

**The Role of Japanese Foreign Aid in Promoting Human Capital  
Accumulation in Developing Countries: The Case of Assistance to Local  
Economic Development in Armenia and Kyrgyzstan**

A Dissertation

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Doctor of Philosophy

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## **DEDICATION**

This dissertation is dedicated to my mother, Mazluma Karimova, who first taught me the value of education and who has been a source of inspiration to me throughout my life. Thank you for all of the support and encouragement.

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## **ABBREVIATION**

ADB: Asian Development Bank

AMD: Armenian Dram

ASEAN: Association of Southeast Asian Nations

B&B: Bed and Breakfast

CBO: Community Based Organization

CDS: Country Development Strategy

DAC: Development Assistance Committee

GDP: Gross Domestic Product

GIZ: German Federal Enterprise for International Cooperation

GNI: Gross National Income

HPST: Herb Production Supporting Team

IK-OSA: Issyk-Kul Oblast Administration

JAEC: Japanese-Armenian Economic Committee

JBIC: Japanese Bank for International Cooperation

JCC: Joint Coordinating Committee

JETRO: Japan External Trade Organization

JFC: Japan Finance Corporation

JICA: Japan International Cooperation Agency

JOCV: Japan Overseas Cooperation Volunteer

JSC: Joint Steering Committee

KHPA: Kyrgyz Herb Producers Association

KJEC: Kyrgyz-Japanese Economic Committee

KRJC: Kyrgyz Republic-Japanese Center for Human Resources Development

KSRS: Karakol Student Research Shop

METI: Ministry of Economy, Trade and Industry of Japan

MEXT: Ministry of Education, Culture, Sports, Science and Technology of Japan

MoEDT: Ministry of Economic Development and Trade of Kyrgyzstan

MOFA: Ministry of Foreign Affairs of Japan

OBOR: One Belt, One Road Initiative

ODA: Official Development Assistance

OECD: Organization for Economic Co-operation and Development

OVOP: One Village One Product

PDM: Project Design Matrix

PIU: Project Implementation Unit

PRP: Partnership for Rural Prosperity

RSS: Roadside Station

SDP: Sustainable Development Program

SME: Small and Medium-sized Enterprise

SMEDNC: Small and Medium Entrepreneurship Development National Center of Armenia

SNS: Social Networking Service

ToT: Training of Trainers

UNDP: United Nations Development Programme

UNECE: United Nations Economic Commission for Europe

USAID: United States Agency for International Development

WB: The World Bank

WTO: World Trade Organization

## INTRODUCTION

### Research Problem

In recent years, the achievement of economic development in developing countries through foreign aid allocation has become a central topic for discussion among both development practitioners and researchers. A great amount of literature has been originated to explore the relationship between donor and recipient countries along with the mechanism of aid distribution and its effect on target countries. A number of studies have been accomplished in this field in order to figure out the commonalities and differences in donor countries' approaches, that is, what makes one approach more efficient over others (Schraeder 1998, Dollar 2000, Hook 1995, 1998).

Donors state very different aims in their allocation of aid and pursue different technique in the implementation of their development policies. Take, for example, Japanese official development assistance (ODA) policy. The main characteristic of Japanese ODA policy with regard to recipient countries is often associated with its strong regional preference and economic interests (Randel et al, p.54). The official standpoint of Japan as a donor country, as indicated in its ODA Charter issued by the Ministry of Foreign Affairs of Japan (MOFA), declares a clear preference for Asian countries. As stated in the Charter, Japan's priority for Asian region is justified by the notion that, "Asia, a region with close relationship to Japan and which can have a major impact on Japan's stability and prosperity" (MOFA). According to the Organisation for Economic Co-operation and Development (OECD) the top ten recipients of Japan's ODA, as shown in Figure 1, are located in Southeast Asia and almost 60% of Japan's ODA is distributed to these countries. The geographical preference of Japan for aid distribution has been the same over the last decades but this pattern seems to be fluctuating since the end of the Cold War (Nishigaki and Shinomura, p.213).

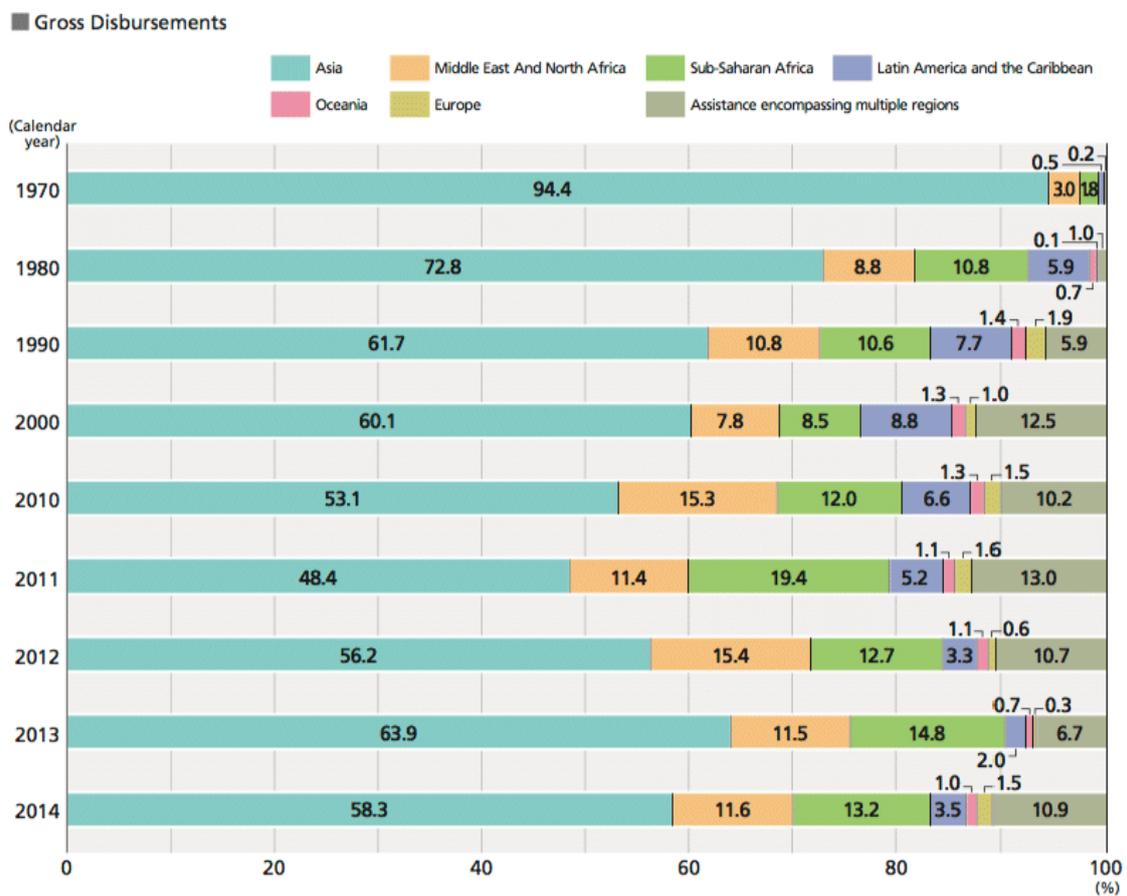
Japan has been active in the wider Central Eurasian<sup>1</sup> region, namely, in Armenia and Kyrgyzstan, over the last two decades, mainly through the provision of its ODA and active participation of Japanese businesses in pursuit of Japan's economic interests (Dadabaev, 2008, 2013, 2016). The priority area for Japanese aid allocation in respective countries are connected

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<sup>1</sup> The term "Central Eurasia" is used in this study as reference to the geographical area comprising of Central Asia and the South Caucasus.

with the achievement of balanced and sustainable economic growth as defined in the Country Assistance Policy paper. The majority projects implemented under the established country assistance plan deals with the infrastructure development and provision of technical assistance, which lack prospects to generate economic opportunities at the community level (Dadabaev 2016). Only few projects, such as educational grants and grants for agricultural producers seem to have an impact on local community empowerment (Dadabaev 2014, 2016; Yuasa 2010, Len 2005).

**Figure 1. Trends in Japan’s Bilateral ODA by Region**



\*1 ODA to the European region since 1990 includes aid to graduated countries.

\*2 Assistance encompassing multiple regions includes the dispatch of survey groups, administrative costs and promotion of development awareness, all encompassing multiple regions.

Source: Source: MOFA, “Japan's ODA Disbursements,” Tokyo;  
 <[https://www.mofa.go.jp/policy/oda/page\\_000029.html](https://www.mofa.go.jp/policy/oda/page_000029.html)> (accessed 3 May 2018).

The existing literature on the impact of Japanese aid on Central Eurasian countries’ economic growth and human resources development suggest that in most cases the development projects implemented by Japan International Cooperation Agency (JICA) lack of direct impact on local

communities and beneficiaries since majority projects are directed at provision of humanitarian assistance or infrastructure development at state level rather than supporting the local economic development process in Armenia and Kyrgyzstan (Marat 2008, Kawato 2008, Mangi 2011).

### **Research Gap and Significance of the Study**

Over the last years, the vast majority of academic works conducted stressed the importance of studying the relationship between aid allocation and its impact on economic growth of recipient countries. For instance, the early studies commissioned by Papanek (1972) found a positive correlation between aid and economic growth. Similarly, Fayissa and El-Kaissy (1999) argue that aid may have a positive impact by contributing to the economic growth in developing countries. Another group of scholars, such as Singh (1985), revealed that aid may have a positive and strong effect on growth even without state's intervention, while scholars like Snyder (1993) pointed out the importance of country size in assessing the correlation and impact of aid on growth. On the other hand, Burnside and Dollar (1997) came to the conclusion that aid may be effective, that is, contribute to growth only in the good-policy environment, which may maximize donor's efforts to bring a positive change through collaboration with policy implementing agencies and policymakers in developing countries. Later studies, however, question the real benefit coming through aid allocation and found out that aid may also have a negative impact on growth. The study accomplished by Knack (2000) found out that with a large amount of aid inflow the institutional quality in developing countries diminishes while at the same time increasing the rent-seeking and corruption attitude, and therefore making a negative impact on growth. Using larger sample size, in order to assess the validity of the earlier works of Burnside and Dollar, a group of scholars, such as Easterly, Levine and Roodman (2003) outlined the negative relation between aid and growth by proving the inconsistency of the previous research findings with the outcomes of the later studies (Gong and Zou, 2001). As such, the further investigation of the relationship between Japanese foreign aid and economic growth in developing countries possesses conditionality based on geographic context, aid flow and its type, as well as from development project implementation point of view, how it's being approached, and the sources used (Gallup, Sachs and Mellinger, 1999).

One of the main contributions of this study to the existing literature on Japanese foreign aid dilemma would be the analysis of how bilateral relationship between Japan and recipient countries in the form of aid inflow, on the one hand, and the accumulation of human capital in

Armenia and Kyrgyzstan, on the other hand, is impacting the local economic development of recipient countries. The correlation between foreign aid attainment and local economic development discourse will be focused on the role of Japan in supporting the local economic development process in recipient countries.

The scope of this study concentrates on the study of the One Village One Product (OVOP) project as a means of Japan`s strategy for local economic development in recipient countries, not on the impact of Japan`s ODA policy on recipient country`s economic development.

### **OVOP as a Local Economic Development Strategy**

The One Village One Product (OVOP) movement which was originated in 1979 in Japan`s Oita Prefecture is now being implemented in different parts of the world.<sup>2</sup> The main objective of the OVOP project is to spur the economic development process in rural areas through the provision of assistance for local residents to develop their local products, tourism, and culture. The defining characteristic of the OVOP projects is based on the selection and production of unique local products and services based on territorial identities and resources. According to the initial project implementation results, all 58 municipalities within Oita Prefecture, have taken part in the project and a total of 766 different types of local products and services have been introduced (Mukai and Fujikura, 2015). The introduction and subsequent implementation of the OVOP project in Oita Prefecture have not only resulted in the development of the unique local products and services but also contributed to the increase of the total quantity of products and sales. For instance, before implementation of the OVOP project, the 143 types of local products generated a total sale of 35.853 billion JPY. By 2003, due to the OVOP campaign, the quantity of these local products had grown to 319 units and aggregated total sales of 141.602 billion JPY (Hiramatsu 2006). A number of studies were also accomplished to assess the effectiveness of OVOP policies from a comparative perspective in order to achieve the desired regional development outcomes in Japan and overseas (Son 2010, Matsui 2006).

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<sup>2</sup> In this study, I refer to the activities conducted within the framework of OVOP concept implementation in other countries as “projects”; however, these projects were implemented under different names in different countries. While the initial activities accomplished in this area were labeled as a One Village One Product movement in Japan, JICA named their overseas activities as “project” (e.g. Laos and Malawi during 2005–11), “programme” (e.g. Malawi after 2011), or “approach” (e.g. Kyrgyzstan).

The evolution of the Japanese concept of local development, initiated as OVOP campaign, has been also transmitted and being utilized by several developing countries. One of the first countries which adopted the Japanese concept of OVOP has become China. In 1983, the Mayor of Shanghai introduced the OVOP project with an aim of enhancing the production capacity of rural communities through achieving better quality control of local products (Fujioka 2006). Later, the OVOP concept has been adopted by many Asian developing countries such as Cambodia, India, Indonesia, Laos, Malaysia, Mongolia, Myanmar, Kyrgyz Republic, Taiwan, and Thailand (Takei 2007). In addition, the OVOP project has been also implemented in a number of South and Central American countries including Argentina, Columbia, and Peru. Starting from 2008, the OVOP project has been integrated into the Japanese overall foreign aid strategy and was undertaken in the form of a product development and export promotion activities in several African countries including Tunisia, Malawi, Kenya, Ethiopia, Nigeria, Rwanda, Senegal, and other African countries (Kurokawa, Fletcher, and Dirk 2010).

### **Aim and Contribution of Research**

In recent years, the topic of OVOP in general and with regards to specific country or region has gained a profound popularity and led to some significant contributions by different scholars of International Relations and Development Studies. The aforementioned scholarship (Dadabaev, 2016; Ashitate, 2007; Shiraishi, 2009; Söderberg, 2002; Sudo, 2005) have drawn their attention mostly on specific peculiarities of Japanese OVOP policy by emphasizing the nature, main characteristics and the evolution of this phenomenon. Along with the major topics discussed by scholars, similar issues related to the Japanese development assistance strategy (Trinidad, 2007: 98) and the socio-economic impact of OVOP project on recipient countries have been given a lesser priority (Ashitate, 2007; Cochrane, 2012). Accordingly, this research aims to provide more comprehensive analysis of certain peculiarities of Japanese development projects in Central Eurasian region with a specific focus on human capital development practices as part of OVOP project implementation in Armenia and Kyrgyzstan.

