

ASIAN DEVELOPMENT BANK

JFPR:UZB 35447

**PROPOSED
GRANT ASSISTANCE
(Financed from the Japan Fund for Poverty Reduction)
TO THE
REPUBLIC OF UZBEKISTAN
FOR THE
SUPPORTING INNOVATIVE POVERTY REDUCTION
IN KARAKALPAKSTAN PROJECT**

September 2001

CURRENCY EQUIVALENTS

(as of 31 August 2001)

Currency Unit	–	Sum
SUM1.00	=	\$0.0014345 (commercial exchange rate)
\$1.00	=	SUM697.10 (commercial exchange rate)

ABBREVIATIONS

ADB	–	Asian Development Bank
BI	–	Business Incubator
BWA	–	Business Women's Association
Chamber	–	Chamber of Commodity Producers and Small Enterprise Development
JDA	–	Joint Development Associates
JFPR	–	Japan Fund for Poverty Reduction
MLSP	–	Ministry of Labor and Social Protection
MMES	–	Ministry of Macroeconomics and Statistics
NBU	–	National Bank of Uzbekistan
NGO	–	nongovernment organization
PMO	–	project management office
SME	–	small- or medium-scale enterprise
UNDP	–	United Nations Development Programme

GLOSSARY

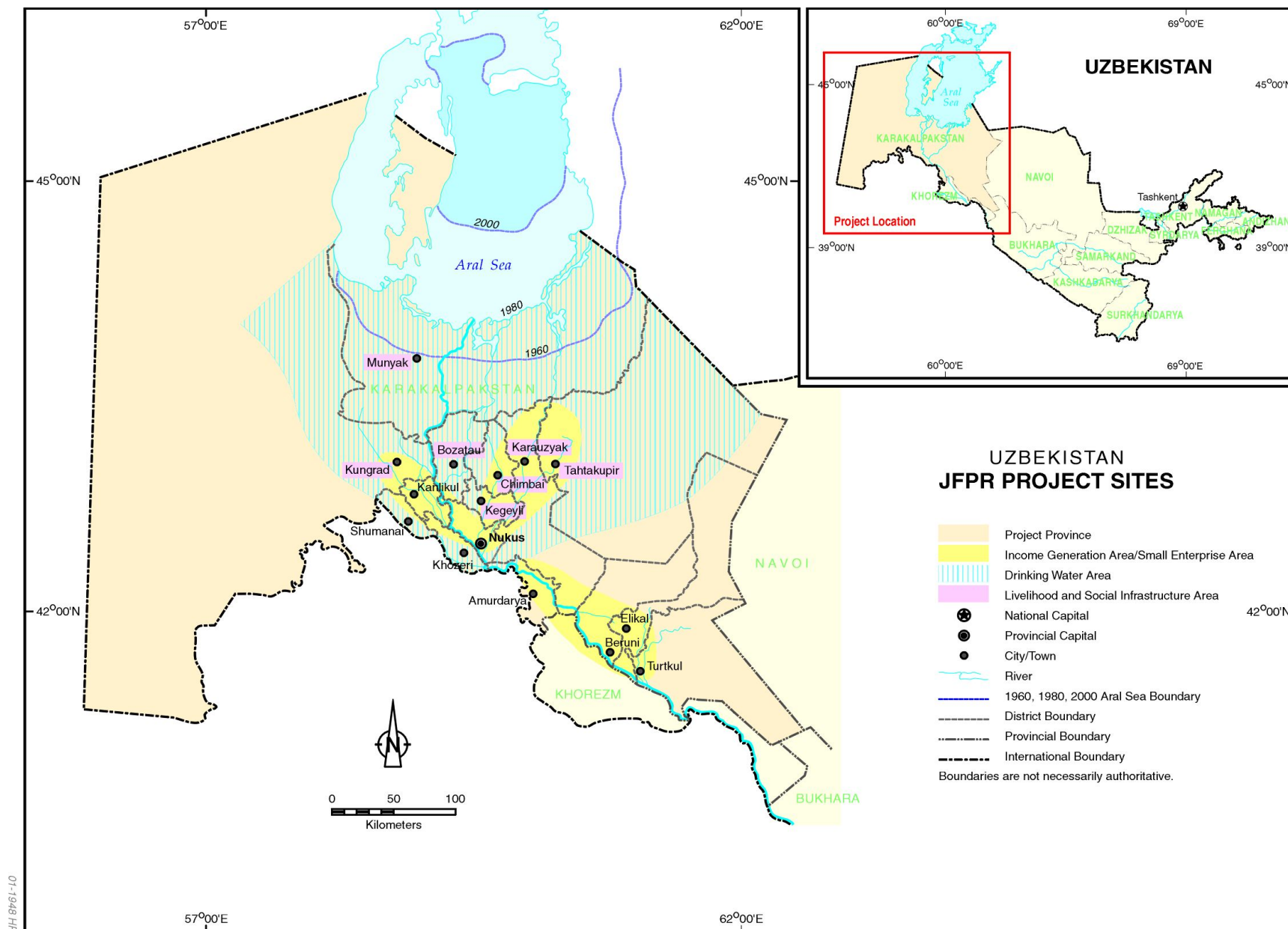
Mahalla	Local self-management committee.
Rayon	District.
Velayat	Region.

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. The Government of Uzbekistan asked the Asian Development Bank (ADB) to prepare an innovative poverty reduction project in the Autonomous Republic of Karakalpakstan for funding by the Japan Fund for Poverty Reduction (JFPR). The Project aims to create jobs and income, and to address the water-related problems resulting from the environmentally strained and drought-induced conditions in Karakalpakstan. While providing for policy recommendations beyond its immediate poverty reduction goals, the Project is designed in a comprehensive way to pilot test new approaches for sustainable poverty reduction in sectors of relevance to the Government and ADB's future country portfolio. The Project was prepared through participatory fact-finding and appraisal missions and stakeholder workshops. Poverty reduction is a new conceptual approach for ADB's cooperation with Uzbekistan. The Project will provide for new approaches in strategic sectors of ADB cooperation with Uzbekistan such as municipal services (urban and rural water supply), small enterprise and employment promotion (through credit lines and labor market-relevant education policies), rural credit, poverty reduction, and environmental management. The Government and the various implementing and coordinating agencies endorsed the project concept on 29 March 2001, and on 21 June 2001 the Government of Japan endorsed the Project for JFPR funding.

II. BACKGROUND AND RATIONALE

2. Karakalpakstan, which is near the Aral Sea, has 1.5 million people including a rural population of 1.1 million, 50-70 percent of whom are estimated to be poor, and 20 percent severely poor (which is double the national average). In 1998, Karakalpakstan had the fourth lowest average per capita income among the 13 regions (velayats), including the Autonomous Republic of Karakalpakstan, in the country, and one of the highest infant mortality rates. It has one of the highest unemployment rates in the country, particularly among the youth and in the rural areas. More than 40 percent of the population do not have access to safe drinking water. Quality of life indicators have worsened considerably, particularly in the environmentally affected areas of western and northern Uzbekistan, which are near the Aral Sea.

3. Northern Uzbekistan experienced severe drought in 2000, affecting most adversely the northern Karakalpakstan area.¹ The Amurdarya River, the major water source of Karakalpakstan, had only 36 percent of its normal water level, and literally dried up some 250 km short of its destination, the Aral Sea. The drought caused a drastic drop in agricultural production. Aggregate grain production in 2000 was down by about 6 percent of the national average level and by 54 percent in Karakalpakstan. Production of cotton, the major cash product of the region, fell by a third to 128,000 tons. Similar figures could be given for fodder and other cash crops (such as potatoes, vegetables, melons, and oil seeds). In addition, much livestock, another principal source of income in Karakalpakstan, was slaughtered for home consumption, as the drought destroyed the traditional grazing grounds and households could not afford to buy supplemental feed. Food affordability became a problem, with prices of grains and vegetables rising sharply. About 20 percent of the rural population (or 45,000 people) in Karakalpakstan are estimated to face severe food shortages as a result of the drought and will require food assistance for a longer period if the drought continues. In addition, about half of the population of Karakalpakstan does not have access to drinking water, and the groundwater supplies have increasingly become mineralized, brackish, and undrinkable. As a result, the incidence of waterborne diseases such as typhoid, hepatitis A, and diarrhea has increased. The drought has become endemic.

