



**Report on implementation
of the first phase
of the project
“Alternative job creation
in Aidarken village”**

Bishkek 2010

TABLE OF CONTENTS

Chapter I. Methodology	3
Chapter II. Overview of political and legal environment	4
Chapter III. Overview of social and economic situation	8
Chapter IV. Impact, goals and objectives of the project.....	14
Chapter V. Activity of the Project	15
Chapter VI. Lessons learnt	22
Chapter VII. Recommendations for the future activities of the Project	23
Chapter VIII. Annex	25

Chapter I. Methodology

Objective of the study

Draft a report (on Phase I of the project) to describe the process of needs assessment, capacity building and small grants' implementation as well as develop lessons learnt and future steps for the second phase of the Project.

Tasks

- Conduct a desk study of Project documentation.
- Visit Aidarken and conduct interviews with key project partners to understand local poverty / unemployment, perform analysis of obstacles for local social and economic development, have findings documented and develop recommendations.
- Conduct an impact assessment of the project implementation in terms of capacity building and small grants' support, have findings documented and develop recommendations (including proposals on better targeting of rural population with low incomes, including strategy, lessons learnt and recommendations).

Subject of the study

The subject of this study are obstacles and opportunities for the development of social and economic activity of local population resulting in increased employment in public and private sectors of Aidarken village of the Batken province in the Kyrgyz Republic.

Methodology of the study

The following research methods for information collection were used for the study:

- Desk methods: Review of project documentation and project reports as well as papers produced by international donor organizations;
- Field methods: Interviews with beneficiaries and stakeholders of the Project as well as UNDP representatives in Batken.

Tools

Questionnaires for each three major respondent groups were developed and used as tools for the study:

- Entrepreneurs receiving grant support;
- Representatives of business community (HaiBI, RAS, Bai Tushum, trainers);
- Representatives of local self-governance bodies (rural administrative councils).

Respondents

The composition of respondent groups was pre-defined by the objectives and structure of the Terms Of Reference. Main beneficiaries and stakeholders of the project should have been selected: those representing local business infrastructure, governance bodies in charge of economic development and entrepreneurship. The following persons were selected as respondents:

- Mr. Akim Abdukaarov, shop director of Mercury Mining Complex, polymer-sand tiles' production project manager;
- Ms. Mukamal Baimuratova, sewing shop development project manager;
- Mr. Zailap Ikramov, profile cover production project manager; with matrix
- Mr. Abdilamit Ganiev, project manager on creation of a shop for manufacturing of metallic items and repair of technical equipment;
- Mr. Kudaiberdi Narmatov, deputy director of "Ai-Kok" agricultural cooperative;
- Mr. Nurlan Alimbaev, director, Batken branch of Bai-Tushum Micro-crediting company;

- Mr. Abdipatta Mataev, manager of Batken Rural Advisory Service;
- Mr. Sabyr Mamataliev, head of Aidarken rural administrative council;
- Mr. Akmatally Shamshiev, trainer-consultant of Batken Rural Advisory Service for Kadanjai district;
- Mr. Kamil Abdurahmanov, director, "HaiBI" business incubator.

Chapter II. Overview of political and legal environment

Overview of socio-economic context. Destabilizing social and political processes in Osh and Jalal-Abad cities of June 2010, which followed the April revolution, resulted in the paralysis of local business activity and reduced rates of local economic development (the decline was up to 50%). Nevertheless, they produced an insignificant impact in the economic development of Aidarken village. Local markets operate in the same manner as before the revolution, the volumes of production of goods and services did not suffer any significant changes, the level of crediting and investment activity remained at the same level, the volume of consumption showed no major decline, interest rates in the area of lending and deposits also remained the same. The only one exception is insignificant reduction in imports of certain consumer goods from Osh province and Uzbekistan. Currently, according to local experts, the volumes of freight traffic from Osh to Aidarken are gradually returning to the previous level. It should be also noted that the village receives goods from a large district market "Halmion" which is located practically on the border with the Republic of Uzbekistan, which also plays a significant role in uninterrupted deliveries of necessary goods to local consumers.

According to local experts, the possibility of having anti-social tensions in Aidarken village is practically insignificant. This is explained by the fact that the population of the village, though represented by two large national and ethnic groups – the Kyrgyz and the Tajiks, also contains other ethnic groups which include Russians, Tatars, Kazakhs, Uyghur as well as other nationalities of the former USSR. Social links, which were established from joint habitation in apartment blocks as well as mixed neighborhood in private communities, will hardly allow the emergence of spontaneous ethnic clashes.

In addition, according to the Poverty pyramid¹, the presence of significant number of households with average income (around 66%), which twice exceeds the number of poor families, significantly decreases social and economic differentiation as well as reduces the risk of social tensions and political instability.

Another important factor which is an obstacle to the development of destructive social and political processes in the village, are well-established social and cultural links, characterized by friendly attitudes to each other, joint leisure activities, mutual penetration of national and cultural traditions as well as specific social identification. The population of the village refer themselves to "pioneer inhabitants in the village", who were the first to develop mercury production in the country and were mostly represented by various ethnic groups.

Against this background, the current party and political differences among the members of the Provisional Government on the national level cause well grounded concerns that structural reforms in the system of governance in the country will continue for quite a long period.

Some experts believe that the decision makers in the Provisional Government demonstrated ineffective policy in the appointment of heads of executive branch (acting ministers, governors, akims etc.) which resulted in justified discontent among the society, the media and the experts. There are no doubts that this policy will be pursued after the parliamentary elections and inaugu-

¹ Report on joint review of needs of the village, 2009. UNEP / UNDP Project on Alternative job creation

ration of the new cabinet of ministers as according to the expectations the majority of the members of the Provisional Government will become the leaders of legislative and executive state agencies. This means that the issues of entrepreneurial development will be possibly managed by incompetent people and state as well as municipal support from them will be equal to zero².

Other experts have a more optimistic view on the possibility of resolving political confrontation in the Government. They link it to the "diseases" of young parties, the specificity of legitimation of provisional governance in the country as well as resulting social and political "overheads". According to these experts, differences and uncertainty in the society as well as among the provisional governance structures will cease after legitimate system of governance is in place.

The experts are unanimous in making the following statement – the process of transformations in the political system, which directly influences the activity of local business environment, will remain unsustainable, shall be accompanied by local anti-social conflicts as well as political and party actions, which are capable of temporarily terminating any economic activity in a given locality.

State support in the area of entrepreneurship. Ineffective implementation of measures within the State Program for the development of entrepreneurship (2009-11) as well as pursuant the Law on state support to small entrepreneurship during the previous power of President Bakiev was in many respects attributable to the following factors:

- Too wide scope of strategic tasks which were practically not attainable against the available budget of ministries, provincial and district administrations and local self-governance bodies, as well as lack of qualified experts in the area of medium and small business – all this resulted in the dissipation of resources and non-achievement of planned targets;
- Absence of targeted methods and approaches in their development, weak practice of problem-oriented approaches, lack of innovative methods of management for objectives which were the consequence of unreasoned measures;
- Lack of a unified definition of the object of management impact i.e. small and medium business; this resulted in the dissipation of public support to all types of enterprises;
- Absence of the practice to reserve state contracts for the SME entities, weak activity on the development of a network of servicing structures, logistics and intermediary companies, production and technology centers as well as other infrastructural objects for the support of the SME;
- Insufficient financing of the SME as well as units of support to entrepreneurship etc.

All above factors allow making the only one conclusion: by the time of project commencement state governance agencies at all levels had no real policy and motivation in the area of developing the management of small and medium businesses.

After the April events previous policy was replaced by the advent of new tactical and short-term papers which form the basis of activity for the major authorized agency in this area i.e. the Ministry of Economic Regulation. Currently the activities of this Ministry are based on the Plan of medium and short term measures developed for half-year period until the appointment of the new staff of the Ministry of economic regulation as well as the Action plan for the restoration of business environment and investment climate which is called the "road map". It should be noted that these recent measures are mostly focused on the recovery of budget receipts, public works, regulation of trade issues aimed rather at preservation of performance rates of large and medium businesses than of small ones.

² These statements reflect the opinion of independent experts interviewed during preparation of the final report.

Therefore it should be noted that currently the government has no long term policy in the area of entrepreneurial development. This prerogative will be the task of the newly created Ministry of economic development which is expected to be formed in autumn this year.