The main objective of this study, as such, is to identify, by conducting a comparative study of OVOP projects in Armenia and Kyrgyzstan, if activities accomplished under the OVOP project contributed to the local economic development, and what factors were detrimental in this process.

This thesis aims to make a contribution to the discussion around why aid is being given and its effectiveness in supporting local economic development process in recipient countries. Not many studies exist dealing with the topic of Japanese foreign aid and its role in the local economic development of recipient countries and therefore, this research envisages to concentrate on an emerging realm of international relations that is on the role of Japan in supporting the local economic development in developing countries. Using comparative analysis, this study aims to identify the deviation in Japan's efforts behind bilateral ODA distribution by exploring the factors contributing to the effectiveness or failure of Japan's development practices.

## **Research Questions**

The main research question that is addressed in this paper deals with *how bilateral relationship between Japan and ODA recipient countries has impacted the local economic development of Armenia and Kyrgyzstan?* To provide more systemic analysis of the topic and elaborate on the peculiarities of Japanese ODA, the main research question is broken down into three sub-questions. The first sub-question aims to elaborate on *how the issue of local economic development is articulated in Japanese ODA policy towards recipient countries?* The second sub-question attempts to provide an answer for the question as for *how Japan is addressing local economic development as part of its development strategy in recipient countries* which will be elaborated in Chapters 4 and 5. The third sub-question addresses Japan's efforts as a donor country by examining what has been *Japan's role in supporting human capital accumulation and achieving local economic development in recipient countries.* The final sub-question will serve as a general framework for the analytical part of the thesis as the way how Japanese foreign aid is distributed and its effectiveness are sought to be closely correlated and constituent.

## **Structure**

This thesis consists of six main chapters. The introduction part provided a brief explanation of the context where the research is addressed and clarified the objective of the study. The first chapter will provide the theoretical and contextual frameworks for analysis based on the main research objective. The second chapter familiarizes with the research method applied. Since the study aims to explore the process of achieving economic growth through human capital

development in recipient countries and how this process is articulated in the Japanese ODA policy, this study will employ main theoretical and contextual frameworks from two distinct fields of International Relations and Development Economics. Employing two different contextual frameworks will allow us to investigate the topic and to provide an in-depth analysis of how Japanese foreign aid is affecting the economic growth in Armenia and Kyrgyzstan, as well as to understand Japan's role and contribution to the human capital accumulation in respective countries. Based on our research methodology, which adopts a mixed approach to investigate the topic, the third analytical chapter will discuss the Japanese ODA policy towards the countries of Central Asia and the South Caucasus. The two subsequent Chapters provide two types of analysis. The quantitative analysis will discuss the economic development in respective countries by providing the statistical data on the state and characteristics of Japanese ODA flows to recipient countries. The qualitative part will use Japanese ODA policy towards Armenia and Kyrgyzstan to describe Japan's efforts in pursuing such policies to facilitate the process of local economic development. The final chapter will provide comparative analysis by summarizing the main findings of the research and will prescribe the assessment of whether the formulated Japanese ODA policy towards recipient countries facilitated economic growth by accomplishing human capital development practices.

## **CHAPTER I: Insights from Existing Literature and Theories**

This chapter provides an overview of the existing literature and debates regarding foreign aid and donors' development operations. The sources chosen for this study combines works of both economist and IR scholars' view. In regard to the Japanese foreign aid topic, the insights from both local and international experts were incorporated into the study.

In addition, this chapter explores the contributions of the theories related to this research. It examines the concepts of human capital, endogenous development and constructivists' stand, including the role of foreign aid in reference to ODA's impact on human capital development, along with their major criticism on the investigated topic.

Lastly, this chapter defines author's arguments regarding Japanese local economic development practices in developing countries.

### **1.1 Previous Studies on OVOP**

Given the fact that the OVOP movement came into existence in Japan, the vast majority of studies, originally, have been produced in Japanese. Later, as the OVOP transformed from being a solely domestic movement into an internationally accepted endogenous development project, more and more studies have started to be published in English and other foreign languages. The accumulated knowledge and scholarly works on OVOP can be categorized into three main groups.

The first and predominantly huge bulk of studies on OVOP discuss the replicability and the impact of the Japanese model of endogenous development – the OVOP projects in other developing countries and provide an analysis of the compatibility of conventional OVOP concept with other cases. According to Igusa (2008), the traditional OVOP concept deriving from the example of Oita prefecture can be successfully applied in other Asian countries. Scholars like Kurokawa (2008) argue that while OVOP concept can be adopted as a local economic development approach by other developing countries, one can distinguish the difference in project outcome achieved by original OVOP in Japan and in other countries. In line with the discussion of the replicability of OVOP project overseas, some scholars like Yoshimura (2004) conducted an analysis of Japan's National Development Plans from 1960 to

1990 and came to conclusion that in order for the OVOP concept to be successfully utilized overseas it is important that these projects preserve the conventional OVOP principles. More specifically, Yoshimura points out that application of OVOP concept in other countries should be focused on community-oriented economic and regional development policies which aim the utilization of local resources, including nature, culture and history. In his study, Hayashi (2007) also concludes that OVOP projects implemented under the community-oriented regional development policy tend to be an essential component of sustainable regional development practice.

The second category of studies commissioned on OVOP deal with the elaboration on specific case studies and OVOP practices. One of the prominent studies in this stream relates to Stenning (2008) who explored the development of the OVOP concept in Oita prefecture and concluded that along with the OVOP's contribution to local economic development it also generates strong networking opportunities among participating community members. On the contrary to Stenning, Yamagani (2007) argues that the major lesson that can be deduced from Oita prefecture's example is that OVOP concept can be adopted and replicate Oita's success if the project is based on the utilization of diverse local resources and activities.

The third group of studies concentrate on the project outputs as represented by value-added local products. For instance, during his studies, Okura (2007) examined the relationship between OVOP concept and the value of OVOP products by surveying Oita consumers. His study found out that the success of local products commissioned under OVOP brand is dependent on the availability and provision of a continued support by local authorities. Fujita (2006), on the other hand, examined the development and marketing of OVOP brand products and their impact on local economic development from endogenous growth theory perspective. In his study, Fujita compares two Japanese concepts, namely OVOP and Michino Eki (Roadside Stations) and reviews these two unique concepts as an effective approach for diminishing the gap between rural and urban places. He argues that these two concepts represent a unique approach for community-based local development which envisages and supports the development of unique value-added local products through utilization of local resources and cultural elements.

The studies produced by non-Japanese scholars remain limited. Majority of studies accomplished by overseas scholars explore the case studies pertinent to the Asian region. The

study commissioned by Fujioka (2006) with reference to replicability of Japanese OVOP example in the case of Thailand found out that the OVOP model of development can be adopted differently and thus produce a different outcome. His research revealed that due to the top-down approach used in Thai case in project implementation, the project output varied from one that is achieved in Japanese OVOP cases. Similarly, Yoshida (2006) argues that in case of Malaysian OVOP, the provision of low interest-rate loans is considered as an OVOP approach for the achievement of local development.

There tend to be limited studies providing comparative observation of original OVOP and overseas practices. In this regard, this research aims to contribute to the discussion on OVOP studies by conducting a comparative analysis of original OVOP case in Oita prefecture, the Armenian case and the Kyrgyz case with an aim of revealing the commonalities and deviation in the selected case studies.

## **1.2 Conceptual Framework**

### *1.2.1 What is Aid and Official Development Assistance (ODA)?*

Before proceeding to the discussion about donors' motivations for foreign aid allocation, it is important to get acquainted with the concept of aid. Similar to the description of foreign policy intent, the definition of foreign aid concept is also quite dispersed (Ohlin 1968, 235). It is often defined as a notion going hand in hand with donors' and recipient countries' interests (Hook 2001). Based on the context in which the term foreign aid is being used, its characteristics may also vary, since the development process may take place in different forms and ways depending on the applied case study (Brautigam 2011, 753).

While there is a contested debate over the use and definition of foreign aid among the scholarly community, the majority would agree on the point that aid is "*the international transfer of capital, goods, or services from a country or international organization for the benefit of the recipient country or its population. Aid can be economic, military, or emergency humanitarian*" (Alesina and Dollar 2000, Bobiash 1992, Burnside and Dollar 2000, and Hattori 2003).

The mostly agreed definition of aid is presented by the Organisation for Economic Cooperation and Development (OECD). In 1960, the OECD established Development Assistance Committee (DAC) to monitor and improve the development assistance from the OECD countries to the less developed countries. Since then, the DAC has started using the term ODA (Official Development Assistance) in reference to aid. According to the OECD's definition, ODA is regarded as "those flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are:

- i. **provided by official agencies**, including state and local governments, or by their executive agencies; and
- ii. each transaction of which:
  - a) is administered with the promotion of the **economic development and welfare of developing countries** as its main objective; and
  - b) is **concessional in character** and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)."

In this paper, the more comprehensive definition of foreign aid will be used in reference to aid delivered in the form of resources offered to another country for economic, political, or social sector development purposes and will exclude the military consideration. Since the focus of this study is bilateral aid from a developed country to low-income countries, funding allocated to multilateral organizations will not be included. In a broader aid delivery definition, the study defines donor's aid practices as represented by the provision of financial resources; commodities, such as vehicles and equipment; or technical assistance and training. It could be in the form of grants, loans, and technical assistance.

### *1.2.2. Motivations of Foreign Aid - What Drives Donors to Foreign Aid?*

The discussion around motivation for foreign aid has been evolving for a long time and is considered to be one of the heated topics of contemporary debate within IR and Development Studies scholarly community. Since the aid-giving practices have been gaining an increasingly interesting trajectory, the question "why do donors allocate foreign aid?" has been often addressed in an attempt to reveal the true motives and intent of the donor countries for practising foreign aid delivery as part of their foreign policy.

While the earlier discussions were concentrated around the topic of aid transaction from global “North” to the “South” (McGillivray and White, 1995), the later debates fueled the emergence of the argument stating that foreign aid possesses multifaceted purposes and implications on recipient countries (Dollar and Levin, 2004). For instance, Lancaster (2007: 13) proposes four main purposes of foreign aid, namely diplomatic, developmental, humanitarian relief, and commercial. The most widely used diplomatic purpose of foreign aid is being considered for the maintenance of international security and development of inter-governmental relationships. The developmental purpose is being sought to facilitate the reduction of aid dependency from the giving country through attainment of economic and social development by recipient countries. The aid aimed at provision of humanitarian relief is given from foreign countries for less developed recipient countries, with limited capacity, to overcome and handle the emergency situations, such as natural disasters and its subsequent damages (ibid: 14). The final commercial purpose of foreign aid represents the strategic economic interests of donor countries, emphasizing the desire of foreign country for widening up the export market in recipient country with an aim of natural resource extraction (ibid: 14).

Understanding the reasons behind foreign aid allocation can help us to uncover the true motives of donor countries for conducting “development assistance” practices by using their limited national financial resources for other countries.

Moreover, the study of the above declared four mainstream foreign aid purposes has also contributed to the development of the controversial debate about the role and intentions of donor countries for aid disbursement. For the majority, foreign aid is associated with the national interests of donor countries, as such can be used as an instrument of foreign policy, while another group tends to believe that aid is distinct from foreign policy and donor countries do really preserve the moral obligation and strive to provide development assistance to recipient countries.

### *1.2.3. National Interest of Donors - Foreign Aid as an Instrument*

Some scholars like Radelet (2006), considers aid as an integral part of foreign policy and argues that foreign aid has little interest on recipient country’s development, and predominantly aimed at strengthening political relationships, hence can be used as an instrument for the attainment of donor’s political objectives (ibid: 6). He brings up the examples of foreign aid practices

undertaken by the United States and the former Soviet Union during the Cold War period to demonstrate how these two donor countries used aid as an instrument for the attainment of recipient countries' support. For instance, channelling aid to China and Taiwan was aimed at gaining the respective governments' recognition, while foreign aid inflow to former colonies sought to be essential for preserving political influence over recipient countries. This way of thinking is typical for the realist perception of inter-state relationship in IR, which considers states in an anarchical environment where states' primary obligation is centered around the issues of security, power and survival, and from this point of view aid is being considered as a foreign policy tool serving the national self-interests of donor states (Lancaster 2007: 3). Since there is no notion of global government in realist understanding of international politics, a nation-state, as such, is sought to be the most influential actor in the international arena. In this sense, the state's attempt to conduct oversight politics beyond the boundaries of national sovereignty is considered as an act of 'power maximization', which in turn brings the issue of security and reiterates the state's self-interest narratives. Consequently, this type of inter-state relationship possesses vitality not only for national interest considerations but also for the balance of power among the states to pursue these interests (Griffiths et al. 2008: 34). Taking into consideration these propositions, realists' view of foreign aid can be treated as a practice symbolizing the strategic interests of donor countries conducted, first of all, to sustain national security, and as such "foreign aid is perceived as only minimally related to recipient economic development and the humanitarian need of recipient countries are downplayed" (Schraeder et al. 1998: 296).

Similarly, it is also doable to consider foreign aid from the lens of neo-realism. Noticeably, the core line of thoughts of neo-realism is incorporated with the mainstream realist understanding of International Relations. Yet, when it comes to the issue of security, which is shared by both schools of thought, neo-realism emphasizes the economic aspect of national security as fundamental (Schraeder et al. 1998: 296). This denotes that, while the national security is accepted by both realism and neo-realism as a core postulate of foreign policy in general and foreign aid in particular, unlike realism, neo-realism treats foreign aid in relation to the economic interest of donor countries. According to the neo-realist viewpoint, the decision regarding aid distribution is hugely dependent on the potential for a mutually-beneficial interaction between donor and recipient state, so that donor country, while allocating foreign aid, could also get an access to export markets or raw materials in recipient countries. As part of bilateral aid delivery mechanism, the donor countries can also make it possible for their

private sector entities, such as businesses, to pursue their economic interests by getting an access to the domestic market (Radelet 2006: 6). Therefore, while realism and neo-realism have a different understanding of national interest and security issues, both realism and neo-realism signify the role of donor's interest in determining the donor's motivation for aid.

### *1.2.3. Moral Obligation vs. National Interest*

Although the discussion around the topic of donor's moral obligation versus national interest provides two distinct arguments for donor's foreign aid conduct, the discussants belonging to the national interest camp would agree that developmental motivation can be still preserved in aid delivery. According to Radelet, while the decision-making regarding foreign aid is hugely dependent on political considerations, and as such, leaves less emphasis on the moral aspect of aid delivery, the influence of the moral criteria as a driving factor for aid is inevitable (2006: 6). Similarly to Radelet, Lancaster (2007: 43) also provides some sound examples, based on his observations, on the increase of aid given by donors to poor countries and multilateral development institutions with the developmental purpose for the last decades. Another group of scholars, like Lumsdaine, while acknowledging the role donor's interest play in decision-making of foreign aid, at the same time, seem to be undermining the importance of national interest for foreign aid by claiming that "foreign aid cannot be explained on the basis of the economic and political interests of donor countries alone [...]" (1993: 29). As such, one may divide these scholars, based on their argumentations, into two groups: ones who acknowledge the role of moral criterion - developmental motivation in the decision-making of foreign aid and those who claim that it's less influential.

