Kyrgyzstan: Sector Programme Textile Industry

Final inspection and ex-post evaluation

OECD sector	Textiles, leather goods and substitute products / 32163	
BMZ project ID	1994 65 808	
Project-executing agency	Kirgismaschelektrooptorg (KMEO)	
Consultant	Gherzi Textil Organisation (GTO)	
Year of ex-post evaluation	2004	
	Project appraisal (planned)	**Final inspection and ex-post evaluation (actual)**
Start of implementation	Q 3 1994	Q 3 1994
Period of implementation	12 months	25 months
Investment costs	EUR 2.71 million	EUR 2.71 million
Counterpart contribution	EUR 0.15 million	EUR 0.15 million
Financing, of which Financial Cooperation (FC) funds	EUR 2.56 million	EUR 2.56 million
Other institutions/donors involved	none	none
Performance rating	5	
• Significance/relevance	5	
• Effectiveness	3	
• Efficiency	5	

Brief Description, Overall Objective and Project Objectives with Indicators

The aim of the Sector Programme Textile Industry (1994 65 808) was to ensure the continuation of production in 13 textile enterprises that were considered most likely to survive the transformation process of the economy of Kyrgyzstan through the supply of spare parts for textile machines from the former GDR and, to a lesser extent, through the supply of chemicals. The programme also aimed to contribute towards supporting the country's transition efforts shortly after it reached independence and to ensure jobs and income and, thus, to prevent impoverishment in the wake of unemployment. Of the total cost of EUR 2.71 million around EUR 2.56 million were foreign exchange costs that were financed in full from the FC loan. Consulting services were financed from the Project Preparation Fund in an amount of EUR 26,000. Local costs of EUR 0.15 million were borne by the enterprises.

The overall objective of the programme was to contribute towards maintaining textile production in 13 enterprises (target group). The programme objective consisted in keeping the repaired machines operational for a period of two years. According to the programme appraisal report, the sustainability of the programme was not the main concern as the measures were merely designed to overcome the acute shortage of spare parts.

Project Design / Major Deviations from the original Project Planning and their main Causes

Under the programme concept, 13 enterprises already selected at the time of appraisal with over 30,000 employees in total were to be supplied with the spare parts they needed to maintain the machines over a period of two years and, to a lesser extent, with textile chemicals to maintain their production. The selection criteria for the programme enterprises included a. o. market opportunities, product and machine quality, management competence and degree of environmental pollution. The spare parts were generally non-durable small mechanical and electrical components. The textile chemicals were mostly thickeners for textile printing, anti-statics and detergents. The programme-executing agency was the state-owned Kyrgyz supply office for the mechanical engineering and electronics industry KIRGISMASCH-ELEKTROOPTORG (KMEO), which was primarily to play the role of general inspector, reseller and on-lending institution for the loan funds. A procurement period of 12 months was scheduled for the implementation of the programme. The following on-lending conditions to KMEO were assumed in the programme appraisal report: Term of two years, interest rate 6%, down-payment of 4% due upon entry into effect of the supply contract and a margin of 2% of the order value for KMEO. The textile enterprises were to be given the same conditions as KMEO. Because of the looming rapid deterioration of the economic situation of the textile enterprises, more favourable on-lending conditions were already agreed at the request of Kyrgyzstan in the negotiations on the loan and project agreement and introduced to the loan and project agreement of December 19, 1994. These agreements also stipulated a term of two years at an interest rate reduced to 5%. The down-payment of 4% of the order value upon entry into effect of the supply contract remained unchanged. The margin for KMEO was halved from 2% of the order value to 1%. The interest differential funds accruing to the Ministry of Finance were agreed to be used for projects particularly deserving of promotion.

Because of the dramatically deteriorating overall economic situation in the country the concept had to be repeatedly adapted to the actual circumstances and needs during the implementation phase. Fourteen textile enterprises were supported instead of the originally planned 13 enterprises. The originally planned time schedule of 12 months for the procurement of the spare parts and chemicals was more than doubled (25 months). The contractually agreed on-lending of the FC funds to the KMEO was abandoned; instead the Finance Ministry of Kyrgyzstan extended the loan funds to the textile enterprises directly. The conditions of the loan were changed several times. In particular, the term of the ultimate loans was doubled from initially two years to four years in order to extend it to the year 2012 after a further restructuring scheduled for the year 1999. In order not to jeopardise the survival of certain enterprises the rule requiring the textile enterprises to effect down-payment of 4% of the order value and to pay the margin (1%) to KMEO was handled flexibly. In several cases KMEO supplied spare parts also in cases where an enterprise failed to make payment. No significant interest differential funds accrued because of the financed enterprises' inability to pay and the Finance Ministry's deferment of interest and principal payments.