Normative and legal framework for entrepreneurship. Currently at the country level there is quite an extensive normative and legal framework for the implementation and regulation of entrepreneurial activity. The above regulatory and legal foundations for entrepreneurship include the following basic laws and by-laws: the legislation on the fundamentals of privatization and entrepreneurship³, on state support to small businesses⁴, on protection of rights of entrepreneurs⁵, on limitation of monopoly and development of competition⁶, on development of agriculture⁷. The functioning of the market system is backed up by a set of basic normative and legal acts in the sphere of technical regulation⁸, registration of business entities⁹, management of entrepreneurial development process¹⁰ as well as checks¹¹. There is also a number of legislative documents which cover sectoral regulation of entrepreneurial development¹², as well as creating the conditions for the development of rural entrepreneurship infrastructure (micro-financing, provision with circulating funds and sales facilities)¹³.

Among the positive trends to be mentioned are steps undertaken by the Government in terms of practical implementation of these policies, which created certain benefits for businesses. This mainly refers to the improvement in administration and regulation of entrepreneurial activity, reduction of tax burden (VAT and profit tax rates as well as exemption of imports of equipment from the VAT), improvement in the procedure of checks, streamlining of export and import procedures, development of permissive and licensing procedures for investment and construction process as well as imposition of ban on checks. Nevertheless, there are a number of barriers which require decisions on their minimization or removal.

As it has been mentioned above, one of the problematic areas which impede effective development of entrepreneurship in the Kyrgyz Republic is the absence of unified definition of small and medium businesses which results in the "dissipation" of state support to small business. Local

³ The Law of the Kyrgyz Republic "On basic principles of denationalization, privatization and entrepreneurship in the Kyrgyz Republic", 20/12/1991 No 683-XII

⁴ The Law of the Kyrgyz Republic "On state support to small businesses", 25/05/2007, No 73

⁵ The Law of the Kyrgyz Republic "On protection of rights of entrepreneurs", 1/02/2001, No15

⁶ The Law of the Kyrgyz Republic "On limitation of monopolistic activity, development and protection of competition", 15/04/1994, No 1487-XII

⁷ The Law of the Kyrgyz Republic "On development of agriculture in the Kyrgyz Republic", 26/05/2009, No 166

⁸ The Law of the Kyrgyz Republic "On fundamentals of technical regulation in the Kyrgyz Republic", 22/05/2004, No 67

⁹ Regulation "On state registration of citizens involved in entrepreneurial activity without the creation of a legal entity as an individual entrepreneur on the territory of the Kyrgyz Republic" (Resolution of the Government of the Kyrgyz Republic, 2/07/1998 No 404.

Regulation "On the rules of tax registration of legal entities, branches (representations) and private persons in the Kyrgyz Republic", approved by the State Committee of the Kyrgyz Republic on taxes and levies, 1/12/2008, No 123.

¹⁰ Regulation "On the Directorate of development of entrepreneurship and branches of economy", Order of the Ministry of Economic Regulation of the Kyrgyz Republic, 15/06/2007, No 69.

¹¹ Regulation "On the rules of checking the subjects of entrepreneurship", Resolution of the Government of the Kyrgyz Republic, 6/11/2007 № 533.

Decree of the President of the Kyrgyz Republic "On measures of limiting the involvement of controlling, law enforcement and other state agencies in the activity of subjects of entrepreneurial activity", 23/07/2005, No 284.

¹² State Program of the Kyrgyz Republic "Development of wheat seed farming", Resolution of the Government of the Kyrgyz Republic, 23/10/2007, No 504. Program "On improvement of labor safety and labor conditions in agriculture for 2007-2009", Resolution of the Government of the Kyrgyz Republic, 20/02/2007, No 61.

Resolution of the Government of the Kyrgyz Republic "On measures to provide state support to breeding and primary seed farming", 26/02/2005, No 109.

¹³ Mid-term strategy of development of micro-financing in the Kyrgyz Republic for 2006-2010", Resolution of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic, 30/12/2005, No 637/37/7. "Package of measures on development of food and processing industry in rural areas of the Kyrgyz Republic until 2010", Resolution of the Government of the Kyrgyz Republic, 25/02/2005, No 107.

Package of measures to develop the system of procurement and exports of agrarian produce and processed items of the Kyrgyz Republic until 2010, approved by the Resolution of the Government of the Kyrgyz Republic, 25/02/2005, No 106.

Package of measures on the development of crop production in the Kyrgyz Republic until 2010, approved by the Resolution of the Government of the Kyrgyz Republic, 9/02/ 2005.

Package of measures on the development of rural water supply until 2010, approved by the Resolution of the Government of the Kyrgyz Republic, 28/02/2005, No 113.

officials in the regions often do not have a clear understanding of what is the subject of small and medium business, what is the difference between medium and small size enterprises as well as what is its role in the development of the local economy. All this results in the situation that in practice small businesses do not take part in the state tenders on procurement of circulating funds and equipment (though they have a preferential right to do so), do not sell their products to the State material reserve fund and Agrarian and food corporation, do not participate in exhibitions and fairs, as the implementation of these measures mostly involve medium and large businesses.

Despite the existence of quite vast legal and regulatory framework, the practice shows that there are problems with the implementation of these normative and legal acts due to absence of appropriate budgetary funds as well as weak capacity of relevant staff (practically at all levels of state administration) in the issues of strategic and tactical business management, creation of effective business environment for development in the area of attracting investments and efficient operation in the local markets. This is quite typical for practically all specialists of provincial and district state administrations, many rural administrative councils including Aidarken.

Some taxation issues which are described in the Tax Code also remain problematic for local entrepreneurs. Businessmen stress the difficulty in administrative burden of taxation as well as imposition of new tax on property in 2010 which increases the prime cost of products manufactured, multiple increase in the patent rates (which is one of the forms of income tax payment), overestimated amount of minimal taxable income (which serves the basis for the calculation of insurance payments and income tax) as well as increased rates of insurance contributions. Recent statements of the members of the Provisional Government regarding the gradual cancellation of patent taxation for certain types of activity also create additional risks for developing small business in the country. One may easily forecast that in future small business will be transferred from the category of individual entrepreneurship working on the patent basis to the category of natural persons and legal entities which make mandatory traditional payments, and this will result in the increased cost of products as well as price growth in many markets.

The policy of attracting investments pay little attention to the issues of practical promotion of investments, for example the development of investment marketing system, administrative support to the investor and documentation (from arrival to the unit until the opening of enterprise) etc. An important role in the attraction of investments should be played by the promoting the small business sector – this activity is practically not implemented at the moment, especially in the regions, including Aidarken. Local staff in the offices of entrepreneurial units of district state administrations and rural administrative councils has little knowledge and necessary skills in this area, the technologies of working with investors are not in place (routing slips, maps etc.).

There is a need to have active and targeted activity in the development of technical rules and standards at the country and regional level, this activity should be conducted in respect of priority business sectors which have the development potential. In regional terms these sectors mainly include processing of agricultural products, tourism as well as public and other services. There is also lack of specialized equipped laboratories for testing, assessment of quality and conformity of products, including many categories of agricultural goods and processed products. The nearest quality assessment laboratories are located in provincial centers and not in the district, this will result in additional transportation expenses for the entrepreneurs of Aidarken and consequently higher production costs. This especially concerns manufacturing of food products (juices, purees, jams and chips) which are subject to mandatory certification.

There are frequent cases of duplication of certain functions in some supervisory bodies (sanitary / epidemiological inspection and veterinary services), this results in checking the same product characteristics and assets of enterprises. This factor may also bring about additional burden of

checks for the businessmen of Aidarken even despite their remote location from district and provincial offices of these services.

Existing policy and practice of ministries, provincial and district state administrations as well as business associations lack attention to the systemic analysis of market information (prices, sales volumes, new products and technologies etc.), while local entrepreneurs need this analysis. As a result, businessmen capable of developing their own business are in information deadlock - they do not know where to invest and what are potential benefits in production of certain goods and/or services. Interviews conducted with local entrepreneurs, experts and heads of local administrative councils confirmed this point as forecasts of market volumes, preferences and tastes of consumers, preferred purchase prices are practically unknown to local business community. Information which is distributed through existing marketing information systems (such as KARIS) does not contain relevant data from local markets, such as Batken cattle market as well as agricultural markets of Halmion and Kyzyl-Kia, which are the key outlets for local business community.