From a theoretical perspective, while constructivism emphasizes the need-orientation in the decision-making process, realists seem to downplay the moral obligation from the debate about foreign aid (Nielsen 2010: 5). For instance, Riddel claims that "the national self-interest argument [...] would tend to suggest two propositions which are necessarily mutually exclusive: either aid should be granted on the basis of moral criteria or it should be granted on the basis of national interest criteria. However, the dichotomy is not so simple: it conceals a variety of different views about the relationship between morality and national interest" (1987: 65).

Based on this line of argumentation, Riddel perceives the distinction between national interest

and moral consideration as a dichotomy and claims that both elements can be treated as a constituent part of decision-making (ibid: 65). Consequently, Riddell suggests the new way of thinking about donor's motivation of foreign aid based on the relationship between these two elements.

Riddell's interpretation of the relationship between national interest and moral obligation of donor governments provides an alternative view on the role donors play in the decision making process suggesting that: "national interest considerations are fundamental in decisions on aid, but the needs of the Third World provide an important moral perspective and to the extent that the provision of aid on the basis of this moral perspective is in harmony with pursuing the national interest, then aid should be granted; to the extent that it is not, then aid should be withheld" (ibid: 65). According to this viewpoint of Riddell, while the moral obligation of the donor country is being considered, but to the extent that it doesn't overtake the primary role the national interest plays in the foreign aid decision-making process. Similarly, he argues that: "national interest considerations are important in aid decisions, but the needs of the Third World create such an overriding moral imperative to assist that prior consideration should be given to helping to solve these problems even if this results in conflicts with the broad national interest of the donors" (ibid: 65). As such, both elements of decision-making process have their own role and influence, yet to different extents. Despite Riddell's argument in favour of donor's national intent as a primary concern, he, however, doesn't neglect the importance of moral criteria in determining the foreign aid allocation and thus, one can acknowledge that "questions of morality are not thereby forgotten or eliminated" (ibid: 73).

### **1.3. Theoretical Discussion**

#### *1.3.1 Human Capital Theory*

This study employs human capital theory to illustrate Japan's human capital development efforts as part of its ODA policy, such as through the implementation of the OVOP project and conducting activities directed at supporting private sector development in the selected recipient countries. Since contribution to the human resources development through achievement of economic growth is one of the priority policy areas of Japanese foreign aid program in Armenia

and Kyrgyzstan (MOFA, 2004, 2009a), the human capital theory is used as an analytical tool to describe the rationale behind Japanese foreign aid delivery to different policy areas.

Besides, the maintenance of the bilateral relationship between donor and recipient countries through conducting developmental practices provide us good opportunity to review this process and to analyze if both actors persist the same level of determination for the attainment of human resources development as a result of economic growth outcome. While human capital doesn't denote and associated with human resources and manpower as such, both notions tend to be a constituent part of it (Schultz, 1971a).

In this study, we refer to the broader definition of human capital, which implies the attainment of certain knowledge and capabilities by human resources to generate economic value (Schultz, 1971 a,b). More specifically, the study adopts the description provided by T. W. Shultz, one of the main theorists of the human capital theory who define it as:

“strictly [as] an economic concept. [...] It is a form of capital because it is the source of future earnings, or of future satisfactions, or of both of them. It is human because it is an integral part of man.” (Schultz, 1971a: 5, emphasis in original text).

According to Schultz's above description, one may assume that people tend to acquire new knowledge and skills for economic considerations, that is, for gaining higher wages and increasing their future prospects. Consideration of this process will help us to understand the role income level and changes to it may have on the economic development of a recipient country (Schultz, 1981: 4). Application of the human capital theory to the donor and recipient countries, more on the recipient country context, to generate human capital, state policies, whether it's internal or foreign aid policy, should be focused on the investment facilitating education attainment and learning activities, respectively (Schultz, 1971a,b: 36). Japanese effort to facilitate this process in the example of Armenia and Kyrgyzstan through foreign aid allocation will be discussed in Chapter III.

### *1.3.2. Endogenous Development: local, economic, and social views*

The endogenous development concept is used in this study in relation to the OVOP project implementation practices in selected countries. The OVOP project is aimed at supporting local

economic development through facilitating the local resources and knowledge accumulation in order to transcend them into community-oriented activities that accelerate economic growth. As such, the OVOP-oriented development practices can be treated as ‘endogenous’ rather than ‘exogenous’. The main characteristics of the endogenous development is that, unlike exogenous development, which is associated with the need for external capital and resources to promote industries, endogenous development provides an alternative paradigm of development which focuses on social development, the growth of human capital, and the role of local resources, communities and their activities for the achievement of local economic development (Wysocka, 2009).

The concept of endogenous development was introduced by a group of scholars, namely Friedman and Weaver (1979) and Stohr and Taylor (1979) and was first used in the late 1970s in regard to the ‘Third Italy’ topic. The chosen topic for investigation dealt with the role small and medium enterprises played in utilizing the traditional sectors, such as shoes and leather products in the 1970s in the area centred around Bologna (Dinis 2006; Camarero et al. 2008; Piore and Sabel 1986). The selection of key metrics for this research was based on several factors, to mention few: the geographical proximity of small firms and their specialization, as well as the role played by the regional government in supporting the activities of these small industries. According to the mainstream endogenous development theorists, the detrimental factor for the success of this model is based merely on the region’s capacity to attract foreign investment and firms, but it’s, by and large, conditional on the availability of certain facilities allowing to transform the regional productive structure to spur the regional growth process (Dinis 2006).

Recent studies on local economic development issues tend to incorporate societal, cultural, environmental, and human elements as an integral part of the research. For example, according to Friedman (2007), there are seven elements that are necessary for the achievement of local economic development which include: basic human needs, organized civil society, the heritage of an established environment and popular culture, intellectual and creative assets, regional resource endowment, the quality of its environment, and infrastructure. The development model that involves and incorporates these aforementioned elements into the regional development practices through knowledge accumulation and rural entrepreneurship seem to be the modern drivers for regional growth as manifested by Marshall (1948), Schumpeter (1991) and Kirzner (1997). In addition, rural entrepreneurship also possesses importance for the

achievement of sustainable regional development since it enables local governments to meet social needs and reduce the poverty burden through employment and product marketing (Bornstein, 2007; Dees, 2007; Torii, 2009; Torii 2010). Besides, community-based enterprises can be also seen as an effective mechanism for development strategy implementation, because this mechanism utilizes community resources, such as social capital, structures, and networks (Torri, 2009, Coleman, 1988; Coleman, 1990) and generates income that facilitates economic development (Kilkenny et al., 1999; Lyons, 2002). The OVOP project, in this view, can be regarded as one of the best examples of endogenous development and community empowerment practices.

### *1.3.3. Constructivist Perspective*

Unlike mainstream IR theorists' view on foreign aid, which is predominantly focuses on the distribution of and balance of power in international politics, constructivists' view of foreign aid emphasizes the importance of process in understanding why donors allocate aid (Finnimore and Sikkink 2001, 392-93). Constructivists' view, contrasting the self-interest consideration of foreign aid, provides an explanation of how norms and values shape the actions and preferences of donor countries (Nielsen 2010: 3). Lumsdaine (1993), for instance, treats these norms and values as donor's moral obligation which reflects donor's motivation of foreign aid. According to him "foreign aid cannot be explained on the basis of donor states' political and economic interests, and that humanitarian concern in the donor countries formed the main basis of support for aid" (ibid: 3). Another explanation for constructivists' view of foreign aid can be provided by consideration of the role norms and values play in international politics, suggesting that donors' actions are motivated by an established international norm which entails that wealthier countries obliged to provide necessary support for less-developed countries so that they can improve their state (Lancaster 2007: 4). Furthermore, the conduct of this international norm is also believed to be important for policy-makers of the donor countries in order to maintain international security and peace since aid inflow from donor countries to poor countries may serve as an effective way for establishing inter-state relationships and stabilizing the world order (Pankaj 2005: 117). Downplaying the centrality of national self-interest of donors in foreign aid, constructivists claim that moral obligation that is certain norms and values based on humanitarian and ethical considerations, motivate donor countries to conduct their foreign aid practices (Checkel 2008, 73; Lancaster 2007, 212).

Constructivists argue that aid giving is not about resource allocation but rather it's aimed at building inter-state relationships (Hattori 2003, 232). For instance, Lumsdaine (ibid: 39), based on his empirical studies, suggests that aid ought to be given primarily based on the need of a recipient country but not based on economic and political considerations of donor countries, and therefore aid programs aimed at supporting the development of recipient countries rather than maximizing donors' benefits. According to him "if aid had been given to secure economic advantages or political leverage, it would have been sensible for the donor countries to move aid in exactly the opposite direction" (1993: 50). Based on his observations, Lumsdaine also proposed that the correlation between aid attainment and trade development was very low and concluded that aid was not given with the view of enhancing the economic relationship between donor and recipient countries.

Constructivists view the DAC as an attempt to institutionalize donors' humanitarian values in foreign aid giving (Hattori 2003, 229-30). Given the fact that the aid distribution mechanism has been changing over the time, the humane values have been also gaining a profound role as the main driver of aid to the poorest countries (Lumsdaine 50). This process has also fueled the institutionalization of the aid delivery mechanism and establishment of donor's community, such as DAC. Some scholars view the establishment of DAC and a subsequent 0.7 percent benchmark, according to which donors are obliged to contribute more than 0.7 percent of their Gross National Product for aid disbursements, as a representation of donor's norms and obligation towards poorest countries (Pankaj 2005: 117).

Constructivists seem to be more comfortable with the development-oriented institutions, such as the United Nations agencies or the World Bank since they are considered to be the transmitters of the norms (Becker 2007, 9). Lancaster (2007: 42) argues that the aid delivery through these institutions tend to be the most appropriate method since these institutions don't hold the self-interest view for aid disbursement, which can be influential in delivering it in the form of a bilateral aid to the recipient countries.

Taking into account the increased contribution of donor countries to multilateral institutions since the end of the World War II, Lumsdaine claims that donor countries would have been given more emphasis on the provision of aid "directed primarily to economically and strategically significant states" if donor countries were seeking certain economic or political benefits from channeling their aid for the use by multilateral institutions (ibid: 41).

National self-interest consideration in foreign aid is being viewed by constructivists as neither adequate nor convincing. According to Lumsdaine (ibid: 4), the way aid was provided “makes perfect sense if the aim of aid was to promote development, but no sense if the aim was to gain advantages for particular donor states” (ibid: 52). This argument also coincides with the constructivists stand on foreign aid practice which is seen as a reflection of donor’s humanitarian consideration and willingness for inter-state integration to form the global community. Besides, Lumsdaine also suggests that “foreign aid cannot be explained on the basis of the economic and political interest of the donor countries alone, and any satisfactory explanation must give a central place to the influence of humanitarian and egalitarian convictions upon aid donors” (ibid: 29). Taking into account constructivists’ above argumentation we may conclude that, although constructivists acknowledge the role of economic and political interests of donors in foreign aid, constructivists review the foreign aid process from donor’s norms and values perspective which seeks to reflect their obligation towards recipient countries.

#### **1.4. Arguments**

There are two main arguments that can be drawn from the above discussion of the foreign aid and OVOP project:

- 1) *The Japanese OVOP project is effective (contributes to the local economic development) depending on the level of policy measures undertaken by both donor and recipient countries;*
- 2) *The outcome of the OVOP project in two cases is different depending on the support (both material and non-material) provided by Japan to Armenia and Kyrgyzstan;*

If the results of the research should show the role of Japan in promoting local economic development in Armenia and Kyrgyzstan, constructivism places an important role for the study of the process to understand state’s actions, that is, what contributed to their formulation of a certain policy. Consequently, if we use constructivism to explain donor’s role in supporting the development of the local economy of recipient country through the lens of the process, then

constructivism provides us an explanation on the state narrative and behaviour. Based on this, we may hypothesize that:

*Prevailing values and norms motivate Japan to promote local economic development in recipient countries for mixed reasons: economic, political and altruistic reasons.*

The hypotheses will be examined further in the example of Japanese foreign aid policy towards recipient countries in Chapter III. The analytical approach will also provide an explanation for the validity of the hypotheses in Chapters IV and V.

## **CHAPTER II: Research Methodology**

### **2.1 Design of Study**

Given the multidisciplinary nature of the topic ranging from the fact that the study aims to merge the issue of Japanese foreign aid from International Relations stance and its effect on local economic development in recipient countries from Development Economics perspective, the accommodation of meta-theory for this research is required. Consequently, in this research, I adopted the constructivists' stand on the formation of bilateral relations between the donor and recipient states to uncover the implications behind such interactions. Unlike realists' or liberalists' approach to position states' self-interest as a primary concern in the international system, constructivists challenge the realists' view by emphasizing the humanitarian aspect of aid allocation by states. Constructivists' perspective on the role and interests of the state as a donor provides an explanation for donor's moral obligations towards recipient countries (Nielsen 2010: 3). Therefore, adopting the theoretical framework promoted by the constructivist school of thought equipped me with the right tools to analyze the process of foreign aid allocation from input perspective and the role and obligations of states in this process as defined by output.

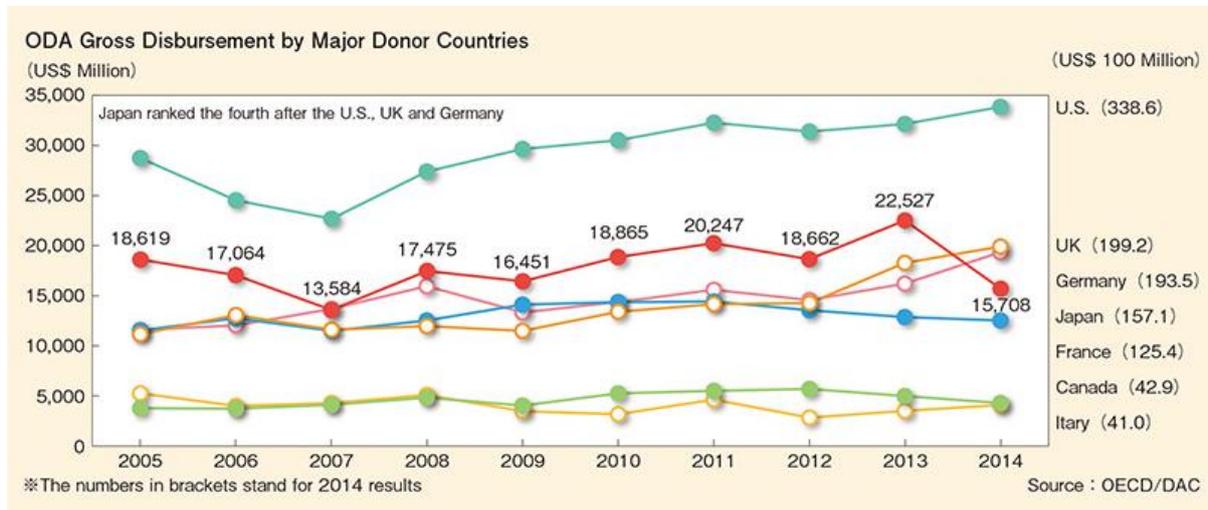
### **2.2 Case Studies**

In order to assess these two processes, the following research was designed in a way that it revealed how and why Japan allocated its foreign aid to boost local economic development in recipient countries from explanatory and descriptive standpoints (Bryman, 2008: 52; Yin, 2009: 9). Consequently, since the research strives to explore the process of relationship building between donor and recipient countries, the case study approach was chosen. In the selected OVOP case studies, Japan was chosen as a donor – OVOP project implementing country and two developing countries - Armenia and Kyrgyzstan were identified as recipient countries.