¹ The most affected districts (rayons) are Bozatau, Chimbai, Kanlikol, Karauzyak, Kegeyli, Kungrad, Munyak, Shumanai, and Tahtakupir. These districts contain about half of the population of Karakalpakstan.

4. While the Government has allocated additional financial aid to low-income families in the affected areas, a large gap exists between what is required and how much can be provided by the Government. For instance, about 10 percent of the households apply for mahalla-based² assistance each quarter, but only 2-3 percent actually receive payments. The shortage of funds for targeted assistance to socially vulnerable families has led the Karakalpakstan mahallas to rotate payments among the most vulnerable people, with each eligible family receiving assistance for only 3-4 months instead of one year. In 2001, the proportion of households requiring social assistance payments is likely to double to about 20 percent of the rural population as a result of harvest losses.

5. The recent natural calamity exacerbated the already widespread and deep poverty problem in the velayat as well as the preexisting long-term water shortage. As many households have not planted due to lack of water, food security will become even more precarious in 2001, and the number of households that are unable to meet their food requirements will increase. Moreover, the limited agricultural activities have led to a sharp fall in tax receipts, leaving the government of Karakalpakstan with hardly any funds left to address future emergency situations. Presently, two thirds of its budget comes from the central Government's coffers.

6. This explains the strong interest of the central Government in looking for more sustainable solutions to the socioeconomic problems of Karakalpakstan and in using it as a pilot. With the drought situation being projected to last 3–5 years or more, innovative approaches to poverty reduction are urgently needed. Because of the complexity of the problems, the poverty reduction measures should provide a menu of income-generating and employment opportunities, particularly for small and microenterprises that will eventually replace unsustainable agricultural activities.³ In addition, some measures should tackle the problem of the acute lack of drinking water; specifically those that will promote innovative, decentralized, and cost-effective water purification and distribution systems. The Project will field-test some of the more sustainable but immediately doable options that address drought and poverty issues in the Aral Sea region.

III. THE PROPOSED JFPR PROJECT

A. Objectives

7. The long-term goal of the Project is to reduce both income and non-income poverty⁴ in Karakalpakstan. The Project's objective is to provide the poor households in Karakalpakstan with income-generating and employment opportunities as well as access to safe drinking water and other community-based social infrastructure. The experiences from this Project are expected to

² A mahalla is a local self-management committee.

³ Background studies used in the preparation of various ADB project loans for Uzbekistan (e.g., 31575-UZB: Small and Medium Enterprise Development Project; 30375-UZB: Rural Enterprise Development Project; and 33548-UZB: Urban Water Supply Project) raised the need for the implementation of immediately doable but sustainable poverty reduction measures that will address the multifarious problems affecting the impoverished rural areas. The most important concerns are the high incidence of rural unemployment, the lack of income opportunities in the countryside, lack of access to credit for micro- and small-scale enterprises, and limited drinking water facilities, particularly in drought-affected and high poverty incidence areas. The components proposed in this Project are intended to provide some of the poverty reduction options that address these concerns. It is hoped that the lessons generated from this Project will serve as a guidepost for determining poverty reduction measures that are economically viable and sustainable.

⁴ Income poverty is defined as poverty measured in terms of an income or consumption threshold based on subsistence needs. Nonincome poverty arises from lack of access to basic social infrastructure and services such as primary education, primary health care, safe drinking water, etc. Some indicators of non-income poverty are school cohort ratios, infant mortality rates, incidence of waterborne diseases, etc.

serve as a guide for developing policy measures on sustainable income generation and poverty reduction approaches.⁵ Appendix 1 provides the overall project framework.

B. Scope

8. The Project has five components (detailed descriptions of the components and subcomponents are in Appendix 2) as follows:

- (i) **income generation**, which has three subcomponents: (a) microcredit (\$20-\$150 equivalent per borrower), (b) small finance (\$150- \$500 per borrower), and (c) small loans to legal entities (\$500-\$10,000);
- (ii) **small enterprise employment generation** in the form of (a) business training, (b) equipment leasing, and (c) a collateral fund with banks for guaranteeing small enterprises' credit needs;
- (iii) **livelihood and social infrastructure support** that will be coursed through the mahallas and has two subcomponents: (a) livelihood contests, and (b) community-based social infrastructure;
- (iv) **provision of safe drinking water** to drought-affected areas in Karakalpakstan through a competitive approach; it has three subcomponents: (a) feasibility study contests, (b) piloting contests, and (c) replication contests; and
- (v) **project management office (PMO)**, which, aside from being tasked to administer and implement the Project, will also undertake poverty reduction, gender, and labor market impact assessments of the various component modalities as well as provide for a contingency fund.

9. Although the demand for the subcomponents particularly small finance, small loans, business training support, equipment leasing, and collateral funds will most likely come from residents in the more economically progressive rayons of eastern and southern Karakalpakstan, as well as the area around Nukus, its capital city, the income activities generated by these subcomponents and those from the microcredit subcomponent will create employment opportunities that target the poor. The livelihood and social infrastructure component will focus mainly on the seven poorest rayons in the republic, two of them in the immediate Aral Sea area. The income generation activities that affect the places near the Aral Sea will be covered largely through nongovernment organization (NGO) support such as Joint Development Associates (JDA, a United States based NGO operating in Karakalpakstan) and other NGOs supported by the Aral Sea fund. The safe drinking water and the livelihood and social infrastructure support components of the Project will benefit mainly the large number of poor in all the rayons where sustainable water projects are feasible. The sites proposed for JFPR support are shown in the map.

C. Costs and Financing

10. The total cost of the project is \$3.28 million equivalent over a period of 36 months starting in October 2001. ADB, the Ministry of Labor and Social Protection (MLSP), the Government of Uzbekistan, and the United Nations Development Programme (UNDP) will share these costs. ADB will contribute \$2.54 million equivalent on a grant basis from the Japan Fund for Poverty

⁵ The specific objectives and components were developed during various consultations with the central and local governments, nongovernment organizations, external agencies, and various experts.

Reduction. UNDP will contribute \$150,000 equivalent to the microcredit and small finance subcomponents of the income generation component.⁶ MLSP will allot \$20,000 equivalent to the business training subcomponent and up to \$100,000 equivalent in the form of a concessional loan to the equipment leasing subcomponent of the component on small enterprise employment generation. JDA will parallel finance the microcredit subcomponent amounting to about \$70,000 equivalent. The Project will cooperate with the microcredit activities of JDA in the northern rayons of Karakalpakstan. Table 1 provides an overview of the costs and financing sources. A cost plan specifying the inputs and outputs in matrix form is shown in Appendix 3.

Table 1: Cost Estimates, Sources of Financing, and Implementing Organizations for the Project Components and Subcomponents

Source of Financing	Component and Subcomponents	Implementing Organization	Amount (\$'000)
JFPR			2,540
	(i) income generation		630
	(a) microcredit	BWA, Daulet, other NGOs	220
	(b) small finance	BWA, Daulet, other NGOs	260
	(c) small loans	NBU	150
	(ii) small enterprise employment generation		640
	(a) business training	BI	60
	(b) equipment leasing	BI, BWA	440
	(c) collateral fund	Chamber	140
	(iii) livelihood and social infrastructure support		140
	(a) livelihood contests	Members of the mahallas	60
	(b) community-based social infrastructure	Mahallas	80
	(iv) provision of safe drinking water		770
	(a) feasibility study contests	NGOs, government	70
	(b) piloting contests	NGOs, government	160
	(c) replication contests	NGOs, government	540
	(v) project management office		360
	(a) administration		200
	(b) impact assessment		30
	(c) contingencies		130
Parallel financing			340
UNDP	(i) income generation		150
	(a) microcredit and (b) small finance	BWA, Daulet, NGOs and government	150
MLSP	(ii) small enterprise employment generation		120
	(a) business training support (grant basis)	BI, BWA	20
	(b) equipment leasing (concession loans)	BI, BWA	100
JDA	(i) income generation	BWA, Daulet, other NGOs	70
	(a) microcredit and (b) small finance		
Contributions in kind			400
Government of Uzbekistan	Project office, counterpart support, project coordination, exchange rate, tax exemptions, impact assessments		320
Government of Karakalpakstan	Counterpart support, project supervision, impact assessments		50
NBU	JFPR account management		30
Total			3,280

ADB = Asian Development Bank, BI = Business Incubator, BWA = Business Women's Association, Chamber = Chamber of Commodity Producers and Small Enterprise Development, Daulet = local nongovernment organization in Karakalpakstan, JDA = Joint Development Associates, JFPR = Japan Fund for Poverty Reduction, MLSP = Ministry of Labor and Social Protection, NBU = National Bank of Uzbekistan, NGO = nongovernment organization, UNDP = United Nations Development Programme.