The main cause for the deviations from the original concept was the extremely precarious financial situation in almost all textile enterprises financed under the loan. The earnings situation of these enterprises deteriorated substantially from the loss of earlier markets in the former Soviet Union and as a result of heightened competition in the home market. The enterprises' reduced financial strength led to a situation in which even the competitive advantages of the local supply of low-priced wool and cotton could not be used because financially strong raw-materials buyers from abroad purchased large quantities of wool and cotton, thus shattering the raw materials basis for the local industry. Even in the local markets it was difficult for producers to assert themselves against cheap imports from Turkey and Southeast Asia. The World Bank considered the only solution to these problems to consist in winning over foreign investors as partners for Kyrgyz textile enterprises. Substantial efforts were undertaken but failed because of the unfavourable overall economic and sectoral environment. The second FC credit line for promoting viable operations therefore did not materialise. Instead half of the 14 enterprises that were selected and financed from FC funds and the project-executing agency itself had to be liquidated. Over 16,000 people, most of them women, were employed in these enterprises at the time of programme appraisal.

The programme was financed in accordance with the supply contracts included in the list of supplies and services. Of the 14 enterprises, seven were supplied exclusively with spare parts, six with spare parts and chemicals, and one enterprise exclusively with chemicals. The value of the spare parts deliveries amounted to EUR 2.316 million and the value of the chemicals to EUR 241,000. The contract for the supply of spare parts was awarded to the firm Texprojekt in Chemnitz on the basis of competitive bidding limited to Germany. At the recommendation of the Swiss consultant GTO, the firm Henkel in Dusseldorf was directly contracted for the supply of the chemicals. All supplies were effected as agreed through the project-executing agency KMEO. The stipulation set forth in the separate agreement of 19th December, 1994 according to which at least 85% of the supplies had to originate in the German federal states of Brandenburg, Mecklenburg Western Pomerania, Saxony, Saxony-Anhalt, Thuringia, and Berlin was fulfilled (90.6%). The FC funds allocated to the programme were utilised as contractually agreed for the purchase of chemicals (90.6%) and spare parts (9.4%). While the chemicals supplied were used up swiftly and completely, the spare parts and small equipment were installed only gradually as required by the wear and tear of the existing parts. We have no knowledge of any misappropriation of funds. However, the proper utilisation of these materials thus far could be documented for only 78.1% of the supplies. Spare parts worth EUR 162,100 (6.3%) are still being stored by the firm Kasiet, which is still producing. We expect the firm Kasiet to install the spare parts as warranted by wear and tear, as it has always done, and expect that this way a total of 84.4% of all spare parts and chemicals will be put to their proper use. The remaining 15.6% (EUR 397,300) are spare parts that were delivered to now liquidated textile enterprises and on whose whereabouts no information is available any more.

Key Results of the Impact Analysis and Performance Rating

The risks jeopardising the implementation of the programme and the attainment of the objectives were already rated high at programme appraisal and were already considered to be hardly influenceable. This rating was given on the grounds that all major economic indicators pointed to rapid deterioration since Kyrgyzstan achieved independence in 1991. This trend could be stopped for the first time in 1996. During this period the gross domestic product declined rapidly, and even after a slow recovery from 1996 (with interruptions in 1998 and 1999) it was still around one-quarter below the 1991 level in the year 2002. Thus, Kyrgyzstan is much poorer than its neighbours Uzbekistan, Kazakhstan and Turkmenistan, and it is one of the poorest of all developing countries.

The textile sector was hit even more strongly by the negative economic trend and because of the developments previously described. The production of cloth declined from 123.8 million square metres to 23.2 million square metres in the period from 1992 to 1995 before picking up again slightly. In finished textile products and knitware the decline from 19.1 million items in 1992 to 1.0 million in 1996 was even more severe. Many enterprises had to shut down. Around 60,000 people were employed in the textile industry altogether at the time of project appraisal. According to the statistics supplied by Kyrgyzstan, 22,600 people were still employed in the industry in the year 2001, which was nevertheless 3400 more than in the year 1999. Only one of the enterprises financed repaid the loan for procurement of spare parts and chemicals in full to the Ministry of Finance. The term of the loans granted to the six other enterprises still in production was extended to 2011/2012. So the risks to project implementation and to the achievement of the objectives mentioned in the project appraisal report (uncertain ability of the enterprises to pay, bottlenecks in raw materials supplies, uncertain sales situation, lack of know-how, particularly in organisational and financial aspects) were confirmed at least for half the enterprises financed under the FC loan.

The programme had no explicit gender orientation. However, women, who represent 70% to 80% of the workforce in the textile industry, benefited most from the project, even if less than expected because of the reduced production output. The strain on the environment was a criterion in the selection of the enterprises. However, we have no information on current pollution released by the enterprises financed under the loan and still in operation. The programme was expected to help reduce poverty through measures aimed at securing jobs. This impact, however, did not occur to the desired extent because fewer jobs were preserved altogether and some of them could be saved for only a limited period of time.