Japan was chosen as a donor country for three main reasons: firstly, Japan is one of the leading ODA distributors remaining in the fourth place in the world based on total aid disbursements (Figure 2), secondly, the availability of Japanese presence in recipient countries as represented by JICA operations in respective countries and thirdly, because of data availability about

Japan's OVOP practices in recipient countries.

**Figure 2. Japan's share of ODA Disbursements**



Source: MOFA, "Japan's ODA Disbursements," Tokyo; <[https://www.mofa.go.jp/policy/oda/page\\_000029.html](https://www.mofa.go.jp/policy/oda/page_000029.html)> (accessed 3 May 2018).

The key metric for choosing the recipient countries was based on three major factors: first, the relatively similar economic performance of these countries as defined by their GDP growth rate, secondly because of the similar JICA operations as defined by the implementation of the same development project - OVOP in both countries and, finally to provide regional, historical and political variation in the recipient sample.

The descriptive nature of the study sought to be important to form the contextual framework for our research and outline the general human development prospect in recipient countries along with Japanese ODA policy towards them. On the other hand, the explanatory standpoint enabled me to discuss different ways used by Japan to promote economic development and to understand the factors motivating Japan to undertake certain development policies in recipient countries.

Another characteristic of our approach is that I used the mixed method in order to collect and analyze the data. The combination of qualitative and quantitative methods sought to be essential to attain a comprehensive overview of the investigated topic than adopting the single method for our analysis (Bryman, 2008; Yin 2009; Silverman, 2010).

### **2.3 Data Collection**

This research utilized predominantly the secondary data for analysis. The secondary data was collected from official statistical and policy documentation produced by JICA and related institutions based in Japan, Armenia and Kyrgyzstan. More detailed explanation of the secondary data is presented below. In this paper, secondary data was used to portray the political aspect of the research problem and describing the relationship between donor and recipient countries, with a special emphasis on the human capital development process, from both quantitative and qualitative perspectives.

Quantitative data consists of sources related to the human capital development and Japanese foreign aid inflows to Armenia and Kyrgyzstan, as well as data on ODA to the private sector development in recipient countries. In order to add more reliability to our analysis, the data gathered from national government agencies of recipient countries was paired with the data extracted from online databases of international organizations, such as the World Bank, the United Nations agencies and OECD, put together with the data taken from previous research findings. Quantitative data analysis method is believed to be effective for comparative analysis (Bryman, 2008), which is aimed for this research, to assess the relationship between Japanese ODA allocation and human capital development, as well as to track the changes in this regard since the establishment of a bilateral relationship between donor and recipient countries.

Qualitative data comprises of previous literature, official documents and project reports produced by both donor and recipient country governments, their agencies and international organizations. Due to the time constraints and lack of sufficient funding for accomplishing a field trip to recipient countries, the field observation took place only in Japan. This, obviously, impacted on the way how the data is collected and also on how it's interpreted. Taking into account that the topic of this study is to analyze the relationship between Japan and developing countries, conducting field observation in donor country envisaged focussing predominantly on the role, interests and policies of donor country in constructing bilateral relationships with recipient countries.

In addition, as it was mentioned earlier, the vast majority of data was taken from official documentation produced by the Ministry of Foreign Affairs of Japan, Armenia and Kyrgyzstan, relevant state institutions dealing with the issues of development and aid in both donor and

recipient countries, project and annual reports of JICA and reports of other international organizations.

## **2.4 Data Analysis**

Depending on the nature of the collected data, different methods of analysis were applied to this study. The quantitative analysis section of the thesis describes the secondary data outlined above and the graphs were generated using the Microsoft Excel 2010 software. Since our qualitative analysis is based on secondary data, this also requires the application of the different analysis technique. Secondary sources, such as JICA reports and ODA White Papers issued by the Ministry of Foreign Affairs of Japan formed an integral part of our qualitative analysis method since this process allowed me to concentrate on the similar issues, topics and factors indicated in the previous studies (Bryman, 2008: 529; Prior, 2011).

## **2.5 Measurement the Effectiveness of OVOP Projects**

In this study, I adopted OVOP principles as a key metric for the measurement of project effectiveness. As it was mentioned earlier, the OVOP project originates from Japan's Oita Prefecture. The geographic landscape of Oita Prefecture is comprised of 72% from the forest, and once hampered the inter-regional trade and communication. This was one of the reasons that triggered Oita prefecture's Governor Morihiko Hiramatsu to initiate a movement called "Isson Ippin Undou" in Japanese, or One Village One Product (OVOP) movement in 1979, which was aimed at stimulating the regional economic development in his prefecture.

Back then, Oita was one of the poorest prefectures of Japan with low-income level and thus the majority of village inhabitants had to seek employment opportunities in surrounding areas. The OVOP strategy developed by Hiramatsu was based on the comparative advantage principle and entailed that local communities should concentrate on the production of one high-quality value-added good which is competitive and profitable to sustain the livelihoods of village people. Hiramatsu's initiative came into existence following the OVOP movement that occurred in a small mountainous Oita town called Oyama in 1961. The Oyama town's OVOP initiative implies that village residents were able to uplift their town's development through production of plum and chestnut as single agricultural products that were most suitable for the town to grow (Natsuda, Igusa, Wiboongpongse, Cheamuangphan, Shingkharat, & Thoburn,

2011). From this, one may denote that the main attribute of the OVOP movement represents the production of certain goods taking into account specific peculiarities of the town which allows villagers to generate revenue and thus improve the livelihoods of local people and advance local economy. Based on this strategy, hundreds of local products were successfully introduced in Oita’s villages. In early 1980, Oita was ranked third out of seven prefectures in Kyushu region based on its per capita income level. However, as it’s shown in Table 1, since the implementation of the OVOP project, Oita was able to secure the first place with a per capita income of 2.8 million yen by 2000.

**Table 1. Oita Prefecture’s Per Capita Income and Ranking**

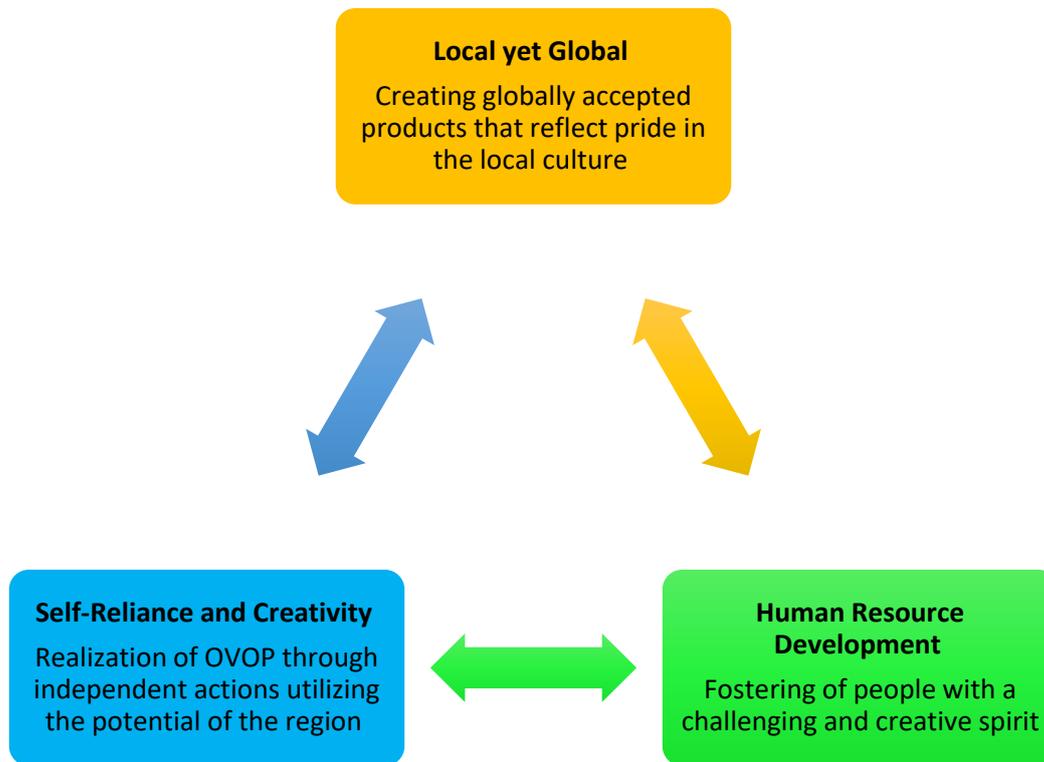
|   | 1980 | 1985 | 1990 | 1995 | 2000 | 2003 |
|---|------|------|------|------|------|------|
| Japanese yen (thousands)                  | 1405 | 1736 | 2387 | 2665 | 2798 | 2647 |
| Ranking among the 7 prefectures in Kyushu | 3    | 3    | 2    | 2    | 1    | 1    |

Source: Matsui, K. 2006. “josetsu: nihon no chiikishinko no tenkai to issonippin undo [Introduction: Japanese Regional Development and the One Village One Product Movement].” In *OVOP and Developing Countries: How is Japan’s Local Development Experience Transferred?* edited by M. Kazuhisa and S. Yamagami, 5–18. Tokyo: Japan External Trade Organization (IDE-JETRO).

In 1983, Hiramatsu established special schools in 12 parts of his prefecture in order to train local leaders. The content of these trainings was constructed under the two-year program and comprised of learning about community development and meeting with local and business leaders. Over the period of 20 years, more than 2,000 students graduated from it. The graduates of these schools, in turn, served as an essential tool for the further popularization of the OVOP concept through the establishment of new schools and holding consultations on OVOP project implementation in other villages. As a result of these trainings, the following main principles of OVOP emerged: (1) Local yet global—Creating globally accepted products that reflect pride in the local culture; (2) Self-reliance and Creativity—Realization of OVOP through independent actions utilizing the potential of the region; (3) Human Resource Development—Fostering of people with a challenging and creative spirit.<sup>3</sup>

<sup>3</sup> “One Village One Product Movement (OVOP),” *Oita OVOP International Exchange Promotion Committee* accessed 3 May 2018); <[http://www.ovop.jp/en/ison\\_p/haikei.html](http://www.ovop.jp/en/ison_p/haikei.html)>

**Figure 3. Basic Principles of One Village One Product (OVOP)**



Source: International OVOP Exchange Committee Office, “One Village One Product Movement (OVOP),” Oita; <[http://www.ovop.jp/en/ison\\_p/haikei.html](http://www.ovop.jp/en/ison_p/haikei.html)> (accessed 3 May 2018).

Since then, OVOP strategy has been widely adopted and kept its vitality domestically and in different parts of the world despite the different naming of the movements and projects (Murayama and Son, 2012). Although the initial movement originated as a local government initiative, the OVOP project has been evolving from being a single domestic initiative to a global large-scale community empowerment campaign. Since 2005, the Government of Japan has been actively promoting the "One Village, One Product" concept in developing countries as a rural development mechanism within its "Development Initiative for Trade". For instance, in 2006, Japanese Ministry of Economy, Trade and Industry (METI) and Japan External Trade Organization (JETRO), in partnership with other relevant organizations officially launched the OVOP campaign.<sup>4</sup>

<sup>4</sup> “One Village, One Product Campaign Since 2006,” *Ministry of Economy, Trade and Industry*, (accessed 3 May 2018); <[http://www.meti.go.jp/english/policy/external\\_economy/trade/OVOP/index1.html](http://www.meti.go.jp/english/policy/external_economy/trade/OVOP/index1.html)>

This campaign has attracted the attention of many policymakers from developing countries and OVOP experience in rural economies is being considered by them as an example of effective development practice. OVOP experience has been also integrated into the Japanese ODA program and implemented as rural development projects in various recipient countries. Over the time of OVOP project implementation, it has become evident that OVOP can serve the development needs of majority less developed countries or regions by enabling them to apply OVOP principles in order to generate economic value through production and marketing of unique local products and services. However, the studies conducted on OVOP projects in Japan and overseas suggest that the effectiveness and success of the OVOP projects are dependent on the context in which the particular policies were implemented, and it is impossible to disregard the fact that a single product can't help every village to escape from poverty and address the economic challenges. Nevertheless, up until now, the OVOP concept has been promoted in more than 30 countries and serves as one of the successful rural development strategies (Mukai and Fujikura, 2015).

Over the course of their adoption and implementation, OVOP projects have not always been successful and effective, in terms of contributing to the local economic development, both internally and overseas. The success of OVOP projects is being measured by the increase of sales of local goods and/or services. Besides, it is also essential that these products and services, introduced within the framework of OVOP project implementation in the respective country, are financially sustainable and can generate the necessary funding to accelerate the subsequent production process after the end of OVOP project.

## CHAPTER III: Japanese ODA Policy towards Armenia and Kyrgyzstan

This chapter aims to provide an extensive overview of the bilateral interaction between donor and Central Eurasian recipient countries in the framework of Japanese ODA program. The chapter starts by elaborating on the main features and peculiarities of Japan's engagement and foreign aid policy formulation towards Central Eurasia. It will then outline the reasons behind Japan's ODA allocation towards Armenia and Kyrgyzstan and the main policy objectives for beneficial interaction between the states. The discussion around Japanese engagement in the region will be concentrated on the construction of the bilateral relationship between developed Japan and developing countries of Central Eurasia with an aim of supporting the achievement of economic development in recipient countries.