⁶ UNDP is also considering a parallel financing for the provision of drinking water component in the amount of \$60,000 equivalent.

D. Implementation Arrangements

11. **Executing Agency.** The Ministry of Macroeconomics and Statistics (MMES) will be the Executing Agency for the Project. It will be responsible for overall reporting to the Government. A steering committee comprising MMES, the Council of Ministers of Karakalpakstan, and an ADB representative will serve as the coordinating body. Appendix 4 shows the implementation structure.

12. **Implementing Agencies.** The Implementing Agencies of the Project will be the (i) Business Women's Association (BWA) and Daulet (an NGO in Karakalpakstan) for the microcredit and small finance subcomponents, (ii) National Bank of Uzbekistan (NBU) for the small loan subcomponent, (iii) Business Incubator (BI) and BWA for the equipment leasing and business training subcomponents, (iv) Chamber of Commodity Producers and Small Enterprise Development for the collateral fund subcomponent, (v) mahallas for the livelihood and social infrastructure support component, and (vi) various national and international NGOs for the safe drinking water component. An independent PMO situated in Karakalpakstan will be responsible for all the administrative and implementation aspects. It will coordinate the activities of all the components performed by the Implementing Agencies; provide semiannual progress reports to MMES, the steering committee, and ADB; undertake, in coordination with the implementing agencies, impact assessments and comparative analysis of the other four project components; monitor and evaluate the impact indicators; and, on the basis of the assessment and evaluation reports, provide policy recommendations on poverty reduction approaches for Uzbekistan. A contingency fund will also be administered by the PMO. MMES and ADB staff from the Uzbekistan Resident Mission will supervise the PMO.

13. **Conceptual Link to the Counterpart Projects.** The Project complements (i) the Small and Medium Enterprise Development Project, approved by ADB in December 2000 (footnote 3), (ii) the ADB program of assistance to the water sector (such as the proposed Aral Sea Area Disaster Relief and the Urban Water Supply Project, proposed for Board submission in the third quarter of 2001), and (iii) the technical assistance grant to prepare a Medium-Term Strategy for Improving the Living Standards proposed for approval in October 2001. The link is conceptual in the sense that the JFPR Project complements these projects in terms of targeted beneficiaries, immediate impact on the poor, innovative delivery of credit, and potable water services. The lessons that will be generated from the Project can serve as a guide for developing novel approaches in the strategic sectors of ADB's cooperation with the Government, especially for sustainable municipal services delivery (urban and rural water supply) in drought-prone areas, small enterprise and employment promotion, rural credit, and poverty reduction.

14. Specifically, the Project's link to the Small and Medium Enterprise Development Project is even more direct as the Project complements credit with other facilities of small and medium enterprise promotion such as collateral funding and leasing. Prospective beneficiaries will be the micro and small enterprises based in Karakalpakstan that will not be served by the loan as the minimum credit line for the latter is \$50,000. NBU, which is one of the three executing agencies under Small and Medium Enterprise Development Project, will also be one of the implementing agencies for the JFPR Project. Like in the Small and Medium Enterprise Development Project, the financial intermediary role of NBU will not create market distortions. To ensure NBU's efficiency, the following measures will be taken: (i) the Government will convert the grant funds into local currency at the over-the-counter exchange rate to determine the local currency funds to be lent to NBU; (ii) the Government's lending rate to NBU will be market-determined (i.e., not less than the interest rate charged on the Government's 90-day Treasury bills); and (iii) NBU's onlending rate to subborrowers will be determined by its cost of funds (i.e., the rate at which it obtains these local currency funds from the Government) plus margin. The JFPR Project will show that using sound banking principles, special credit lines to small enterprises and the poor can be provided.

15. The Project will contribute to the evolving ADB program of assistance to the water sector. The Government has proposed a loan project for ADB support, the Aral Sea Area Disaster Relief Project, designed to implement approaches to improve the delivery and efficiency of water systems in secondary towns and measures to ensure coverage of the poor. The latter project will assist the Government to broaden the targeting of the poor for such assistance to include the rural sector. Specifically, in conjunction with the proposed loan project, the Project would provide support for a parallel effort to deal with such issues as sustainable devolved responsibilities for water supply delivery systems to municipalities in drought-prone areas and lifeline tariffs to ensure coverage of the poor, in urban as well as in rural areas. The pilot approaches to be tested under the Project are expected to help the Government select cost-efficient and sustainable means to deliver water to rural and urban consumers, as well as spur related economic enterprise growth. The ADB program of assistance to the water sector of Uzbekistan for 2002 includes the Aral Sea Area Disaster Relief Project, which will deal more directly with water delivery issues in the sector as a whole, and its design would take into account the poverty-targeting approaches to be piloted under this JFPR Project.

16. The conceptual link of the Project to the Medium-Term Strategy will be through the poverty reduction modalities and the impact assessments that will be undertaken. The assessments can serve as part of the monitoring system for the strategy, particularly at the regional levels. The lessons that will be generated from the Project on small and medium enterprise promotion and delivery of potable drinking water will lay the groundwork for novel approaches for sustainable poverty reduction in these sectors. The Project will also show the advantages of (i) competitive ("contest") approaches of implementing social services delivery and income and employment generation involving the Government, private sector, and civil society; (ii) diversified implementation structures through NGOs, noncommercial private sector, and government; (iii) enhancement of sustainability through a revolving fund and own-contribution mechanisms; and (iv) cost-sharing schemes between the Government, the noncommercial private sector, NGOs, and external assistance. The Executing Agency, MMES, is also, apart from the Cabinet of Ministers, the key decision maker for strategic planning on poverty reduction in Uzbekistan.

17. **Relationship with Other Assistance Agencies.** The Project will benefit from parallel financing from UNDP, MLSP, and JDA. Other foreign assistance agencies and NGOs, such as the Technical Assistance for the Commonwealth of Independent States, have shown interest in the results of the Project, which could be used for application under their funding. The Japan International Cooperation Agency is interested in rural water supply and environmental projects for poverty reduction in the Aral Sea area. The Project will also work with JDA, which is supporting water and microcredit activities, particularly in Munyak Rayon near the Aral Sea.

18. **NGO and Community Involvement.** The Project emphasizes community, NGO, and private sector involvement for poverty reduction. All components are implemented by nongovernment structures and the mahallas. NGO-driven initiatives are supported through the microcredit subcomponent and the safe drinking water component, whereas the livelihood and social infrastructure support component promotes community-based, self-help activities.

19. **Funds Flow Arrangements.** ADB will transfer payments directly to the project special account at the Nukus branch of NBU.⁷ Only authorized staff from the PMO will be allowed to

⁷ Under ADB guidelines on imprest accounts, the savings account should be denominated in convertible and stable currency to avoid financial losses by the recipient arising from the depreciation of the local currency. In this particular case, the preferred denomination is US dollars. Arrangements that facilitate conversion into the local currency and disbursement of the funds will be fully worked out in coordination with ADB's Controllers Department (Disbursement Division).

withdraw the funds. Because of the special character of the Project as a direct poverty-targeting grant facility, NBU will not charge any fees, taxes, or levies. The Government has likewise agreed to apply the commercial exchange rate to all project activities, which will also be exempt from taxes and levies. Also, cash withdrawal at any time and in the full amount required is guaranteed for all project components. Appendix 5 provides an overview of the funds flow arrangements.