The programme was intended to contribute towards maintaining the textile production in Kyrgyzstan under the transition process (overall objective). Since half the enterprises that were supported are now liquidated, the overall objective must be considered not achieved. The programme objective consisted in keeping the repaired machines operational for a period of two years. The indicators chosen at the time of programme appraisal for assessing the achievement of the objectives mostly referred to technical criteria. A comparison between targets and values actually achieved shows the following picture:

a) 70% of the "registered demand" translates into the delivery of spare parts:

   This target has been reached. Altogether, over 90% of the funds were used for spare parts.

b) The spare parts delivered and immediately needed are installed six months after delivery:

   This target has not been reached. In the first two years after the delivery of the spare parts, only around 50% of the spare parts were installed because only these were immediately needed. The demand reported by the enterprises also contained items for storage, which did not quite correspond with the original idea of very short-term bridging of production shortfalls. The spare parts still not installed correspond to roughly 22% of the spare parts deliveries.

c) 70% of the machines that were repaired are still in operation two years after their repair:

   This target has been reached. The spare parts were delivered in the second half of the year 1995 and in the first seven months of the year 1996. In the years 1996 and 1997 about 50% of the spare parts were installed. A total of EUR 447,000 was used for three of the enterprises liquidated in the years 1999 to 2002. The repaired machines were in operation in these enterprises for more than two years.

Thus two of the three programme target indicators were met. On the basis of the very moderate target level established in the programme appraisal report in comparison with the usual sustainability goal, the **effectiveness** of the programme can be regarded as **still adequate** (**sub rating 3**).

The programme has a low relevance for development policy. Seven of the 14 enterprises financed and the programme-executing agency itself in the meantime have been liquidated, with the corresponding loss of jobs. Over 16,000 people, most of them women, were employed there at the time of programme appraisal. It is not known how many jobs have been preserved and how many have been lost in the meantime in the enterprises that are still operating, and for women in particular. The programme was able to make a positive impact on jobs but to a significantly lower degree than planned. The programme supported the textile industry in a difficult economic situation and so at least mitigated the hardship caused by the restructuring process. This was done largely by subsidising the enterprises, however, so that the use of loans must be considered a failure. The overall objective of contributing to maintaining the textile production must generally be considered an obvious failure. We rate the **significance/ relevance** of the programme as **clearly inadequate** (**sub-rating: 5**).

The unsatisfactory sales situation and the low capacity utilisation in at least half the enterprises participating in the programme led to their liquidation. Generally the programme is not expected to have made a positive contribution to the economy as a whole so that its **efficiency** also is to be regarded as **clearly inadequate** (**sub rating 5**).

In summary, the "Sector Programme Textile Industry" has had a **clearly insufficient degree of developmental effectiveness** (**rating 5**).

General Conclusions applicable to other Projects

none

Abbreviations

GDR	German Democratic Republic
FC	Financial Cooperation
GTO	Gherzi Textil Organisation
KMEO	Kirgismaschelektrooptorg

Legend

Developmentally successful: Ratings 1 to 3	
Rating 1	Very high or high degree of developmental effectiveness
Rating 2	Satisfactory degree of developmental effectiveness
Rating 3	Overall sufficient degree of developmental effectiveness
Developmental failures: Ratings 4 to 6	
Rating 4	Overall slightly insufficient degree of developmental effectiveness
Rating 5	Clearly insufficient degree of developmental effectiveness
Rating 6	The project is a total failure

Criteria for the Evaluation of Project Success

The evaluation of the "developmental effectiveness" of a project and its classification during the ex-post evaluation into one of the various levels of success described in more detail below concentrate on the following fundamental questions:

- Are the **project objectives** reached to a sufficient degree (aspect of **project effectiveness**)?
- Does the project generate sufficient developmental effects (project **relevance** and **significance** measured by the achievement of the overall development-policy objective defined beforehand and its effects in political, institutional, socio-economic and socio-cultural as well as ecological terms)?
- Are the **funds/expenses** that were and are being employed/incurred to reach the objectives **appropriate** and how can the microeconomic and macroeconomic impact be measured (aspect of **efficiency of the project conception**)?
- To the extent that undesired (side) effects occur, are these tolerable?

We do not treat **sustainability**, a key aspect to consider for project evaluation, as a separate category of evaluation but instead as a cross-cutting element of all four fundamental questions on project success. A project is sustainable if the project-executing agency and/or the target group are able to continue to use the project facilities that have been built for a period of time that is, overall, adequate in economic terms or to carry on with the project activities on their own and generate positive results after the financial, organizational and/or technical support has come to an end.