Chapter III. Overview of social and economic situation

Overview of geographic location and demographic situation in the village. Aidarken is located at 2500 meters above sea level, it has a sharply continental climate and low average annual temperature, all these factors impose certain limitations on the features and structure of local economy, which is characterized by developed livestock breeding as well as production of certain crops such as carrot, potatoes as well as orchard crops with short vegetation period. The village is located in the mountainous area, has limited pastures (630 ha per 1340 households), the areas of local plots are limited (0.04 ha on average), this allows the development of livestock mainly stabled horned cattle as well as poultry. In addition, the available pastures and areas of neighboring ayil okmotu allows local population to be engaged in breeding of sheep and goats. There are also perspective plans to breed yaks.

According to the data from the local administrative council, the population of the village in 2009 was 10.9 thousand persons, in addition to two large national and ethnic groups of Kyrgyz (60%) and Tajiks (37%), there are also Russians, Tatars, Kazakhs, Uyghurs etc. Despite the assurances made by the head of rural council in terms of continued growth of population in the village, local experts stress the increased migration flows of young workforce to Russia and Kazakhstan, some of the experts believe that about 70% of able-bodied citizens have already migrated to Russia.

The village is surrounded by settlements of Birlik ayil okmotu with the predominance of arable lands from one side and settlements of Orozbekov ayil okmotu with hayfields on the other. The pastures of Leskhoz are located nearby, there are also summer pastures of Birlik ayil okmotu along river Gauyan. The major crops of neighboring settlements are cereals (wheat and barley), orchard as well as other crops.

The volumes of minerals located on the territory of the rural council are not known in detail, according to the experts, this area are rich with clay, silica sand, limestone, shist, calcium fluoride – all these minerals are suitable for manufacturing construction materials (bricks, polymeric tiling, paving blocks and tiles as well as sand blocks).

Specific features of social and economic situation. A significant contribution to Gross Regional Product has been undoubtedly made by Aidarken Mercury Mining Complex located nearby, as this complex was one of the world leaders in mercury production. Existing powerful manufacturing and social infrastructure guaranteed employment for more than 3.5 thousand people, as it included mining and metallurgical facilities, a processing factory, auxiliary electrotech-

nical, mechanical and welding shops, a motor pool, oil storage facility, a boiler house, a hotel and a club, as well as administrative units.

International agreements envisaged the reduction in the volumes of mercury mining as well as restructuring of the enterprise, therefore the number of employees in the Complex was gradually decreasing, in 2008 it made 860 persons and 560 persons in 2009. Currently the approximate number of staff is 300 persons, of whom 32 people are engaged in managerial and administrative posts, 110 persons work in auxiliary services and the remaining are engaged in the main production activity. Temporary termination in the operation of this enterprise will cause sharp decline in employment rates as well as decreased incomes of local population, which in turn will result in lower demand at the local markets.

Local entrepreneurial and employment policy. The analysis of current policy of developing entrepreneurial activity and employment in the village shows on the one hand quite ambitious plans of heads of the rural administrative council and on the other hand - insufficient understanding of the goals and functions of the municipality in the development of economy and entrepreneurship.

The planned two fold increase in the Gross Regional Product in Aidarken during the period of 2007-11 is a difficult task for the village. The potential of the Aidarken Mercury Mining Complex will be gradually decreasing in accordance with international agreements; therefore this enterprise will hardly become a significant contributor to the GRP. In terms of processing, the investment complex (excluding assets of the Mining enterprise) is represented by 4 mills, which are not fully loaded due to high production costs compared to imported products. These enterprises are not in the position to significantly contribute to the growth of Gross Regional Product. In the services sector there are two filling stations and an engineering shop, which are also not serious players in the GRP production. The expectations of increased agricultural production (livestock) will hardly be true as the village has 1.3 thousand heads of horned cattle and 3.7 thousand sheep and goats. The reason for this situation is that local households are forced to buy fodder at market prices on the local markets (fodder processing shops are absent) or from nearby ayil okmotus, use their pastures on the paid basis, the flocks have little productive cattle breeds etc.

The efficiency of this production sector allows hoping only for 50% margin - this will happen only in case existing prices are preserved (prices of milk, meat, fodder etc.), therefore one can hardly expect double increase in the production volumes.

Among other objectives of the municipal policy one should mention their focus on development of entrepreneurial activity and employment, which means that there is a link between state and regional policies to support entrepreneurship. But the measures aimed at implementation of such tasks such as the increased volume of investments by 10%, creation of small business outlets (fuel filling stations, trading outlets, mills and oil presses), annual growth of agricultural production, increased number of entrepreneurs as well as creation of 200 new jobs are not supported by any measures and mechanisms for their implementation. It is not clear what will be the activities of the municipality to launch such enterprises as well as create these jobs.

Local policy also has multiple tasks in the area of development of public infrastructure which is related to increased employment among the population: repair of transformer booths and schools, organization of a veterinarian check point, setting up a public toilet, cleaning of local irrigation system, repair of lighting system in several streets as well as patching of certain road sections. During the meeting of the Coordinating Council local authorities have defined a number of priority projects which need financial support – these were selected in view of the public opinion.

In search for necessary funds the municipality mostly relies upon the attraction of donor investments as the budget of the villages is definitely based on donations, the receivables from the republican budget made 9.7 million against 3.2 million channeled from the local sources. At the same time the employees of the municipality do not have appropriate skills in the development of projects for attracting donor investments. In view of possible rotation of the managerial staff in the nearest future one can hardly count on more active performance of the municipality in this sector. In principle, within the context of increased employment, the development and implementation of socially important infrastructural projects may make a significant contribution but only with the participation of civil society organizations. In view of this objective, the village has a number of preconditions which are beneficial for the implementation of the above: a) mobilized population, b) experience in implementation of similar projects, c) availability of workforce, d) donor organizations in support of these initiatives, e) project management structure (Coordinating Council with the Supervisory Board as well as the Audit Commission).

Markets and demand. The consumption structure of local households includes mainly imported and cheap agricultural processing items (flour, vegetable oil, groats and pasta, juices / jams and purees, meat processing items), locally produced fruits and vegetables as well as dairy products. The income structure of local households is mainly dominated by the salaries of employees of local Mercury Mining Complex as well as remittances from the labor migrants; the remuneration of public servants is relatively small in amount and is paid not in time. In addition, it should be noted that as far as agricultural and processed products for child nutrition (juices and jams) are concerned, the population of the village has a significant share of children aged under 7 years (more than 2 thousand), which is expected to make a certain share in the future consumers.

The specific features of local markets such as large cattle markets in Batken and Kadamjai which are working in turn (one on Saturday and the next on Sunday), are related to the distribution of load on these large trading outlets and the opening opportunity to be present in both markets. Another large agricultural market is located near the Uzbek border in Halmion village (55 km away from Aidarken), it also has a large capacity and volume, ensuring regional trade cooperation between southern provinces of the countries in question.

The difference between the climatic conditions of Aidarken and nearby districts of Uzbekistan, which ensures the delivery of imported agrarian products 3-4 weeks earlier than the local harvest becomes available (this is partly attributable to the greenhouse technologies) allows getting high profits to the Uzbek and partly local producers. At the same time, when time comes for the sales of local harvest at the local markets, this benefit is enjoyed by local producers, but not to the whole extent as the markets have products from vegetable storage facilities or greenhouses delivered from abroad. At the times when local agrarian produce becomes available in large amounts at the markets as well as at the times of lowered prices (up to 2 KGS per kilo), foreign entrepreneurs start performing its wholesale purchases and processing. Then processed products return to the southern provinces and bring significant profits to foreign businesspeople.

There is a military unit of the Ministry of Defense of the Kyrgyz Republic which has about 700 servicemen on the staff list located on the territory of the village. The deliveries of food to these units are subject to special rules and procedures of the Ministry related to the organization of supply systems. Nevertheless, this unit is an important consumer of the agrarian produce, the products of its processing as well as of construction materials thereby also serving a potential source of revenues for local processing facilities.

According to local experts, the local market of construction materials demonstrates certain increase in demand for roof tiling, floor tiles, borders, metallic fences as well as other items needed for domestic arrangement. The experts explain this fact by certain re-animation of construction works in the private sector of Aidarken as this sector is suffering from dilapidation; another con-

tributing factor is increase in the remittances from labor migrants and acceleration of construction rates in the neighboring Sokh enclave.