20. **Procurement and Consulting Services.** Any procurement under the Project will be conducted in accordance with ADB's *Guidelines for Procurement*. Where community participation in procurement is required, specifically in the community-based social infrastructure subcomponent and the safe drinking water component, the procedures for procurement are outlined in Appendix 2, paras. 8–13. In addition, consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements acceptable to ADB for the selection and engagement of consultants. A detailed work plan setting forth all administrative, operational, hiring of consultants, auditing, reporting, procurement, and disbursement arrangements will be prepared immediately after project approval and before project implementation.

21. **Reporting and Impact Assessment.** The Implementing Agencies will be responsible for providing the monitoring reports on a quarterly basis to the PMO. The PMO will prepare semiannual progress reports to MMES, the coordinating agencies, and ADB. The various components will provide separate impact assessments also on a semiannual basis, covering progress in project implementation, gender impact, contribution to viable employment generation and poverty reduction, and beneficiary analysis including ethnic focus. Based on the results of these assessments, the Government and ADB will decide during project implementation on possible reallocations of funds under the various components. Six months before the Project ends, the two institutions will decide on the future use of project funds upon its termination. To allow for maximum flexibility, the Project will provide for a contingency fund of 5 percent of the JFPR financing to be used for possible additional investments in the project components or other urgent needs. Aside from the progress reports, regular disbursement reports will be provided by the PMO. In addition, audit reports will be submitted to the Uzbekistan Resident Mission on an annual basis. ADB will likewise undertake a midterm project review. The PMO will submit a project completion report no later than three months after the physical project completion date (30 September 2004). An operations evaluation report will be undertaken by ADB in due course.

22. **Implementation Schedule.** The Project will be implemented over three years from October 2001 to 30 September 2004. Impact assessments will be done on a semiannual basis for the various components and subcomponents.

E. Impact Assessment

23. Appendix 6 provides a detailed computation of the impact of the Project on poverty.

24. **Viable Employment Generation and Poverty Reduction.** The Project will directly benefit 50,000 people in Karakalpakstan, and indirectly (through employment generation and water usage) about 296,000 more. An estimated 80 percent of the indirect beneficiaries will be poor, and 30 percent very poor, whereas 80 percent of the direct beneficiaries will belong to the low-income strata and 35 percent to the very poor population group.⁸ The Project will generate about 9,600

⁸ The definitions of poor (or low-income strata) and very poor were adapted from UNDP's estimated poverty line for the bottom 10 percent of income groups (1996: *Method of Calculating Poverty in Uzbekistan*) and the Government's official minimum wage as the proxy for the poverty line; both figures were adjusted to January 2001 prices. Using the UNDP poverty threshold as the benchmark for the very poor, the income is Sum1,006 per month; while the minimum wage of Sum2,450 per month is used as the poverty threshold for the poor. The income indexes were complemented with the findings of the draft "Consultations with the Poor" (May 1999; from the World Bank's *World Development*

new sustainable jobs⁹ (82 percent of whom are poor and 18 percent very poor). About 1,800 people can be lifted out of poverty on a sustainable basis. This will reduce the incidence of poverty in Karakalpakstan only marginally. Nevertheless, although the poverty impact based on income criteria is small, the Project will substantially improve the living standards of the poor by providing sustainable additional income and safe drinking water.

25. **Participatory Development Issues.** The Project was developed in close partnership with NGOs, local governments, and local communities. The project concept encourages cooperation with NGOs (such as BWA and water-focused NGOs), private sector representatives (such as BI and the Chamber of Commodity Producers and Small Enterprise Development), and local self-management committees (such as mahallas) as implementing agencies. In addition, the livelihood and social infrastructure support and safe drinking water components require, as part of the selection process, that participants reside in poor communities and that the participants in the activities be selected on a rotating basis to maximize the number of beneficiaries. Also, special focus is given to gender issues in the livelihood and social infrastructure support component. Finally, studies will assess the impact of the individual schemes on participatory development.

F. Risks, Assumptions, and Assurances

26. **Persistent Drought.** The Project addresses the adverse impact of the drought in Karakalpakstan through sustainable measures that are grounded on income generation and human development. The drought is projected to last for another 3-5 years. Hence, the income of the poor in the rayons will decline further, poverty will intensify, and overall impoverishment will worsen. The Project will be a timely intervention in the area because it will provide various options for income and employment, as well as mechanisms for the construction of potable water facilities and services that are accessible to the poor.

27. **Environment for Project Implementation.** The success of the Project will depend on several factors, the most important being a policy environment that will not unduly result in higher transaction costs. The Government has provided assurances that it will ensure an environment conducive to the smooth implementation of the Project. Specifically, it will grant full tax exemption to project-related activities, allow the use of the commercial exchange rate for all project activities as the basis for dollar-denominated conversions to sum, and provide for full cash disbursement of funds deposited in the formal financial institutions. The Project's success further hinges on the quality of the PMO; the envisaged cooperation with UNDP, MLSP, and JDA; active support from MMES and the government of Karakalpakstan; and continuous ADB support.

IV. THE PRESIDENT'S RECOMMENDATION

28. The President recommends that the Board approve ADB administering grant assistance to the Government of the Republic of Uzbekistan in an amount not exceeding the equivalent of \$2,540,000 to be financed from the Japan Fund for Poverty Reduction on a grant basis, for the purpose of the Supporting Innovative Poverty Reduction in Karakalpakstan Project.

Report 2000/01—a consolidation of a series of focus group discussions undertaken in three regions of the country - Tashkent, Karakalpakstan, and Ferghana Valley. The participants in these discussions categorized the households and their proportions in their respective communities as: very rich (1-2 percent), rich (3-5 percent), well-to-do (5-10 percent), middle class (20 percent), poor (40-80 percent), and the destitute or very poor (1-5 percent). ADB and the World Bank are currently supporting a Living Standard Strategy and Living Standard Assessment, respectively, which will, among others, define a clear-cut poverty line that will be comparable with international standards and appropriate for Uzbekistan conditions.

⁹ Sustainable jobs are defined in this Project as those that have duration of 3 years and more. The Project will generate about 296,000 job placements; however, most of them are not permanent (such as under the livelihood and social infrastructure support component, under which community-based voluntary work will be required).

APPENDIXES

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PROJECT FRAMEWORK

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions and Risks
1. Goal Reduce both income and non-income poverty in Karakalpakstan.	Income poverty in the targeted areas of Karakalpakstan will be reduced from 60 percent to 40 percent, while non-income poverty (particularly in terms of lack of access to safe drinking water and community-based social infrastructure) in these areas will decrease from 40 percent to 30 percent.	<ul style="list-style-type: none"> Impact assessments Regional surveys of the Government 	
2. Objective Provide poor households in Karakalpakstan with income-generating and employment opportunities as well as access to safe drinking water and other community-based social infrastructure.	<ul style="list-style-type: none"> The impact of the Project is projected at approximately 50,000 beneficiaries, of whom 80% will belong to the poor income strata and 35% of the poor will be the very poor. The indirect impact will affect about 296,000, of whom 80% will be poor and 30% of this number will be very poor. 	<ul style="list-style-type: none"> Impact assessments for each component on a semiannual basis Quarterly progress reports from the implementing agencies Impact assessments for each component on a semiannual basis Quarterly progress reports from the implementing agencies 	<ul style="list-style-type: none"> Political stability Government to ensure a conducive policy environment for the Project (i.e., tax exemptions, use of the commercial exchange rate, and provision for full cash disbursement)
3. Components and Outputs (i) Income generation (through microcredit, small finance, and small loans) (ii) Small enterprise employment generation (through business training, equipment leasing, and collateral fund)	<ul style="list-style-type: none"> At least 1,000 microcredit activities in 8 rayons, 400 small finance activities, and 15 small loan activities will be developed. About 300 poor unemployed will be trained in 3 years; and 40 equipment leasing activities and 10 collateral fund activities will be developed. 	<ul style="list-style-type: none"> Poverty Impact assessments (contributions to employment and income, impact on gender, ethnic groups, and poverty incidence) Project reports Poverty impact assessments (contributions to employment and income, impact on gender, ethnic groups, and poverty incidence) 	<ul style="list-style-type: none"> Existence of administrative and technical capability among nongovernment organization (NGO) partners Active support from the Ministry of Labor and Social Protection (MLSP) for the business training subcomponent Existence of administrative and technical capability among NGO partners

