities; and (iv) support for project implementation. The project components are described in the following sections (paras. 61 to 73). In addition, a TA grant will be attached to the Project to improve the enabling environment for skills and entrepreneurship development in the country.

a. Reorientation of the PVE System

61. **Rationalization and School Mapping.** The country's entire system of PVEs will be rationalized in terms of specialization, coverage, and outreach programs to be able to respond better to the emerging needs of a market economy. Ongoing mapping of PVEs will be strengthened to determine the appropriate mix of program specialization (in the context of local

needs and potential) and coverage of the oblasts and raions. PVEIs will be improved to provide more relevant and higher quality training in more appropriate areas. A labor market analysis system will be established and linked to PVE program offerings to make them market-driven.

62. Model Resource Centers for Specific Specializations. The Project will upgrade and consolidate 32 existing PVEIs into 29 model resource centers dispersed throughout the country, and selected according to training needs in priority specializations for the country and the institutional capacity of the selected PVEIs.⁵⁰ Appendix 6 shows the distribution of model resource centers and the criteria used in selecting the PVEIs concerned. The model resource centers will, in addition to offering regular PVE programs, serve as centers for the development of program and training innovations, and dissemination of these innovations and other information relevant to PVE. Curriculum programs and learning materials will be developed for these model resource centers, and twinning arrangements will be made with foreign institutions to encourage exchange of technology. Facilities of existing PVEIs will be upgraded to prescribed health and safety standards, training and office equipment will be upgraded, and institution-based advisory boards will be set up for each model resource center comprising school, community, and private sector representatives.

63. Nationwide Improvements. Other PVEIs that are not designated to be model resource centers will also be upgraded throughout the country based on their submitted business plans.⁵¹ A total of 70 PVEIs will be improved in terms of facilities and equipment. Advisory boards will be established for each PVEI. In addition, the existing curriculum programs and learning materials will be improved. This will include outreach programs to reach special schools that serve disadvantaged groups, such as those who are physically and mentally handicapped. Also, outreach programs will be developed for towns built around large enterprises that have now closed operations. Selected neighboring PVEIs are expected to be upgraded to carry out the outreach programs. Mobile training units will also be established within each oblast to bring teachers and demonstration classes to outlying PVEIs and NFE institutions on a rotation basis. These units will be linked to model resource centers in the oblast.

64. Development Facility for Training Innovations. To help improve the quality and relevance of the PVE curricula, initiatives and innovations will be encouraged by the Project from other sources in addition to MLSP, DVTE, and the PVEIs (e.g., private institutions and employers, NGOs, and individuals or groups of individuals). A development facility with \$1 million equivalent funding will be provided under the Project to assist in developing and piloting innovations in PVE training. The facility will also provide support for IEC campaigns for these innovations. Screening and selection of innovations to be funded will be done by a technical committee⁵² chaired by the director, DVTE. Proposals will be evaluated according to the technical soundness of the proposed innovation, relevance to priority specializations, use of appropriate technology, development and implementation costs, beneficiary coverage, potential for replication, sustainability, and potential for resource mobilization within the community and local government. Details of this development facility are given in Appendix 7.

⁵⁰ Details of nationwide improvements of PVEIs selected for upgrading and the extent of upgrading required may be found in the supplementary appendixes.

⁵¹ PVEI directors have submitted a first round of their business plans and their corresponding programs with the aim to address skill needs in their respective areas, and improve the internal and external efficiency of their institutions.

⁵² The committee will include representation from the Republican Scientific and Methodological Center, experienced PVEI directors, and private employers. Subject-specific experts may be asked to advise the committee as needed. The exact membership and specific terms of reference of the committee will be finalized during project implementation, subject to ADB's concurrence, as a condition of disbursement.

b. Microentrepreneurship Development

65. This component include: (i) review and improvement of existing entrepreneurship training programs; (ii) enhancement of existing, and piloting of new, business incubator strategies; (iii) development of production units among the PVEIs, establishment of corresponding service units, and piloting of service strategies; (iv) development and initial funding of revolving fund mechanisms to finance production activities; and (v) development of support services and piloting of a microcredit fund for microentrepreneurs.

66. **Improving Entrepreneurship Programs.** The Project will review and improve the entire system of entrepreneurship training that exists at present within both the formal PVE system and the nonformal system of training being carried out by DES and other agencies, including externally aided projects and NGOs. DVTE will ensure that inputs from the various sectors are coordinated and consolidated into a comprehensive strategy. Entrepreneurial core skills such as confidence building, creative problem solving, and innovative thinking will be introduced gradually into all PVE training programs. Teachers and trainers will be upgraded accordingly to carry out the training programs in a student-centered way. Textbooks, learning materials, equipment, and support mechanisms will be developed.

67. **Piloting Business Incubator Strategies.** Experience with production facilities at some PVEIs has shown that financial sustainability can be improved by enhancing such facilities. At the same time, such facilities, coupled with business incubators, could provide practical entrepreneurship training and experience to students. The business incubators themselves could be an additional source of income for the PVEIs. The Project will improve existing business incubator programs and convert existing surplus capacity in PVEIs into appropriate business incubators. The Project will also provide equipment and learning materials for the business incubators. Additional innovations of business incubator strategies will be developed and piloted.

68. **Developing Production Units and Service Units.** Existing production facilities and capacity among the PVEIs will be enhanced, and new production units and farms will be developed at PVEIs that do not have them at present. New production strategies and activities will be piloted and successful ones implemented under the Project. Staff of PVEIs will be developed to sustain these production units and farms. Expansion of production units will call for an efficient system to share (or lease) and service equipment and machinery. The Project will therefore develop a system of service units and pilot service strategies that would allow proximate PVEIs to share and service their equipment and machinery. The required staff will also be developed under the Project.

69. **Development Facility for Production Activities:** A positive effect of declining budget support to PVE has been the innovations adopted by PVEI directors to help sustain their operations. To support and strengthen these efforts of self-sustainability, the Project will provide seed funding to help PVEIs establish their own revolving funds for production activities. These revolving funds will be replenished and maintained through the income generated by the PVEIs' production units and/or farms. Block grants will be provided to PVEIs based on business plans submitted by PVEI directors. Business plans will be screened and selected on a competitive basis by a technical committee⁵³ chaired by the director, DVTE. Proposals will be evaluated

⁵³ This committee will include experienced PVEI directors who have successful production activities in their institutions. Representatives from the particular community and local business and industry where the applying PVEI is located may be asked to advise the committee as needed.

according to their rationale and justification, technical soundness, contribution to the PVEI's practical training program, and commitment of the PVEI to sustaining the revolving fund mechanism. The total amount to be provided by the Project will be \$1 million equivalent. Details of this development facility are given in Appendix 8.

70. Developing Support Services and a Pilot Microcredit Fund for Microentrepreneurs.

Support services for microentrepreneurs will be established under the Project such as IEC activities, business consulting services in each oblast, and voluntary business clubs and networks. Consulting services will include advice on business plan development, packaging and marketing, accounting and finance, legislation, and human resource development and management. Business clubs and networks will be created to provide continuing education to entrepreneurs and strengthen their business opportunities. A microcredit fund for start-up entrepreneurs will be piloted under the Project. This fund will provide an opportunity for graduates and trainees of the PVEIs, who want to start a business, to borrow money after fulfilling standard requirements such as borrower training, preparation of an adequate and viable business plan, and proper documentation. The Project will provide \$1 million equivalent. The Government, through MOF, will onlend the funds in som to SFSMB, as the financial intermediary,⁵⁴ at nonsubsidized rates. SFSMB will onlend to subborrowers (individuals or in groups) at a lending rate that would cover both MOF's onlending rate as well as SFSMB's administrative costs, service fees, and provision for bad debts. Subborrowers will be required to submit an acceptable business plan to a technical committee⁵⁵ chaired by the director, DVTE. The technical committee will submit a long list of acceptable business plans to SFSMB for loan processing according to SFSMB's procedures. Details of the microcredit mechanism are given in Appendix 9. Details on SFSMB, its institutional capacity, and its credit experience are given in Appendix 10.

c. Strengthening Support Institutions

71. The Project will strengthen institutions in support of the above two components (paras. 61 to 70). This includes policy review, and advocacy for reform through IEC activities to reach the community at large, PVEI directors, policymakers at MLSP and other agencies involved with PVE policy and finance, decision makers in the President's Office and the Prime Minister's Office, and lawmakers. Key units at MLSP and other agencies involved with the Project will be strengthened through in-country and out-of-country training, provision of funds for systems development and operational support, and consulting services for key tasks. The Project will support the establishment of a technical certification and accreditation system, and the development of staff, systems, and operational support to implement such certification and accreditation. The Project will also strengthen cooperation among PVEIs, local governments, and the private sector through the use of IEC campaigns and the provision of funds to operationalize such cooperation. In particular, the Project will provide support for reorienting programs for staff of DVTE, PVEIs, and local governments; linking DVTE and PVEI directors with industry, NGO, and community leaders; developing dual training and industry-based training mechanisms to involve employers and industry groups; and establishing voluntary business clubs.

⁵⁴ SFSMB is a nonprofit state agency established in 1991 to provide support to SMEs by means of financing, training, and consultative and informational advice, and other services as needed. SFSMB has regional offices in each oblast (except Batken) and has been providing credit to SMEs since 1992.

⁵⁵ This committee will include PVEI directors with technical experience in preparing business plans. Advice will also be sought from specialists of the UNDP-assisted SBDC as needed.

d. Support for Project Implementation

72. The Project will establish a project implementation unit (PIU) in Bishkek and a sub-PIU in Osh,⁵⁶ to implement the project activities efficiently and effectively. Appendix 11 provides the organizational structure of project implementation. Key staff in the PIU will be on a full-time basis and will include the project manager, a finance and administrative officer, a civil works and procurement officer, and a consultant services and staff development officer. The sub-PIU will be similarly staffed by full-time key staff; however, instead of a project manager, it will be headed by a project coordinator who will report to the PIU's project manager. Each unit will be provided with the necessary facilities, equipment, and a vehicle. Also, key PIU and sub-PIU staff will be trained in project planning and management, and in ADB guidelines and procedures. Consultants for project and financial management, monitoring and evaluation, and midterm review will augment the PIU staff. The Project will also provide the necessary funding for the PIUs' recurrent operational expenses under normal Government budgetary allocations.

73. The development activities required for the Project are summarized as follows: Appendix 12—staff development; Appendix 13, consulting services; Appendix 14, textbooks and learning materials; Appendix 15, civil works; and Appendix 16, equipment and furniture.

C. Cost Estimates

74. The total cost of the Project is estimated at \$31.3 million equivalent, of which \$14.2 million (45 percent) is the foreign exchange cost and \$17.1 million equivalent (55 percent) is the local currency cost. The cost estimates are summarized in Table 1 and detailed in Appendix 17.

D. Financing Plan

75. ADB will provide a loan of \$25 million equivalent from its Special Funds sources and the balance of \$6.3 million equivalent will be provided by the Government. The Borrower will be the Kyrgyz Republic and the loan will have a term of 32 years including a grace period of 8 years, with an interest rate of 1 percent per annum during the grace period and 1.5 percent per annum thereafter. The loan will include financing of the interest charge. The Government and ADB will seek out possible cofinancing sources for the Project,⁵⁷ and in the event cofinancing materializes, the corresponding portion of the ADB loan will be reallocated to other project components or canceled as agreed to by the Government and ADB. The financing plan is summarized in Table 2 and detailed in Appendix 18.

⁵⁶The geographic separation between north and south necessitates establishing the sub-PIU in Osh. This will minimize delays and frequent (and costly) commuting by PIU staff between Bishkek and Osh.

⁵⁷OWZ Bayern, an agency of the German state of Bavaria, has expressed interest in providing parallel grant cofinancing for the out-of-country training. OWZ Bayern has the explicit policy of supporting the democratization process and the move to a market economy in the transition countries of Eastern Europe and Central Asia, linking its training programs in these countries to about 70 training institutions in Bavaria. It has designed and carried out an ETF-assisted training of trainers program in the Kyrgyz Republic in 1999 for small business trainers and advisers. DVTE officials have confirmed that OWZ's performance in this project was satisfactory. The arrangements for cooperation are being finalized by ADB's Office of Cofinancing Operations.

Table 1: Summary of Project Cost Estimates
(\$ million)

Component	Foreign Exchange	Local Currency	Total Cost	Percent of Base Cost
A. Base Cost				
1. Reorientation of PVE System	8.7	7.3	16.0	60.2
2. Microentrepreneurship Development	1.9	5.5	7.4	27.8
3. Strengthening of Support Institutions	0.7	1.3	2.0	7.5
4. Support for Project Implementation	0.5	0.7	1.2	4.5
Subtotal (A)	11.7	14.8	26.6	100.0
B. Contingencies				
1. Physical	0.6	0.7	1.3	
2. Price Escalation	0.7	1.5	2.2	
Subtotal (B)	1.3	2.2	3.5	
C. Services Charges				
Total	1.2	0-0	1.2	
	14.2	17.1	31.3	

PVE – primary vocational education.

Note: Physical contingency is 5 percent of the total base cost and price escalation is estimated on the basis of 2.2 percent per annum for foreign exchange and, for local currency, 4.5 percent per annum for year 1, 4.0 percent per annum for years 2 and 3, and 3.5 percent per annum for years 4 and 5.

Table 2: Financing Plan
(\$ million)

Source	Foreign Exchange	Local Currency	Total Cost	Percent
Asian Development Bank	14.2	10.8	25.0	80.0
Government	0.0	6.3	6.3	20.0
Total	14.2	17.1	31.3	100.0

E. Executing Agency

76. The Executing Agency for the Project will be MLSP.

F. Implementation Arrangements

77. The minister, MLSP, will appoint a project director who will assume responsibility for the overall execution and supervision of the Project, as well as the PIU and sub-PIU. A multisectoral project steering committee chaired by the minister, MLSP, and including the project director, with appropriate representation from various stakeholder groups such as DVTE; MESC; MOF; Ministry of Industry and Foreign Trade; State Committee for Foreign Investments and Economic Development (Goscominvest); SFSMB; other government agencies as appropriate; private

sector (e.g., the Chamber of Commerce of the Kyrgyz Republic); and NGOs will provide policy guidance for the Project. DVTE, with guidance from the project steering committee, will be responsible for coordinating and consolidating multisectoral views and inputs. The PIU will be headed by a project manager to be appointed by the Government subject to the concurrence of ADB. The PIU and the sub-PIU (para. 72) will be responsible for day-to-day aspects of project implementation in their respective areas of responsibility. To ensure timely and effective institutional response to project needs, responsibility for project implementation will be shared by various central and local agencies. DVTE's role will mainly be in policy coordination and planning at the central level and overall supervision of the PIU. DVTE's oblast coordinators for PVE will assume a coordination and monitoring role in their respective localities for curriculum and materials development, facilities and equipment upgrading, and support activities. Appendix 19 provides an implementation responsibility matrix for the Project.

1. Implementation Schedule

78. The Project will be implemented over five years beginning about January 2001. As soon as the Project becomes effective, the PIU will start recruiting international and domestic consultants for the lead-in activities such as project management and finance, school mapping and rationalization, planning and development of model resource centers, planning of outreach programs for disadvantaged groups, planning and development of entrepreneurship programs, and monitoring and evaluation. Also, detailed planning and implementation of staff development programs under the Project will start. Rationalization of the PVE system according to the findings of the school mapping exercise will commence in the second year of the Project, along with curriculum and instructional materials development, implementation of entrepreneurship programs, engagement of volunteers for curriculum implementation, finalization and execution of contracts for facilities and equipment upgrading, and implementation of the two development facilities for training innovations and production activities, as well as the pilot microcredit fund. Thereafter, the Project will be in full swing. The Project implementation schedule is included as a supplementary appendix.

2. Procurement of Goods

79. All ADB-financed procurement will be done in accordance with ADB's *Guidelines for Procurement*. Appendix 20 summarizes the procurement packaging for the Project. Discussions were held with the project director designate and the project manager designate on ADB's anticorruption policy and the need to ensure transparency and accountability in all project activities. They were advised that (i) ADB will reject a proposal of award if it determines that a bidder has engaged in corrupt or fraudulent practices when competing for the contract in question; (ii) any expenditure incurred with or through corrupt or fraudulent practices will not be reimbursable; (iii) any firm or individual found to have engaged in such practices will be declared ineligible for ADB-financed contracts, either indefinitely or for a stated period; and (iv) where such practices have been engaged in and the Government has not taken a timely and appropriate remedial action, the relevant portions of the loan may be canceled.

a. Civil Works

80. Civil works under the Project will involve the renovation and consolidation of facilities of 32 PVEIs to become 29 model resource centers, small refurbishment of up to 70 PVEIs, and refurbishment of at least 12 dormitories and of the main DVTE building in Bishkek. These civil works components are small and scattered throughout the country and are unlikely to attract the interest of international construction firms. Therefore, procurement will be through local competitive bidding procedures acceptable to ADB, without precluding interested foreign

bidders from participating. Contractors will be required to give appropriate warranties for their work.

b. Equipment, Instructional Materials, and Service Vehicles

81. To the extent possible, procurement will be arranged in such a way that each package or contract award will be appropriate for international competitive bidding. Supply contracts for goods estimated to cost more than \$500,000 equivalent will be awarded on the basis of international competitive bidding procedures, and for goods with a total estimated value of \$500,000 or less, international shopping procedures will be followed. Items costing less than \$100,000 equivalent (such as service vehicles) will be procured under direct purchase procedures. Major packages include machine tools, automotive repair equipment, hotel and catering equipment, agriculture and agroprocessing equipment, construction training equipment, electronic repair training equipment, textile training equipment, and computers. All equipment procured will be appropriate for use in training programs rather than full production equipment. The PIU will prepare lists and specifications of goods to be provided.