The communal infrastructure of the village reflects improper status of engineering and sanitary networks of private houses, enterprises and organizations. "Kommunalshik" JSC, which is responsible for maintaining this system in the proper condition, does not have the capacity to fully cover the demand of the population and organizations in their repair. This market can also become a good source of support for the development of local economy and employment provided it is properly organized.

Assets. There are very few communal property objects which are capable of generating incomes and contribute to the increased GRP in case of proper organization of activity therein. In addition to objects of social and cultural importance (one Palace of culture, one library, three drugstores and three schools as well as one public bathhouse), on the territory of the village there are quite spacious premises of two former stores (currently they are not operational, they were privatized by owners but not commissioned and need relatively small amounts of capital investments (transformer and heating system). Technical condition of these premises (total area of about 350 sq.m.), available in and out communications as well as isolated location of these trading outlets allow the development of small shops for processing of agricultural produce, sewing shops as well as printing services (business cards and forms), a bakery etc. The same applies to local two storey building of local preventorium which has its own park area and has been empty for a long time – this facility can be potentially used for the deployment of hotel and tourist business enterprise.

On the territory of the village there are also two unused spacious production shops (72 m x 8 m and 100 m x 6 m), which are possessed by the Aidarken Mercury Mining Complex, these buildings have necessary technical communications which also require relatively small investments (heating systems). These buildings were not included in the main mercury production cycle and were used as auxiliary manufacturing premises or enterprises to produce consumer goods. According to local experts, in case the Mercury Mining Complex is restructured for the purpose of manufacturing other types of produce, these buildings might be handed over to the municipality or local businesses on certain terms of rent.

Local infrastructure of surrounding settlements is favorable for cultivation of carrot which is famous for its good taste and storage specificity in the Fergana valley, as well as potatoes, apple orchards and raspberries, therefore appropriate deliveries of these raw products can be ensured. According to the experts, this area is capable to produce 1000 tons of apples per season. Similarly, the production of meat and meat products from local horned cattle and sheep/goats as well as poultry, which accounts for about 5 000 of cattle and 2.2 thousand of poultry also has some prospects for further processing.

In terms of manufacturing construction materials (roof tiling, tiles, borders etc.), there are also certain prospects for further processing of available mineral resources in view of the presence of quite technically developed infrastructure (electricity supply), engineering and communal facilities – while these require insignificant capital investments for their restoration.

In respect of transportation facilities the village has 140 cars and 4 cargo vehicles. During the recent years the total fleet demonstrates a tendency to grow, as labor migrants prefer buying cars at the local market when they return for temporary stay. Technical status of local cars and other transportation facilities leaves much to be desired but provided small investments are made they may make their contribution to ensuring passenger and cargo transportations on the territory of the settlement as well as neighboring regions, as the system of public transport in the village is practically non-existent. The development of these types of businesses will in turn result in the

development of repair services – i.e. increased capacity of mechanic workshop, opening of new technical servicing stations as well as delivery and trade in spare parts.

Infrastructure. Any production process in the processing sector requires the availability of appropriately developed logistic, transportation, communication, financial and consultative infrastructure which is usually located in urban settlements which act as cluster centers for neighboring villages. In this respect the village does not have any significant storage facilities and premises, as earlier constructed vegetable storage facilities have already ceased to exist. Similarly, absence of veterinarian stations which are necessary for care over large number of cattle owned by the population of the village is also a problem for the local citizens and may cause the emergence of various diseases of cattle and its subsequent loss. The only exception is seed farming cooperative "Ai-Kok" which was created several years ago; this enterprise unites 38 farms located nearby and is capable of providing deliveries of elite seeds of potatoes and other crops in any volumes.

Business incubator which has been created several years ago with the assistance from donor organizations has a number of external manufacturing outlets with necessary communications allowing the installation of industrial enterprises. Internal facilities and roof covers which were built with adobe brick, are not fully suitable for the deployment of processing enterprises, but they can be used for the development of non-energy and metal consuming types of production (sewing shops, repair of household appliances as well as barber's shops).

In terms of communications the village has post offices of "Kyrgyzpochtasy" (Kyrgyz post) and units of "Kyrgyztelecom" which provide postal services, ground telephone lines as well as cellular communications. The communication between the labor migrants staying in Russian and their relatives is maintained via cellular phones which are very popular among the local population. Absence of access to Internet to the population, enterprises and organizations is also a problem. The printed media products are not much popular among the inhabitants, the main source of information are TV channels of KGTRK and radio.

Review of financial and crediting institutions shows that the village has branches of ECO-bank and a number of micro-financial institutions such as "Companion" Financial Group as well as "FINCA" Micro-finance Corporation. The analysis of activities of these institutions shows that in addition to the preserved orientation of these companies towards financing of businesses with high turnover (such as trade and services, quick fattening of livestock, one-time transactions as well as consumer lending), they have also started to develop technical support services (leasing), financing of agrobusiness as well as processing enterprises. Among the achievements one should mention the increase of the loan portfolio, accelerated procedures of applications review and issuance of credits, possibility of receipt of group collateral-free loans (social collateral), absence of requirement to compose business plans, potential opportunity of issuing "long" and "cheap" credits for long term business project, possibility to enjoy leasing (up to 5 years) as well as change in the procedures of interest accrual (for the outstanding amount). In case there is further growth in the loan portfolio and compliance with special requirements of the National Bank of the Kyrgyz Republic, these institutions will become able to take their own niche in the banking sector of the province (as a full-fledged bank) as well as effect financing of mid-term business projects including those related to processing industry.

The village has practically no informational and advisory services for the development of local businesses. The nearest available specialists of provincial and district branch of the Rural Advisory Service provide consultations mainly in the sector of agrarian production and processing. The employees of the rural administrative council have insufficient competence in the area of entrepreneurship and employment in order to provide appropriate assistance in marketing, selection of the organizational and legal form, management, taxation and insurance payments, as well as other aspects of business. The existing capacity of staff of the business incubator is also not enough to provide quality services to local businessmen in these areas.

Labor resources. Able-bodied population accounts for 4963 persons or 45.4% of the total number of population which makes about 10.9 thousand people.

About 300 persons are working in Mercury Mining Complex, 432 are employees of public sector in healthcare, education and local self-governance. The number of people employed in medium and small business is 85. The remaining are working in agriculture or are hired employees at temporary works.

The majority of the manufacturing and engineering staff of the Complex is mostly highly qualified employees with rather long work record and certain qualification grades. They represent engineering and technical elite of the village and are capable of not only quickly learn adjacent specialties but also be successfully involved in the other types of processing industries. Similarly, the employees of administrative and managerial unit of the Complex are well trained in their respective areas except for strategic issues of marketing and management.

It should be also noted that not all people of this group are able to initiate their own business and subsequently act as managers of business enterprises in the market conditions. The values and psychological orientations of many of them are rather close to passive and dependency position than to active and "aggressive" actions aimed at management of their work and incomes. Nevertheless, according to local experts, among them there is a certain small group of people which, provided training investments in this group are made, shall assume the responsibility for the organization and functioning of a business enterprise.

Therefore, by the time of Project commencement, the political, legal, social and economic situation in the village and around it can be characterized as follows:

- Social and political situation in the village and around it can be characterized as stable and social conflicts on the inter-ethnic basis are hardly possible.
- Long term state policy in the area of development of entrepreneurship has not yet been elaborated which entails absence of support from the state for at least one or two years.
- Regulatory and legal environment in general is at the moment beneficial for the organization of business, the framework of relations between the state and business is defined, though there are some barriers in the terminology of SME and simplification of the legislative framework.
- The tax burden is for the moment acceptable, while there are risks of its increase (reduction of patents).
- The regulatory framework has a number of obstacles which should be removed (rules, standards and duplications). In implementing projects in the area of agrarian products' processing (food production) one should take into account the requirements of regulatory bodies (Sanitary and epidemiological inspection, Kyrgyzstandard).
- The local self governance bodies are not able to effectively manage the development of SME and solve the issues of employment and investments due to shortage of knowledge and skills in the area of territorial management, management of SME and fundraising.
- There is lack of market information system functioning on the village or district level.
- Difficult climate which causes the selection of specific types of business activity (poultry and yak breeding, processing of orchard crops and meat, production of construction materials etc.).
- The village is surrounded by settlements which produce agricultural products without its further processing.
- The major economic problem is reduction of employment and incomes, decreased demand and attrition of local markets caused by the closure of local town forming enterprise i.e. Mercury Mining Complex. Local business community has no potential to prevent the decreased employment and GRP.