(iii) Livelihood and social infrastructure support (through mahallas)	<ul style="list-style-type: none"> About 150 livelihood activities and 19 social infrastructure activities in 7 poorest rayons of Karakalpakstan will be developed. 	<ul style="list-style-type: none"> Project reports Poverty Impact assessments (contributions to employment and income, impact on gender, ethnic groups, and poverty incidence) 	<ul style="list-style-type: none"> Existence of effectively functioning mahallas
(iv) Provision of safe drinking water through a competitive approach	<ul style="list-style-type: none"> About 50 feasibility studies, 20 innovative water management activities, and 10 activities for replication 	<ul style="list-style-type: none"> Project reports Poverty impact assessments (including environment and non-income poverty) 	<ul style="list-style-type: none"> Availability of private sector entities and NGOs that can undertake innovative water management schemes
(v) Project management office (PMO) (administration, assessments, contingency)	<ul style="list-style-type: none"> Develop labor market, gender, and poverty reduction impact assessments of the various components that can be applied by local governments for other poverty reduction projects Policy recommendations generated from best practices in the various components 	<ul style="list-style-type: none"> Project reports Asian Development Bank (ADB) review missions 	<ul style="list-style-type: none"> Security within project area Government to ensure a conducive policy environment for the implementation of the Project Existence of efficient and effective PMO staff
4. Activities <ul style="list-style-type: none"> Develop a Project Administration Manual. Coordinate with other development agencies and government agencies. 	<ul style="list-style-type: none"> Project Administration Manual by November 2001 Setup of PMO in Nukus by end-November 2001 Cooperation Agreements with United Nations Development Programme, Joint Development Associates, and MLSP by November 2001 	<ul style="list-style-type: none"> Consultants' reports Project report Project reports 	<ul style="list-style-type: none"> Availability of capable domestic consultants who can draft the Project Administration Manual on the components Active support from development and government agencies

<ul style="list-style-type: none"> • Implement the five components in various rayons of Karakalpakstan. • Develop impact assessment methodologies and a monitoring and evaluation system. 	<ul style="list-style-type: none"> • Start: December 2001 • Complete: 30 September 2004 • Impact assessment methodologies by components and monitoring and evaluation system of the impact 	<ul style="list-style-type: none"> • Project reports • ADB review missions • Annual audits • Project completion report • Project reports 	<ul style="list-style-type: none"> • Government to ensure a conducive policy environment • National Bank of Uzbekistan will not charge fees, taxes, or levies on the Project • Security within project areas • Existence of effective and efficient PMO • Existence of administrative and technical capability among NGO partners • Severe drought and political insecurity that will outweigh the net gains of the Project
5. Inputs <ul style="list-style-type: none"> • Revolving credit facilities (\$750,000) to fund credit facilities of components (I), (ii), and (iii) • Project management (\$470,000) • Equipment, machinery, and other capital costs (\$1,03 million) for components (ii), (iii), and (iv); • Supplies (\$30,000) for component (ii) • Training, workshops and seminars (\$70,000) for component (ii) • Contingency fund (\$130,000) under PMO • Consulting services (\$60,000) for components (iv) and (v) 			

DETAILED DESCRIPTION OF COMPONENTS AND SUB-COMPONENTS

A. Income Generation

1. **Microcredit.** The subcomponent on microcredit will build on the experience of a microfinance project supported by the United Nations Development Programme (UNDP) and the Soros Foundation in Karakalpakstan that is being implemented in cooperation with the Business Women's Association (BWA)¹ and the newly founded local nongovernment organization (NGO) called Daulet.² This subcomponent will cover loan demands of \$25-\$150 equivalent on a group-lending basis (the Grameen Bank model). It will help in making the BWA microfinance activities operationally and financially sustainable,³ and in broadening the coverage initially to four new rayons. In addition, it will reduce the currently relatively high interest rate paid by the clients from 7 percent to 4.5 percent per month.⁴ In the implementation of this subcomponent, special monitoring mechanisms on poverty targeting will be designed. The Asian Development Bank (ADB) will support additional capital grant investments for BWA in the four rayons, while UNDP will support the capital investments of Daulet in their designated rayons. The Joint Development Associates also intends to parallel finance this subcomponent in the amount of \$75,000. In the second year of the Project's implementation, ADB will extend support, in a competitive performance-based fashion, to Daulet, BWA, and other viable nonbanking microcredit institutions so as to expand the coverage of the microcredit subcomponent to four more rayons in the southern part of Karakalpakstan.

2. **Small Finance.** Microcredit experiences in Karakalpakstan have shown that there is a strong demand by the poor for small finance amounting to \$150-\$500 equivalent. Such credit needs are not currently being addressed by the local banking system, whose small finance ranges between \$500 and \$10,000. The small finance subcomponent of this Project will service credit clients who are primarily poor and who graduated from the microfinance schemes or are new clients with good business plans. These can be individuals, physical entities, and in exceptional cases, legal entities or those registered as small enterprises. The existing nonbanking institutions will serve as the credit conduits, and the basic lending features of this subcomponent are (i) a collateral requirement (that can be group-guaranteed), (ii) lower interest rates, and (iii) longer repayment periods than the microcredit subcomponent. Specifically, the interest rate at the beginning of the Project will start at 5 percent per month and will decline to a maximum of 3 percent per month by the third year of the Project. Repayments will be on a quarterly basis, with loan duration of up to 15 months and a grace period of three years. Under this subcomponent, the Project will support, through capital grant investments, BWA, Daulet, and other potential NGOs. Selection of the grantees will be done on a competitive basis considering their creditworthiness and other performance indicators. ADB and UNDP will jointly finance the administrative costs for this subcomponent.

¹ Since 1998, BWA has doubled its initial capital investments, and in March 2001 it had an outstanding portfolio with about 1,000 clients for a total of \$40,000 equivalent. With a repayment rate of 98 percent, the project created a net income of about SUM6,000,000 (\$7,500). While extending its client coverage, the Japan Fund for Poverty Reduction (JFPR) Project is expected to be operationally viable by mid-2002 and financially sustainable by the end of 2003.

² Under the Project, Daulet is expected to work initially in the four northwestern rayons of Chumanai, Hodjeyli, Kanlikol, and Kungrad, whereas BWA will work in Chimbai, Karauzyak, Kegeyli, and Nukus districts. This subcomponent will later be extended to the southern part of Karakalpakstan.

³ Operational sustainability is defined as the ratio between financial income and expenditures. Financial sustainability is defined as the ratio of financial income to operational, inflation, and subsidy expenses.

⁴ The interest rate for microfinance schemes seems to be high on a yearly basis. However, typical microfinance activities are being repaid within 6-9 months, and there is a big demand for such credit, as the success of the UNDP project in Karakalpakstan (and other oblasts of Uzbekistan) proves.

3. **Small Loans.** The small loan subcomponent will provide credit of between \$500 and \$10,000 equivalent. The objectives are to (i) pilot test lower credit lines into the traditional banking system, and (ii) provide comparable information for poverty and employment impact assessments on various credit and small finance schemes. The National Bank of Uzbekistan (NBU) will be the conduit for this subcomponent. NBU, the biggest bank in Uzbekistan, is one of the partner organizations for the Project, and is also the Executing Agency for ADB's Small and Medium Enterprise Development Project. Although NBU does not specialize on small loans (\$500-\$10,000), it has a good banking network in Karakalpakstan and has a reliable small enterprise loan portfolio. More importantly, the Government has expressed its desire to substantially increase NBU's small enterprises credit market segment.

B. Small Enterprise Employment Generation

4. **Viable Employment.** Microcredit and small loan subcomponents of the income generation component will successfully address poverty in Karakalpakstan by increasing the income sources of the poor, mostly through informal sector activities. However, as most of the poor in Karakalpakstan have very low incomes, microcredit might not reduce the incidence of poverty (though it will substantially decrease the depth of poverty). The non-availability of viable jobs is one of the major constraints to reducing poverty in Karakalpakstan.⁵ Therefore, creative approaches for sustainable job generation that are affordable to small enterprises are needed. For Karakalpakstan, focused business training through a modular approach, equipment leasing, and a small-scale enterprise collateral fund are the most appropriate tools for generating viable formal jobs.