3. Staff Training and Development

82. The Project will provide a total of 392 person-months of out-of-country training for 212 administrators and head teachers, and 2,195 person-months of local training for 2,565 trainers, teachers, and administrators in curriculum and textbook development, local and regional administration of education and training, computer literacy, training skills upgrading, organization of distance education, career guidance, accreditation and certification, skills standard development, work health, and safety. The programs will range from one week to three months, and will be conducted at central and regional levels. Cofinancing of the out-of-country training is being finalized with OWZ Bayern.

4. Consulting Services

83. The Project provides for a total of 86 person-months of international consulting, 144 person-months of international volunteer services, and 475 person-months of domestic consulting. The international consultants, with input duration ranging from 2 to 18 months, and covering a wide range of specializations, will assist DVTE, the model resource centers, and the PVEIs covered by the Project in all aspects of training and development. The volunteers will work on implementing curriculum and producing training materials. The domestic consultants will act as counterpart staff to the international consultants and will support them in their assignments. The selection and recruitment of international consultants will be carried out in separate packages through a combination of individuals and an international firm in accordance with ADB's *Guidelines on the Use of Consultants*. The volunteers will be selected by the PIU through institutional arrangements with multilateral organizations (e.g., United Nations volunteers) or bilateral agencies under arrangements acceptable to ADB. Domestic consultants will be recruited by the PIU under arrangements acceptable to ADB. The terms of reference of the consultants are summarized in Appendix 13.

5. Disbursement Arrangements and Imprest Fund

84. All forms of disbursements under the Project will be carried out in accordance with Government and ADB guidelines and procedures. An imprest account will be established after loan effectiveness to expedite disbursement of loan proceeds. The imprest account will be established in accordance with ADB's *Loan Disbursement Handbook* and detailed arrangements between the Government and ADB. The account will be opened by the PIU in a

commercial bank to be selected according to Government and ADB guidelines. The initial amount to be deposited into the imprest account will not exceed six months of project expenses and is estimated at \$500,000. The PIU will prepare, in consultation with DVTE, MOF, and Goscominvest, the draft formulation of project expenditures for all activities for the five-year life of the Project, complete with estimates for each year of project implementation. These budgets will be reviewed and updated every six months. All budgets will be reviewed and approved by MOF before implementation. Project expenditures will be recorded at source by the PIU and the sub-PIU. The PIU will approve and supervise all drawdown arrangements. Each facility, rehabilitation contractor, and supplier of equipment and furniture receiving project funds will be required to open an account with a commercial bank into which the funds will be paid. ADB's statement of expenditures procedures will be followed to liquidate the imprest account and to reimburse individual payments that do not exceed \$50,000 equivalent.

85. While the development facilities for training innovations and production activities are governed by their own specific procedures as discussed in Appendixes 7 and 8, the funds for these development facilities will be disbursed according to the same guidelines and procedures as for other project components. Upon approval of proposals and PVEI business plans by the respective technical committees, the PIU may use either the Project's imprest account or submit withdrawal applications to ADB to release the required funds.

86. The microcredit fund will be lent by MOF to SFSMB in a phased manner as agreed to by SFSMB, DVTE, and ADB, according to the guidelines discussed in Appendix 9. The goods and services to be financed by the individual subloans will be purchased from ADB member countries. The first 10 microcredit applications slated for approval will be reviewed jointly with ADB by fax, electronic mail, or hard copy before final approval is given by SFSMB.

6. Reports, Accounts, and Audit

87. The PIU will prepare and provide quarterly reports on project implementation and provide them to ADB within 30 days of the respective period. The reports will be provided in a format acceptable to ADB and will include progress made against established targets and problems encountered during the period under review, steps taken and proposed to be taken to resolve the problems, compliance with loan covenants, and proposed work program to be undertaken during the succeeding quarter. The PIU and sub-PIU will monitor the progress of implementation in their respective areas of responsibility. Within three months after the physical completion of the Project, DVTE will submit a project completion report to ADB providing details on implementation, accomplishments, benefits, and evaluation.

88. Separate records and accounts for all expenditures to be financed out of the proceeds of the loan will be maintained by DVTE in accordance with sound accounting principles. They will specify the expenditures for all activities and identify all expenditures to be financed out of the loan proceeds. Project accounts, including financial statements, statements of expenditures, and imprest account records, will be audited annually by auditors acceptable to ADB. The auditors' report, and copies of the certified accounts and related financial statements, including the auditors' opinion on the use of loan proceeds, compliance with loan covenants, and the use of the imprest account under ADB's statement of expenditures procedures, will be submitted to ADB in English not later than six months after the end of the fiscal year to which they relate.

7. Midterm Review

89. In addition to semiannual reviews, a comprehensive midterm review will be undertaken by the Government and ADB at about the end of the second year of project implementation to assess the Project's progress and achievements against its objectives; to identify any difficulties being encountered; and to recommend remedial action, if and where required.

8. Monitoring and Evaluation

90. DVTE will develop a monitoring and evaluation subsystem within the integrated management information system for the PVE system to collect and analyze data for management, monitoring, and evaluation of the effectiveness and efficiency of the PVE system, as well as to measure PVEI-level sustainability. The subsystem will include information on the Project, including staff and student flows, internal and external efficiency indicators, the staff development program, the status of facilities and equipment, and education costs and finance. The subsystem will also include those indicators specified in the project framework in Appendix 1. Additional indicators for the subsystem will be developed by DVTE and the finalized subsystem will be submitted to ADB for concurrence within three months after loan effectiveness.

G. Environmental and Social Measures

1. Environment

91. No adverse environmental effects are expected from the Project. Civil works will be mostly upgrading of existing PVEI facilities scattered throughout the country.

2. Social Analysis

92. During Project preparation, a social sector analyst was included in the TA consultant team and a poverty specialist was engaged to participate in loan fact finding. The social sector analyst identified disadvantaged and vulnerable groups in the different regions of the country (including gender analysis), and carried out a social impact analysis. Thereafter, measures were incorporated into the Project design to address the needs of these identified vulnerable groups and to mitigate potential negative social impacts. The poverty specialist, through field visits, validated the social analysis and made additional recommendations to strengthen the poverty reduction aspects of the Project. Measures incorporated into the Project design as a result of this process include the use of mobile training units and outreach programs, the microcredit fund, use of NGOs to implement parts of the Project, disaggregation of labor market and benefit monitoring and evaluation information requirements to enable gender and poverty analysis, and strong support for IEC and advocacy campaigns. Also, the TA was carried out in a participatory manner. At the start of the TA, a national visioning workshop was held with various stakeholder groups to identify the characteristics required of a well-functioning skills and entrepreneurship development system in the Kyrgyz context. As a result of this process, Project objectives were grouped into key result areas. Each key result area was validated through visits to all oblasts using focus group discussions among stakeholder groups and rapid assessment surveys. In the process, awareness of the Project was raised among these groups.

H. Technical Assistance

93. While the Project addresses the comprehensive and more urgent development needs in skills and entrepreneurship development, the enabling environment for skills and

entrepreneurship development in the country also need to be improved (para. 42). This will require not only improving the policy and legislative environment but also developing a medium- to long-term vision and strategic framework and action plans for skills and entrepreneurship development in the country in both international and Central Asian contexts. To carry this out, supporting TA will be provided to help MLSP with this strategic process, and to improve the enabling environment. The TA will build upon the activities started during the project preparatory TA and assist MLSP officials in carrying out external and internal scanning of the country's strengths, weaknesses, opportunities, and threats with respect to skills and entrepreneurship development. Existing legislation will be reviewed, constraints identified, and recommendations for improvement submitted to the Government. Thereafter, IEC, advocacy campaigns, and social marketing of policies and plans will be conducted. The TA is estimated to cost about \$742,000 equivalent, comprising \$464,000 in foreign exchange cost and \$278,000 equivalent in local currency cost. Of these costs, ADB will provide \$600,000 on a grant basis from the Japan Special Fund, funded by the Government of Japan, to finance the entire foreign exchange cost and part of the local currency cost. A description of the TA is given in Appendix 21.

V. PROJECT JUSTIFICATION

A. Economic Analysis⁵⁸

94. To improve its economic performance and be competitive both globally and in Central Asia, the Kyrgyz Republic needs to produce a competent and productive workforce (both employed and self-employed) that can respond flexibly to market demand. This will require reorienting the country's skills and entrepreneurship development systems to provide quality training that is relevant and market-driven. The Project will reorient the formal PVE system and strengthen the nonformal sector of skills and entrepreneurship development to address this need. The establishment of a labor market analysis system and skills certification and accreditation systems will ensure the quality and relevance of PVE programs. With improved quality and relevance, it is expected that quantitative and qualitative improvements in employment and self-employment are expected to be realized among both the general population and disadvantaged groups. In addition to improving the skills of the country's workforce, the Project's improvements in entrepreneurship development will also contribute to employment generation,⁵⁹ particularly in the sectors of agriculture and financial and business services.

95. The Project's mapping exercise will lead to a rationalization of the PVE system that will improve efficiency of the PVE delivery network and sustainability of PVEIs, as well as outreach to the poor and disadvantaged groups. The Project will introduce best practices in training methods and curricula that are appropriately adapted to local conditions and needs.

96. The two development facilities and the microcredit fund provided under the Project will allow more equitable distribution of benefits to institutions and individuals. The development facility for training innovations will promote innovative curriculum and program development by both private and public sector entities, and strengthen ownership for these programs as they are implemented. The development facility for production activities will not only enhance the sustainability of PVEIs but also induce PVEI directors to rationalize business plans for their

⁵⁸ The analysis provided herein is qualitative both because of data constraints and because the Project's benefits cannot be adequately quantified for a rate of return analysis.

⁵⁹ With the present experience that about 40 percent of PVEI entrepreneurship graduates eventually start their own businesses (para. 29), even as microentrepreneurs with less than 7 paid employees, the employment generation potential would be significant.

respective institutions as a requirement for availing of the fund. The microcredit fund will give enterprising PVEI graduates an opportunity to start their own small businesses. To avail of this fund, these graduates will have developed sound business plans in cooperation with their respective PVEIs and thus improve the likelihood of success in starting up their businesses.

97. The accompanying TA will establish the long-term policy and strategy framework for skills and entrepreneurship development in the country and recommend legislation for Government and/or Parliament approval that will improve the enabling environment for skills and entrepreneurship development. The Project will also improve private sector, NGO, and community cooperation with PVEIs and local government units.

98. Educational and institutional improvements to be carried out under the Project will improve 29 model resource centers and 70 regular PVEIs in addition to an undetermined number of NGOs and other NFE institutions that will be able to avail of curriculum and program improvements. The direct beneficiaries of the Project will be the students, graduates, teachers, and administrators of the formal PVE system, and the new entrepreneurs trained using project facilities. Assuming existing levels of enrollments and graduation⁶⁰ and the same structural proportions of gender and disadvantaged students, an estimated 67,000 students and 32,000 graduates will benefit over the five-year lifetime of the Project, of whom about 34 percent would be female and 38 percent would come from poor and disadvantaged families, such as orphans, single-parent families, handicapped children, and refugees. A total of 212 administrators and policymakers, 112 PVEI directors and head teachers, and 2,041 teachers, instructors, and administrative staff nationwide will benefit from the country's staff development programs.

99. At project completion, incremental recurrent expenditures to sustain new interventions introduced by the Project will amount to about 17 percent of the 1998 recurrent expenditures for PVEIs.⁶¹ Despite present public budget constraints, these incremental expenditures are expected to be met as (i) the newly reoriented PVE system will offer higher quality and more relevant training programs that will attract and retain more fee-paying students; and (ii) the PVEI directors have demonstrated sufficient resourcefulness and ability to mobilize resources from the community and the surrounding business and industry, and to generate their own revenue through production activities. The Project is designed to strengthen both.

B. Social Dimensions

100. Female enrollment in the PVEIs, which comprises about 34 percent of total enrollment (Appendix 2), gravitates to the agriculture and service sectors. Over 90 percent of females estimated to be enrolled in courses for light industry (sewing, textiles), services (catering, tourism, personal, and health care) and agriculture. Of the 29 model resource centers, eight are in the services sector, eight in agriculture, and three in light industry. These resource centers will contribute directly to improving the employability of women in the long term. The ratio of unemployed females to unemployed males (as registered with DES) is about 3:2. The Project's aim to reduce unemployment will be expected to benefit women in the same proportion.

⁶⁰ This may be considered a conservative assumption because, as the quality and relevance of PVE improves under the Project, enrollment figures will likely increase.

⁶¹ 1998 figures are the latest available figures, expenditures for 2000 are estimated to be at the same level.

C. Impact on Poverty

101. The PVEIs cater to a large segment of the disadvantaged group of students, namely, those who are not able to secure a place in the general education stream and those who are from poor and/or refugee families, orphans or from single-parent families, or disabled. Budget students (who comprise about 80 percent of total PVE enrollment) are fully or partially subsidized by the Government budget according to means-tested criteria applied by the Social Protection Department of MLSP. The Project will improve the employability and self-employability of these students, and give them an opportunity to break away from the poverty cycle experienced by their families.

102. The existing poverty surveys⁶² indicate that reliance on agricultural subsistence and wage earnings is directly correlated with a rural family's level of poverty. The eight model centers to be developed in agriculture production and processing dispersed throughout the country are expected to improve the effectiveness of agriculture-related activities and income production capability particularly in the rural areas. The PVEIs also serve another particularly disadvantaged group—those living in company towns built around large state enterprises that have closed down since independence. Most of these towns are served by PVEIs that will be improved under the Project. In addition, the outreach programs to be developed under the Project will serve towns that do not have a PVEI in their area.

103. The microcredit fund under the Project will also contribute to poverty reduction. The symbiotic link between training and microcredit will be most effective among the poor and disadvantaged groups of PVEI graduates whose only option is to start a small business. The availability of microcredit will provide them with an immediate opportunity to translate their newly acquired skills into a business.

D. Risks

104. Although DVTE has experience implementing a component of a past World Bank project, the magnitude and complexity of the Project will be a major challenge to DVTE's implementation capacity. The implementation responsibility matrix in Appendix 19 shows that the challenge of Project implementation will be shared by DVTE with various other central and local units. Staff turnover is also an inevitable concern, as experience with the ESDP and past TAs demonstrates. The same implementation responsibility matrix will serve as a guide to institutional responsibilities and enhance the continuity of project activities. Also, vigilant project administration and monitoring by ADB staff will be a key factor for continuity. Another concern is that English is not widely understood by PIU and DVTE staff. The Project includes staff development and consulting services to strengthen DVTE in this regard. Also, provision is being made to translate key project documents into Russian (such as this report, the Loan and Project Agreements, and the Project administration memorandum).

105. The existing legislative and taxation environment surrounding skills and entrepreneurship development will tend to hamper some of the Project's activities, particularly for the start-up entrepreneurs who will be trained by the Project. The accompanying TA for improving the enabling environment is designed to address this concern in addition to its proactive visioning and strategy formulation.

⁶² Kyrgyz poverty monitoring surveys and living standards measurement surveys.

106. The overall lack of budgetary funds for the PVE system will also pose a risk to the Project. The Project is designed to strengthen PVEI-level sustainability by improving participatory development partnerships at the institution and community level, as well as strengthening the income-generating capacity of PVEIs. The Project provides development facilities to support start-up of these activities.

VI. ASSURANCES

A. Specific Assurances

107. The Government has given the following assurances, in addition to the standard assurances, which have been incorporated in the legal documents:

- (i) Within one year of the completion of the school mapping, the Government will submit to ADB its plan to rationalize the PVE sector and thereafter commence the rationalization.
- (ii) Within six months after the loan becomes effective, MLSP through the PIU will submit for ADB's concurrence, details of the staff development programs. The PIU will incorporate bonding agreements with the out-of-country training programs to be carried out under the Project, with the aim of multiplying the training to other staff as appropriate.
- (iii) The first 10 microcredit applications slated for approval by SFSMB will be reviewed jointly with ADB before final approval.
- (iv) Within three months after the loan becomes effective, DVTE will develop indicators for the monitoring and evaluation subsystem, and submit the specifications of the finalized subsystem for ADB's concurrence.

B. Condition for Loan Effectiveness

108. Before the loan becomes effective, MLSP will appoint the project director, the project manager, and key staff of the PIU and sub-PIUs, subject to ADB's concurrence.

C. Conditions for Disbursement

109. Four conditions must be met relating to establishment of three separate technical committees and finalization of a subsidiary loan agreement for the microcredit fund.

- (i) Before any disbursement is made for the development facility for training innovations, MLSP will finalize (a) the terms of reference and membership of the technical committee, (b) the criteria and procedures for screening and selecting innovations in PVE training, and (c) procedures for availing of the development facility, and submit these for ADB's concurrence, and after securing ADB concurrence, establish the committee.
- (ii) Before any disbursement is made for the development facility for production activities, MLSP will finalize (a) the terms of reference and membership of the technical committee, (b) the criteria and procedures for screening and selecting business plans, and (c) procedures for availing of the facility, and submit the same for ADB's concurrence, and after securing ADB concurrence, establish the committee.
- (iii) Before any disbursement is made from the microcredit fund, MLSP will finalize the terms of reference and membership of the technical committee that will review and screen business plans and the criteria, and procedures for availing of

- the microcredit fund, and submit the same for ADB's concurrence, and after securing ADB concurrence, establish the committee.
- (iv) Before any disbursement is made from the microcredit fund, MLSP, in consultation with MOF and SFSMB, will finalize the criteria and procedures for availing of the fund in a subsidiary loan agreement (that will include the establishment of a distinct unit within SFSMB to implement the Project's microcredit component and maintain a separate accounting, monitoring, and reporting system for the microcredit component), and submit the same for ADB's concurrence.

VII. RECOMMENDATION

110. I am satisfied that the proposed loan would comply with the Articles of Agreement of the ADB and recommend that the Board approve the loan in various currencies equivalent to Special Drawing Rights 19,262,000 to the Kyrgyz Republic for the Skills and Entrepreneurship Development Project, with a term of 32 years, including a grace period of 8 years, and with an interest charge at the rate of 1 percent per annum during the grace period and 1.5 percent per annum thereafter, and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan and Project Agreements presented to the Board.