### 3.1 Overview of Japan's ODA and the Reasons behind the Provision of ODA

#### 3.1.1 What Is Japan's ODA?

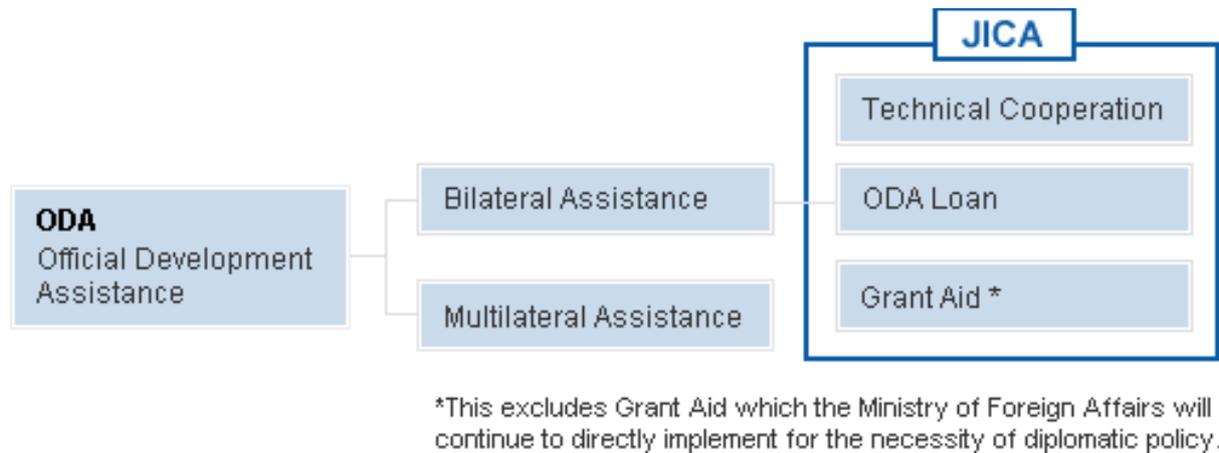
Japan joined the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) in the 1960s. As a fully-fledged member of the DAC, Japan is obliged to provide foreign aid in the form of ODA, to the developing countries like Armenia and Kyrgyzstan. Japanese ODA comprises the funding flows to developing countries for socio-economic development purposes, which meet the following conditions: (1) provided by official agencies or by their executive agencies; (2) administered with promotion of economic development and welfare of developing countries as its main objective; and (3) concessional in character to avoid severe burdens on developing countries and conveys a grant element of at least 25%.<sup>5</sup>

ODA type can be divided into two main categories: bilateral ODA and multilateral ODA. In this paper, we focus on bilateral ODA which comprises of grant aid, technical cooperation and ODA loans. The schematic description of Japanese ODA categories is presented in Figure 4.

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<sup>5</sup> "Japan's ODA and JICA," *Japan International Cooperation Agency*; <<https://www.jica.go.jp/english/about/oda/>> (accessed 3 May 2018).

**Figure 4. Japanese ODA categories**



Source: JICA, “Japan’s ODA and JICA,” Tokyo; <<https://www.jica.go.jp/english/about/oda/>> (accessed 3 May 2018).

### *1. Grant Aid*

The grant aid is given by Japan for low-income countries to support the socio-economic development process in these countries without any refunding or interest payment expectation. The grants provided under this scheme are usually provided for the main purpose of satisfying human needs and human resources development, including medical services, education, water supply and agricultural projects. According to David Potter, Japanese grant aid is “given to middle-income countries based on the criteria of demonstrated need, the inappropriateness of loans, and friendly relations with Japan” (Potter 1996).

### *2. Technical Cooperation*

Japan conducts technical cooperation with the main goal of facilitating the economic development of low-income countries through provision and introduction of technical expertise and material support. Japan provides this form of assistance through organizing professional development trainings for technicians, provision of technical equipment and material sources necessary for technology and knowledge transfer. Technical cooperation is conducted predominantly in the fields of human resources, computer science and advanced technology related fields (Kawato 2008).

### 3. ODA Loans

The main characteristic of Japanese ODA loans is that they are provided to developing countries at low-interest rates and for long repayment periods. These loans are given for the implementation of developmental projects aimed at the advancement of social and economic infrastructure, including energy transportation and public utilities. Since 1980, Japan has shifted its policy direction from the provision of loans to large-scale aid projects to grassroots projects to decrease the gap between the rich and poor strata of population in recipient countries. Besides, Japan tends to believe that people-to-people interaction is crucial for building a mutually-beneficial partnership based on the shared value of prosperity and trust between donor and recipient country along with easing the overall Japanese ODA program introduction process in developing countries.

#### *3.1.2 Why Does Japan Give Aid to the Developing Countries - A General Explanation*

Many studies found a mix of motives behind Japanese aid. Among such motives were political, security and economic concerns, as well as certain domestic and foreign factors (Arase 1995; Ensign 1992; Orr 1990; Rix 1989-1990; Tuman and Ayoub 2004). While the main objective behind Japanese ODA is based on humanitarian considerations, Japan allocates its foreign aid to developing countries for other reasons too. As it's declared on Japan's Official Development Charter, the primary objective of Japan's ODA is "to contribute to the peace and development of the international community, and thereby to help ensure Japan's own security and prosperity."<sup>6</sup> These actions tend to "benefit Japan itself in a number of ways, including by promoting friendly relations and people-to-people exchanges with other countries, and by strengthening Japan's standing in the international arena."<sup>7</sup>

The above explanation denotes that through the implementation of ODA program Japan also sought to serve its economic interests and foreign policy objectives. Japan sees foreign aid as a postwar innovative mechanism for the transmission of material and non-material resources that can be used by recipient country for the achievement of economic development (Arase 1995). Initially, in the 1960s, when Japan set up its ODA program, foreign aid was used to

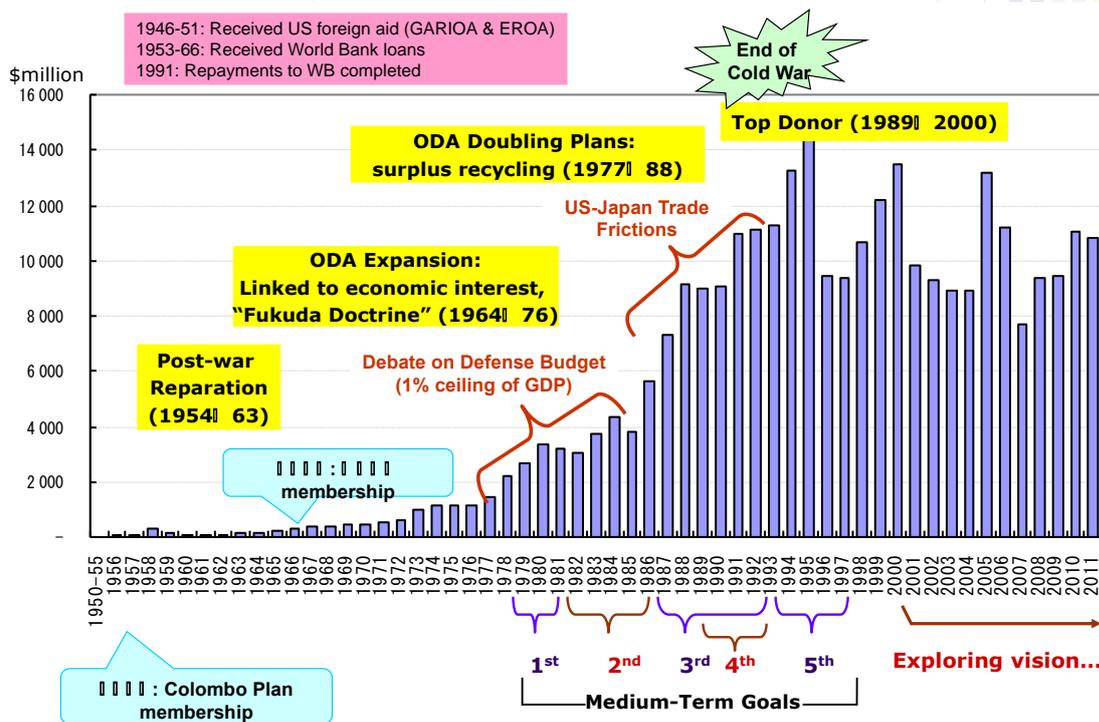
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<sup>6</sup> Ministry of Foreign Affairs, Japan. 2003. Revision of Japan's Official Development Charter. Tokyo.

<sup>7</sup> Ministry of Foreign Affairs, Japan. 2001. Japan's Official Development Charter. Tokyo.

promote Japan's commercial interests and resulted in the export of manufactured goods and import of raw materials. Besides, Japanese ODA program during the postwar period was also connected with the provision of loans, grants and purchase of Japanese goods enabling Japan to expand its export market (Arase 1995).

**Figure 5. History of Japan's ODA Policy (1950-2011)**



Source: Izumi Ohno's presentation, GRIPS

Later, in the 1980s, as the Japanese ODA program evolved, its foreign aid policy had also changed based on political and strategic reasons (Dennis 1986). The occurrence of the oil crisis in 1973-74, had also pushed Japan to reconsider its external resources and resulted in its reduction as shown in Figure 5. The major changes Japan made in its foreign aid policy after the 1980s can be reviewed within three main areas. First of all, Japan had started to pursue its international economic policy objectives beyond tied-up Asia and the West. Secondly, Japan started to conduct its international economic policy with independent states in the postwar era. By doing so, Japan was able to build up an international partnership with other Asian countries, which were previously left behind. In order to maintain its bilateral relationships with these new Asian states, Japan channelled enormous ODA loans to various sectors. Finally, Japan tied

up the inherent concept of comprehensive security with its foreign aid delivery policies (Koppel, Bruce 1993).

During the 1990s, the trajectory of Japanese aid policy had been used as a bargaining tool for international negotiations. Since the adoption of the new aid guidelines in 1991, Japan had used “aid sanctions” as a political instrument to regulate the favourable outcome from policy implementation in the recipient country. Up until 2002, Japan had practised this method of communication with recipient countries and has imposed 15 positive and 16 negative aid sanctions on developing countries (Oishi, Mikio 2003). This way of foreign policy implementation and communication with other countries was used by Japan in the postwar period in order to strengthen its position in the international arena and expand its political power in relation to other countries. All these efforts, thus, can be articulated as the vivid example of how ODA program was used by Japan to raise its reputation and power in an international setting.

### **3.2 The Formulation of Japan’s ODA Policy towards Central Eurasia**

#### *3.2.1 Japan’s Involvement in Central Eurasia*

Japanese engagement in the wider Central Eurasian region started shortly after post-Soviet states gained their independence in 1991. This process was benchmarked by the establishment of diplomatic relations between Japan and newly independent republics of Central Asia and South Caucasus in 1992. Initially, Kyrgyzstan was one of the first, out of five Central Asian states, to attract the attention of Japan, however, as the collaboration between Japan and other Central Asian states evolved, more and more attention has been paid to other countries of Central Eurasia. For instance, despite the fact that Japan established its first diplomatic contact with Kyrgyzstan, Japanese embassies were first opened in Tashkent, Almaty, and Dushanbe and finally in 2003 in Bishkek. The Japanese embassy in Yerevan was opened, the latest, in 2015.

In general, Japanese engagement in Central Eurasian region can be analyzed within three main periods: Starting from 1930 up until 1945, the countries of Soviet Central Asia were studied by a number of Japanese scholars who examined the specific characteristics related to economic and political conditions and nationality problems in respective countries. The main

goal for accomplishing these studies was to reveal the shortcomings and weaknesses of the Soviet Union governance and by so doing securing the stability of Japanese Empire (Takeuchi 2000).

The second period of Japan`s interaction in the region is connected with the establishment of independent Central Asian states in 1991 up until 2004. This phase symbolizes the recognition of newly independent states by Japan and establishment of diplomatic relationships with them. Yet, despite the fact that Japan maintained a bilateral relationship with the Central Eurasian states in the early 1990s, Japanese policy towards these countries remained unclear and fluctuating. According to Hook, during the second phase, Japanese policy-makers hadn`t undergone any assertive steps towards maintaining a closer interaction with Central Asian states and “were more eager for historical reasons, to develop relationships with Central Asian Republics” (Hook 2001).

The third and contemporary phase of Japan`s engagement in Central Eurasian region starts with the introduction of the “Central Asia plus Japan” concept in 2004. This process is also remarkable because starting from 2004 the Central Asia and the Caucasus Division at the Japanese Ministry of Foreign Affairs has started to operate. The total ODA channelled into the region in 2014 constituted 290 mln. USD. Since then, Japan has started to maintain a fully-fledged interaction with the Central Eurasian countries in three major areas, including 1) diplomatic/political interaction; 2) trade, and investment; and 3) aid and assistance (Dadabaev 2016).

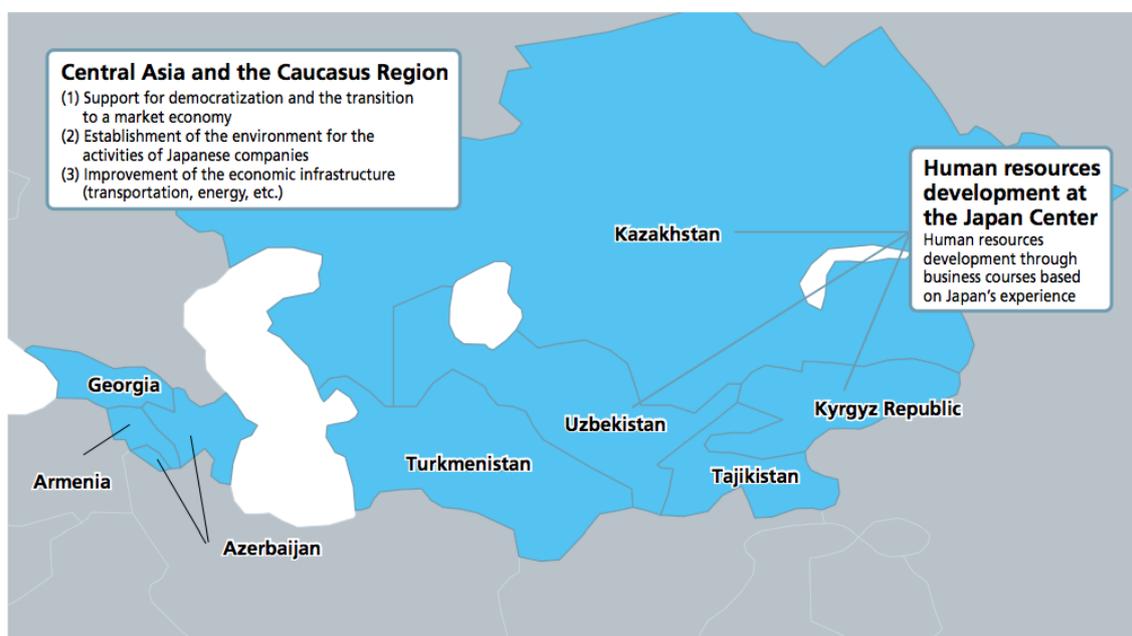
### *3.2.2 Japan`s Strategic Interests and Foreign Policy in Central Eurasia*

Japan`s interests in the region can be reviewed within three main objective lines. Japan built up its framework for cooperation with the Central Eurasian states based on the main principles of ODA, which was associated primarily with the revitalization of Japan`s Silk Road narrative. For Japan, establishing a partner relationship with other Asian countries beyond China served as a primary target in asserting its foreign policy objectives. The second main objective of Japan for engagement with the Central Eurasian states is being connected with the provision of assistance for these newly independent countries to facilitate their smooth transition from planned economy to the market economy and by so doing supporting their sustainable

development as reflected in Figure 6. The final objective for collaboration with the countries of Central Eurasia was based on the strategic interest of Japan related to the extraction and use of oil and natural resources with an aim of diversification of its energy resources.