5. **Business Training.** The Ministry of Labor and Social Protection (MLSP), in cooperation with the International Labor Organization, has gathered some experiences on targeted entrepreneurship training through a modular approach.⁶ This new training approach will identify potential entrepreneurs from among the unemployed, provide them with business training for between 3 and 20 days, and support them in setting up their new business. The identification, training, and followup are done by agencies that specialize in private sector development such as the business incubators. Under this subcomponent of the Project, MLSP will pilot-test these training modules in Karakalpakstan, focusing only on the unemployed poor, especially those belonging to the registered and the hidden unemployed workforce.⁷ MLSP will cover the training costs of the registered unemployed, while the Project will shoulder the training expenses of those who are considered as hidden unemployed. This subcomponent will be implemented

⁵ More viable jobs are created in small industries of the agroprocessing sector, including meat processing, fruit processing, juice making, dairy, and processing of cotton (including yarn making, paper industry, and textile industry). Markets are mainly domestic, specifically in southern and eastern Karakalpakstan as well as around Nukus, its capital city. In the past two years, however, new markets have been opening in the neighboring oil-rich area of western Kazakhstan, which is geographically nearer to Karakalpakstan than the food supply regions of Kazakhstan. Also, Karakalpakstan has many things in common with Kazakhstan. The Karakalpakstan people are ethnically more similar to the people in Kazakhstan; their language is like Kazakh; and many Karakalpak people have left the country for western Kazakhstan. Furthermore, the Government is currently improving a railway that will link Nukus to western Kazakhstan; when completed, trade will substantially improve between these two areas.

⁶ A modular type of training has been successfully applied in transition economies such as in the Baltic States, Eastern Europe, and eastern Germany. It is also currently implemented in Russia; Kazakhstan; and Kyrgyz Republic, where it is supported through an ADB loan. The Project will benefit from the experiences of Kyrgyz Republic and Kazakhstan.

⁷ The hidden unemployed workforce includes working age persons who are on a long-term leave from work or are simply without work, but who are not formally registered as unemployed. The registered unemployed workforce comprises working age persons who have no work and are listed in government labor statistics as unemployed. The hidden unemployed persons are found mostly in the rural areas, while the registered unemployed prevail in the cities. In Karakalpakstan, the ratio of the registered unemployed to the hidden unemployed is 1:4.

through the Karakalpakstan Business Incubator (BI) NGO and BWA. It is expected that 300 poor unemployed can be trained over a period of three years. If the scheme is successful, MLSP plans to replicate its best practices in all of the regions of Uzbekistan.

6. **Equipment Leasing.** Due to the problem of acute cash shortage in the financial market, leasing of machines costing up to \$10,000 equivalent is perceived by many small-scale entrepreneurs as a better option than accessing credit for improving their business performance. To assist these types of entrepreneurs, an equipment leasing subcomponent has been included in the component of small enterprise employment generation. This subcomponent has the following characteristics: (i) It will be implemented through BWA and BI. (ii) The leasing rate, which will carry a maximum charge of 5 percent on a quarterly basis, is slightly higher than the devaluation rate but nevertheless is substantially lower than the inflation rate. (iii) Full payment of the leased machinery will be within a three-year period to guarantee operational sustainability. (iv) A 2 percent commission fee will be charged to the borrowers to cover part of the operational expenses of BWA and BI. (v) The entrepreneur and BWA/BI, at a ratio of 60:40, will share an employment bonus equivalent to 3 percent of the machinery cost; it is hoped that this practice will encourage the leasing of more labor-intensive machinery that will compare favorably in terms of price and efficiency with the capital-intensive equipment. (vi) Pooling of resources by several entrepreneur-borrowers to enable them to lease bigger machines will be allowed provided that the use of the equipment will encourage more labor usage (e.g., night shifts) and will generate a higher employment to capital investment ratio. (vii) A special analysis of the employment creation impact (with opportunity costs analysis) will be required from each borrower. And, (viii) MLSP will cost-share the leasing component through a concessional loan to BWA and BI of \$100,000 from its Employment Fund. UNDP will parallel finance (\$150,000 over three years) activities of the national and Karakalpakstan Business Incubators.

7. **Collateral Fund.** An initial survey of the credit needs of small-scale enterprises in Karakalpakstan showed that credit lines are not the major impediments for small- and medium-scale enterprises (SMEs); rather, it is access to a collateral fund. Credit clients are normally requested to provide 120 percent of their credit needs as collateral. Housing and farm lots are often not accepted by banks as the guarantee for their loans. Small entrepreneurs and bankers, therefore, rank the lack of collateral as one of the major bottlenecks to accessing credit funds.⁸ The Project will establish a collateral fund. This subcomponent will (i) charge an insurance premium of 2.5 percent; (ii) have a private sector-run project selection committee with members from participating SME promotion banks and funds, BI/BWA, the Chamber of Commodity Producers and Entrepreneurs (the Chamber), and ADB staff from the Uzbekistan Resident Mission; and (iii) will provide for risk sharing through the involved stakeholders including the banks. The Project will assess the impact of collateral provision on employment generation and will undertake a comparative analysis of the net gains and costs of the collateral fund subcomponent vis-à-vis the income generation component, which provides various credit schemes.

⁸ A study in Karakalpakstan showed that of the 4,000 registered SMEs surveyed in the region, about 2,000 each year receive credit from 5 banks, the Employment Fund, and the Business Fund. Of the remaining 2,000, which do not receive credit, around half have no business plans; 550 furnish the banks with business plans that are not viable; 400 applications have viable business plans but are refused credit due to lack of collateral; and only 50 are refused due to other reasons.

C. Livelihood and Social Infrastructure Support

8. **Community-based Poverty Reduction.** Uzbekistan has a long tradition of community-based social assistance through local self-management committees (mahallas). MLSP is using the mahalla system to provide targeted social assistance and community-based support to needy persons as identified by the community. Some of these self-management committees also encourage economic activities for the poor residents within their communities. The Project will promote individual livelihood activities as well as the construction or rehabilitation of community-based social infrastructure. These two subcomponents will be implemented in the first 1.5 years of project implementation through a series of two contests covering the seven poorest rayons of Karakalpakstan, viz., Bozatau, Chimbai, Karauzyak, Kegeyli, Kungrad, Munyak, and Tahtakupir. The selection committee will comprise members from the local self-management committees, the Mahalla Fund, BWA (to ensure gender neutrality), BI/Chamber (to guarantee selection of good business proposals), and ADB. Separate impact assessments will be done annually for each selected project. Special awareness campaigns (in various local languages) will promote broad-based participation. The Karakalpakstan Mahalla Fund will be the implementing agency for this subcomponent.

9. **Livelihood Contest.** Individual livelihood proposals will be solicited from among the poor in the seven poorest rayons of Karakalpakstan. Up to 10 proposals will be selected by each rayon-based Mahalla Fund and will be forwarded to the Karakalpakstan Mahalla Fund for final selection. In the first 6 months of project implementation 10 proposals will be chosen on a quarterly basis, in the second year 15, and in the third year 30. The selected livelihood proposals will receive credit of up to \$250, payable in full within 9-15 months. A tripartite agreement among the Karakalpakstan Mahalla Fund, the local/regional mahalla, and the project beneficiary will be contracted wherein the terms and conditions of the credit will be spelled out. Upon full repayment by the project beneficiary, the local mahalla will receive 30 percent of the repaid amount from the Karakalpakstan Mahalla Fund, which it can invest in social infrastructure, subject to the terms and conditions (including use of civil works involving community participation, procurement, disbursement, and auditing) that will be jointly agreed upon by the selection committee and the Project Management Office (PMO). The seven regional mahallas, that will be involved in this subcomponent will also receive a small administration fee for their work. If used expeditiously, the funds received by the mahallas can serve as revolving funds that can be sustained for another 8 years after the Project has expired.