TADAO CHINO
President

31 October 2000

APPENDIXES

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11	Organizational Chart of Project Implementation	59	24, 72
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19	Implementation Responsibility Matrix	72	26, 77
20	Procurement Packaging	73	26, 79
21	Technical Assistance for Improving the Enabling Environment for Skills and Entrepreneurship Development	75	30, 93

SUPPLEMENTARY APPENDIXES

(available on request)

A	Details of Model Resource Centers
B	Summary of Nationwide Improvements
C	Summary of Program Development and Other Support Activities
D	Detailed Project Cost Estimates
E	Implementation Schedule

PROJECT FRAMEWORK

Design Summary	Performance Targets and Indicators	Monitoring Mechanisms	Assumptions (+) and Risks (-)
<p>Goal: Improve the capability of the general population to obtain better means of livelihood through employment and self-employment, with particular attention to the inclusion of disadvantaged groups.</p>	<ul style="list-style-type: none"> • Rationalization of policies and strategies for the primary vocational education (PVE) and entrepreneurship development subsectors • Quantitative improvement in employment and self-employment trends among general population in both numbers and percentages from 2001 to 2005 and beyond • Quantitative improvements in employment and self-employment trends among disadvantaged groups in both numbers and percentages of employed and self-employed from 2001 to 2005 and beyond 	<ul style="list-style-type: none"> • Policy and strategy pronouncements by Government • Annual statistics from National Statistical Committee and Ministry of Labor and Social Protection (MLSP) • Surveys and benefit monitoring system under the Project • Asian Development Bank (ADB) review missions • Project completion reports by Government and ADB 	<ul style="list-style-type: none"> + Government's commitment to rationalization and reorientation of PVE system + Parents' and students' willingness to avail of PVE system. - Existing budgetary constraints in financing PVE and entrepreneurship programs
<p>Purpose: Provide more relevant and higher quality PVE programs, improve the efficiency and sustainability of the PVE system, strengthen entrepreneurship development both within and outside the PVE system, and strengthen support institutions for skills and entrepreneurship development.</p>	<ul style="list-style-type: none"> • Qualitative improvements in PVE program offerings, textbooks, and instructional materials from 2001 to 2005 • Quantitative increase in trained teachers and trainers from 2001 to 2005 • Quantitative increase in PVE enrolment from 2001 to 2005 and beyond • Qualitative improvement of trained graduates from 2001 to 2005 and beyond • Improved employability among PVE graduates from 2001 to 2005 and beyond • Improved income generation among PVE institutions (PVEIs) in absolute terms and as a percentage of total operational budget from 2001 to 2005 and beyond • Quantitative increase in coverage of outreach programs and advisory services for skills and entrepreneurship development from 2001 to 2005 • Quantitative increase in provision of microcredit to start up entrepreneurs in terms of loan amounts and numbers served from 2001 to 2005 and beyond • Quantitative improvements in microcredit indicators such as repayment rates from 2001 to 2005 • Qualitative improvement in policy, legislative, and taxation environment for microentrepreneurship from 2001 to 2005 	<ul style="list-style-type: none"> • Government statistics and MLSP records and analyses • Qualitative and quantitative reviews by ADB missions • Comprehensive midterm review • Field visits to PVEIs, local government units, employers, and communities • Surveys and studies under the Project • Project completion reports by Government and ADB • Consultations with other external funding agencies 	<ul style="list-style-type: none"> + Government's commitment to rationalization and reorientation of PVE system + Parents' and students' willingness to avail of PVE system + Commitment of PVEI directors, teachers, and staff + Willingness of public and private sector to cooperate in improving PVE and entrepreneurship development programs - Budgetary constraints in financing PVE and entrepreneurship programs

Design Summary	Performance Targets and Indicators	Monitoring Mechanisms	Assumptions (+) and Risks (-)
Outputs 1. Reorientation of the PVE system	<ul style="list-style-type: none"> • Labor market system established and linked to PVE programs by school year 2002/03 (SY2003) • Rationalization of PVE system carried out by SY2003 • 32 regular PVEIs upgraded to become 29 model centers and functioning in various priority specializations by SY2004 • 70 regular PVEIs upgraded by SY2005 • Advisory boards established for each model center by SY2003 and for each regular PVEI by school year SY2004 • Curricula, textbooks, and instructional materials developed and in use for at least 24 specialist areas by SY2005 • Outreach programs for out-of-school and disadvantaged groups established and operating in at least 15 specialist areas by school year SY2005 • Out-of-country training carried out for at least 117 administrators and head teachers for a total of at least 291 person-months • In-country training carried out for at least 1,768 administrators, teachers, trainers, and staff for a total of at least 2,069 person-months • At least 4 international consultants (24 person-months), 6 international volunteers (144 person-months), and 16 domestic consultants (246 person-months) engaged • Equipment and furniture for 29 model centers and 70 PVEIs procured and installed by SY2005 • Development facility for training innovations (\$1 million) fully disbursed • PVEI-accreditation and skills certification systems established and functioning 	<p>For outputs 1, 2, 3</p> <ul style="list-style-type: none"> • Project progress reports • ADB review missions and field visits • Comprehensive midterm review by Government and ADB <p>• Project completion reports by Government and ADB</p>	<p>– Lack of coordination among PVEIs, local authorities, and private employers</p> <p>For outputs 1, 2, 3, same as above</p>
2. Microentrepreneurship development	<ul style="list-style-type: none"> • Curricula, textbooks, and instructional materials developed and in use for at least 3 specialization areas by SY 2005 • In-country training carried out for at least 78 administrators, teachers, trainers, and staff for a total of at least 211 person-months • At least 2 international consultants (14 person-months) and 3 domestic consultants (72 person-months) engaged • At least 40 business incubators and advisory centers and at least 20 additional production farms/units established, equipped, and functioning in various model centers and PVEIs, as required 	<p>For outputs 1, 2, 3</p> <ul style="list-style-type: none"> • Project progress reports • ADB review missions and field visits • Comprehensive midterm review by Government and ADB 	<p>For outputs 1, 2, 3, same as above.</p>

Design Summary	Performance Targets and Indicators	Monitoring Mechanisms	Assumptions (+) and Risks (-)
3. Strengthening support institutions and support for project implementation	<ul style="list-style-type: none"> • Development facility for production activities (\$1 million) fully disbursed • Microcredit fund for microentrepreneurs (\$1 million) fully disbursed, repaid, and self-sustaining • Shared units to service equipment and machinery of resource centers and PVEIs (at least one in each oblast and in Bishkek) established and functioning • Project steering committee and project implementation unit (PIU) within the Department for Vocational Training and Education (DVTE) and sub-PIU in Osh established and functioning by loan effectiveness • Facilities of DVTE and other MLSP units rehabilitated and equipped by end of 2002 • Out-of-country training carried out for at least 20 persons for a total of at least 20 person-months • In-country training carried out for at least 2,546 persons for a total of at least 96 person-months • Training programs multiplied to other MLSP and DVTE staff for at least 3 cycles • At least 10 international consultants (48 person-months) and 10 domestic consultants (157 person-months) engaged • Information, education, and communications (IEC) campaigns completed in each oblast and in Bishkek as required throughout the Project • Attached technical assistance (TA) for improving the enabling environment completed by end-2001 and policy reforms developed and submitted to Government and Parliament by mid-2002 	<ul style="list-style-type: none"> • Separate accounting and reporting on special fund operations • Separate accounting and reporting on special fund operations 	
Activities 1. Reorientation of the PVE system	<ul style="list-style-type: none"> • Mapping and rationalizing PVE system Start: early 2001 Completion: mid-2002 Responsibility: MLSP, DVTE • Developing labor market systems Start: mid-2001 Completion: mid-2002 Responsibility: MLSP • Developing resource centers Start: mid-2001 Completion: mid-2003 Responsibility: MLSP, DVTE • Improving regular PVEIs Start: mid-2002 Completion: mid-2004 Responsibility: DVTE • Improving curriculum, textbooks, and instructional Start: mid-2001 Completion: mid-2004 Responsibility: DVTE 	Same as for outputs 1, 2, and 3	Same as for outputs 1, 2, and 3

Design Summary	Performance Targets and Indicators	Monitoring Mechanisms	Assumptions (+) and Risks (-)
materials			
<ul style="list-style-type: none"> • Developing outreach programs • Establishing school advisory boards • Training programs • Consulting services • Development facility for training innovations 	<p>Start: mid-2002 Completion: mid-2004 Responsibility: PVTE, model centers</p> <p>Start: for model centers, mid-2001, for PVEIs, mid-2002 Completion: for model centers, mid-2002, for PVEIs, mid-2003 Responsibility: model centers, PVEIs</p> <p>Start: mid-2002 Completion: end of Project Responsibility: DTVE</p> <p>Start: early 2001 Completion: end of Project Responsibility: DVTE</p> <p>Start: mid-2002 Completion: end of Project Responsibility: DVTE</p>		
2. Microentrepreneurship development			
<ul style="list-style-type: none"> • Improving curricula, textbooks, and learning materials • Training programs • Consulting services • Establishing business incubators and advisory services • Development facility for production activities • Microcredit fund 	<p>Start: mid-2001 Completion: mid-2004 Responsibility: DVTE</p> <p>Start: mid-2002 Completion: end of Project Responsibility: DTVE</p> <p>Start: early 2001 Completion: end of Project Responsibility: DVTE</p> <p>Start: mid-2002 Completion: end of Project Responsibility: DTVE, model centers, PVEIs</p> <p>Start: mid-2001 Completion: end of Project Responsibility: DVTE</p> <p>Start: mid-2002 Completion: end of Project Responsibility: DVTE, State Fund for Support of Small and Medium Business, Ministry of Finance</p>		
3. Strengthening support institutions and support for project implementation			
<ul style="list-style-type: none"> • Establishing project steering committee, PIU, and sub-PIU • Training programs 	<p>Start: before loan effectiveness Completion: before loan effectiveness Responsibility: MLSP, Government</p> <p>Start: mid-2002 Completion: end of Project Responsibility: DTVE</p>		

Design Summary	Performance Targets and Indicators	Monitoring Mechanisms	Assumptions (+) and Risks (-)
<ul style="list-style-type: none"> Consulting services Developing shared service units Implementing attached TA Developing and submitting policy reform recommendations IEC campaigns 	<ul style="list-style-type: none"> Start: early 2001 Completion: end of Project Responsibility: DVTE Start: mid-2002 Completion: end of Project Responsibility: DVTE, model centers, PVEIs Start: early 2001 Completion: end-2001 Responsibility: ADB, DVTE Start: mid-2001 Completion: mid-2002 Responsibility: MLSP, Government Start: mid-2001 Completion: end of Project Responsibility: DVTE, model centers, PVEIs 		

Inputs	Resources: \$ and/or Level of Effort	Project progress reports	Covenants
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Civil Works	\$1.776 million equivalent		
Equipment and Furniture	\$7.971 million equivalent		
Instructional Materials Program	\$0.522 million equivalent		
Development	\$1.253 million equivalent		
Out-of-country Training	\$1.976 million equivalent		
In-country Training	\$0.866 million equivalent		
International Consultants	\$1.818 million equivalent		
Domestic Consultants	\$0.500 million equivalent		
Development	\$3.0 million equivalent		
Facilities and Microcredit fund			

ADB = Asian Development Bank, DVTE = Department for Vocational Training and Education under MLSP, IEC = information, education and communication, MLSP = Ministry of Labor and Social Protection, PIU = project implementation unit, PVE = primary vocational education institution, PVEI = primary vocational education institution, TA = technical assistance, SY = schoolyear.

SOCIAL INDICATORS FOR THE KYRGYZ REPUBLIC

Table A2.1: Social Indicators

Item	1996	1997	1998			
1. Demographic Profile						
Population (million)	4.58	4.65	4.72			
- % Females	50.6	50.6	50.6			
- % Below 16	39.7	39.4	38.9			
- % Rural	65	66	66			
Population Growth Rate (%)	1.4	1.3	1.4			
Life Expectancy						
- Males	67	67	67			
- Females	71	71	72			
Infant Mortality Rate (per 1,000 births)	25.9	28.2	26.2			
Maternal Mortality Rate (per 100,000 births)	32	63	36			
2. Educational Profile						
Kindergarten Enrollment Ratio	8.2	7.0				
Basic Education Enrollment Ratio (gross)	89.3	89.2				
General Secondary Enrollment Ratio (gross)	28.8	32.4				
Vocational Education Enrollment Ratio (gross)	6.2	6.0				
Full-Time Tertiary Enrollment Ratio (gross)	12.9	15.2				
Public expenditure on education						
- as % of GDP	6.2	5.0	4.8 ^a			
- as % of National Budget	23.5	22.6	22.7 ^a			
3. Labor Force and Employment Profile						
Labor force (million)	1.79	1.79	1.80			
- % female	46	47	47			
- % in agriculture	47	48	50			
Employed people (million)	1.65	1.69	1.70			
Unemployment rate (%)	7.8	5.7	5.9			
4. Poverty Profile (in percent)						
	Poor ^b		Extremely Poor ^b			
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Rural	58.9	64.5	71.3	23.3	20.7	25.8
Urban	37.1	28.5	50.7	10.3	4.9	18.3
Overall	51.9	51.0	63.6	19.1	14.8	23.0
Bishkek	26.4	6.0		5.4	0.8	
Chui Oblast	41.2	26.6		14.0	3.5	
Yssyk Kul Oblast	64.1	64.6		24.0	23.8	
Jalal-Abad Oblast	52.2	73.2		19.0	30.6	
Naryn Oblast	76.8	90.5		29.0	58.6	
Osh Oblast	58.9	65.8		24.4	10.1	
Talas Oblast	63.4	67.0		22.4	23.0	

a Estimated.

b A household is defined as "poor" if its per capita income falls below the minimum level of per capita consumption required to fulfill both food and nonfood basic needs. A household is defined as "extremely poor" if its per capita income falls below the minimum level of per capita consumption required to fulfill the minimum caloric

Sources: 1999 National Human Development Report, Kyrgyzstan, UNDP; Kyrgyz Poverty Monitoring Surveys (1996; 1997); Statistical Yearbook of Kyrgyzstan (1997, 1998); Ministry of Education, Science, and Culture data (various years); draft World Bank report on Kyrgyz Republic: Review of Social Expenditures (2000); ADB Statistical Database System.

Table A2.2: Gender Gap Indicators
(females/males, in percent)

Item	1993	1998
Population	103	102
Life Expectancy	114	113
Adult Illiteracy	321	n.a.
Gross Enrollment (all levels)	103	102
Secondary Enrollment	103	99
Full-time Tertiary Enrollment	122	115
Labor Force	103	88
Unemployment	230	148
Wages	n.a.	72