- Existence of a multitude of social and infrastructural problems – as soon as these are solved, this would allow increased employment as well as create long-term jobs.
- There is a demand for products manufactured by agrarian processing enterprises and construction materials in the village as well as in the local nearby markets. The imports of these products are prevailing.
- Local markets are operating in a regime which is quite comfortable for business; in addition, they are located not far from each other. The consumers enjoy available and timely mobile communication.
- Availability of able bodied population i.e. highly qualified employees of the Complex who can be re-trained. There is a certain passive and expectant position and there are few active initiators.
- There are unused production premises (Aidarken Mercury Mining Complex, private shops and preventorium) which are suitable for the manufacturing of processed products and construction materials.
- Local micro-financing institutions have quite adequate credit portfolio and provide "short" and "long" money, but these are still difficult for access due to relatively high interest rate.
- The village does not have a local informational and advisory infrastructure. Regional consulting services need the development of additional services in the area of marketing and business management as well as in terms of their own organizational development.

Chapter IV. Impact, goals and objectives of the project

The goal of this project is to ensure alternative employment in the village and nearby locality by way of involving the population in the Project activities, especially in view of international agreements on reduction of mercury production as well as possible consequences for the mercury mining complex, which include:

- Expansion of opportunities of local population in terms of strengthening sustainable entrepreneurial activity and income generation;
- Improvement of local social and economic infrastructure.

The impact of this Project will be contribution to sustainable poverty reduction and improved livelihoods of population through the implementation of integrated approach towards increased employment at the local level.

Phase I. Within this period UNEP will ensure start financing in the amount of USD 110 000 for the implementation of short-term measures by July 31, 2010.

Phase II. Activities in Phase II of the Project will be based on the assessment of results and data received during the implementation of Phase I. These activities will be implemented on a large-scale basis for the purpose of creating a critical mass of sustainable successful measures aimed at poverty reduction in the province.

The proposed project interventions are aimed at solving basic social and economic problems of Aidarken village as well as creation of favorable conditions for the development of local entrepreneurship; these interventions will result in the expansion of economic opportunities for the local community.

The Project also proposes the implementation of a set of measures aimed at the development of priority investment social and infrastructural projects identified with the assistance from the local community (repair of schools, water supply system, improvement of roads, lighting etc.) to improve livelihoods as well as expand access to safe environment.

This project will base its activity on achievements and lessons learnt in the course of implementation of UNDP programs in the Kyrgyz Republic during a number of preceding years especially

the implementation of similar program at the local level in the Batken province. The effectiveness of application of this method was defined by way of solving certain development goals as well as difficult causes of poverty formation in a given locality. UNDP Program on the development of the Batken province was specifically successful in solving the most urgent development tasks in the region as well as in elaborating of approach and tools of the Program in accordance with the local situation.

The proposed project will become an integral part of UNDP Program on development of the Batken province at the local level. The project will also assist to the empowerment of women to ensure relevant participation in the decision making processes as well as employment and income opportunities based on needs and interests of all female groups.

The project will also promote inclusive development and review of needs of the most vulnerable groups of population by application of a human rights based approach.

All project activities will take into account the impact of interventions on environment and risks related to the irrational use of natural resources.

The expected results of the Project are as follows:

1. Support to various activity within the frame of alternative employment.
 - Needs analysis with the participation of implementers during initial stage to define local economic tasks and development problems. Presentation of documentary registration of results by December 31, 2009.
 - Training, workshops and roundtables on the basis of needs analysis for the purposes of strengthening business potential of the community (10 workshops and 2 roundtables).
 - Preparation of report until March 31, 2010; the report should contain summarized data on community mobilization and participation in various types of small scale economic activity on the basis of training, business mentorship, support and access to marketing information. This report will incorporate lessons learnt until now and contain proposals on future activity of the Project.
2. Creation of a mechanism of grant payments.
 - The mechanism of small grants' payments was established by December 31, 2009 (development of a mechanism, a manual and the analysis of priority sectors);
 - Support to 7 projects on small business development;
 - Support to 7 project in social infrastructure;
 - Drafting a report with summarized data on the disbursement of funds, including lessons learnt and proposals on future Project activities.
3. Strengthening the capacity of local self governance bodies and the community in defining and solving social and economic problems.
 - Proposals on grant projects are developed and presented for review;
 - Staff of the project provide assistance to the community and the local self governance bodies in development and improvement of grant projects.

Chapter V. Activity of the Project

The preliminary stage was composed of comprehending, structuring and specification of goals and objectives of the Project as well as its outcomes; it also involved the collection of all necessary information on current social and economic situation in Aidarken as well as its main beneficiaries and stakeholders. An important place at this stage was taken by the development of a Manual on the realization of grant fund, this manual defined system requirements, procedures and mechanisms of selection, review and issuance of grant funds. It is important to note that the

drafting of this manual also included the leaders of province as well as representatives of donor organizations.

Definition of community needs. One of the Project components was definition of needs of the local community with the use of methods and procedures of PRA. Social mobilization of population of the village, which was aimed at definition of priority problems of the village and identification of the most active part of population with the participation of the unemployed, was conducted in December 2009 during a number of communicative events with the participation of UNDP specialists from Batken.



The informing of population on the forthcoming communicative events was achieved with the participation of the leadership of the local administrative council, local activists, NGOs as well as business community. As a result these events gathered the representatives of all social strata, which are capable of conducting analysis of situation, defining bottlenecks

and proposing various types of solutions. Among those invited the following groups were observed which were selected in accordance with criteria of employment and social activity: civil servants, NGO workers, housewives, entrepreneurs, farmers as well as unemployed.

Application of special methods and tools of assessing the community needs (PRA) allowed the identification of problematic areas which need to be solved. This



would allow not only meeting social needs of community but also increasing the level of employment and incomes of population.

This



The use of "Poverty Pyramid" tool allowed to define the degree of social and economic differentiation of the society by the level of incomes and assets as well as identify major needs depending on segments defined (see Table 1).

Table 1. Poverty Pyramid

Criteria	Extremely poor	Poor	Average	Rich
Availability of housing	Have no housing, live in rented apartments	Have a house with 2-3 rooms which need repair	Have a house (or apartment) of 4-5 rooms	Have a large house, also have real estate in Osh and Bishkek
Source of income	Windfall earnings and benefits	Windfall earnings, benefits, assistance from relatives	Work at the Complex, have livestock and cultivate land. Family members work in Bishkek and Russia.	Have permanent job, profitable business, have livestock and cultivate land
Availability of cultivated land	-	-	0.2-0.3 ha	0.5-1 ha

Availability of live-stock	-	-	1-3 heads of horned cattle 5-10 heads of sheep and goats	5-10 heads of horned cattle 20-50 heads of sheep and goats
Availability of machinery (agrarian machinery, cars, motorcycles)	-	-	1 one car or lorry, motorcycle	1-3 cars or lorries, 1-2 tractors
Possibility of giving education to children (secondary and higher education)	Children do not attend school	Children attend school from time to time, after school they go into the system of vocational training.	Children study in the universities of Osh and Bishkek	Children study in prestigious Universities of Osh, Bishkek and neighboring countries
Possibility to enjoy medical services	Have the opportunity to get medical services at the level of village hospital	Have the opportunity to get medical services at the level of village hospital	Have the opportunity to get medical services at the district or provincial medical centers	Have the opportunity to pay for high quality medical services, stay in sanatoriums etc.
Accessibility of financial services (credits, leasing etc.)	No access due to absence of collateral or guarantor	Have the opportunity to get a group micro-credit at high interest rates (30-36% per annum)	Have the opportunity to get both group as well as individual credits	No limitations
Number of families	23 families	836 families	1719 families	20 families

On the basis of data contained in the above table the Poverty Pyramid was built – it is shown in Figure 1.