10. **Community-based Social Infrastructure.** Similar to the livelihood contest, the Project will support a contest in support of the construction or rehabilitation of community-based social infrastructure (e.g. schools, kindergartens, and village water systems), and in exceptional cases also community-based income generating activities. Proposals will be evaluated on the merits of their impact on the poor in the community, gender focus, ethnic sensitivity, and environmental concerns. The Project will cover only the capital costs of the community-based social infrastructure project, whereas labor and other inputs will be contributed free through the community-based voluntary work system. A single proposal will not exceed the ceiling of \$3,000 equivalent. Similar to the livelihood contest, the rayon level Mahalla Fund will recommend up to 3 proposals for each contest, and the Karakalpakstan Mahalla Fund will select in total 3 projects in 2001, 8 in 2002, and 8 in 2003.

D. Provision of Safe Drinking Water

11. **Piloting Sustainable Rural Water Solutions for the Aral Sea Regions.** A major reason for non-income poverty⁹ in Karakalpakstan is the lack of safe drinking water. With drought likely to remain a problem in coming years and with the financial resources of both households and the government substantially declining, innovative approaches are urgently needed. The Project will fund novel approaches to addressing this problem through three subcomponents, all of which will employ a competitive process: (i) feasibility study contests, (ii) piloting contests, and (iii) replication contests. These contests will solicit proposals on alternative schemes for water generation, purification, distribution, conservation, and other water usage modalities that are appropriate for areas in Karakalpakstan that have been adversely affected by the drought and have a high incidence of non-income poverty. The Project aims to gain experiences with drinking water management that can in turn, be applied in other drought-affected areas near the Aral Sea.

12. **Three Innovative Contests.** The Project will facilitate three types of contests among local NGOs (in cooperation with international NGOs), local governments, and agencies for providing drinking water, as follows:

- Initially, creative and viable feasibility studies on water-related projects will be solicited and selected through a “contest” approach on a quarterly basis. Over the project implementation period, up to 50 feasibility studies will be awarded an amount between \$100 and \$600, for a total of \$30,000.
- Among the chosen feasibility studies, another round of competition will be done on a semiannual basis, to select the proposals that will be pilot-tested for implementation. With an average investment of \$8,000, ranging from \$3,000 to \$10,000, about 20 projects can be implemented.
- Of these 20, 10 of the best performing pilot schemes will be selected for replication at a cost of \$10,000-\$100,000 each.

13. **Component Management.** Selection of proposals will be done by a Steering Committee comprising a representative each from the Karakalpakstan Department for Rural Water Supply, an ADB staff member from the Uzbekistan Resident Mission, two representatives from NGOs on a rotation basis, and an independent local technical expert financed (as local manager) through the Project. The local manager will access international expertise through the Internet and with the assistance of ADB. Project proposals will be announced through local newspapers and other forms of public awareness campaigns. UNDP is considering parallel financing of this component with \$60,000 over three years by converting its current project called Emergency Actions to Mitigate the Consequences of Drought in Uzbekistan into a Sustainable Drinking Water Management Project.

E. Project Management Office

14. The PMO will be located in Nukus, Karakalpakstan and will be responsible for all the administrative and implementation aspects of the Project. Supervised by the Executing Agency and the ADB staff member from the Uzbekistan Resident Mission, the PMO will (i) coordinate the activities of all the components performed by the implementing agencies; (ii) provide semiannual progress reports to the Executing Agency, the Steering Committee, and ADB; (iii)

⁹ Non-income poverty arises from limited access of basic social infrastructure and services such as primary education, primary health care, access to safe drinking water, etc.

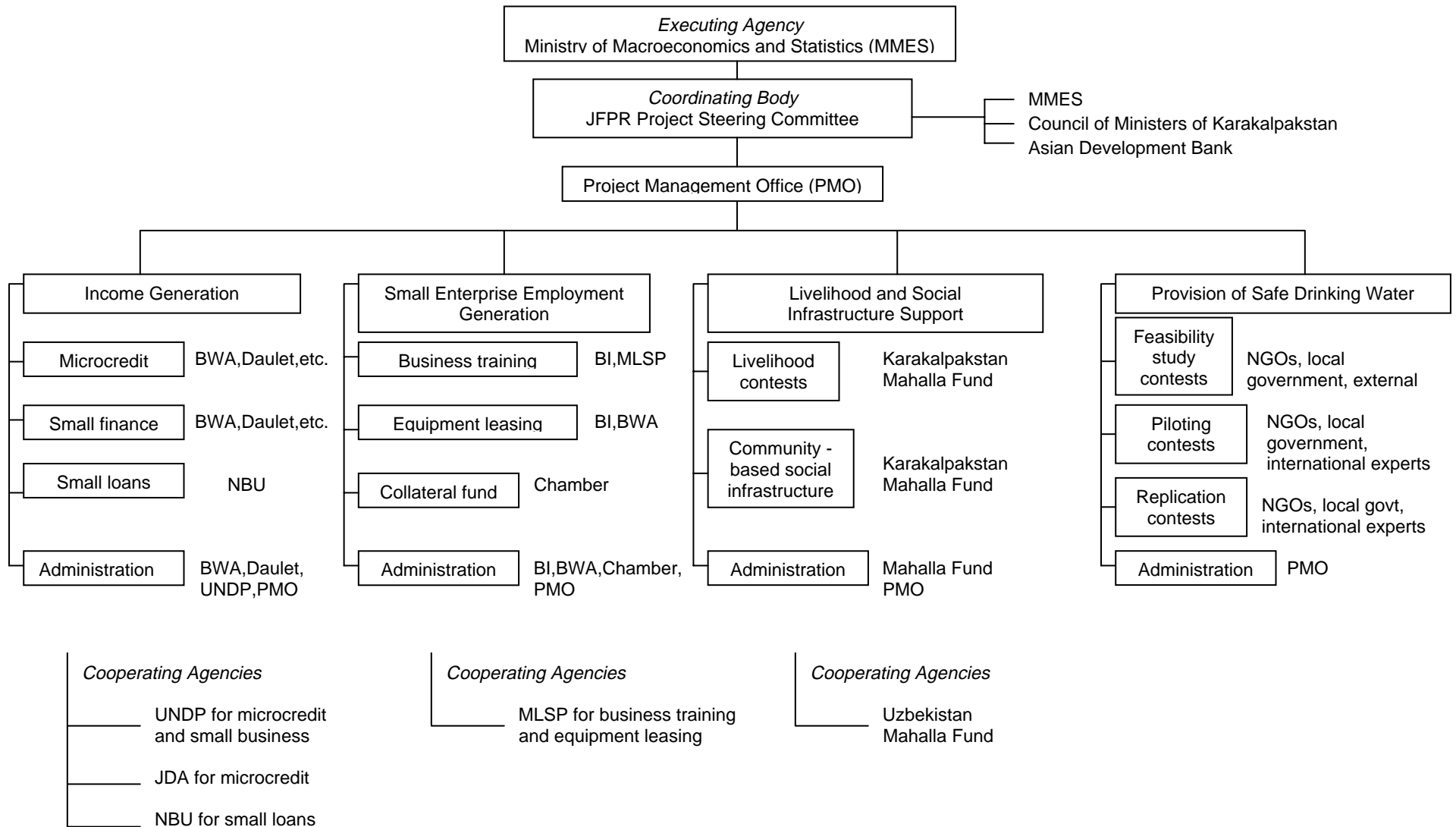
undertake, in coordination with the implementing agencies, the impact assessments and comparative analysis of the other four project components; (iv) monitor and evaluate the impact indicators; and (v) on the basis of the assessment and evaluation reports, provide policy recommendations on poverty reduction approaches to the central Government. The PMO will also have a contingency fund (5 percent of the JFPR financing) to take care of unforeseen expenses and to facilitate the development of other innovative poverty reduction schemes that may warrant pilot testing.