Figure A2: Trends of Socioeconomic Indexes

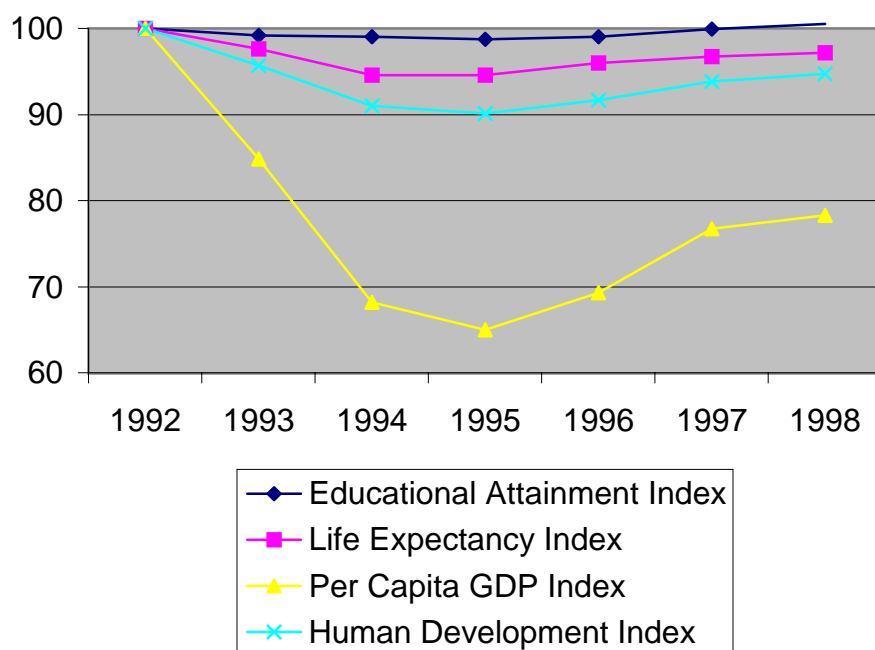


Table A2.3: Basic Primary Vocational Education Statistics

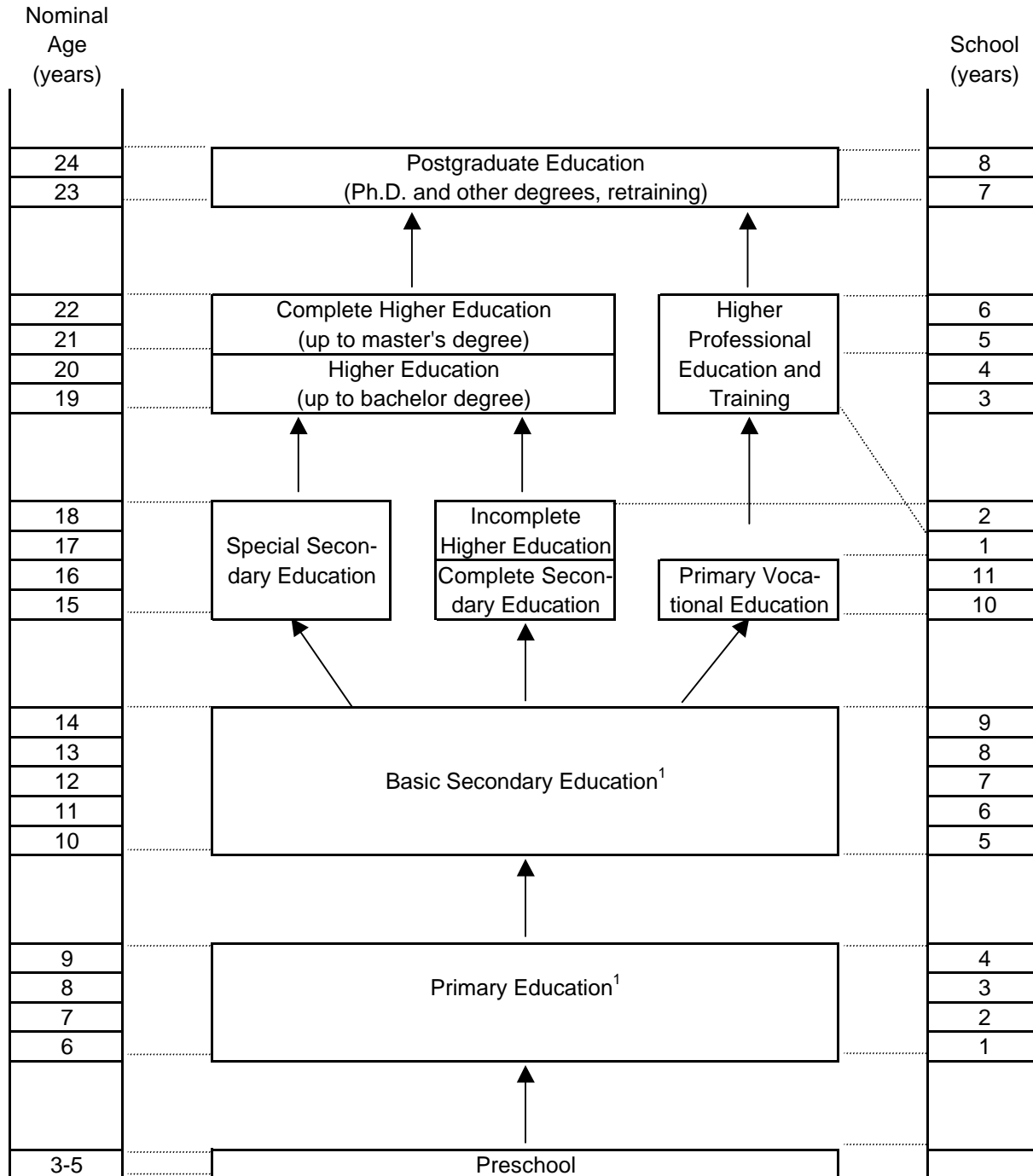
Enrollment (1999/2000)	Budget	Contract	Fulltime	Females	Poor	Other	
						Disadvantaged ^a	Part-time
Bishkek	4,460	637	5,097	2,266	1,931	148	172
Batken Oblast	2,423	59	2,482	562	n.a.	n.a.	150
Chui Oblast	3,137	263	3,400	968	931	57	234
Yssyk Kul Oblast	1,873	96	1,969	620	336	99	66
Jalal-Abad Oblast	4,323	280	4,603	1,445	1,784	306	161
Naryn Oblast	1,660	60	1,720	597	243	34	
Osh Oblast	2,142	90	2,232	863	1,432	649	80
Talas Oblast	1,122	2	1,124	389	572	57	19
Total	21,140	1,487	22,627	7,710	7,229	1,350	882
		1992/1993	1999/2000				
Number of PVEIs		115	105				
Budget Students		49,193	21,140				
Contract Students		1,790	1,487				
New Admissions		25,845	12,539				
Teachers		1,265	851				
Practical Instructors (Foremen)		1,704	1,346				
Administration Staff		2204	359				

PVEI = primary vocational education institution.

^a Orphans, disabled, and refugee students.

Source: Department for Vocational Training and Education data, Education Master Plan, 1996.

STRUCTURE OF THE EDUCATION SYSTEM



¹ General primary and secondary education are free and compulsory for Kyrgyz citizens, and comprise basic education

FINANCING OF PRIMARY VOCATIONAL EDUCATION

Item	1994	1995	1996	1997	1998
Total expenditures for PVE (million som)	94.2	105.0	98.0	114.1	112.5
- as percent of total education expenditure	12.9	9.9	8.0	7.5	6.9
Breakdown by source (in percent)					
- Republican Budget	66.5	66.1	63.4	59.2	62.0
- Local Budget	25.1	25.0	23.9	21.6	20.8
- Alternative Sources of Income	8.4	8.9	12.7	19.2	17.2
Unit Cost per Student per Year (som)					
	7,250	8,460	9,820	9,334	
- Republican Budget	3,951	4,138	4,710	4,869	
- Local Budget	2,948	3,738	4,036	3,546	
- Alternative Sources of Income	351	584	1,074	919	
Breakdown of PVE expenditures (in percent)					
- Salaries		28.0			35.0
- Meals for Students		28.0			20.4
- Scholarships		4.6			8.1
- Capital Repairs		0.7			0.6
- Equipment Purchase		0.3			1.8
- Utilities		9.8			12.7
- Miscellaneous		28.6			21.3
Income of PVEIs ('000 som)					
- Goods Manufacturing and Sales					2,794
- Services Rendered (e.g., repairs)					13,630
- Students' Earnings					3,278
- Income from Workshops and Subsidiary Plots					5,852
Total					25,554

PVE = primary vocational education. PVEIs = primary vocational education institutions.

Source: Reports from TA 3084-KGZ: *Skills and Entrepreneurship Development*; Ministry of Education, Science and Culture data

Notes

1. Free meals are provided six days a week during terms to students of programs longer than 10 months.
2. Scholarships are small performance incentive payments paid to students of programs longer than 10 months who obtain excellent or good marks.
3. The "miscellaneous" heading includes transport, purchases of supplies, contributions to the Social Funds, and contributions to costs of Department for Vocational Training and Education head office and oblast offices.

EXTERNAL ASSISTANCE FOR SKILLS AND ENTREPRENEURSHIP DEVELOPMENT IN THE KYRGYZ REPUBLIC

No.	Project Title (Donor)	Amount (\$)	Status	Project Goals
1	Social Services Delivery and Financing (Asian Development Bank [ADB] and OPEC Fund)	10,000,000 [for education sector 4,030,000 (ADB) 1,790,000 (OPEC Fund)]	Ongoing	Rehabilitation of and strengthening social infrastructure (education and health care institutions)
2	Education Sector Development Program (ADB and OPEC Fund)	32,700,000 [27,700,000 (ADB); 5,000,000 (OPEC Fund)]	Ongoing Ongoing	Program Loan: Rationalization of education funding, planning and management systems; capacity building of educational institutions and management agencies; supporting income-generating activities in educational institutions; supporting alternative forms of education; creating mechanism of social assistance to children from poor families in acquiring education. Project Loan: Curriculum and learning materials development; creating distance education network for teacher training; developing and introducing education management information system, covering all oblast level departments and raion education units with coordinating center in Ministry of Education, Science and Culture; supplying schools with science learning sets for chemistry, physics, and biology laboratories; audio and video equipment; language learning sets, and educational furniture; reconstruction of heating systems.
3	Rural Financial Institutions (ADB)	12,500,000	Ongoing	The long-term development goal is to rebuild a sustainable rural financial system. The immediate objective is to increase the level and sources of savings mobilization and lending services in rural communities.
4	Agriculture Area Development Project (ADB)	36,000,000	Ongoing	Increasing incomes of farmers in Chui oblast, through increasing farm productivity and profitability in selected areas.
5	Credit Line for Small and Medium Enterprises (SMEs) I (European Bank for Reconstruction and Development [EBRD])	10,500,000	Completed	Credit line for SMEs.
6	Credit Line for SMEs II (EBRD)	20,000,000	Ongoing	Credit line for SMEs.
7	Private Enterprise Support Programme I (KfW-Germany)	9,670,000	Ongoing	Credit line for support to SMEs.
8	Private Enterprise Support Programme II (KfW- Germany)	3,000,000	Ongoing	Credit line for support to SMEs.
9	Social Safety Net Project (World Bank)	17,000,000	Completed	Reforming system of payment of social benefits, improving pension system, staff development training programs, carrying out poverty and unemployment studies.
10	Private Enterprise Support Project (World Bank)	25,854,000 [15,000,000 (World Bank); 6,000,000 (Fund Management Co. comprising International Finance Corporation, EBRD and Schooner Capital Corp.); 4,000,000 (sub-borrowers and counterpart agencies); 854,000 (Japan)]	Ongoing	The objectives are to (i) provide technical assistance support to enterprises to develop viable business and investment plans; (ii) short- and medium-term foreign exchange loans to finance (a) export contracts and investments in newly privatized, export-earning enterprises; and (b) investments in new export-earning joint-venture and private enterprises; and (iii) assistance to the National Bank of the Kyrgyz Republic and the Ministry of Finance to undertake diagnostic studies and in-depth audit of selected local commercial banks and insurance institutions.
11	Rural Finance II (World Bank)	15,000,000	Ongoing	The objectives are to (i) develop a sustainable rural financial system; and (ii) reduce poverty in rural areas by supporting viable economic activities (on- and off-farm) to generate income.
12	Social Sector Adjustment Credit (World Bank)	36,500,000	Ongoing	The objectives are to (i) establish a fiscally sustainable pension scheme with stronger linkage between contributions and benefits; (ii) improve the efficiency of active labor market interventions; and (iii) implement effective, well-targeted and fiscally sustainable programs to alleviate poverty.
Total Lending		196,324,000		

ADB=Asian Development Bank, EBRD = European Bank for Reconstruction and Development, KfW = Kreditanstalt für Wiederaufbau, OPEC = Organization of Petroleum Exporting Countries, SME = small and medium enterprise.

LIST OF MODEL RESOURCE CENTERS

No.	Training Specialization	North					Subtotal	South			Subtotal
		Bishkek	Chui Valley	Yssyk Kul	Naryn	Talas		Osh	Batken ^a	Jalal-Abad	
1	Building and Construction						4		PIU 38		2
	General Construction				PIU 87			PL 12			
	Painting and Finishing	PIU 4						PL 12			
	Plumbing and Piping	PTU 4						PL 12			
	Wiring	PIU 100/93						PL 12			
	Construction Materials					PIU 6		PL 12			
2	Light Industry						2				1
	Sewing and Garments	PIU 18						PL 16			
	Leatherware and Footwares	PIU 18									
	Printing	PIU 3									
	Mechanical Technicians	PTU 18						PL 16			
3	Services						6				2
	Food service and Catering		PIU 105					PIU 113			
	Computer and Information Tech	PTU 93								PTU 53	
	Travel and Tourism			PTU 85				PTU 113			
	Transport and Delivery				PIU 87						
	Financial and Brokerage					PL 13					
	Sales and Marketing		PTU 25								
	Personal and Health Care			PTU 85							
4	Transport Facilities Repair and Maintenance	PIU 27					1			PIU 1	1
5	Electricity and Energetics	PTU 100/93					1			PTU 66/111	1
6	Electronic and Communication	PIU 98					1	PL 16			1
7	Mining and Metallurgy								PL 7		1
8	Agriculture/Agro-processing						5				3
	Crop Production				PIU 26				PL 8		
	Livestock Production					PTU 110				PTU 21	
	Meat Processing			PIU 81				PIU 59			
	Dairy Processing				PL 15			PIU 59			
	Fruits and Vegetable Canning		PIU 37/28							PIU 21	
9	Cultural and Artistic Products						4				1
	Jewelry and Ornaments					PIU 26					
	Yurt Making			PIU 81							
	Horse Accoutrements			PTU 81							
	Carpets and Tapestry				PL 15			PL 16			
10	Entrepreneurship			PL 80			1				
	Total Model Centers	6	3	3	3	3	18	4	3	4	11
	Schools Involved	7	4	3	3	3	20	4	3	5	12

PL = vocational lyceum, PTU = regular vocational school.

Note: Where two institutions are shown together, the role of model center is shared by them. The following are the general criteria for selection: (i) importance to development of the Kyrgyz Republic, (ii) sustainability, (iii) balanced regional distribution, and (iv) leadership quality.

^a The inclusion of Batken institutions will be subject to confirmation between the Government and Asian Development Bank.

DEVELOPMENT FACILITY FOR TRAINING INNOVATIONS

1. **Rationale.** At present, most primary vocational education (PVE) curricula are in the traditional Soviet form, highly specialized, and without much regard for labor market demand or flexibility to move across specializations. While the Project will improve the quality and relevance of PVE curricula, there is an accompanying need to incorporate and/or disseminate the successes of ongoing fragmented efforts to modernize and reorient curricula. Also, there is a need to encourage and support appropriate training innovations. These innovations typically originate at two levels: (i) individuals, usually primary vocational education institution (PVEI) directors and teachers, who have adapted traditional courses to local demand, and (ii) institutions and nongovernment organizations (NGOs) that have focused on skills training and entrepreneurship development. Furthermore, it is expected that training requirements will change as the country adapts to a market economy. To support existing work and requirements that may emerge during project implementation and were not anticipated during project processing, a development facility for training innovations will be incorporated into the Project.
2. **Objective.** This facility is intended to support (i) development of existing and new training programs that may be given priority during project implementation, (ii) implementation of new special training for specific beneficiary groups, (iii) innovations in training methodology, and (iv) development of new instructional materials or media.
3. **Nature of the Facility.** Funding will be provided for training innovations according to a proposal-approval-award process. Proposals will be reviewed and approved by a technical committee¹ appointed by the minister of the Ministry of Labor and Social Protection (MLSP) and chaired by the director of MLSP's Department for Vocational Training and Education (DVTE). Awards will be in the form of block grants; the amount² and phasing of disbursements will depend on the proposal.
4. **Criteria for Evaluation and Award.** Evaluation criteria for the proposals will include technical soundness of the proposed innovation, relevance to priority specializations, use of appropriate technology, development and implementation costs, beneficiary coverage and needs, potential for replication, and sustainability. Special consideration will be given to proponents who can provide counterpart support or mobilize community or local government support. DVTE in consultation with the technical committee will be responsible for developing and submitting the detailed criteria for the Asian Development Bank (ADB) concurrence, also as a condition of disbursement.
5. **Eligible Participants.** The facility may be availed of by PVE institutions, other educational institutions, NGOs, private employers, individuals, or groups.
6. **Implementation Arrangements.** The funds for the facility will be disbursed according to guidelines and procedures acceptable to the Government and ADB. The funds will be administered by the project implementation unit (PIU) under the guidance of DVTE. Block grants will be disbursed in a phased manner according to monitorable milestones or indicators that must be elaborated in the proposal. The PIU will conduct information campaigns in every oblast about the availability and operating policies and guidelines of the fund. Proposals will be reviewed and approved quarterly. The deadlines for submitting proposals for each quarter will be set by the PIU in consultation with the technical committee.

¹ This committee is envisaged to include representation from the Republican Scientific and Methodological Center, experienced PVEI directors, and private employers. Subject-specific experts may be asked to advise the committee as needed. The exact membership and specific terms of reference of the committee will be finalized during project implementation, subject to ADB's concurrence, as a condition of disbursement.

² The amount of each block grant may vary, and will be determined by the technical committee.

DEVELOPMENT FACILITY FOR PRODUCTION ACTIVITIES

1. **Rationale.** As public budget support for primary vocational education (PVE) has been diminishing, many primary vocational education institutions (PVEIs) have been successful in augmenting their budgets with income generated from production units and farms. At the same time, these production facilities serve as venues for practical skills and entrepreneurship training for PVE students. The Project will provide a development facility to support these production and entrepreneurship activities in PVEIs where they already exist, and assist other PVEIs in establishing similar production and entrepreneurship activities to enhance their sustainability.
2. **Objective.** The facility is intended to improve the sustainability of PVEIs by enhancing their income-generating capabilities through support for production and entrepreneurship activities, as well as enhance the practical skills and entrepreneurship training of students.
3. **Nature of the Facility.** Funding will be provided to PVEIs to develop new, or improve existing, production facilities on the basis of business plans submitted by the PVEI directors. The business plans will be reviewed and approved by a technical committee¹ appointed by the Ministry of Labor and Social Protection (MLSP), and chaired by the director of MLSP's Department for Vocational Training and Education (DVTE). Awards will be in the form of block grants and the amount² and phasing of disbursements will depend on the business plan.
4. **Criteria for Evaluation and Awards.** Business plans will be evaluated on a competitive basis according to the following general criteria: rationale and justification for applying for a block grant, technical soundness, contribution to the PVEI's practical training program, and commitment of the PVEI to sustain a revolving fund mechanism. DVTE in consultation with the technical committee will be responsible for developing and submitting the detailed criteria for Asian Development Bank (ADB) concurrence, also as a condition of disbursement.
5. **Eligible Participants.** The facility may be availed of by model resource centers and PVEIs.
6. **Implementation Arrangements.** The funds will be disbursed according to guidelines and procedures acceptable to the Government and ADB. The funds will be administered by the project implementation unit (PIU) under the guidance of DVTE. Block grants will be disbursed in a phased manner according to measurable milestones or indicators that should be elaborated in the business plans. The PIU will disseminate operational policies and guidelines, as determined by DVTE, to all PVEIs before implementation of the facility. PVEIs will finalize their business plans in consultation with DVTE and submit them to the PIU. The business plans should include the rationale or justification for applying for a block grant, implementation plans, monitoring indicators, the planned linkage of the production facilities with the PVEI's practical training programs, and a commitment by the PVEI to sustain the revolving fund that will be supported by the block grant. Proposals will be approved in two batches. The first batch will be for those PVEIs identified as model resource centers, and will be approved in time for implementation starting fiscal year 2002. The second batch will be for the rest of the PVEIs, and will be approved in time for implementation starting fiscal year 2003. Proposals will be reviewed by the technical committee in consultation with DVTE. After initial review, the technical committee may request further refinements of the business plan relating to the proposal, and issue guidelines for negotiations between the PIU and the PVEI on the manner of implementation, actual amount of the block grant, the disbursement schedule, and the sustaining of the revolving fund. During implementation, the recipient PVEI will submit semiannual progress and financial reports for audit purposes.