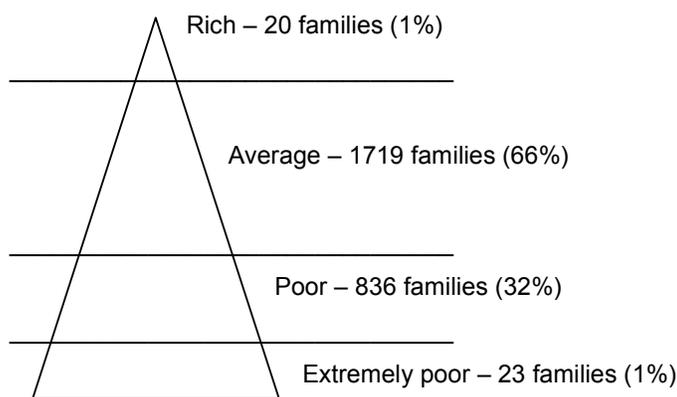


Figure 1. Poverty Pyramid

The application of method of defining socially important problems and their further prioritization with the use of grade criteria resulted in the composition of the List of priority problems, of which the following five should be mentioned:

- Installation of street lights in the following streets: Asaeva, Mayakovskogo, Kenchiler, Kyrgyzstan, Gauyan.
- Greenery and accomplishment of the Central Square and park.
- Construction of a public bathhouse.
- Installation of transformers and construction of electricity transmission lines in newly constructed residential areas of the village.

- Expansion of water supply system in "Dostuk" micro-district.

The local community proposed the following types of entrepreneurial activity within the context of expanded employment related to income generation:

- Establishment of a mini-shop for processing of vegetables and fruits;
- Establishment of a shop for needlework, manufacturing of national garments, souvenirs as well as clothing;
- Expansion of a carpet shop on the basis of "HaiBI" business incubator;
- Creation of a turning shop on the basis of "HaiBI" business incubator;
- Establishment of a shop for metallic works, welding as well as manufacturing of metallic items (gates, ovens etc.);
- Establishment of a Center with access to Internet and IP telephony;
- Establishment of a shop for pasta items manufacturing.

During the communicative events the participants also used the mapping method which allows graphical identification of the most problematic areas on the territory of the village with the link to infrastructure and population density (see Annex).

The application of Venn diagram tool, which allows the prioritization of impact of specific subjects of management and activity helped define the composition of organizations which directly influence the vital activity of the village population (Figure 2.).

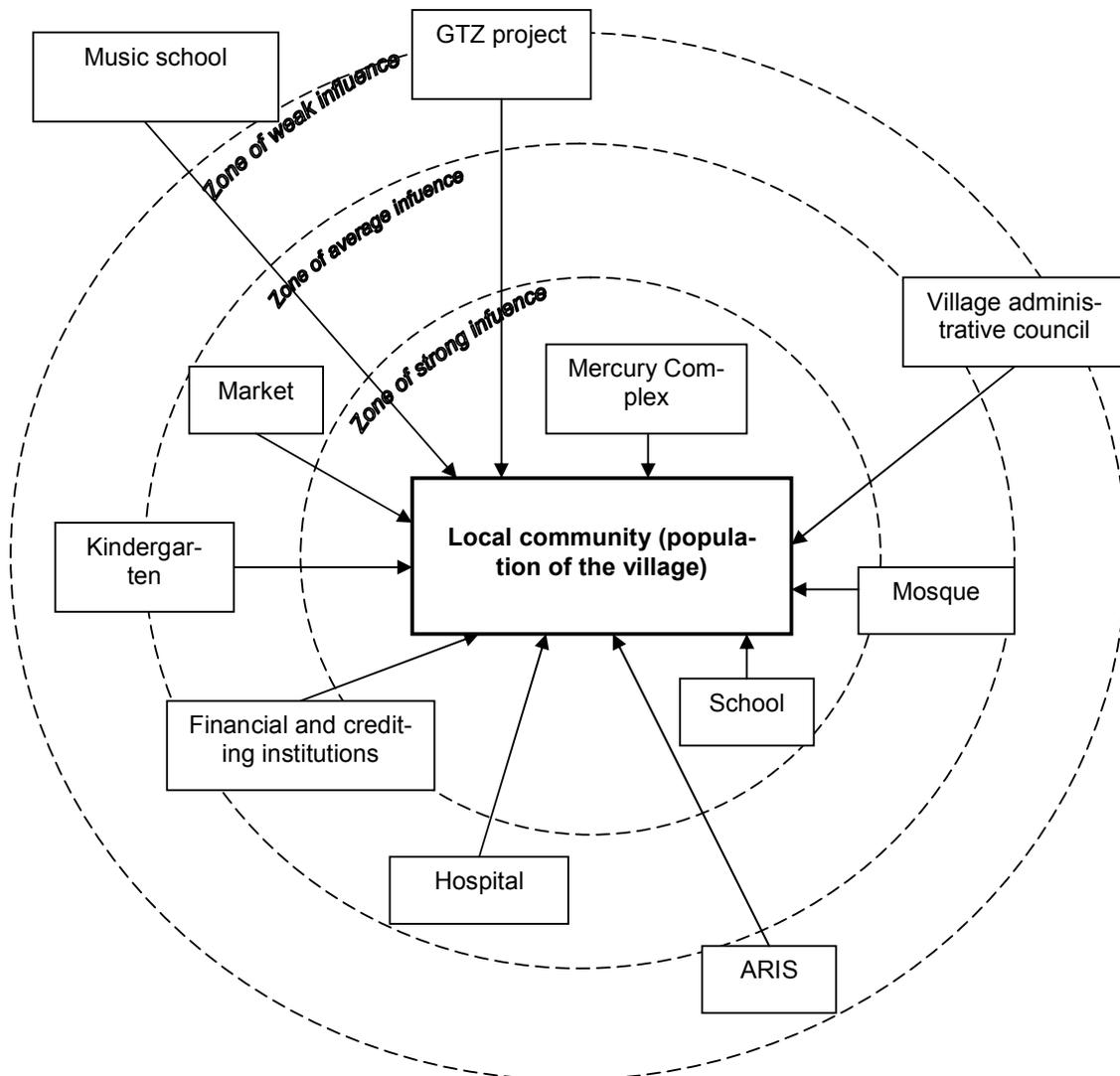


Figure 2. Venn diagram

The following organizations and subjects were defined (in the list shown in descending order):

- Village administrative council;
- Mercury mining complex;
- Hospital;
- Schools;
- Kindergarten;
- Music school;
- Central market;
- Mosque;
- Financial and crediting institutions (Econ-Bank branch, Companion, FINCA etc.);
- ARIS;
- GTZ project.

The communicative events also resulted in the decision to create a Coordinating Council from among the participants in this process with the highest initiative - the Council will act as a consultative body on social and economic development of the village. Later on the representatives of the Coordinating Council themselves created the Supervisory Board and the Audit Commission for the purpose of efficient decision making and control over the implementation of grant projects.

Therefore the application of the abovementioned methods and tools in the needs assessment of local community allowed not only to define socially important problems in the community development, as well as the subjects of activity which influence given development process, but also to undertake a number of organizational and management measures in respect of removal of elicited obstacles. The creation of the management system for the implementation of grant projects by the local community (Coordinating Council) was an important move in the regulation of activities of these projects, ensuring municipal support as well as public control over the spending of funds.

The Coordinating Council recommended considering and approving the following social and infrastructural projects as well as projects in the area of income generating activity:

Table 2. List of projects of the Coordinating Council

Infrastructural projects	Business projects
Installation of street lighting on Asaeva, Mayakovskogo, Kenchiler, Kyrgyzstan, Gauyan streets	Establishment of a shop for needlework, manufacturing of national garments, souvenirs as well as clothing
Greenery and accomplishment of the central square and park (planting of greenery, laying of cube, installation of benches etc.)	Expansion of a carpet shop on the basis of "HaiBI" business incubator
Repair (replacement of pipes) of the water supply system in Sinizyn street	Establishment of a turning shop on the basis of "HaiBI" business incubator
Expansion of water supply line in "Dostuk" residential area	Establishment of a shop for metallic works, welding as well as manufacturing of metallic items (gates, ovens etc.)
Construction of a public bathhouse (10 washing places)	Establishment of a Center with access to Internet and IP telephony
Installation of transformers and construction of electricity transmission lines in certain newly constructed areas of the village;	Establishment of a shop for pasta items manufacturing
Construction of toilets in public places of the village (central square, bus terminal etc.)	
Expansion (repair of premises) as well as repair of sewerage system in "Solnyshko" kindergarten	

In case the above projects are implemented, the following results would be achieved:

- 280 people from "Dostuk" residential area will get access to clean potable water;

- The repair (replacement of water supply pipes) in Sinizyna St. the access to clean potable water will be improved for 2870 inhabitants of the village;
- More than 80 persons will have the opportunity to take advantage of services in a public bathhouse;
- More than 3000 inhabitants of newly constructed residential areas will get improved access to electricity supplies;
- The repair and expansion of the kindergarten will result in the opportunity for 30 children of pre-school age to stay there;
- Jobs will be created for at least 24 persons:
 - 5 workplaces in the needlework shop;
 - 3 additional workplaces in carpet shop;
 - 2 workplaces in turning shop;
 - 4 workplaces in metallic shop;
 - 1 workplace in Internet access center;
 - 3 workplaces in pasta shop;
 - 2 workplaces in public bathhouse;
 - 4 workplaces in case kindergarten is expanded and additional groups are created.