15. **Impact Assessments.** At the beginning of the Project, the PMO will design the impact assessment modules for the other four project components: income generation, small enterprise employment generation, livelihood and social infrastructure support, and provision of safe drinking water. To the extent possible, a combination of quantitative (survey schedules) and qualitative (focus group discussions) methodologies will be employed to ensure a more comprehensive assessment of poverty. In general, the assessments at the component and subcomponent levels will include (i) the direct and indirect contribution of these activities in expanding the income sources and employment opportunities of the poor and the very poor located in the project sites; (ii) impact on poverty incidence, depth, and severity of poverty; (iii) impact on gender; (iv) impact on ethnic and other vulnerable groups; and (v) sustainability factors (e.g., financial recovery, existence of revolving fund schemes, operational efficiency, etc.). In the case of the social infrastructure subcomponent and the provision of safe drinking water component, environment and non-income poverty (e.g., incidence of waterborne diseases, school cohort ratios, etc.) considerations will also be taken into account. For the component on small enterprise employment generation, a labor market study is envisioned. Similarly, comparative assessments at the intra- and intercomponent levels will be undertaken to verify which of the Project's components and subcomponents have the greatest impact on poverty reduction, specifically in terms of generating more income and employment for the poor and of addressing their limited access to safe drinking and other social infrastructure facilities and services. Special attention will be accorded to the process of poverty targeting at the subcomponent levels. It is hoped that at the end of the Project, best practices on various poverty reduction approaches experienced in the Project can be replicated in other regions of Uzbekistan, and policy recommendations on improving public interventions that are focused on the poor can be generated. The lessons learned from the Project will be most useful for subsequent ADB projects in Uzbekistan.

COST ESTIMATES AND FINANCING PLAN: INPUT-OUTPUT MATRIX
(\$'000)

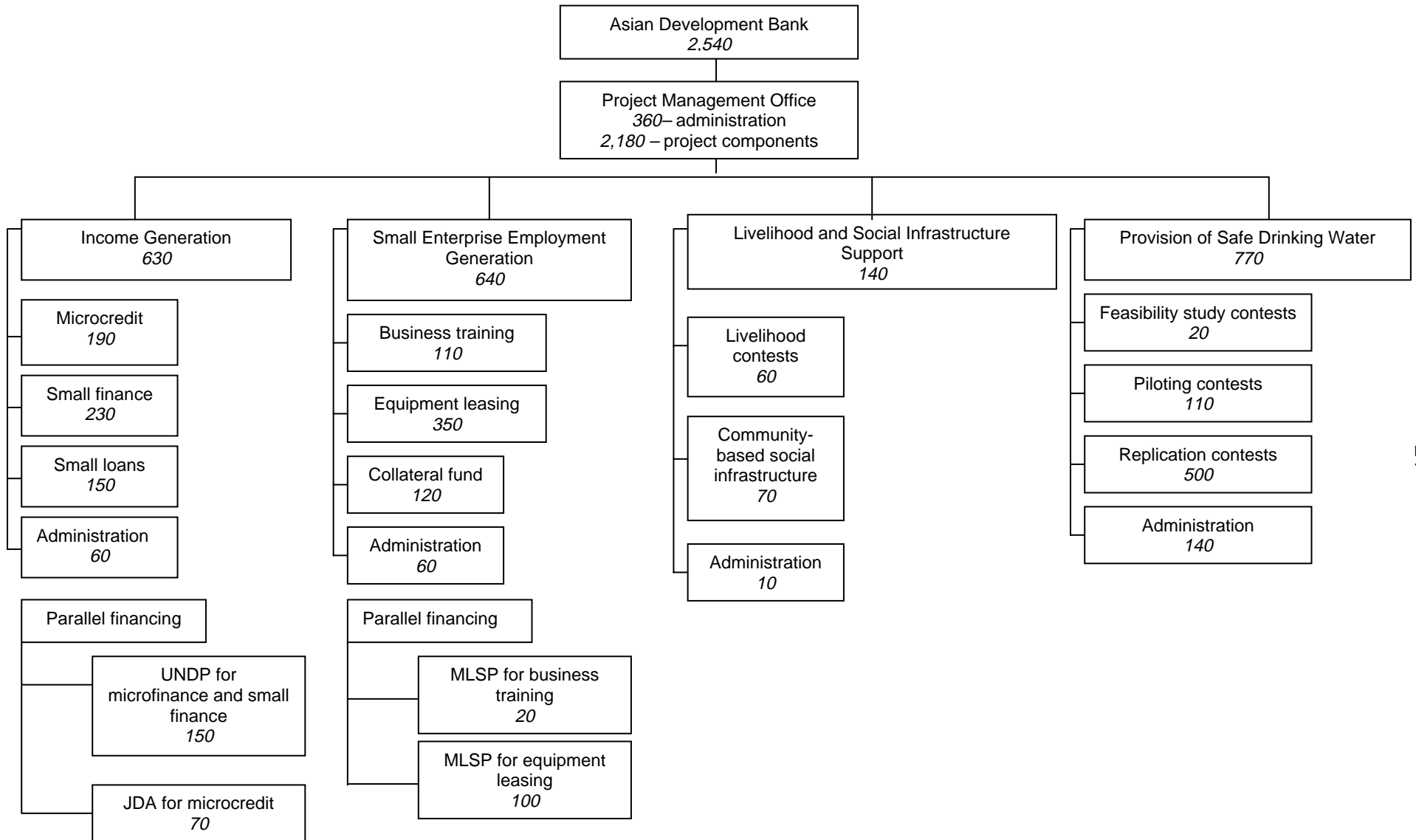
Inputs	Project Components					Total
	Income Generation	Small Enterprise Employment Generation	Livelihood and Social Infrastructure Support	Provision of Safe Drinking Water	Project Management Office	
1. Revolving Credit Facilities	570	120	60			750
2. Civil Works						0
3. Equipment, Machinery, Materials and other Capital Costs		360	70	600		1,030
4. Supplies		30				30
5. Training, workshops, and seminars		70				70
6. Consulting Services				30	30	60
7. Project Management	60	60	10	140	200	470
8. Other Project Inputs						0
9. Contingencies (5% of JFPR financing)					130	130
Total	630	640	140	770	360	2,540

IMPLEMENTATION STRUCTURE OF THE PROJECT



BWA = Business Women's Association, BI = Business Incubator, Chamber = Chamber of Commodity Producers and Small Enterprise Development, Daulet = a local nongovernment organization in Karakalpakstan, JDA = Joint Development Associates, JFPR = Japan Fund for Poverty Reduction, MLSP = Ministry of Labor and Social Protection, NBU = National Bank of Uzbekistan, NGO = nongovernment organization, PMO = project management office, UNDP = United Nations Development Programme.

FUNDS FLOW (\$'000)



JDA = Joint Development Associates, MLSP = Ministry of Labor and Social Protection, UNDP = United Nations Development Programme

SUMMARY BENEFICIARY, EMPLOYMENT, INCOME, AND POVERTY IMPACTS

Component/Subcomponent	Beneficiaries			Employment Impact			Sustainable Employment Impact (Permanent Job)			Poor Crossing the Poverty Line on a Sustainable Basis	
	Number	of which poor	very poor	Number	of which poor	very poor	Number	of which poor	very poor	Percent	Number
Income Generation	8,323	7,234	2,474	12,221	10,577	3,616	7,236	5,923	1,314		720
Microcredit	6,160	5,544	1,848	8,008	7,207	2,402	4,204	3,604	601	10	360
Small finance	2,063	1,650	619	3,713	2,970	1,114	2,747	2,079	668	15	312
Small loans	100	40	5	500	400	100	285	240	45	20	48
Small Enterprise Employment Generation	611	405	120	2,811	2,387	680	1,942	1,585	356		298
Business training	400	320	100	1,680	1,512	454	1,134	907	227	15	136
Equipment leasing	150	60	15	825	660	165	627	528	99	25	132
Collateral fund	61	25	5	306	215	61	181	150	31	20	30
Livelihood and Social Infrastructure Support	28,240	24,016	8,532	280,528	196,449	84,211	177	135	42		13
Livelihood contests	240	216	132	528	449	211	177	135	42	10	13
Community-based social infrastructure	28,000	23,800	8,400	280,000	196,000	84,000	0	0	0	0	0
Provision of Drinking Water	12,500	9,930	4,340	350	240	85	295	159	42		736
Feasibility study contests	100	10	0	0	0	0	0	0	0	0	0
Piloting contests	2,400	1,920	840	100	40	10	45	9	5	5	96
Replication contests	10,000	8,000	3,500	250	200	75	250	150	38	8	640
Total	49,674	41,585	15,464	295,910	209,653	88,592	9,650	7,802	1,755	0.6	1,768