¹ It is envisaged that this committee will include experienced PVEI directors who have successful production activities in their institutions. Representatives from the local community and private business and industry may be asked to advise the committee as needed. The exact membership and specific terms of reference of the committee will be finalized during project implementation subject to ADB concurrence, as a condition of disbursement.

² The size of each block grant may vary according to the business plan submitted and will be determined by the technical committee in consultation with DVTE. It is estimated that each PVE institution may receive a total block grant ranging from \$5,000 to \$15,000.

MICROCREDIT FUND

A. Rationale

1. An essential complementary strategy for entrepreneurship development is the provision of accessible and appropriate credit to potential entrepreneurs who have undergone skills training and practiced or apprenticed in actual business activities. The Project needed such a complementary scheme for the graduates of the primary vocational education (PVE) system. To identify a suitable microcredit mechanism for the Project, a review of nine existing microcredit delivery programs¹ in the Kyrgyz Republic and how they addressed the credit needs of microentrepreneurs was carried out. Roundtable discussions were held with primary vocational education institution (PVEI) directors to determine the feasibility of linking training programs to a microcredit scheme for graduates.

2. Most existing credit schemes in the Kyrgyz Republic are supported by aggressive development activities usually funded by external sources; administrative and support cost are often several times larger than the actual amount lent to the borrowers. The development assistance is meant to create suitable and viable social and institutional infrastructure, as well as assist with legal and regulatory aspects, to enable the microcredit scheme to be sustainable. Experiences in the Kyrgyz Republic show a generally high repayment rate among borrowers, especially if denominated in som, but greater difficulty in repayment among those who borrowed in equivalent foreign currency. The developing nature of the country's financial infrastructure coupled with highly volatile inflation rates² are the weak links, and contribute to high cost of administering the credit scheme, resulting in high interest rates to the borrowers.

3. Adequate and reliable information is not available for a rigorous demand and supply analysis of credit for microentrepreneurs. However, information from focus discussion groups involving entrepreneurs conducted during project preparation indicates that the absorptive capacity for microcredit for such purposes is large, particularly in the informal labor market where small businesses operate. The two major issues mentioned by entrepreneurs interviewed were the lack of financing sources and the prevailing difficult environment, in particular, cumbersome red tape and an onerous tax code. On the supply side, with the exception of the Asian Development Bank (ADB) scheme for Loan 1529(SF)-KGZ, which only requires membership in a credit union to qualify for a loan,³ other microcredit schemes reviewed have specific target groups of beneficiaries, e. g., agricultural loans, loans for rural women, loans for poor self-help groups as identified by volunteers, or registered unemployed. Also, some microcredit schemes are limited to geographic areas (e.g., targeting the poorer or southern oblasts). To provide entrepreneur graduates equal opportunity for credit, a microcredit fund will be piloted under the Project.

¹ Schemes examined included those of the Asian Development Bank Loan No. 1529(SF)-KGZ: *Rural Financial Institutions*, for \$12.5 million, approved on 21 August 1997; two World Bank-funded projects with the Kyrgyz Agricultural Finance Corporation, Mercy Corps International supported by the United States Department of Agriculture; the United States Agency for International Development-funded Foundation for International Community Assistance, the State Fund for Support of Small and Medium Business (SFSMB); and the microcredit centers of the Department of Employment Services of the Ministry of Labor and Social Protection.

² Inflation rate estimates for the Kyrgyz Republic have been changing rapidly. The inflation rate for 1999 was estimated at about 41 percent per annum. At appraisal (June 2000), the inflation rate estimate was fluctuating between 27 to 30 percent per annum but has since dropped to about 15 percent per annum.

³ Project-trained entrepreneurs would not be ready to join credit unions outright because of the membership requirements but could be expected to join such unions after accumulating some savings.

4. The prerequisites for a desirable microcredit scheme for the Project are (i) it should be accessible to the target beneficiaries (i.e., the potential entrepreneurs among PVEI graduates); (ii) it should provide credit at real lending rates without subsidy; (iii) it should be efficiently administered to be relatively affordable compared with other schemes; (iv) it should add value to or further the technology of microcredit management and institutional infrastructure; and (v) if possible, it should not develop a new scheme but instead avail of an existing microcredit mechanism. In addition to these considerations, the following criteria were applied: (i) sustainability of the financial intermediary, (ii) sustainability of the microcredit scheme, and (iii) flexibility of collateral requirements.

5. Among various alternatives evaluated, the State Fund for Support of Small and Medium Business (SFSMB) was found to be the most appropriate financial intermediary for implementing the Project's microcredit fund (Appendix 10 includes institutional details on SFSMB). SFSMB has a functioning management structure for fund management, experience in conducting commercial and financial viability appraisal, and trained staff to monitor loan repayments and collection at the oblast level. Furthermore, SFSMB has an ongoing partnership with the United Nations Development Programme (UNDP)-assisted Small Business Development Center (SBDC) using an integrated business center approach. Advisory units of SBDC in each oblast will be able to support and advise borrowers on their business planning and operations as well as assist SFSMB (on a fee basis) to assess loan applications and monitor loan performance. SFSMB will accept both physical and social collateral under the scheme.

B. The Microcredit Fund

1. Underlying Principles

6. The microcredit scheme will follow the underlying working principles:

- (i) The scheme should work within the policy framework and development strategies of the Project and should be consistent with ADB's microfinance strategy.⁴
- (ii) The multisectoral project steering committee will provide overall policy guidelines in project implementation, while the Ministry of Finance will provide policy direction and general guidelines on funding mechanisms of the microcredit scheme and operations.
- (iii) The Ministry of Labor and Social Protection (MLSP) through the Department for Vocational Training and Education (DVTE) will be responsible for the overall success of the Project, with SFSMB as the responsible financial intermediary for the implementation of the microcredit component. Thus, overall coordination and monitoring of all project activities, including microcredit, will be the responsibility of DVTE.
- (iv) SFSMB will also be responsible for the appraisal and approval of endorsed credit applications, loan disbursements, and collection of repayments, and arranging for advisory financial services to the subborrowers.

2. Onlending Terms

7. ADB will lend to the Government \$1 million equivalent in foreign exchange for the microcredit component. The Ministry of Finance (MOF) will onlend the funds to

⁴ R106-00, *Finance for the Poor - Microfinance Development Strategy*, 16 May 2000.

SFSMB⁵ in som equivalent, with MOF assuming the foreign exchange risk. The interest rate to be charged by MOF will be a fluctuating rate equal to the inflation rate prevailing at the time of onlending plus the risk insurance charges assumed by MOF. The term of onlending would be 20 years including a 7-year grace period. Penalty fees would be at 0.2 percent per annum. SFSMB would pay back the principal plus interest semiannually.

8. SFSMB will onlend in som to individual subborrowers and/or groups of subborrowers, under the following conditions:

- (i) The maximum amount of a single loan will be the som equivalent of \$1,000.
- (ii) The maximum lending term (repayment period) will be 2 years. In general, the repayment period will depend on the type of business.
- (iii) The lending rate will be MOF's interest rate (para. 7) plus a margin to cover SFSMB's administrative costs, service fees, and provision for bad debts.⁶
- (iv) Each loan will be governed by a written contract between SFSMB and the subborrower that will specify the repayment schedule, grace period (if any), and penalty fees for late repayments.

3. Requirements for Subborrowers

9. Before a subborrower or group of subborrowers can avail of a loan, the following requirements must be fulfilled:

- (i) The subborrower will be either a graduate or a student in good standing in a PVEI.
- (ii) The subborrower will submit an acceptable and viable business plan in the proper format.
- (iii) The subborrower will undergo the required borrower training to be provided by SFSMB or its training representatives.
- (iv) The subborrower will pass SFSMB's credit investigation.
- (v) The subborrower should have appropriate collateral as determined by SFSMB (social collateral may be allowed depending on circumstances).

4. Step-by-step Procedures

10. The following procedures will apply.

- (i) Applicants will submit business plans in the required format to a technical committee comprising officials of DVTE and selected PVEI directors who have substantial technical experience in appraising business plans. In this respect, advice will be available from the UNDP-assisted SBDC and its branch offices.⁷ Since the technical committee will be based in Bishkek, applications may be in fax or electronic form, to enable quick processing of oblast level applications.

⁵ Onlending will be done in a phased manner as agreed to by SFSMB, MLSP, and ADB.

⁶ With the current estimate of the annual inflation rate at about 15 percent, plus MOF estimates of its risk insurance charge at about 2-4 percent, plus SFSMB's present margin of 7 percent, the Project's Microcredit Fund would now have a lending rate of about 25 percent. This is consistent with SFSMB's current charges of 25-45 percent interest on its loans depending on the individual circumstances surrounding each loan.

⁷ The SBDCs provide a range of services from advice on preparation of business plans, borrower training, organizing of workshops, and monitoring of loans. See also para. 3 of Appendix 10 for a description of cooperation between SFSMB and SBDC.

- (ii) The technical committee will screen the applications and submit a longlist of acceptable business plans to the corresponding regional office of SFSMB, where the applicant resides. The regional office will decide, according to SFSMB's processing procedures, which applications in the longlist will be accepted.
- (iii) The accepted applicant completes the required loan documentation with the assistance of SFSMB's technical staff at the regional office.
- (iv) After all requirements are fulfilled, the loan is released by the regional office of SFSMB in the form of bank transfer.
- (v) Monitoring of loans and collection of repayments will be the responsibility of SFSMB.

11. The flowchart of the proposed Microcredit Fund is shown below.

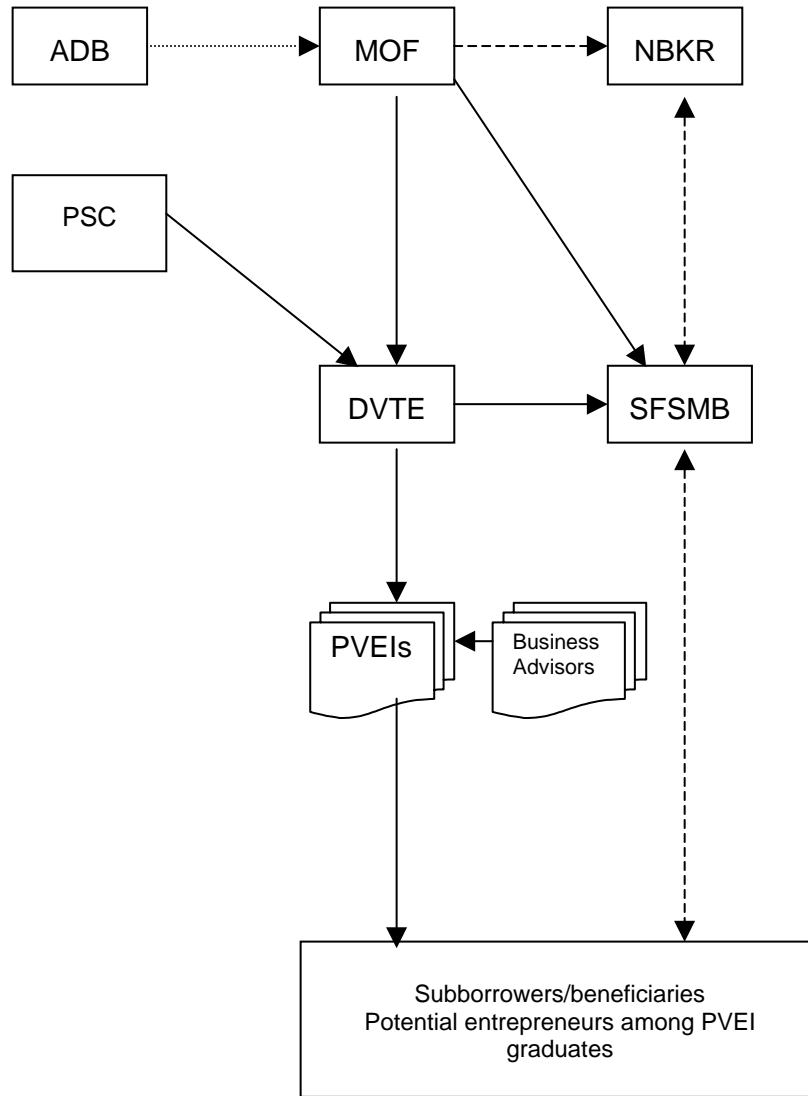
5. Undertakings by DVTE and SFSMB

12. The following will be undertaken by DVTE and SFSMB to ensure proper implementation of the loan:

- (i) Before any part of the Project's microcredit component is disbursed, DVTE will establish the technical committee described above (para. 10[i]) to review and screen business plans. The terms of reference and membership of the committee, and the criteria for accepting business plans for onward endorsement to SFSMB will be subject to ADB concurrence.
- (ii) Before any part of the Microcredit Fund is disbursed, SFSMB will establish a distinct unit⁸ at the central level for microcredit of PVEI graduates and students. The terms of reference of that unit will be subject to ADB concurrence.
- (iii) The first 10 microcredit applications will be reviewed jointly with ADB before final approval.
- (iv) SFSMB will maintain separate accounting for the microcredit component and submit a quarterly status report to DVTE and ADB (in English) on loans and repayments.

⁸ This separate unit will serve a dual purpose: to maintain separate recording and monitoring for the Project component and to pilot improvements on SFSMB's current (Soviet) style of record keeping and financial reporting.

Figure A9: Flowchart of the Microcredit Fund



LEGEND:

- Funds flow (\$)
- - - - - Funds flow (Som)
- Decision/Policy flow

- ADB Asian Development Bank
- DVTE Department for Vocational Training and Education under the Ministry of Labor and Social Protection
- MOF Ministry of Finance
- NBKR National Bank of the Kyrgyz Republic
- PSC project steering committee
- PVEI primary vocational education institution
- SFSMB State Fund for Support to Small and Medium Business

STATE FUND FOR SUPPORT OF SMALL AND MEDIUM BUSINESS

A. Legal Status and Mandate

1. The State Fund for Support of Small and Medium Business (SFSMB) was established by Presidential decree on 23 August 1991 as the National Entrepreneurship Fund, later renamed the Fund for Development of Entrepreneurship in the Kyrgyz Republic, and finally SFSMB. It is a nonprofit state agency with a mandate to provide state support to small and medium-size enterprises (SMEs) by means of financing, training, consultative and informational advice, and other services as needed by SMEs.

2. The main objectives of SFSMB include (i) participate in the implementation of Government programs and projects aimed at SME development, (ii) mobilize foreign and domestic resources for SME support, (iii) provide credit to SMEs using its own funds as well as provide assistance to SMEs to obtain credit from other sources, (iv) create support services for SMEs on a fee basis such as training and business advisory centers, and (v) assist in creating a legal environment favorable to SME development. Income from economic activities, interest on loans, as well as property received by SFSMB are not taxable, remain with SFSMB, and are directed to the realization of its objectives. SFSMB is accountable to the Government through the Office of the First Deputy Prime Minister responsible for economics and industry.

B. Organization and Operation

3. The organization chart of SFSMB is shown in Figure A10. SFSMB is based in Bishkek and has five regional offices (in Jalal-Abad, Yssyk Kul, Naryn, Osh, and Talas oblasts), two representative offices (in Kemin and Toktogul raions), and a business incubator in Jayil raion. The total staffing (excluding the chairperson and deputy chairperson) is 24 technical staff and 11 support staff. Lending operations are fully delegated to regional offices for loans amounting to less than Som100,000. Beyond that amount, loan applications are endorsed to the head office in Bishkek, usually by fax, and acted upon by a credit commission that meets weekly. Channeling of funds to the regional offices is done through commercial banks (if available) or branches of the Savings and Settlement Company,¹ which has an extensive network of rural branches and post offices to reach remote areas.

4. In addition to the foregoing lending activities, SFSMB cooperates closely with the United Nations Development Programme (UNDP) assisted Small Business Development Center (SBDC), which provides technical assistance (advisory and training services) through a network of integrated business centers in Bishkek, and in Jalal-Abad, Yssyk Kul, Naryn, Osh, and Talas oblasts. This cooperation with integrated business centers was established by Government resolution² in 1998. Under the resolution, an integrated business center is tasked to provide the full range of services to support SMEs, and SFSMB has a tripartite arrangement with SBDC and local chapters of the Kyrgyz Trade and Industry Chamber. The regional offices of SFSMB provide financial support to SMEs through loans in priority areas such as agriprocessing; production of food, industrial, and general consumption goods; manufacturing of export-oriented goods, processing of local raw materials; employment generation; and implementation of new technologies. SBDC provides the consultative-training component and the local chapters of the Kyrgyz Trade and Industry Chamber provide the information component. This integrated approach will be used to support the subborrowers of the Project's microcredit component.

C. Financial and Microcredit Experience

5. Rigorous analysis of SFSMB's financial statements is constrained by the fact that they have not been prepared according to internationally accepted accounting standards. Being a state agency

¹ The Savings and Settlement Company is a national savings institution established in 1996 by the National Bank of the Kyrgyz Republic primarily to provide savings and money shop services to rural areas.

² Resolution No. 206, approved on 21 April 1998.

and subject to Parliament audit, SFSMB has been following the standard prescribed format of accounting carried over from Soviet times.³

6. SFSMB has two major sources of income, namely, 3 percent of the net proceeds of the Government's privatization program and income from SFSMB's lending operations.⁴ SFSMB does not receive any allocation from either republican or local budgets. About a quarter of SFSMB's income is used for salaries and bonuses, and administrative and operational expenditures; the balance is channeled back to lending. Table A10.1 summarizes SFSMB's income and expenditures for 1998, 1999, and the first seven months of 2000.