Given the fact that Japan's territorial dispute with Russia suppressing Japan from utilizing the energetic potential of Sakhalin and Kuril Islands, Japan needs to secure its energy consumption from the Middle East (Tuman 2009). In addition to these three main interests of Japan in the region, the geographical location - proximity of these countries to China also plays a role in the construction of Japan's foreign policy towards Central Eurasia. China's aspiration to integrate the countries of the region to its overall regional initiatives, such as, through East Turkestan policy or One Belt, One Road Initiative (OBOR), also motivates Japan to maintain its own influence through increased aid delivery to the region (Muldavina 2000, Dadabaeva 2016).

**Figure 6. Japan's international cooperation policy in Central Asia and the Caucasus Region (2010)**



Source: MOFA, "Japan's Official Development Assistance White Paper 2011." Administrative Management Bureau, Ministry of Internal Affairs and Communications, Tokyo;  
<[http://www.mofa.go.jp/policy/oda/white/2011/pdfs/21\\_oda\\_wp\\_2011.pdf](http://www.mofa.go.jp/policy/oda/white/2011/pdfs/21_oda_wp_2011.pdf)> (accessed on 3 May 2018)

### 3.2.3 Japanese ODA disbursements in Central Eurasia

The interaction and implementation of Japan's policy towards these countries started by the provision of development assistance within the human rights, democracy, and free-market economics principles. The first batch of ODA donations to Central Asian states accounted \$ U.S. 2.57 million in 1993 and reached to \$ U.S. 108.48 million by 2008 (Hook 2001). The provision of ODA to Central Eurasian states was governed by Japan's Four Guidelines of ODA, along with the main principles of ODA Charter which state:

“Taking into account comprehensively each country's requests, its socio-economic conditions, and Japan's bilateral relations with the recipient country, Japan's ODA will be provided in accordance with the principles of the United Nations Charter - especially those on sovereign equality and non-intervention in domestic matters- as well as the following four principles: (1) Environmental conservation and development should be pursued in tandem. (2) Any use of ODA for military purposes or for aggravation of international conflicts should be avoided. (3) Full attention should be paid to trends in recipient countries' military expenditures, their development and production of mass destruction weapons and missiles, their export and import of arms, etc., so as to maintain and strengthen international peace and stability, and from the viewpoint that developing countries should place appropriate priorities on the allocation of their resources on their own economic and social development. (4) Full attention should be paid to effort for promoting democratization and introduction of a market-oriented economy, and the situation regarding the securing of basic human rights and freedoms in the recipient country.” (Hook 2001).

The ODA provided by Japan within the framework of these principles is presented in Table 2.

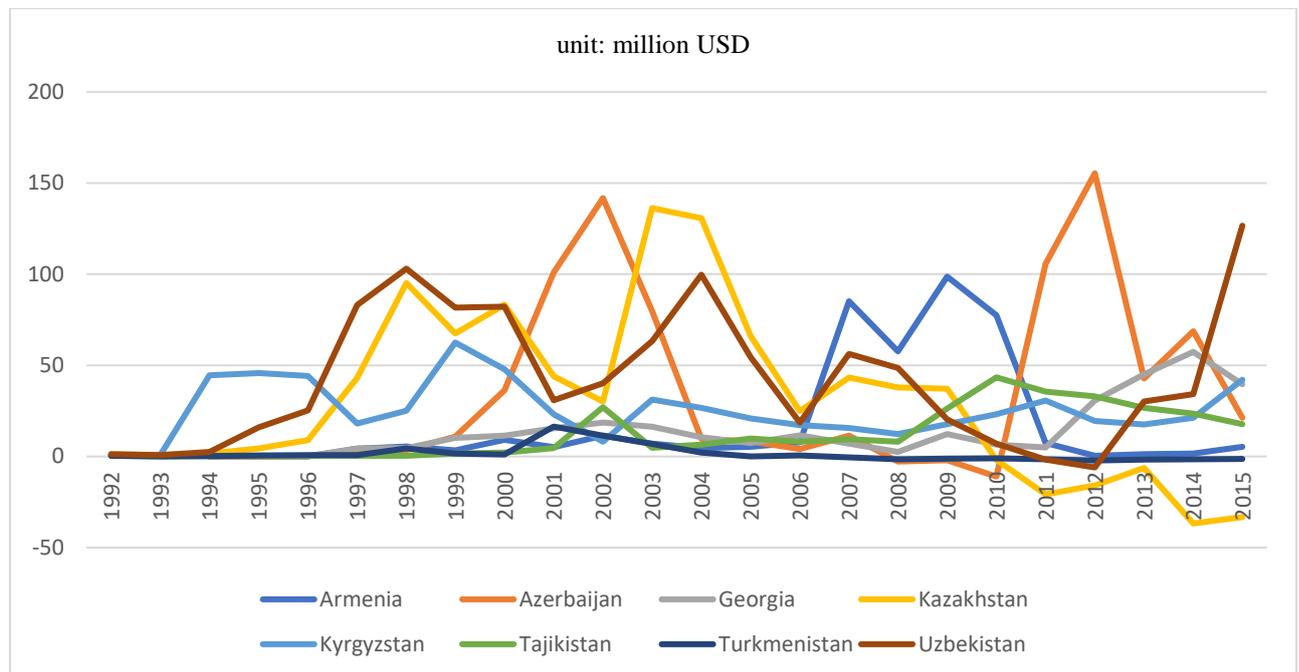
**Table 2. Japan's ODA toward Central Asia and the Caucasus from 2006 to 2015 (in million US dollars)**

|                     | 2006  | 2007  | 2008  | 2009  | 2010   | 2011   | 2012   | 2013  | 2014   | 2015   |
|---------------------|-------|-------|-------|-------|--------|--------|--------|-------|--------|--------|
| <b>Armenia</b>      | 7.68  | 85.23 | 57.7  | 98.7  | 77.45  | 7.48   | 0.31   | 1.33  | 1.69   | -5.31  |
| <b>Azerbaijan</b>   | 4.06  | 11.36 | -2.8  | -2.03 | -11.01 | 105.75 | 155.36 | 42.85 | 68.72  | 21.31  |
| <b>Georgia</b>      | 11.63 | 7.01  | 2.42  | 12.31 | 6.48   | 4.97   | 30.66  | 45.07 | 57.39  | 39.72  |
| <b>Kazakhstan</b>   | 24.87 | 43.31 | 37.9  | 37.13 | -1.82  | -20.73 | -15.93 | -6.32 | -36.75 | -33.23 |
| <b>Kyrgyzstan</b>   | 17.22 | 15.68 | 12.35 | 17.75 | 23.16  | 30.62  | 19.57  | 17.48 | 21.24  | 42.12  |
| <b>Tajikistan</b>   | 8.04  | 9.43  | 8.06  | 26.24 | 43.42  | 35.59  | 32.98  | 26.66 | 23.55  | 17.82  |
| <b>Turkmenistan</b> | 0.62  | -0.54 | -1.54 | -1.19 | -0.94  | -1.47  | -2.21  | -1.68 | -1.6   | -1.29  |
| <b>Uzbekistan</b>   | 18.61 | 56.32 | 48.63 | 20.41 | 7.04   | -1.79  | -6.01  | 30.11 | 34.18  | 126.66 |

Source: Compiled from the data made available by the Organization for Economic Cooperation and Development (Aid (ODA) disbursements to countries and regions [DAC2a]), available at <http://stats.oecd.org/viewhtml.aspx?datasetcode=TABLE2A&lang=en#> (accessed 3 May 2018).  
Note: Negative figures indicate that outstanding loans remain after repayment by respective recipients.

Figure 7 displays the total ODA of Japan between 1992-2015.

**Figure 7. Japanese Total ODA toward Central Asia and the Caucasus between 1992-2015**



Source: Compiled from the data made available by the Organization for Economic Cooperation and Development Aid (ODA) disbursements to countries and regions [DAC2a], available at <http://stats.oecd.org/viewhtml.aspx?datasetcode=TABLE2A&lang=en#> (accessed 3 May 2018).  
 Note: Negative figures indicate that outstanding loans remain after repayment by respective recipients.

### 3.3 The Implementation of Japan’s ODA Policy in Central Eurasia

#### 3.3.1 JICA as an ODA Policy Implementation Tool

Established in 1974, Japan International Cooperation Agency (JICA) serves as the main mechanism for the coordination and realization of Japan’s ODA policy in developing countries. The main principles of JICA include: addressing the global agenda, reducing poverty through equitable growth, improving governance, and achieving human security as illustrated in Figure 8.<sup>8</sup> Based on these main principles, JICA accomplishes aid coordination mission through the provision of its support for the sustainable development of Central Eurasian states.

<sup>8</sup> JICA, “JICA’s Vision,” Tokyo; <<https://www.jica.go.jp/english/about/mission/index.html#vision>> (accessed 3 May 2018).

JICA's operations in ODA recipient countries are guided by preferences for certain sectors for aid distribution. Given the fact that Central Eurasian countries are considered to be landlocked and, thus, lack of direct access to the sea for conducting their trade relationships, requires from these countries to establish alternative routes of transportation and telecommunication to reach other regions of the world for attaining and sustaining their economic development. Acknowledging the importance of this conditionality for the achievement of Japan's policy objectives in the region, JICA concluded that "in the absence of adequate maintenance and management since independence, facilities have considerably deteriorated and are in urgent need of rehabilitation."<sup>9</sup> Therefore, one of the primary and biggest instalments of Japanese ODA in 1995 was directed towards the implementation of projects related to infrastructure and transportation development in Kazakhstan. The total value of Japanese ODA grant accounted at 50.9 billion yen and was used for the realization of the Railway Transport Capacity Development Project, the Irtysh River Bridge Construction Project, and the Astana Airport Reconstruction Project.<sup>10</sup>

Another ODA disbursement of 2.3 billion yen was provided to Kyrgyzstan in May 1999 for the development of the transportation sector in the country. According to JICA project administrator, the main objective for the provision of this development aid was:

"Considering the particular importance of the extensive rehabilitation and modernization of the deteriorated transportation network for the country's development, JBIC has mainly provided support for the transportation sector. ODA loan commitments have been provided for the Bishkek-Manas Airport Modernization Project, which upgrades the Manas Airport in the capital of Bishkek to function as an international airport; and the Bishkek-Osh Road Rehabilitation Project to improve the condition of the main road linking the capital Bishkek with the second largest city, Osh. JBIC has provided ODA loans totalling ¥25.7 billion to Kyrgyz for six projects."<sup>11</sup>

Similarly, in 1997, Japan provided 4.5 billion yen for the Railway Transportation Modernization Project in Turkmenistan and 15.6 billion yen for the Telecommunication

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<sup>9</sup> Japan International Cooperation Agency and Development Aid (JICA), Japan Development Assistance Report-2000, (Japan Bank for International Cooperation (JBIC), 2000), p. 38.

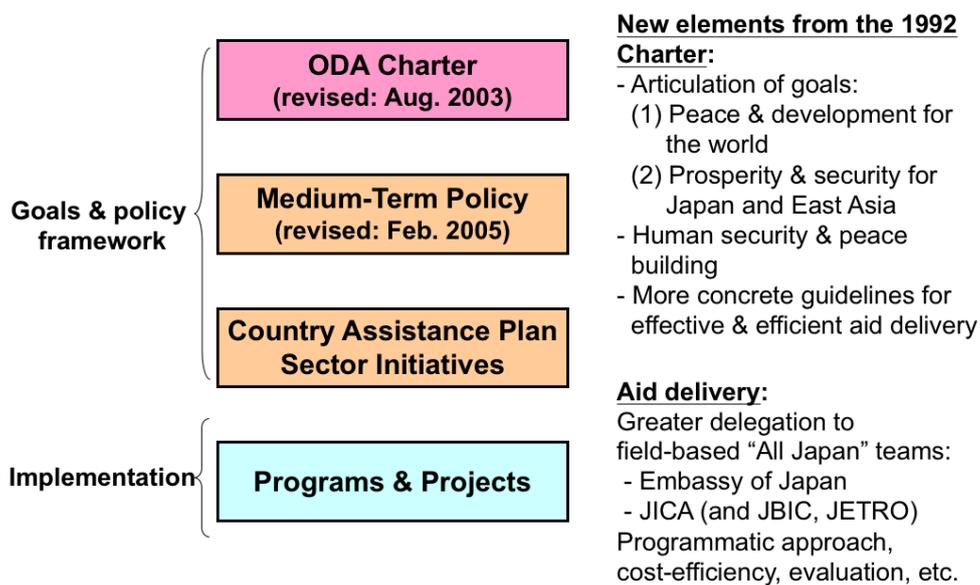
<sup>10</sup> Ibid, p. 40.

<sup>11</sup> Japan International Cooperation Agency and Development Aid (JICA), Japan Development Assistance Report-2000, (Japan Bank for International Cooperation (JBIC), 2000), p. 40.

Network Expansion Project (II) and the Three Local Airports Modernization Project (II) in Uzbekistan.<sup>12</sup>

The second biggest sector that attracts the most of Japanese ODA is the power sector. Due to the inherent Soviet period power-supply systems, Central Asian states possess power supply inefficiency and, thus, confronted with a need for infrastructure development to operationalize it.