Then the Grant committee selected 14 the most priority project among those presented for subsequent financing from UNEP / UNDP (see Annex).

Selected projects. The review of selected projects demonstrates the prevalence of infrastructural problems over the problems related to the incomes and employment of the population. At the same time, there are certain post-implementation

risks in infrastructural projects related to the loss of jobs by people who were involved in the implementation of project activities as well as lack of funds to support newly created / repaired objects. Compared to that, the creation of business enterprises (even in the communal services sector) leads to the formation of a permanent income generation source both the owner of the enterprise as well as for



Nevertheless, the decision of the local community on priority rehabilitation of the communal infrastructure is its inalienable right and against the given framework can be considered as the most effective decision which takes into account the interests of the majority in the community.



Nine infrastructural projects were selected in this area, among them:

- Installation of night lighting in the center of the village (with the use of solar energy)
- Accomplishment of the central street
- Construction of a public bathhouse
- Repair, procurement of furniture and water boiling equipment for the kindergarten
- Repair of major water intake

- Repair of water supply pipes on Sinizyna and Kurmanjan Datka Streets
- Installation of hatches and rings on observation shafts
- Construction of Becker hole
- Repair of the laundry house roofing in the hospital

Therefore the following brief review will be dedicated to 5 business projects which were approved for financing by the Grant Committee; the review is conducted without taking into account the demand for these items.

Table 3. Review of business projects

	Volume of investments / number of employed	Sustainability (calculated profitability)	Additional benefits for the community
Creation of a poultry farm (house)	<u>184 500</u> 10	58%	
Production of polymeric tiles	<u>334 000</u> 8	17%	Removal of outdated polypropylene items from the village
Production of profile cover items	<u>316 000</u> 5	11.4%	
Sewing shop	<u>282 700</u> 8	17.7%	
Technical services	<u>251 080</u> 6	23.4%	Technical assistance to above facilities

In terms of criteria "volume of investments – number of employees" and "sustainability" the presented projects can be rated as follows in descending order:

- Creation of a in-house poultry farm;
- Technical services;
- Sewing shop;
- Production of polymeric tiles;
- Production of profile cover items.

Increased capacity in the development of social and business projects. Within this direction the Project has implemented a number of training events which were aimed at improvement of skills and knowledge of beneficiaries in the management of farms, business planning, technology of agricultural production as well as gaining practical experience after the study tour (see Table 4).



The training course "Start Your Business" was conducted with the participation of two certified trainers from ILO program from among local activists. Other trainings were conducted by qualified trainers from Batken RAS and Osh TES Center. The beneficiaries mention appropriate quality of trainings that were provided.

Table 4.

NN	Title of training event	Number of participants	Of whom	
			females	males
1	ILO Training course "Start your business"	21	6	15
2	Economy of a farm	20	5	15
3	Technology of keeping Rodonite breed hens	20	6	14
4	Technology of fruit tree cutting and methods of their protection	20	5	16
5	Major diseases of livestock and methods of treatment	23	3	20
6	Breeding technologies for horned cattle and sheep and goats	20		
7	Study tour for a group of poultry farmers	12		



Issuance of grant funds. Grant funds were provided for the approved projects in accordance with the procedures envisaged in the Manual. Due to June events in Osh, the procedure of allocation was temporarily suspended. Then, upon expiration of one month, the funds were transferred to banking account of UNDP program, cashed and handed over to the beneficiaries of the Project with the execution of appropriate documents.

At the moment all approved project received grant funds in full.

Chapter VI. Lessons learnt

- The very first meeting gathered quite a few audience (about 70 persons) which was caused by inefficient work of local activists – they have little experience in conducting informational campaigns. There was a need to define social strata of the population and select invitees proportionally to their total number. Subsequently they would disseminate the information on Project commencement through their social networks.
- The application of innovative instruments for the assessment of community needs in the PRA format turned to be useful and effective partially due to the experience of moderators who split the participants in subgroups and focused them on defining the problems and their further prioritization. Relatively high educational level of the local population and participation in the implementation of similar projects by the donor organizations (GTZ, ARIS) also played its role.
- Establishment of a single authorized body (the Coordinating Council), responsible for the implementation of developed grant projects also contributed to acceleration and streamlining the selection process for the project applications as well as laying the foundation for subsequent monitoring and oversight.
- The involvement of activists, NGOs and representatives of local authorities in the management of this body was a positive endeavor, as it allows account taking of interests of various groups of population and opens an opportunity for transparent decision making and implementation of public oversight over the project implementation.
- The structure of projects submitted for financing demonstrates general social targeting as well as interest of local authorities and activists in solving these problems. On the other hand, predominance of social projects over income generating ones demonstrates the intention of local authorities to solve infrastructural problems largely by way of donor financing then by better management of their own resources.
- Knowledge and skills of trained beneficiaries are mostly concentrated on manufacturing of produce, then on its sales and generation of income. This proves lack of knowledge and skills in the area of marketing, the same lack is observed among local trainers and consultants (RAS, TES-Center, agro-marketing center etc.) ILO training program “Start And Improve Your Business” which served the basis of the training, needs better focusing on marketing issues: market volume and share, defining target customers, development of a product in accordance with their taste, proper pricing and advertising etc.
- Manufacturing and technological training of the target group turned to be effective, as these were conducted by trainers and consultants of RAS and TES-Center who proved to be positive in their work. The trainers demonstrated the samples of high-quality agricultural crops, conducted training in their use as well as showed the benefits of application of new technologies.
- One of the positive features was that the training allowed drafting of simplified social and business projects. The mere idea of simplification of business plans templates played its

role – the beneficiaries were able to fill these forms themselves thereby demonstrating their understanding of necessity of prudent approach to business activity, they also managed to consolidate their knowledge. The only reservation concerns unreasonably high rate of calculated revenues and proceeds; this rate was more defined by production and not marketing method therefore it resulted in overestimation of profits.

- The selection of partner organizations was mainly performed in a rational way. The local self-governance bodies, which are part of the Coordinating Council, have a leverage to influence the negligent project implementers; the involvement of activists and NGOs in the information campaign also contributes to wider dissemination of information on the Project, the fact that they are among the founders of the Council adds to the openness in implementation of grant projects; more sustainability of the projects is ensured by the involvement of beneficiaries as the leading project implementers. The use of capacity of local consulting environment adds to its further development.
- The selection of managers of grant business projects can be also considered as one of the achievement of the Project. The managers are characterized by professional knowledge of the subject, experience in application of appropriate technologies, skills in technical specificity of production as well as organizational experience.
- At the same time one should mention quite passive and expectant position of the local self-government bodies of the village which is caused by uncertainty of recent social and political events. Hence absence of knowledge of quality and costs of communal resources on their own territory, lack of desire to use the available technological and staff capacity of the main actors as well as ability to effectively concentrate resources in one point etc.
- The manual on grant fund, which was developed by the staff of UNDP-Batken, turned to be an effective instrument in structuring grant activity. This manual was a concentration of system requirements, procedures and mechanisms of selection, review and issuance of grant funds. Therefore the process of selection of grant projects for financing was smooth without any conflicts and objections by the candidates.

Chapter VII. Recommendations for the future activities of the Project

The following strategic and tactical directions in the future activity of the Project should be noted:

Strategic direction No 1. Development of market infrastructure (marketing information system and consulting).

Objectives

- Development of a system of regular collection of information on the situation in the nearby markets (Halmion, Kyzyl-Kia, Batken etc.) by way of maintaining permanent communications with local activists or NGOs which visit these markets on a daily basis. The objects of information collection are the volumes of sold products, prices, emergence of new sellers and buyers, change in attitudes, transportation and logistic issues.
- Raise the capacity of local providers of consulting and training services in the area of marketing and business management, as well as issues of taxation and compliance with regulatory requirements (certification, standards, rules) in respect of goods manufactured by beneficiaries (on the basis of local RAS and existing NGOs).
- Develop programs of services on these positions (assortment, prices for market customers, prices for social customers, technology of service delivery etc.) for the beneficiaries of the Project¹⁴.