Table A10.1: SFSMB's Income and Expenditures, 1998-2000
(Som '000)

Item	1998 (Jan-Dec)	1999 (Jan-Dec)	2000 (Jan-Jul)
A. Income			
Privatization Proceeds	3,741.5	4,462.8	8,097.2
Interest Income on Loans	1,894.3	3,007.0	1,789.2
Fees (collateral inspection, penalties)	569.2	1,473.6	555.5
Private Grants	0.0	0.0	230.4
Others	52.1	220.9	66.3
Subtotal (A)	6,257.1	9,164.3	10,738.6
B. Expenditures			
Salaries, Bonuses, Social Fund Payments	876.1	1,242.7	656.7
Operations-related Expenses	620.0	658.1	341.6
Administrative Expenses	188.7	265.1	263.9
Others	58.3	56.0	73.4
Subtotal (B)	1,743.1	2,221.8	1,335.7
Percent (B/A)	27.9	24.2	12.4
Net Amount Available for Lending (A-B)	4,514.0	6,942.5	9,402.9

7. Apart from the direct financial transfer of 3 percent of all privatization proceeds, information on other subsidies extended to SFSMB are not completely reflected in SFSMB's financial statements, e.g., tax exemptions and partial coverage by the state of rental of premises and depreciation of assets. Thus, calculation of a subsidy dependency index⁵ is not possible. SFSMB's reliance on external funding (the privatization proceeds are the major source), seen as a percentage of total inflows, declined from 95 percent when it started in 1992 to 51 percent in 1994, increased to 84 percent in 1996, and thereafter, steadily declined to 27 percent in 1999, reflecting the irregular pattern of privatization proceeds.⁶ Regardless of this fluctuation, SFSMB's income from lending operations can sustain its operational and administrative expenditures even if privatization proceeds slow down or stop completely.

8. SFSMB started lending operations in 1992. During its first full year of lending operations (1993), SFSMB lent a total of Som2.5 million. Its lending level has since been increasing steadily and, in 1999, total loans amounted to Som13.8 million (an average annual increase of about 33 percent). Table A10.2 shows SFSMB's lending experience since 1998.

³ However, subloans under the Project's microcredit component will be recorded and accounted for separately using internationally accepted accounting standards. In this respect, the Project's piloting of a microcredit component serves also as a pilot for SFSMB to move to internationally accepted accounting standards.

⁴ Income from lending operations include repayment of interest on loans, fees for collateral inspection, penalties on late repayments, and a maximum of 7 percent margin for other administrative costs.

⁵ Such as that discussed in Yaron, J. 1995. *Assessing Development Finance Institutions - A Public Interest Analysis*. World Bank Discussion Paper, World Bank, Washington, DC.

⁶ In the first seven months of 2000, SFSMB has enjoyed a surge in privatization proceeds owing to a large inflow of Som7.5 million in June 2000.

Table A10.2: Loans Provided by SFSMB

	1998		1999		2000 (Jan-Jul)	
	Number	Amount (Som '000)	Number	Amount (Som '000)	Number	Amount (Som '000)
Bishkek	14	4,248.2	35	4,627.0	32	3,295.0
Chui	14	1,635.0	42	2,898.0	21	1,515.0
Jalal-Abad	15	1,744.0	28	1,343.4	7	1,053.0
Yssyk Kul	10	1,256.3	9	810.0	3	250.0
Osh	1	500.0	20	1,777.0	9	519.0
Naryn	15	1,115.0	21	1,396.5	18	993.0
Talas	10	745.7	27	922.0	10	685.0
Total	79	11,244.2	182	13,773.9	100	8,310.0
Average Loan Size		142.3		75.7		83.1

9. SFSMB provides loans⁷ to individuals and businesses up to a maximum of Som500,000, although the average loan amount hovers around Som80,000. The interest rate has fluctuated from 25 to 45 percent depending on the type of business and on whether the loan is short (less than one year) or long term (up to five years). If an entrepreneur has had good repayment experience with SFSMB, future loans may be given more favorable lending terms. Repayment of principal and interest are usually due quarterly. Collateral⁸ is required for all types of loans at present; however, for the Project's microcredit component, SFSMB officials have agreed to consider social collateral (e.g., guarantees by peer groups or respected individuals).

10. SFSMB's repayment rate⁹ experience is as follows: 1998, 76.1 percent; 1999, 71.2 percent; and 2000 (January to June), 86.7 percent. These repayment rates are lower than desirable compared with other microcredit experience in other countries. However, this is in large part due to the comparative newness of savings and credit concepts to the general population and the relatively unstable banking situation. The improvement in repayment performance during 2000 can be attributed to a combination of tightening up of collateral requirements and improved borrower training and business advice given by the recently established integrated business centers, which are specific strategies undertaken by SFSMB to improve their lending operations.

11. With its present level of staffing, SFSMB has an average loan processing time of about three weeks (assuming the application papers are completely and correctly filled out). Typically, the first week is spent on advising and assisting the borrower to prepare a business plan, and orienting the borrower to SFSMB's guidelines and procedures. The second week is spent on helping the borrower to complete the loan documentation and submit it to the credit commission.

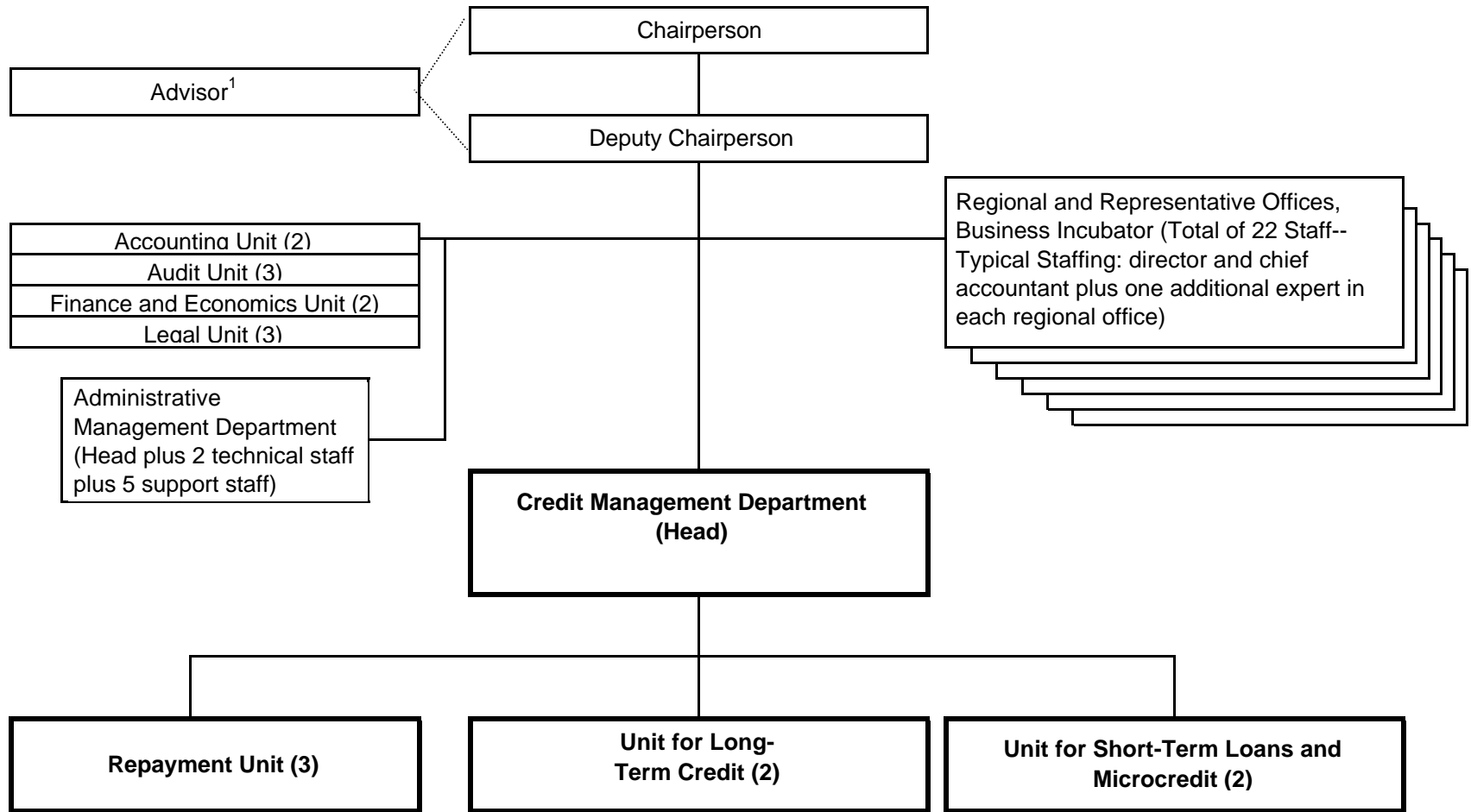
12. In 1999, SFSMB provided loans for 182 projects and, in the first seven months of 2000, 100 projects. SFSMB estimates that an average of 50-60 more applications per year are declined mainly because of lack of collateral, nonfeasibility of the project, and lack of facilities and entrepreneurship skills among the applicants. At present, SFSMB has 413 applications pending (including those in the regional offices) for a total of Som120 million. Given SFSMB's experience and the recently established integrated business centers (that would reduce SFSMB's advisory-training function in favor of lending), SFSMB is institutionally capable of processing more loans. The limiting factor appears to be lack of funds.

⁷ Loans fall into three categories: financial (for working capital), technical (for facilities and equipment purchase), and leasing.

⁸ Present collateral requirements are as follows: financial loan, 125-150 percent of loan amount; technical loan, 80 percent of loan amount (acquired equipment may be used as collateral); leasing loan, 25-30 percent of the amount of the leasing transaction.

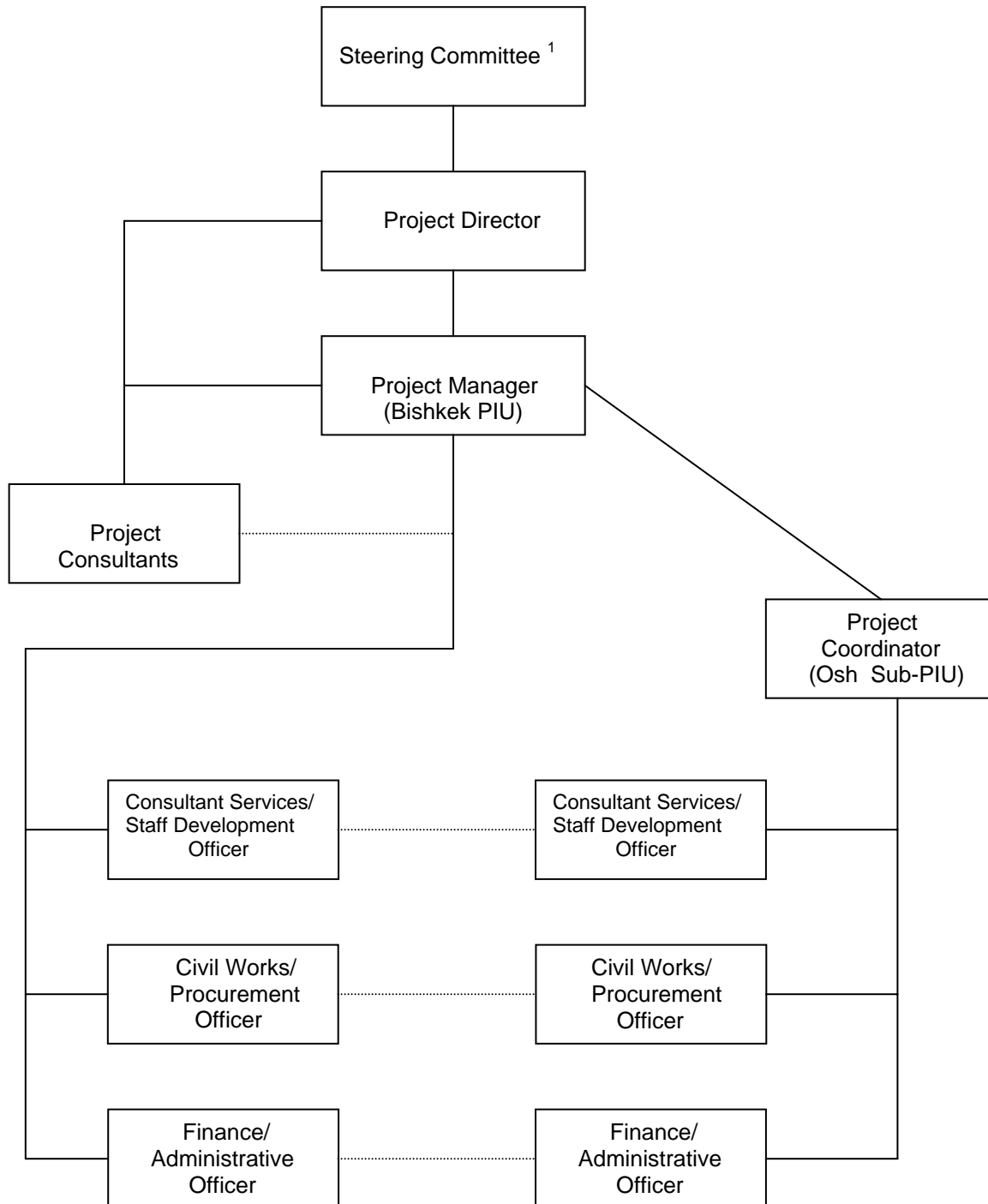
⁹ Repayment rate is calculated as a percentage of the total som amount actually repaid for those loans and interest that fell due during the given period.

Figure A10: Organization of SFSMB



¹ The present adviser is concurrently the chief technical adviser of the United Nations Development Programme-assisted Small Business Development Center.

ORGANIZATIONAL CHART OF PROJECT IMPLEMENTATION



¹ Comprising the minister of labor and social protection (chairperson), the project director (secretary) and appropriate representation from various stakeholder groups such as the Ministry of Education, Science, and Culture; Ministry of Finance; Ministry of Industry and Foreign Trade; State Committee for Foreign Investments and Economic Development (Goscominvest); State Fund for Support of Small and Medium Business; other government agencies as needed; private sector (e.g., Chamber of Commerce of the Kyrgyz Republic); and nongovernment organizations.

SUMMARY OF STAFF DEVELOPMENT

Component/Subcomponent Description	Category	Duration (weeks)	Participants (Beneficiaries)	Number and Source of Participants						
				Total		PVEI		VTE	Other	Private or
				Person- month	No.	Model/ RC	Other	(incl. PIU)	MLSP Agencies	Local Officials
I. REORIENTATION OF PVE INSTITUTIONS (PVEIS)										
Model/Resource Centers in Specific Specializations										
Operations and Management	Out-of-country	4	PVEI Administrators	120.0	30	30				
Curriculum Development and Teaching Methodology	Out-of-country	12	PVEI Head Teachers	1080.0	90	90				
Curricular Materials Development and Teaching Methodology	In-country	6	PVEI Teachers	180.0	120	120				
Teaching Methodology	In-country	4	PVEI Foremen	180.0	180	180				
Computer Literacy and Applications	In-country	4	PVEI Adm., Teachers and Foremen	156.0	156	156				
Support Operations Management	In-country	4	PVEI Adm. and Support Staff	79.0	79	79				
Periodic Seminar-workshops	In-country	0.3	Multisectoral representatives	12.2	122	30	72	4	6	10
Nationwide Improvement of PVEI for Specific Specializations and Targeting of Disadvantaged Groups										
Operations and Management	Out-of-country	4	PVEI Administrators	288.0	72	72				
Curricular Materials Development and Teaching Methodology	In-country	6	PVEI Teachers	540.0	360	360				
Teaching Methodology	In-country	4	PVEI Foremen	432.0	432	432				
Computer Literacy and Applications	In-country	4	PVEI Adm., Teachers and Foremen	159.0	159	159				
Support Operations Management	In-country	4	PVEI Adm. and Support Staff	148.0	148	148				
Development Facility for Training Innovations										
Training Innovation Fund Operations	In-country	1	PDUV/PVEI Staff	5.5	22	9	9	2		2
II. MICKOENI KEPKENEURSHIP DEVELOPMENT										
Developing Support Services										
Business Plan Development	In-country	2	PVEI Directors/Head Teachers	9.0	18	12	5	1		
Packaging and Design Development	In-country	2	PVEI Directors/Head Teachers	3.0	6	4	1	1		
Accounting and Legal Services	In-country	2	PVEI Directors/Head Teachers	18.0	36	29	6	1		
Business Incubators Management	In-country	2	PVEI Directors/Head Teachers	24.0	48	30	16	2		
Production Units Development and Management	In-country	2	PVEI Directors/Head Teachers	34.0	68	28	39	1		
Service Units Development and Management	In-country	2	PVEI Directors/Head Teachers	7.5	15	8	6	1		
Development Facility for Production Activities										
Operations and Management	In-country	1	PVEI Directors/Head Teachers	28.0	112	24	76	4	2	6
III STRENGTHENING SUPPORT INSTITUTIONS										
Strengthening MLSP and Relevant Units										
PVE Planning and Management	Out-of-country	4	PVE Administrators/Policy Makers	60.0	15			3	6	6
PVE Planning and Management	In-country	2	PVE Administrators/Technical Staff	6.5	13			3	5	5
Industry Liaison	In-country	2	PVE Administrators/Technical Staff	7.5	15	8	5	2		
PVEI Supervision	In-country	2	PVE Administrators/Technical Staff	5.0	10			10		
PVEI Internal Audit	In-country	2	PVE Administrators/Technical Staff	5.0	10			10		
PVE Information System Management	In-country	4	PVE Administrators/Technical Staff	12.0	12			5	5	2
Vocational Guidance Orientation	In-country	2	PVE Teachers and Training	38.5	77	7	7	1	60	2
Establishing Technical Certification and Accreditation System										
Certification and Accreditation	Out-of-country	4	PVE Administrators/Policy Makers	5.0	5			2	1	2
Certification and Accreditation	In-country	4	PVE Administrators/Technical Staff	0.4	11			3	4	4
System Orientation and Information Dissemination	In-country	0.3	All Stakeholders	139.9	115	30	70	3	6	9
					283.0	45.0	82.0	42.0	87.0	27.0
IV SUPPORT FOR PROJECT IMPLEMENTATION										
PIU										
General Project Orientation	In-country	0.4	All Stakeholders	0.8	124	24	70	10	10	10
Annual Project Implementation Planning	In-country	0.4	PIU and SPIU Staff and PVEI Officials	4.1	41	24	8	6	2	1
IEC Campaign Orientation	In-country	1	Information Officers		31	8	16	1	4	2
Annual Project Implementation Planning	In-country	0.3	Sub-PIU Staff and PVEI Officials	6.1	25	4	12	1	2	9
Subtotal				3,621	221.0	60.0	106.0	18.0	18.0	19.0
TOTAL				7,096	2,665	910	1,513	73	111	58

Appendix 12

Notes: Some of the the PVEI Officials and Head Teachers maybe involved in more than one kind of training or workshop activities

SUMMARY OF CONSULTING SERVICES

1. The Project will include 705 person-months of consulting services to be provided by 22 international consultants (230 person-months) and 29 domestic consultants (475 person-months). The type and duration of consulting services are listed in Table A13.