**Figure 8. Framework for Japan’s ODA Policy Implementation (2002/03- Present)**



Source: Izumi Ohno’s presentation, GRIPS

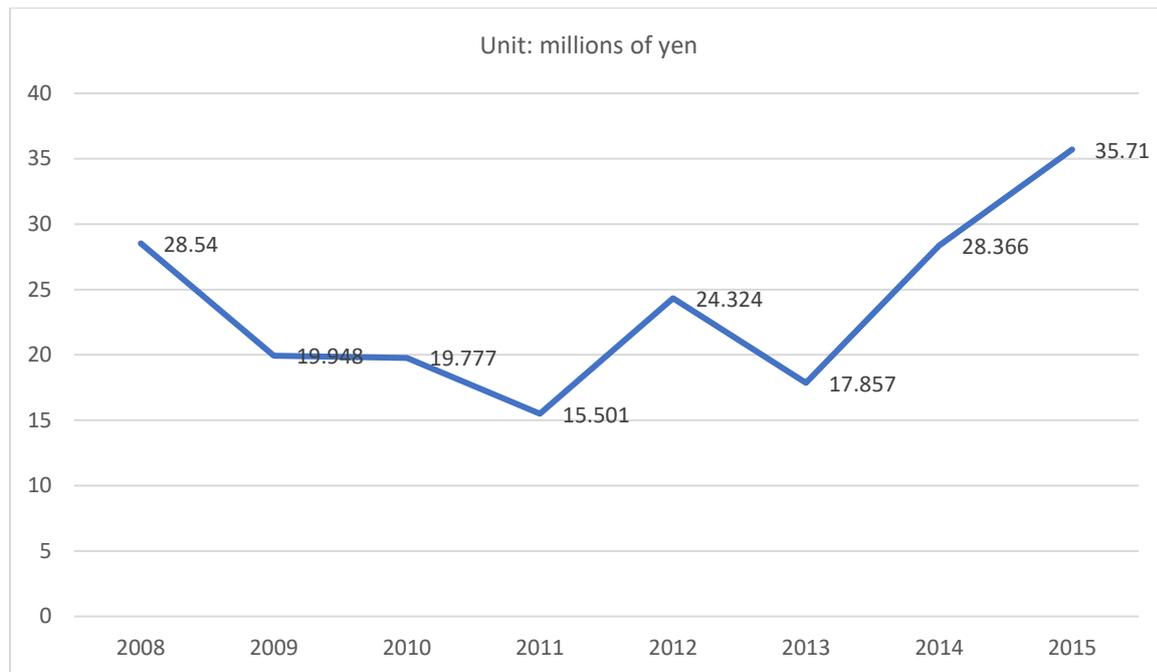
Since establishing its relations with Central Eurasian states, Japan has signed many bilateral aid agreements. According to one of these agreements, in 2006 the following policy areas were defined as priority by Japan for cooperation with Uzbekistan: (1) Support for building human-resource development systems needed for developing a market-oriented economy and industrial development; (2) support for rebuilding social sectors; (3) support for upgrading and improving economic infrastructure; and (4) promotion of intra-regional cooperation.<sup>13</sup> Based on these priority areas JICA also established a framework for the implementation of activities in order to promote poverty reduction through economic growth and supporting regional cooperation through (1) developing a foundation including transport infrastructure; (2) support

<sup>12</sup> Ibid, p. 49.

<sup>13</sup> Japan International Cooperation Agency and Development Aid (JICA), Japan Development Assistance Report-2009, (Japan Bank for International Cooperation (JBIC), 2009), p. 43.

for social sectors and, (3) the Central Asia Plus Japan Dialogue implementation.<sup>14</sup> Likewise, the following four priority areas were set by Japan in 2009 for the bilateral relationship between Japan and Tajikistan: (1) rural and industrial development; (2) transport and traffic; (3) border control and, (4) the upgrade of basic social services.<sup>15</sup>

**Figure 9. The Evolution of JICA Programs in Central Asia and the Caucasus**



Source: Compiled from the data extracted from JICA Annual Reports (2007-2016) available at <https://goo.gl/TNhxGY> (accessed 3 May 2018).

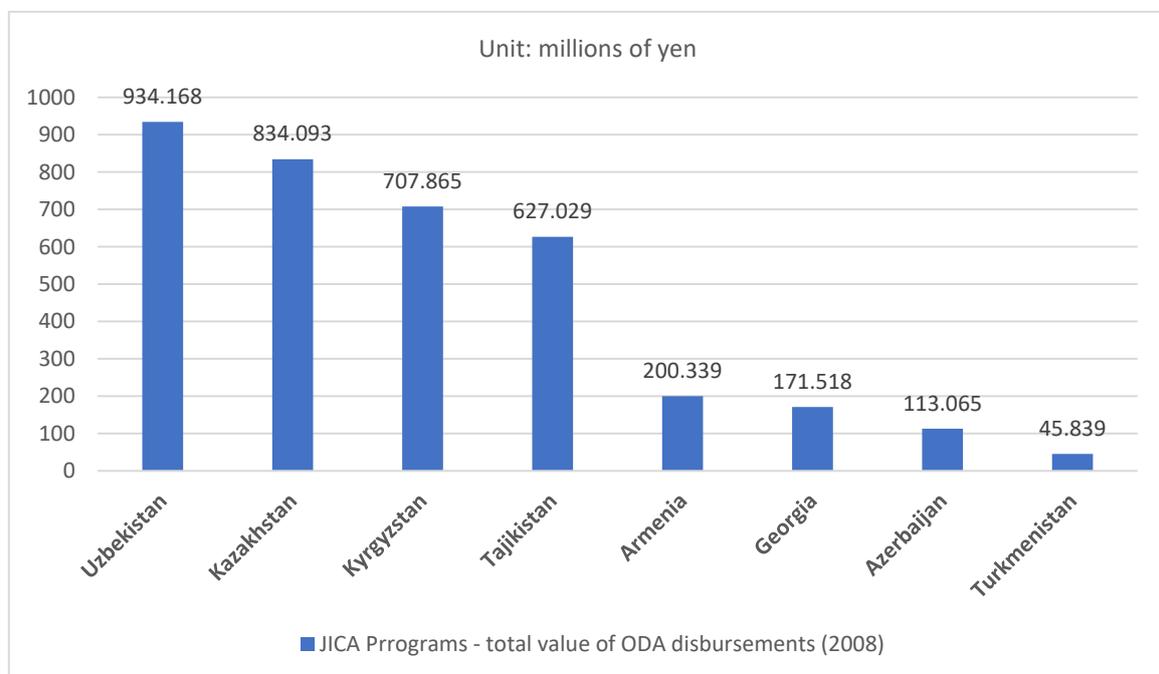
As it was stated earlier, starting from 1992 Japan has been using its development aid towards the countries of Central Asia and the Caucasus in order to establish a closer relationship with the countries of the region (Takamine 2005). Despite the fact that strengthening of the relationship between Japan and the countries of the region was followed by the delivery of enormous foreign aid to the region, Japanese foreign policy during this period can be treated as passive and unclear (see Figure 9). From 1997 to 2004, the region has witnessed the new phase of Japanese foreign policy orchestrated by Japanese Prime Minister Ryutaro Hashimoto known as “Hashimoto Doctrine” (Hook 2001). The main attribute of this period and the objective of this doctrine was to further Japan’s relationship with the Association of Southeast

<sup>14</sup> *Supra* n 13, p. 44.

<sup>15</sup> *Ibid.*

Asian Nations (ASEAN) countries and using this partnership for addressing global pressing issues. With the outbreak of the East Asian financial and economic crisis in 1997, Japan’s aspiration for regional cooperation and leadership role has been once again manifested. According to the study by Japanese Ministry of Foreign Affairs, Japan’s policy aimed at practicing more enhanced bilateral relationship with other countries of the Asian region from mid-1997 onwards implies that “although Japan was certainly not abandoning its attachment to the bilateral norm and bilateral relationship with the U.S., these were beginning to be challenged in the midst of Japanese policy-making agents by the resurgent norms of Asianism and internationalism.” (Hook, p. 224)

**Figure 10. JICA’s initial ODA instalment in Central Asia and the Caucasus**

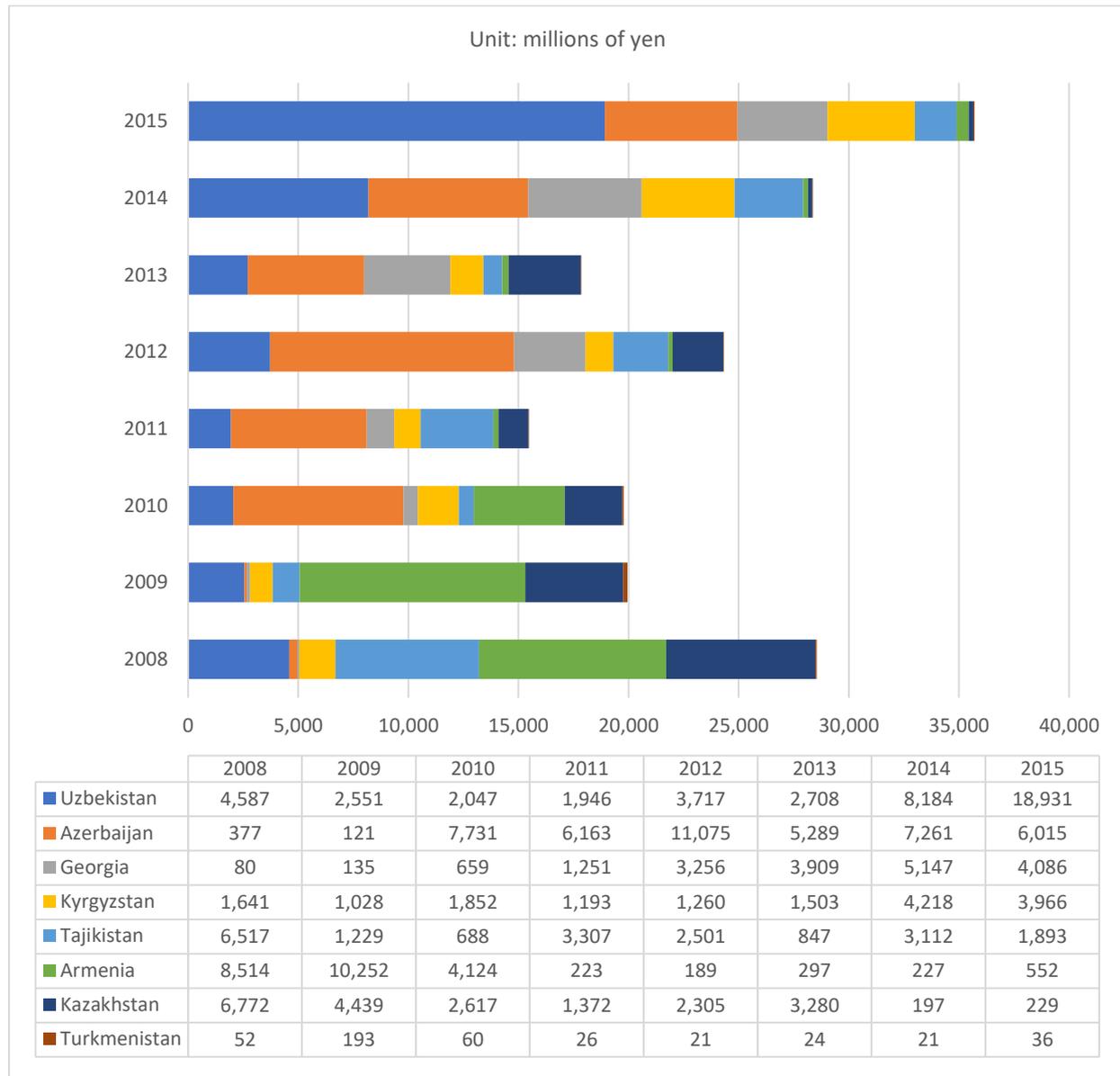


Source: JICA, “Central Asia and the Caucasus,” Tokyo; <<https://www.jica.go.jp/english/publications/reports/annual/2008/pdf/042-044.pdf>> (accessed 3 May 2018).

If we analyze the trajectory of development assistance provided to Central Asian countries by Japan between 1997 and 2004, we may observe that the total value of Japanese foreign aid to the region was reduced in 1997 owing to the implementation of Hashimoto Doctrine, as shown in Figure 9. Yet, as depicted in Figures 10 and 11, after the 9/11 attack in 2001, the development assistance disbursement to some countries has been increased once again. The main reason for the increase in the total value of Japanese foreign aid disbursements to the Central Asian region was based on Japan’s goal of maintaining peace and stability in the wider Asian region. It was

important for Japan to secure its region (ASEAN) from the transmission and expansion of terrorism from the side of Afghanistan and, thus Japan used foreign aid to prevent the development of such scenario in Central Asia.

**Figure 11. Total Value of JICA Programs in Central Asia and the Caucasus**



Source: Compiled from the data extracted from JICA Annual Reports (2007-2016) available at <https://goo.gl/TNhxGY> (accessed 3 May 2018).

Since 2004, Japan has shown an increased interest in the region and been practising more comprehensive cooperation with the countries of Central Asia and South Caucasus. The introduction and implementation of the “Central Asia + Japan” Initiative marked the new phase of cooperation between Japan and the countries of the region. The nature of cooperation

between Japan and Central Eurasian countries since 2004 can be reviewed from a multi-approach perspective which is not limited to the delivery of development aid but also represents an enhanced interaction in different areas of mutual interest<sup>16</sup>.

For Japan, which has been pursuing the goal of raising its role and position in the international arena, practising more balanced mode of interaction with the countries of Central Eurasia, was important. Reviewing Japan' post-Cold war efforts one may acknowledge that, after the U.S, Japan has been providing the biggest portion of foreign aid to the region. Given the fact that maintaining regional security is vital for the realization of Japan's strategic interests in the region, including access to natural and energy resources, Japan considers the military presence of Russia and the U.S. as a crucial condition for practising and sustaining a fully-fledged interaction with the countries of the region. Even though, Japan has strategic interests in the region, its efforts to support the democratic development and economic transition to a market economy of the countries of the region can't be downplayed.