¹⁴ One should take into account expected future trends in the taxation policy – reduction of activities on the patent basis, which results in the creation of legal entities.

- Assist in technical equipping of these organizations; assist in providing access to Internet, local legal on line databases "Toktom" and "Adviser" as well as methodical literature of economic websites (www.smartcat.ru, www.economics.ru etc.)
- Ensure the system of monitoring over the delivery of these services to the Project beneficiaries.
- Introduce changes in the ILO training module "Start your business" resulting from the strengthening of marketing component in business planning.

Strategic direction No 2. Activate development and implementation of business projects mainly by the employees of the Mercury Mining Complex.

Objectives

- Conduct a review of all existing projects on the territory of the village irrespective of their form of ownership, which are potentially able to accommodate non-capital-intensive processing enterprises and service delivery outlets.
- Develop proposals on operational use of abandoned production facilities on a repayment basis (including two department stores, preventorium and two manufacturing shops of the Mercury Mining Complex).
- Conduct organizational and information events with the population, including employees of the Aidarken Mercury Mining Complex on organization and business orientation of future groups.
- Conduct training activities on business management (for project group leaders) as well as development of business plans (for project groups).
- On the basis of analyses of goods' markets prepared by local providers, develop a set of business projects (with the participation of project groups), use criteria "volume of investments – employment" and "sustainability" for selection of future projects.
- Prepare and provide necessary volume of financing for selected business projects.
- Assist to selection of legal and organizational form of business development and registration of these enterprises.
- Assist to launch and commissioning of such business projects.
- Improve organizational development of enterprises in projects under implementation (goals, objectives, structure, motivation and communications).
- Ensure the compliance with necessary regulatory requirements towards manufactured items (certification, standardization etc.)

Note: According to preliminary data¹⁵, the following business activity can be referred to economically profitable: production of juices and purees (apples and carrot), household breeding of hens, goat breeding, breeding of yaks, manufacturing of construction materials, greenhouse vegetables in attached land plots, public taxi services.

Strategic direction No 3. Improve access of business sector to local providers of financial and crediting services.

Objectives

- Develop the mechanisms of financing future business projects on grant and partially credit basis (using the loan portfolio of "Bai-Tushum")¹⁶, especially for long-term projects (over three years).
- Improve the quality of business plans financed on this mixed schedule by way of conducting specialized business trainings on this subject (TOT for local service providers).
- Assist to the development of simplified procedures of review and issuance of credit funds for such business projects as well as the possibility of flexible adjustment of loan repayment schedule.

¹⁵ Excluding reliable marketing information.

¹⁶ Business enterprises should not be financed on a grant basis thereby violating competitive environment.

Strategic direction No 4. Increase the inflow of grant funds to the territory of the village for the purpose of solving socially important problems.

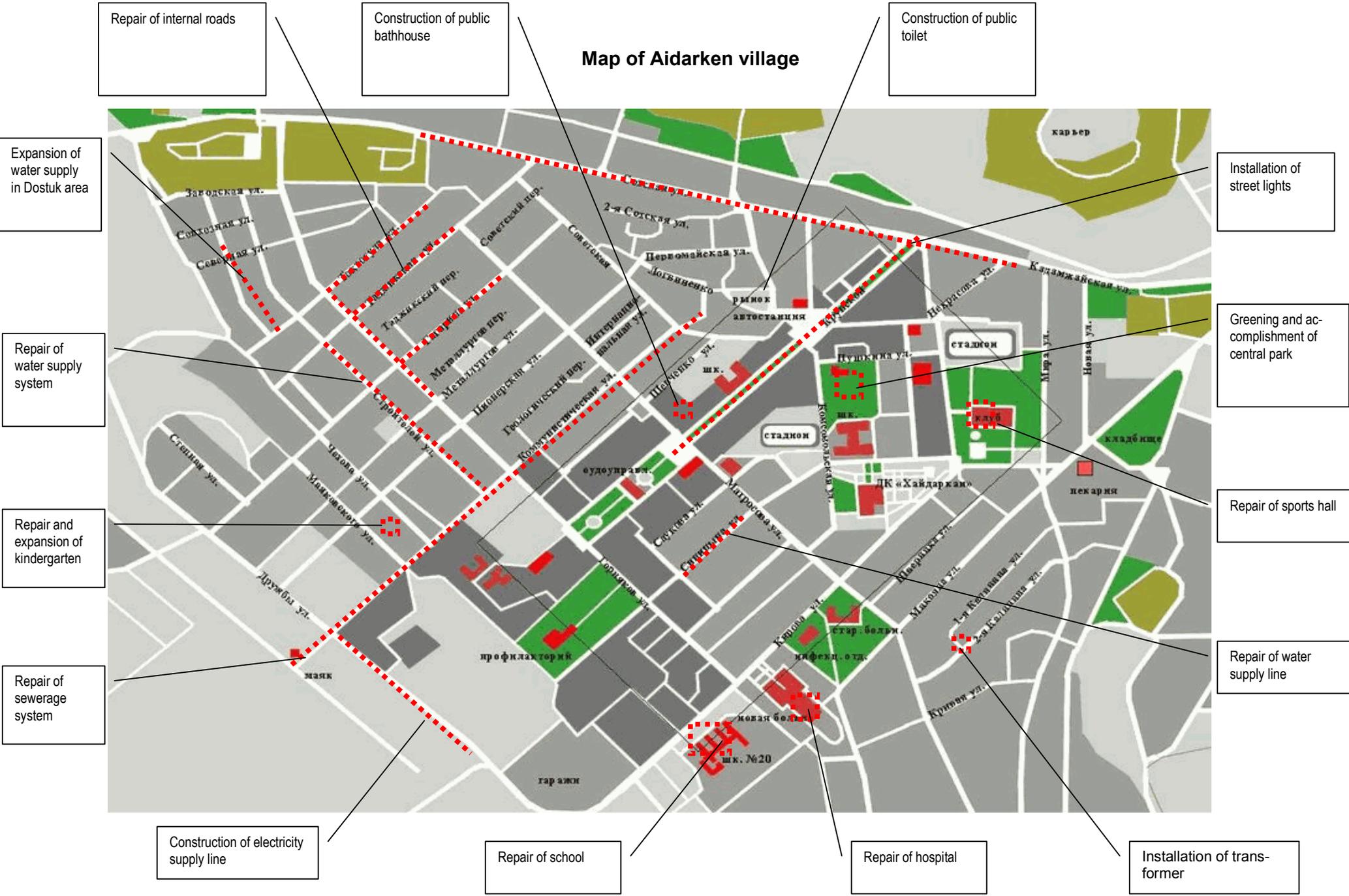
Objectives

- Design a program of social and economic development of the village (with clear indicators of economic and business development as well as a set of social and infrastructural problems / projects).
- Improve strategic and project management by the Coordinating Council (its goals, strategies and tactics).
- Conduct training activities on fundraising and development of grant applications (with the invitation of grant specialists from relevant donor institutions).
- The participants in the training (involving the employees of administrative council) develop a number of projects using formats / templates of donor organizations.
- Organization of exhibition / fair of developed infrastructural projects, inviting the management of donor organizations to "sell" project ideas (the exhibition should be timed to the commemorative or jubilee date of the village).
- Assist in conducting organizational and technical works related to the launching of infrastructural projects approved by donors.

Chapter VIII. Annex

Annex 1. Village map

Map of Aidarken village



Annex 2.

Preliminary evaluation of business activity types

Types of business	Evaluation parameters				
	Demand	Access to premises	Accessibility of raw materials	Staff	Profitability (sustainability)
Production of juices / purees / tomatoes	++	++	+++	++	+++
Production of pasta	++	++	++	++	+
Production of dairy products	++	+	++	++	++
Processing of meat (sausages, jerking etc.)	+	+	++	+	++
Production of eggs and meat (chicken)	+++	++	++	++	++
Production of vegetable oil	+++	++	+	++	++
Production of flour (local)	++	++	+	++	+
Greenhouse vegetables	+++	+	++	++	+++

According to preliminary data received, the most preferred objects for investments are businesses related to production of juices / purees / tomatoes, breeding of hens (including in households), production of greenhouse vegetables as well as vegetable storage facilities.

According to preliminary data, among the services to be offered the most effective are "public" taxi services, hotel service (on the basis of preventorium or on the method of CBT) as well as communication services (IP-telephony and Internet).