A. Reorientation of Primary Vocational Education Institutions

School Mapping and Rationalization Specialists

(international consultant, 1; domestic consultant, 1)

2. The specialists will update the existing school databases, gather relevant socio-demographic data, and integrate this with an appropriate geographic information system software to analyze demand by targeted disadvantaged groups for specific skills training. The results will lead to a school rationalization framework while upholding the roles of the primary vocational education institutions (PVEIs) in social protection. The focus of the rationalization analysis will be on internal and external efficiency of the primary vocational education (PVE) system, efficiency in serving catchment areas, poverty profiles of the PVEI students, and financial sustainability of the PVEI network. The mapping software should not provide only a one-time information snapshot of the PVE system, but should allow routine periodic updates by the staff of the Department for Vocational Training and Education (DVTE). The specialists will develop a training program for DVTE staff to ensure smooth turnover.

Program, Staff and Instructional Materials Development Specialists

(international consultant, 1; domestic consultants, 6)

3. The specialists will contribute to reorienting and changing PVE teaching programs to be effected through the Project. The main responsibilities of the specialists will be to advise and assist staff of the DVTE, the project implementation units (PIUs) and the PVEIs to specify and design new teaching programs, develop curriculum and learning materials, train staff in program and curriculum development, train trainers in pedagogical methodology, assist in the training of teachers, promote the distribution of new materials to PVEIs, and facilitate twinning arrangements with foreign institutions to promote program enhancement.

Curricula and Training Materials Implementation Specialists

(international volunteers, 6; domestic consultants, 6)

4. A team of international volunteers and domestic consultants will support PVEIs in implementing new and revised teaching programs in a variety of subject specializations including entrepreneurship. The specialists will be based at appropriate individual model PVEIs where initial trial programs will run. Their main responsibilities will be to advise and assist staff of the PIUs and the PVEIs to prove and improve new teaching programs; in conjunction with staff of the model PVEIs, provide support to all PVEIs in implementing new programs; design supplementary teaching materials; specify equipment requirements; and prepare PVEI-based training innovations.

Special Needs Groups Outreach Program Specialists

(international consultant, 1; domestic consultants, 3)

5. The specialists will help develop and enhance the PVE outreach program for special needs groups. Their main responsibilities will be to advise and assist staff of the PIUs and the PVEIs to identify appropriate target groups and their training needs, establish links with related

agencies, design and implement outreach programs, specify equipment and material needs, train PVEI staff to run the programs, and recommend and facilitate further external staff training programs.

Development Facility for Training Innovations Operations Specialist

(international consultant, 1)

6. A specialist will be employed to support the PIU in designing regulations and procedures for the operation of (i) the development facility for training innovations and (ii) the revolving fund for PVEIs. The main responsibilities of the specialist, separately for each of the funds, will relate to the format and processing of applications for funds, monitoring of funded programs, management and administration of the funds, associated staff training, and promotion of the use of the funds.

B. Microenterprise Development

Entrepreneurship Development and Support Services Specialists

(international consultant, 1; domestic consultants, 3)

7. As resource persons, the specialists will assist in developing entrepreneurial skills and activities in PVEIs. Their main responsibilities will be to advise and assist staff of the model PVEIs to design and implement training programs for teacher trainers, teachers, and students. They also will provide support for the development and running of production centers, business incubators, service units, business consulting services, business clubs and associations, and related activities.

Microcredit Fund Development Specialist

(international consultant, 1)

8. The specialist will assist in designing, setting up, and promoting the microcredit fund in support of entrepreneurship development. The specialist's main responsibilities will be to advise and assist staff of the State Fund for Support of Small and Medium Business (SFSMB) and the PIU with organizational and management support, training and advice, and the establishment of systems to facilitate the timely commencement and effective operation of the facility.

C. Strengthening Support Institutions

Management Development Specialists

(international consultant, 1; domestic consultant, 1)

9. The specialists will advise and assist in reviewing and developing DVTE's management structure and educational functions with the objective of optimizing the effectiveness and efficiency of PVE provided through PVEIs. The specialists will advise and assist staff of DVTE to review and improve management practices relating to interministry relationships, MIS, modular curricula, staff training, quality assurance, cost recovery and income generation and financial procedures.

Industry Liaison Specialists

(international consultant, 1; domestic consultant, 1)

10. The Specialists will advise and assist in the review and development of DVTE's and the PVEI's relationship with industry with the objective of optimizing the effectiveness and efficiency of PVE provided through PVEIs. The Specialists will advise and assist staff of DVTE to develop

policies and strategies, introduce measures needed to link PVE, and increase its relevance to industry and the labor market.

PVEI Supervision Specialists

(international consultant, 1; domestic consultant, 1)

11. The specialists will help establish systems and procedures aimed at improving effectiveness and efficiency of the PVE system and the quality of its output. With respect to inspection and quality assurance, the specialists will advise and assist staff of DVTE to review and assess the current situation and requirements, develop appropriate systems and procedures, train operational staff, and monitor and support initial operations of the system introduced.

PVEI Internal Audit Specialists

(international consultant, 1; domestic consultant, 1)

12. The specialists will help establish systems and procedures aimed at improving effectiveness and efficiency of the PVE system and the quality of its output. With respect to internal financial audit, the specialists will advise and assist staff of DVTE to review and assess the existing situation and requirements, develop appropriate systems and procedures, train operational staff, and monitor and support initial operations of the system introduced.

PVEI Occupational Health and Safety Specialists

(international consultant, 1; domestic consultant, 1)

13. The specialists will help establish systems and procedures aimed at improving effectiveness and efficiency of the PVE system and the quality of its output. With respect to occupational health and safety, the specialists will advise and assist staff of DVTE to review and assess requirements, develop appropriate systems and procedures, train operational staff, and monitor and support initial operations of the measures introduced.

PVE Information System Specialists

(international consultant, 1; domestic consultant, 1)

14.. The specialists will advise and assist staff of DVTE to improve the effectiveness and the operational use of the existing management information system in DVTE. The specialists will review the effectiveness of the existing management information system in meeting DVTE's and the PVEI's requirements; modify the system if appropriate; develop operational guidelines, procedures, and manuals; provide appropriate staff training in the use of a modified system; and commission the modified system to a fully operational status.

PVE Certification and Accreditation Specialists

(international consultant, 1; domestic consultant, 1)

15. The specialists will advise and assist staff of DVTE on developing a system to regulate and improve the standard of training offered at PVEIs. The specialists will establish PVEI resource standards deemed necessary to offer PVE programs and particular specialist programs. They subsequently will design and establish a regulatory mechanism to accredit PVEIs and certify the programs they offer. Staff of DVTE and PVEIs who will be involved in regulating and being regulated will be afforded appropriate training, information, and educational programs.

D. Support for Project Implementation

Project and Financial Management Specialists

(international consultant, 1; domestic consultant, 1)

16. The specialists will help the staff of DVTE, and more particularly the project manager and staff of the PIUs to design, establish, and maintain project management and administration systems and procedures, consistent with best practice and ADB and Government requirements, for all aspects of the Project. The specialists will advise on establishing and operating systems for financial management, planning and scheduling activities, monitoring and reporting on progress, procurement of goods and services, directing and monitoring the work of consultants, and project performance monitoring. Additionally, they will support and assist in day-to-day management and operation of the PIUs.

Monitoring and Evaluation Specialist

(international consultant, 1)

17. The specialist will provide services at the beginning, during the midterm review and at the end of the Project to help design and operate a project performance monitoring system. The specialist will advise and assist staff of the PIUs with system design and set-up, training of operational staff, system parameters including performance indicators, statistics required for verification, baseline and other data collection requirements and methodology, and continuous and other progress monitoring and reporting requirements.

Midterm Review Specialist

(international consultant, 1)

18. The specialist will provide an independent assessment of progress of project implementation at the time of the midterm review, about two and a half years after the loan for the Project becomes effective. The specialist will report on the extent and timeliness of achievement of the goals and objectives of the Project, the effectiveness of the management and administration of the Project, major problems and issues that are hindering progress, and remedial measures needed to address the problems or avoid them in future.

Information and Education Campaign Specialist

(domestic consultant, 1)

19. A specialist will help to plan, implement, and manage an information and education campaign with the objective of optimizing stakeholders' participation in and benefits from the Project. The specialist will advise and assist staff of DVTE and the PIUs to mount a campaign that will ensure potential stakeholders, including direct contributors and participants, beneficiaries, managers, and other interested parties, are fully informed of the Project's objectives, activities, and potential benefits.

Operations and Management Specialist

(domestic consultant, 1)

20. The specialist will help the sub-PIU establish and maintain project management and administration systems and procedures, consistent with best practice and ADB and Government requirements, for all aspects of the Project for which the sub-PIU is responsible. The specialist will play an important role in supporting and participating in the day-to-day management and operation of the sub-PIU.

Table A13: Summary of Consulting Services

Component/Subcomponent	Number			Person-months			Schedule					
	Specialization Category	Inter-national	Domes-tic	Total	Inter-national	Domes-tic	Total	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
A. Reorientation of PVE Institutions (PVEIs)												
Rationalization and School Mapping												
International	1		1	3		3	3					
Domestic		1	1		6	6	6					
Model/Resource Centers for Specific Specialization												
- Program, Staff and Instructional Materials Development												
International	1		1	12		12	3	6	3			
Domestic		6	6		72	72	18	36	18			
Nationwide Development of PVEIs for Specific Specializations and Targetting of Disadvantaged Groups												
- Curricular and Training Materials Implementation												
International Volunteer	6		6	144		144		24	72	48		
Domestic		6	6		144	144		24	72	48		
- Outreach Program for Special Needs Group												
International	1		1	6		6	3	1	1	1		
Domestic		3	3		24	24	12	6	6			
Development Facility for Training Innovations												
- Training Fund Operations (Intern'l)												
	1		1	3		3		3				
	10	16	26	168	246	414	45	100	172	97	0	
B. Microentrepreneurship Development												
Development of Support Services												
- Entrepreneurship Development and Support Services												
International	1		1	12		12	3	6	3			
Domestic		3	3		72	72	9	18	18	18	9	
- Microcredit Fund Development (Intern'l)												
	1		1	2		2		2				
	2	3	5	14	72	86	12	26	21	18	9	
C. Strengthening Support Institutions												
Strengthening MLSP and Relevant Units												
- Management Development												
International	1		1	4		4	2	2				
Domestic		1	1		16	16	6	6	4			
- Industry Liaison												
International	1		1	2		2		2				
Domestic		1	1		8	8		4	4			
- PVEI Supervision												
International	1		1	2		2		1	1			
Domestic		1	1		8	8		4	4			
- PVEI Internal Audit												
International	1		1	2		2			2			
Domestic		1	1		8	8		4	4			
- PVEI Occupational Health and Safety												
International	1		1	2		2			2			
Domestic		1	1		8	8		4	4			
- PVE Information System												
International	1		1	4		4		2	2			
Domestic		1	1		16	16		6	6	4		
Establishing Technical Qualifications and Accreditation Systems												
- PVE Certification and Accreditation												
International	1		1	6		6			3	3		
Domestic		1	1		12	12		6	6			
	7	7	14	22	76	98	8	27	42	21	0	
D. Support for Project Implementation												
Project Implementation Unit (PIU)												
- Project and Financial Management												
International	1		1	18		18	3	6	3	3	3	
Domestic		1	1		33	33	3	12	6	6	6	
- IEC Campaign (Domestic)												
		1	1		12	12	6	3	3			
- Monitoring and Evaluation (International)												
	1		1	6		6	2		2			2
- Midterm Review (International)												
	1		1	2		2			2			
Sub-PIU												
- Operation and Management (Domestic)												
		1	1		36	36		12	12	12		
	3	3	6	26	81	107	14	33	28	21	11	
Total	22	29	51	230	475	705	79	186	263	157	20	

IEC = information, education, and communication, MLSP = Ministry of Labor and Social Protection, PIU = Project Implementation Unit, PVEI = Primary Vocational Education Institution

SUMMARY OF TEXTBOOK AND LEARNING MATERIAL REQUIREMENTS

Component/ Input	Unit	Unit Cost (\$)	No of Units	Comments
A. Reorientation of PVE Institutions				
Model/Resource Centers for Specific Specialization				
Development of Programs and Learning Materials				
Development of Curricula and Learning Materials				
Program Development or Reorientation	Lump sum per subject	5,000	30	Twenty-four specialist areas redeveloped
Preparation of Learning Materials (textbooks, handbooks)	Lump sum per subject	8,000	30	Twenty-four specialist areas redeveloped
Production and Translation of Textbooks				
Translation	Title	500	180	Six titles per specialist area
Printing and Distribution	Copy	16	30,000	About 2,100 copies per title
Nationwide Improvement of PVE Institutions for Specific Specialization and Targeting of Disadvantaged Groups				
Development of Programs and Curricular Materials				
Program Reorientation	Lump sum per subject	2,000	72	Reoriented Skills Training Program
Curricular Materials Selection or Development	Lump sum per subject	3,000	72	Material Development at Individual PVEIs
Development of Outreach Programs	Lot/PVEI	3,000	20	Outreach Programs
B. Microentrepreneurship Development				
Review and Improvement of Entrepreneurship Programs				
Review and Improvement of Microentrepreneurship Training Programs and Curricula	Lumpsum	10,000	3	Improvement of Existing Programs

PVE = primary vocational education; PVEI = primary vocational education institution

SUMMARY OF CIVIL WORK REQUIREMENTS

Component/ Input	Specific- ation	Unit Cost (\$)	No of Units	Comments
A. Reorientation of PVE Institutions				
Model/Resource Centers for Specific Specialization				
Rehabilitation or Development of Facilities				
Conversion of Workshops	Workshop	2,000	41	Estimated based on PVEI business plans
Improving Training Rooms	Room	1,000	84	Estimated based on PVEI business plans
Upgrading to Desired Health and Safety Standards	PVEI	10,000	30	Each model PVEI upgraded
Upgrading Support Facilities				
Dormitories	Dormitory	10,000	6	Estimated requirement
Social Support Centers	Center	5,000	15	Estimated requirement
Nationwide Improvement of PVEIs for Specific Specialization and Targeting of Disadvantaged Groups				
Rehabilitation or Development of Facilities				
Conversion of Workshops	Workshop	2,000	59	Estimated based on PVEI business plans
Improving Training Rooms	Room	1,000	111	Estimated based on PVEI business plans
Upgrading to fulfill Health and Safety Standards	PVEI	5,000	72	Each PVEI will be upgraded
Upgrading Support Facilities				
Dormitories	Dormitory	10,000	6	Estimated requirement
Social Support Centers	Center	3,000	6	Estimated requirement
B. Microentrepreneurship Development				
Piloting of Business Incubators Strategies				
Conversion of Surplus Workshops into Business Incubators	Workshop	1,000	48	Estimated based on PVEI business plans
Development of Production Units				
Development of Production Farms	Farm	20,000	20	Twenty farms to be developed
C. Strengthening Support Institutions				
Strengthening of MLSP and Relevant Departments/Agencies				
Upgrading Physical Facilities				
Refurbishment of DVTE Office Facilities	Lot	60000	1	Rehabilitation of existing office facilities
DVTE = Department for Vocational Training and Education under MLSP, MLSP = Ministry of Labor and Social Protection, PVE = primary vocational education, PVEI = primary vocational education institution.				

SUMMARY OF EQUIPMENT AND FURNITURE REQUIREMENTS

Component/ Input	Specific- ation	Unit Cost (\$)	No of Units	Comments
A. Reorientation of PVE Institutions				
Model/Resource Centers for Specific Specialization				
Upgrading of Equipment and Furniture				
Audiovisual Equipment	Lot/PVEI	10,000	29	One set for each Model PVEI
Computer Training Equipment	Lot/PVEI	20,000	49	Estimated requirement
Workshop Equipment	Workshop	25,000	45	Estimated requirement
Office and Communication Equipment	Lot/PVEI	10,000	29	Estimated requirement
Mobile Training Unit Equipment	Set/Oblast	50,000	8	One mobile unit for each oblast
Training Room Furniture	Lot/room	3,000	73	Estimated requirement
Office Furniture	Lot/PVEI	2,000	29	One set for administration office for each Model PVEI
Nationwide Improvement of PVEIs for Specific Specialization and Targeting of Disadvantaged Groups				
Upgrading of Equipment and Furniture				
Audiovisual Equipment	Lot/PVEI	10,000	70	One set for each PVEI
Computer Training Equipment	Lot/PVEI	20,000	56	Estimated requirement
Workshop Equipment	Workshop	10,000	53	Estimated requirement
Office and Communication Equipment	Lot/PVEI	10,000	69	Estimated requirement
Mobile Training Unit Equipment	Lot/PVEI	5,000	20	Three mobile trainers for each oblast
Training Room Furniture	Lot/room	2,000	108	Estimated requirement
Office Furniture	Lot/PVEI	1,500	70	One set for administration office for each PVEI
B. Microentrepreneurship Development				
Piloting of Business Incubators Strategies				
Business Incubator Equipment	PVEI	10,000	58	Two sets for each Model PVEI
Development of Production Units				
Enhancement of Facilities for Production Units	Prodn Unit	10,000	29	One set for each Model PVEI
Provision of Pilot Plant Facilities	Pilot Plant	20,000	29	One set for each Model PVEI
Development of Service Units and Piloting of Approaches				
Tractor/Agric. Equipment Pool	Lot	50,000	9	Estimated requirement
Transport/Hauling Service	Lot	25,000	6	One facility for each oblast
Facilities Leasing	Lot	20,000	6	One facility for each oblast
C. Strengthening Support Institutions				
Strengthening of MLSP and Relevant Departments/Agencies				
Upgrading Physical Facilities				
Office and Conference Furniture	Lot	15,000	1	Facilities for PDVT refurbished office
Office and Communication Equipment	Lot	25,000	1	Facilities for PDVT refurbished office
D. Support for Project Implementation				
Project Implementation Unit (PIU)				
Facilities and Equipment	Lot	40,000	1	Computing, communications and related equipment
Sub-PIU				
Facilities and Equipment	Lot	10,000	1	Computing, communications and related equipment

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Appendix 16

PVE = primary vocational education, PVEI = primary vocational education institution

SUMMARY OF PROJECT COSTS
Table A17.1: Summary of Project Costs by Component
(\$ '000)

Component/ Subcomponent	Foreign Exchange	Local Currency	Total	Percent of Base Cost
A. Reorientation of the PVE System				
1. Rationalization and School Mapping	54	18	72	
2. Model/Resource Centers for Specific Specialization	4,689	2,628	7,317	
3. Nationwide Improvement of PVEIs Institutions for Specific and Targeting of Disadvantaged Groups	3,869	2,565	6,434	
4. Development Facility for Training Innovations	54	1,030	1,084	
5. Operation and Maintenance of Facilities		1,089	1,089	
Subtotal	8,666	7,329	15,995	60.2
B. Microentrepreneurship Development				
1. Review and Improvement of Entrepreneurship Programs		30	30	
2. Piloting of Business Incubators Strategies	398	139	538	
3. Development of Production Units	696	1,438	2,134	
4. Development of Service Units and Piloting of Approaches	516	207	723	
5. Development of Support Services	216	1,682	1,898	
6. Development Facility for Production Activities and Microcredit Fund	36	2,032	2,068	
Subtotal	1,862	5,528	7,390	27.8
C. Strengthening Support Institutions				
1. Policy Reforms and Advocacy	54	29	83	
2. Strengthening of MLSP and Relevant Departments/Agencies	488	648	1,136	
3. Establishing Technical Certification and Accreditation System	158	511	669	
4. Strengthening Cooperation Among PVEIs, Operation and Maintenance of Facilities		88 25	88 25	
Subtotal	700	1,301	2,001	7.5
D. Support for Project Implementation				
1. Project Implementation Unit (PIU)	500	551	1,051	
2. Sub-PIU	8	139	147	
Subtotal	508	690	1,198	4.5
E. Total Base Cost	11,736	14,848	26,585	100.0
F. Contingencies				
1. Physical Contingency	587	742	1,329	5.0
2. Price Contingency	695	1,480	2,175	8.2
Total Contingencies	1,281	2,223	3,504	13.2
G. Interest	1,180		1,180	4.4
Total	14,198	17,071	31,269	117.6
Percent Share	45.4	54.6		

MLSP = Ministry of Labor and Social Protection, PVE = primary vocational education, PVEI = primary vocational education institution

Note: Physical contingency is 5 percent of total base cost and price escalation is estimated on the basis of 2.2 percent per annum for foreign exchange and, for local currency, 4.5 percent per annum for year 1, 4.0 percent for years 2 and 3, and 3.5 percent per annum for years 4 and 5.

Table A17.2: Summary of Project Costs by Category
(\$ '000)

Component/ Subcomponent	Foreign Exchange	Local Currency	Total	Percent of Base Cost
A. Base Cost				
Civil Works	533	1,243	1,776	6.7
Equipment and Furniture	7,026	946	7,971	30.0
Instructional Materials	384	138	522	2.0
Program Development		1,253	1,253	4.7
Overseas Training	1,976	0	1,976	7.4
In-Country Training	0	866	866	3.3
International Consultants	1,818	0	1,818	6.8
Domestic Consultants		500	500	1.9
Development Facilities and Microcredit Fund		3,000	3,000	11.3
Land		1,000	1,000	3.8
Recurrent Expenditures				
Operational Support		3,111	3,111	11.7
Maintenance and Operation of Facilities		1,089	1,089	4.1
PIU/Sub-PIU Operations		516	516	1.9
Taxes and Duties		1,187	1,187	4.5
Subtotal (A)	11,736	14,848	26,585	100.0
B. Contingencies				
Physical Contingency	587	742	1,329	5.0
Price Contingency	695	1,480	2,175	8.2
Subtotal (B)	1,281	2,223	3,504	13.2
C. Interest				
Total	1,180		1,180	4.4
	14,198	17,071	31,269	117.6
Percent Share	45.4%	54.6%		

PIU = project implementation unit

Note: Physical contingency is 5 percent of total base cost and price escalation is estimated on the basis of 2.2 percent per annum for foreign exchange and, for local currency, 4.5 percent per annum for year 1, 4.0 percent for years 2 and 3, and 3.5 percent per annum for years 4 and 5.

FINANCING PLAN
(\$'000)

Category	Total Cost			Government Local Currency	ADB		
	Foreign Exchange	Local Currency	Total		Foreign Exchange	Local Currency	Total
A. Base Cost							
Civil Works	0	0	0		0	0	0
Equipment and Furniture	0	0	0		0	0	0
Instructional materials	0	0	0		0	0	0
Program Development		0	0			0	0
Overseas Training	0		0		0		0
In-country Training		0	0			0	0
International Consultants	0		0		0		0
Domestic Consultants		0	0			0	0
Development Facilities and Microcredit Fund		0	0			0	0
Land		0	0	0			
Recurrent Expenditures							
Operational Support		0	0	0		0	0
Maintenance and Operation of Facilities		0	0	0			
PIU/Sub-PIU Operations		0	0	0			
Taxes and Duties		0	0	0			
Subtotal (A)	0	0	0	0	0	0	0
B. Contingencies							
Physical Contingency	0	0	0	0	0	0	0
Price Contingency	0	0	0	#DIV/0!	0	#DIV/0!	#DIV/0!
Subtotal (B)	0	0	0	#DIV/0!	0	#DIV/0!	#DIV/0!
C. Interest							
Total	0	0	0	#DIV/0!	0	#DIV/0!	#DIV/0!
Percent Share			#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

PIU = project implementation unit

IMPLEMENTATION RESPONSIBILITY MATRIX

Activity	Location	Responsible Party/Agency						
		Policy	Coordination	Planning	Implemen- tation	Supervision	Evaluation	Monitoring
A. OVERALL								
1. National		PSC	DVTE	PIU	PIU	DVTE	TTF	DVTE
2. Regional/Oblast			PVE OC	Sub-PIU (Osh)		PVE OC		PVE OC
3. PVEIs				Directorate	Directorate	Supervisors	PIU/Sub-PIU	Advisory Boards
B. GENERAL PROJECT ACTIVITIES								
1. Curriculum and Instructional Materials Development								
Formal and Non-formal Skills Training	Regional Centers	DVTE	PVE OC	DVTE	PIU/Sub-PIU	PVE OC	RCSMD	PVE OC
Entrepreneurship Development	Regional Centers	DVTE	PVE OC	DVTE	PIU/Sub-PIU	PVE OC	RCED	PVE OC
2. Staff Development								
Out-of-country	Out-of country	DVTE	PIU	PIU	Contractors	DVTE	RCSMD	PIU
In-country	Regional Centers	DVTE	PIU/Sub-PIU	PIU	Contractors	DVTE	RCSMD/RCEC	PIU/Sub-PIU
3. Studies	Bishkek	PSC	PIU	DVTE	Contractors	DVTE	TTF	PIU
4. Consulting Services	Where needed	DVTE	PIU	PIU	Contractors	DVTE	TTF	PIU
5. Civil Works and Furniture	PVEI	DVTE	PIU/Sub-PIU	PVEIs	PVEIs	PVE OC	TTF	PVE OC
6. Equipment and Materials	Regional Centers	DVTE	PIU/Sub-PIU	PVEIs	PVEI/PIU	PVE OC	TTF	PIU/Sub-PIU
7. Entrepreneurship Development Support Activities								
Production/Service Facilities	PVEI	DVTE	PVE OC	PVEIs	PVEIs	PVE OC	RCED	PVE OC
Business Incubators	PVEI	DVTE	PVE OC	PVEIs	PVEIs	PVE OC	RCED	PVE OC
Support Services	PVE Oblast centers	DVTE	PVE OC	PVEIs	PVEIs	PVE OC	RCED	PVE OC
8. Development Facilities and Microcredit Fund								
Training Innovations	Where needed	PSC	PVE OC	Proponents	Proponents	PIU	TTF	PIU
Production Activities	PVEI	PSC	PVE OC	PVEIs	PVEIs	PVE OC	TTF	PIU
Microcredit	PVEI	PSC	DVTE	Financial Agency	Financial Agency	Ministry of Finance	TTF	PIU
9. Education Management Information System	Bishkek	PSC			EMIS Office	DVTE	TTF	PIU

DVTE = Department for Vocational Training and Education, PIU = Project Implementation Unit, PSC = Project Steering Committee, PVEI = Primary Vocational Education Institution, PVE OC = PVE Oblast Coordinators, RCED = Republican Center for Entrepreneurship Development, RCSMD = Republican Center of Scientific and Methodological Development, TTF = Technical Task Force

PROCUREMENT PACKAGING

Project Input	Unit Cost Estimate	Number	Mode of Procurement
Civil Works			
1. Model Resource Centers	\$17,000 to \$32,000 per model center	29 centers dispersed throughout the country	LCB ¹
2. Nationwide Improvement of PVEIs	\$8,000 to \$21,000 per PVEI	70 PVEIs dispersed throughout the country	LCB ¹
3. Business Incubator Facilities	\$2,000 per facility	29 facilities; one in each model resource center	LCB ¹
4. Development of Production Facilities	\$20,000 per facility	29 facilities; one in each model resource center	LCB ¹
5. Upgrading of DVTE Facilities	\$60,000	Bishkek office (1)	LCB ¹
Equipment and Furniture			
1. Model Resource Centers			
Audiovisual equipment	\$10,000	29 centers	IS
Computer training equipment	\$20,000	49 lots	ICB
Workshop equipment	\$25,000	45 lots	ICB
Office and communication Equipment	\$10,000	30 lots	IS
Mobile training unit equipment	\$50,000	8 lots	IS
Furniture for training rooms	\$3,000	73 rooms	DP ²
Office furniture	\$2,000	31 rooms	DP ²
2. Nationwide Improvement of PVEIs			
Audio visual equipment	\$10,000	70 lots	ICB
Computer training equipment	\$20,000	56 lots	ICB
Workshop equipment	\$10,000	53 lots	ICB
Office and communication equipment	\$10,000	69 lots	ICB
Mobile trainer's equipment/kit	\$5,000	20 lots	IS
Furniture for training rooms	\$2,000	108 lots	DP ²
Office furniture	\$1,500	70 lots	DP ²
3. Business Incubator Equipment			
	\$10,000	48 facilities	IS
4. Development of Production Facilities			
Pilot plant equipment	\$20,000	24 lots	IS
Enhancement of existing facilities equipment	\$10,000	24 lots	IS

¹ Force account permitted if size and nature of works unsuitable for competitive bidding.

² Force account permitted if PVEI has capability to manufacture.

Project Input	Unit Cost Estimate	Number	Mode of Procurement
5. Development of Service Units			
Tractor/agricultural equipment pool	\$50,000	9 lots	IS
Transport/hauling service equipment	\$25,000	6 lots	IS
Facilities leasing equipment	\$20,000	6 lots	IS
6. Upgrading of DVTE Facilities			
Office of Communication Equipment	\$25,000	1	DP ²
Office and conference furniture	\$15,000	1	DP ²
7. Support for Project Implementation			
PIU	\$40,000	1	DP ¹
Sub-PIU	\$10,000	1	DP ¹
Textbooks and Instructional Materials			
Printing and Distribution	\$1,600	300 lots	DP ¹

DP = direct purchase, ICB = international competitive bidding, IS = international shopping, LCB = local competitive bidding

¹ Force account permitted if size and nature of works unsuitable for competitive bidding.

² Force account permitted if PVEI has capability to manufacture.

TECHNICAL ASSISTANCE FOR IMPROVING THE ENABLING ENVIRONMENT FOR SKILLS AND ENTREPRENEURSHIP DEVELOPMENT

A. Rationale

1. As the Kyrgyz Republic moves to a market economy, it must put in place appropriate mechanisms to facilitate the transition while minimizing adverse effects for the vulnerable sectors of society. Skills training and entrepreneurship development form one of the pillars of the Government's transition strategy. Clear policies and medium- to long-term strategic framework for the development of the country's labor force, both for employment and self-employment are needed. The enabling environment needs to be improved by establishing institutional infrastructure such appropriate legislation and taxation and supporting/providing sustained advocacy and information, education, and communication (IEC) campaigns for stakeholders and the community at large.

B. Objectives

2. The technical assistance (TA) will assist the Government, particularly the Ministry of Labor and Social Protection (MLSP) to develop a medium- to long-term strategic policy framework and action plans for skills and entrepreneurship development. The TA will help MLSP identify, formulate, and advocate appropriate policy and legislative reforms that will enable the PVE system to be more responsive to changing labor market requirements.

C. Scope

3. The TA will facilitate the development of an explicit vision and mission statement for skills and entrepreneurship development, taking into account international and Central Asian perspectives, the country's comparative advantage, and available human and economic resources. This will involve internal and external scanning of the country's (and MLSP's) strengths, weaknesses, opportunities, and threats to evolve a strategic framework and action plans, including identification of policy and legislative agenda to implement them.

4. The resulting strategic framework and action plans will be discussed and refined in a national consultative workshop that will be facilitated by a panel of international authorities and experts. The recommendations of that workshop will be followed up to the development of draft legislation and policy pronouncements for the consideration of the Government. The TA will develop IEC strategies for social marketing of approved action plans.

D. Consultant Requirements

5. The TA will require three international consultants: a strategic planner for economic development (3 person-months), human development specialist (3 person-months), and legislation specialist (3 person-months). These international consultants will work in cooperation with four local consultants: a strategic planner for economic development (6 person-months), human development specialist (6 person-months), legislation specialist (3 person-months), and IEC and media specialist (3 person-months). The TA will engage three renowned authorities in strategic planning, human development, and skills and entrepreneurship development to serve as a panel of experts in a national consultative workshop.

E. Cost Estimates and Financing Plan

6. The total cost of the TA is estimated at \$742,000 equivalent, comprising \$464,000 in foreign exchange costs and \$278,000 equivalent in local currency costs. The Asian Development Bank (ADB) will provide financing from Japan Special Fund for \$600,000 equivalent to cover all of the foreign costs and \$136,000 equivalent of the local currency costs. The Government will provide the balance of \$142,000 equivalent, mostly in kind, which will cover the cost of counterpart staff and workshop participants (remuneration, per diem, and local travel expenses), support staff; office facilities; utilities; supplies; and preparation, translation, and reproduction of documents. The detailed cost estimates and financing plan are provided in Table A21.

F. Implementation Arrangements

7. The Executing Agency for the TA will be MLSP though DVTE. The director of DVTE will administer the TA and oversee the work of the consulting team. The team will work under the guidance of the project steering committee that has been established for the Project.

8. An international consulting firm will be engaged for the TA according to ADB *Guidelines on the Use of Consultants*. The team will gather preliminary information through minisurveys and discussions with stakeholders. Thereafter, a visioning workshop will be convened, bringing together senior-level government officials who have a policy role in skills and entrepreneurship development. After two follow-up workshops to cover other parts of the country (one in Bishkek covering the northern oblasts and one in Osh covering the southern oblasts), a national consultative workshop, in which the panel of international authorities will participate, will be convened to present and discuss the results of the previous workshops. Thereafter, the team will develop legislative recommendations at a legislative workshop.

9. The TA should be implemented within six months. The first workshop will be convened within two weeks after the start of the TA. The national consultative workshop will be held about the fourth month of the TA. ADB missions will be scheduled to allow ADB input at both workshops.

Table A21: Cost Estimates and Financing Plan
(\$ '000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing			
1. Consultants			
a. Remuneration			
i. International consultants and experts	250.0	0.0	250.0
ii. Domestic consultants	0.0	27.0	27.0
b. Per diem			
i. International consultants and experts	64.8	0.0	64.8
ii. Domestic consultants	0.0	10.8	10.8
c. Travel			
i. International	45.0	0.0	45.0
ii. Local	0.0	4.2	4.2
2. Workshops, participatory activities	0.0	30.0	30.0
3. Information, education, and communication activities	0.0	30.0	30.0
4. Equipment and supplies ^a	20.0	2.0	22.0
5. Reports and communications	5.0	0.0	5.0
6. Miscellaneous administration and support services, including translators, drivers	0.0	15.0	15.0
7. Contract negotiations	15.0	0.0	15.0
8. Contingencies ^b	64.2	17.0	81.2
Subtotal (A)	464.0	136.0	600.0
B. Government Financing			
1. Remuneration and per diem of counterpart and support staff, and workshop participants	0.0	70.0	70.0
2. Office accommodation and support services	0.0	24.0	24.0
3. Local travel expenses for staff and workshop participants	0.0	25.0	25.0
4. Preparing, translating, and reproducing documents	0.0	5.0	5.0
5. Contingencies (about 15 percent)	0.0	18.0	18.0
Subtotal (B)	0.0	142.0	142.0
Total	464.0	278.0	742.0

^a Two sets computers/printers, one photocopier, one binding machine, and accompanying supplies.

^b Local cost contingency includes \$5,700 for remuneration and per diem of domestic consultants.

Source: Staff estimates.