### **3.4 Japan's Development Assistance Program for Armenia**

#### *3.4.1 Japan's ODA Policy towards Armenia*

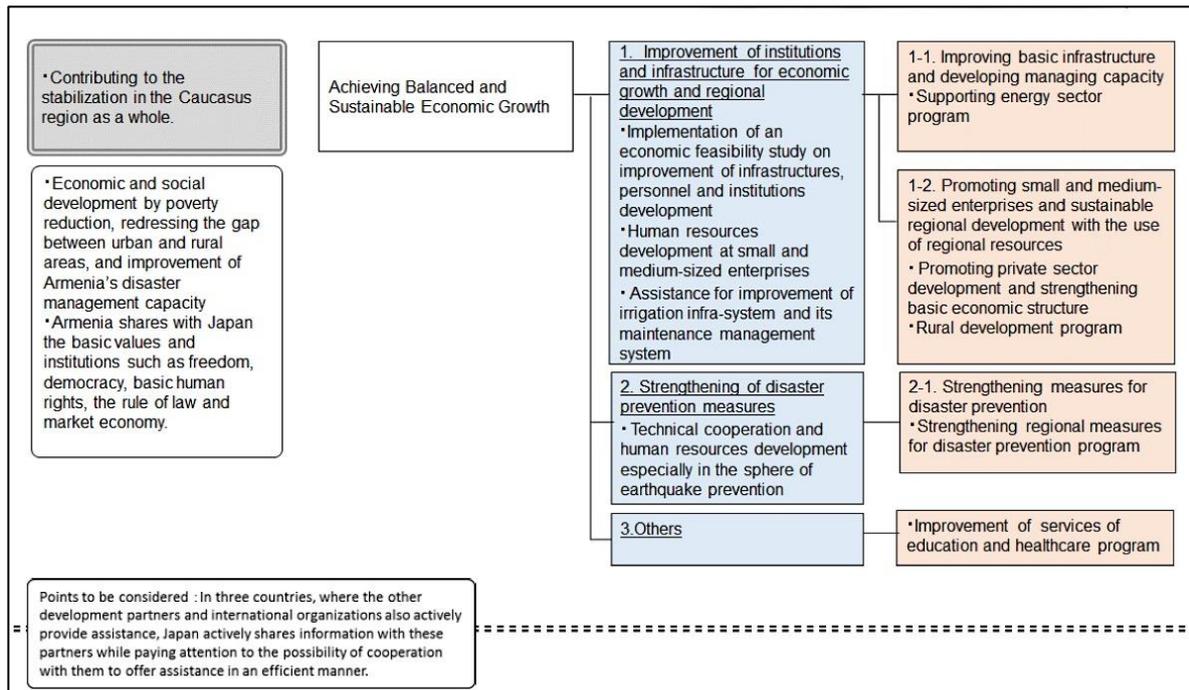
Japan's engagement with Armenia started in the 1980s when Armenia was part of the Soviet Union. The initial assistance policy of Japan was formulated in the form of disaster relief after the Spitak earthquake in 1988. Japan sent its Disaster Relief Team to Armenia three times in order to provide urgent rehabilitation and reconstruction support for the construction of equipment to remove the debris after the earthquake. Since 1991, after Armenia gained its independence, Japan has continued provision of its technical and humanitarian aid to refugees within the framework of its emergency disaster relief program. In addition, a number of Armenian officials were able to participate in technical training programs in Japan since then. The diplomatic relations between the governments of Japan and Armenia was established in 1992 and the first batch of Japanese ODA assistance was received by Armenia in 1994. The technical cooperation agreement between two countries was signed in June 2005 with an aim of strengthening the economic cooperation between two countries. Based on the Country

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<sup>16</sup> JICA, "Central Asia and Caucasus," Tokyo;  
<<http://www.jica.go.jp/english/publications/reports/annual/2010/pdf/22.pdf>> (accessed 3 May 2018).

Assistance Policy formulated by Japan in 2012, two areas were outlined as the priority areas, including: 1) the development of economic infrastructure and regional development and 2) strengthening of disaster prevention measures. Along with these main policy objectives, achieving balanced and sustainable economic growth serve as a basic framework for policy implementation in Armenia as shown in Figure 12.<sup>17</sup>

**Figure 12. Objective frameworks of the Country Assistance Policies for Armenia**



Source: MOFA, “Evaluation of Assistance for the South Caucasus,” Tokyo; <<http://www.mofa.go.jp/policy/oda/evaluation/FY2015/pdfs/south-caucasus.pdf>> (accessed 3 May 2018).

The initial phase of cooperation between Japan and Armenia in the 1990s entailed the provision of technical support by nature and was based primarily on the implementation of ODA projects in the agricultural sector. One of the first ODA programs that were introduced in 1997 was related to the food production development. According to Armenian Agriculture Minister Zaven Gevorkian, the Japanese government was very supportive in the refining process of the agricultural sector through the provision of funding to address the existing problems in the sector. For instance, in the 1997-2000 period, Japan allocated ¥420 million grant for the government of Armenia in order to support the programs facilitating the development of

<sup>17</sup> MOFA, “Assistance Policy for the Republic of Armenia,” Tokyo; <<http://www.ru.emb-japan.go.jp/ARMENIA/20130613.html>> (accessed 3 May 2018).

country's agrarian sector. Under this program, the received funding was used by Armenia to buy agricultural machinery, equipment as well as agricultural fertilizers.

Since 1998, Japan has started to provide technical and expert support to reform country's energy sector as shown in Figure 14. Notably, the \$40 million credit at a 1.8 annual interest rate was received by Armenia and was used to build new capacities and modernizing existing infrastructure in the energy sector. The Armenian government was obliged to repay the credit within 20 years with a 10-year grace period.

Along with the provision of technical support, under the established country assistance policy, Armenian government also received two grants designed to advance country's cultural and healthcare sectors. Japanese government allocated \$500,000 grant for the purpose of strengthening the operational productivity of Armenian Philanthropic Orchestra by enabling them to purchase musical instruments and build a new recording studio. Most recently Japan's aid was delivered to the development of the economic infrastructure, as shown in Figure 4. For the details of the different types of assistance provided by Japan to Armenia look at Table 3.

**Table 3. Performance of Japan's Assistance to Armenia by Type of Assistance**

| Aid Schemes  | 2005 | 2006 | 2007 | 2008   | 2009 | 2010 | 2011 | 2012 | 2013 | Total Amount |
|--|------|------|------|--------|------|------|------|------|------|--------------|
| <b>ODA Loans</b>                                     | -    | -    | -    | 104.91 | -    | -    | -    | -    | -    | 104.91       |
| <b>Grant Aid</b>                                     | 1.36 | 0.09 | 2.12 | 9.71   | 2.23 | 0.36 | 0.09 | 0.26 | 0.33 | 16.55        |
| <b>Technical Cooperation</b>                         | 3.81 | 1.59 | 2.03 | 1.98   | 1.1  | 2.68 | 2.22 | 1.5  | 1.61 | 18.52        |
| <b>Acceptance of Technical Training Participants</b> | 62   | 47   | 44   | 37     | 41   | 46   | 40   | 36   | 35   | 388          |
| <b>Dispatch of Experts</b>                           | 9    | 13   | 3    | 1      | 1    | 6    | 10   | 11   | 10   | 64           |

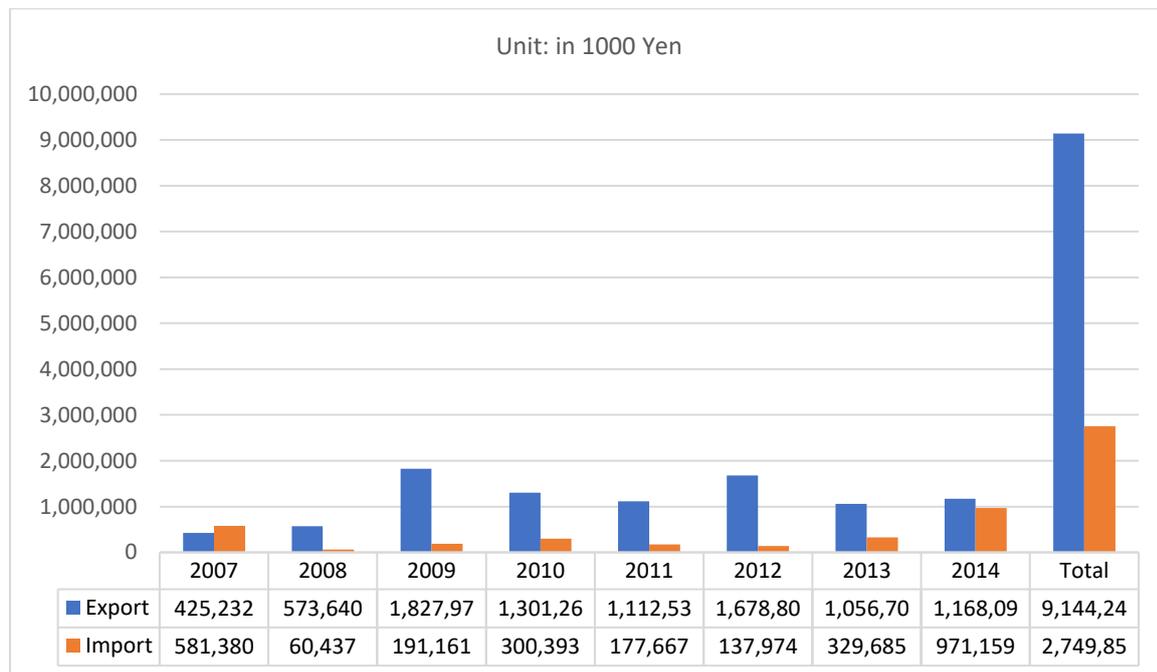
(Unit: hundred million yen for ODA loans, grant aid and technical cooperation, number of people for the Acceptance of Technical Training Participants and Dispatch of Experts, "-": not applicable)

Source: ODA Data Book and the attachment (reference data) of the Annual Report of JICA (2014). The performance of technical cooperation between FY2005 and 2012 includes the technical cooperation of all Japanese organizations, while that in FY2013 includes only the technical cooperation provided by JICA. The figures in the table are total (gross) amounts of disbursement.

The cooperation in the economic sphere has started only after the establishment of the Japanese-Armenian Economic Committee (JAEC) in August 2000. The first joint session of the JAEC was held in Tokyo in June 2001. Among the major topics discussed during the session, the collaboration in the areas of high technology, the processing industry, and tourism

were given a higher importance. As a result of the joint meeting, two parties agreed to enhance bilateral trade and economic relations under the established legal framework on Avoidance of Double Taxation on Income and Property, and On Mutual Protection and Stimulation of Investment (see Figure 13). This meeting was also remarkable since it enabled both parties to acknowledge the passive level of bilateral cooperation due to the absence of country representation in respective countries.

**Figure 13. Bilateral trade between Armenia and Japan**

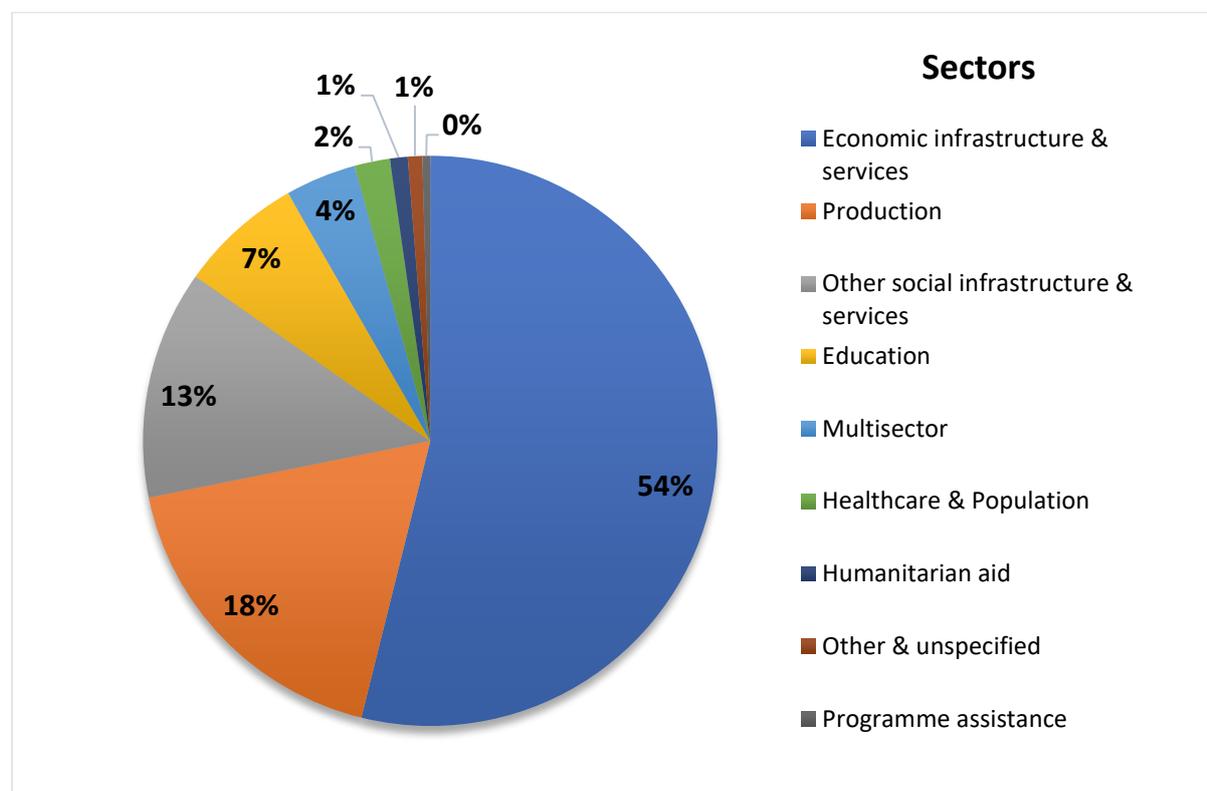


Source: Ministry of Finance, “Trade statistics of Japan,” Tokyo; <[http://www.customs.go.jp/toukei/info/tsdl\\_e.htm](http://www.customs.go.jp/toukei/info/tsdl_e.htm)> (accessed 3 May 2018).

The official visit of the Armenian President Robert Kocharian to Japan in 2001 has served as a foundation for the new level of bilateral relations between two countries. Although this visit can be treated as formal in nature, the agenda of the visit was pertinent to the discussion of the economic interaction between two countries. During his visit to Japan, Robert Kocharian met with the Economy, Trade and Industry Minister Takeo Hiranuma and stated that Tokyo serves as one of the main aid providers to Armenia and expressed his motivation to make a transition from aid recipient to a fully-fledged partner of Japan in the region. Stressing the need for an enhanced bilateral economic relationship between the states, the president admitted that Armenian government is “extremely interested in Japanese private investment in Armenia,” and expressed his willingness to further the development of small and medium-sized businesses

in the country.<sup>18</sup> At the end of the meeting an interstate agreement, including the two-year program to develop Armenia’s mining industry with the support of JICA was achieved.

**Figure 14. Bilateral ODA disbursement to Armenia by sector (2014-15)**



Source: Compiled from the data by OECD, 2017; available at <https://goo.gl/7r9dP2> (accessed 3 May 2018).

Another turning point of the joint meeting between Japan and Armenia has become the discussion around the potential of Silk Route re-opening. The two parties agreed on mutual collaboration in the revitalization process of the Silk Route and in the course of negotiations, the Japanese Bank for International Cooperation (JBIC) pledged to provide financial assistance for the modernization of the Zvartnots Airport in Erevan.

As one may judge based on the above-mentioned timeline of events, the development of a relationship with Japan has become one of the priority directions of Armenian foreign policy in the course of bilateral cooperation. The press secretary of the Armenian president, V. Gabrielian noted that maintaining a mutually-beneficial cooperation in political and economic

<sup>18</sup> Irina Komissina, “Yaponiya i Kavkaz: Soedinit li ih Velikiy Shelkoviy put,” *Central Asia & Central Caucasus Press AB*. <[http://www.ca-c.org/journal/2002/journal\\_rus/cac-03/03.komru.shtml](http://www.ca-c.org/journal/2002/journal_rus/cac-03/03.komru.shtml)> (accessed 3 March 2018).

spheres with Japan is important for Armenia in order to support the private sector development and advancing country's economic capacity by attracting the necessary financial resources from donor countries, like Japan.<sup>19</sup>

### *3.4.2 Japan's Development Assistance Policy in Armenia*

#### Priority Area 1: Development of Economic Infrastructure and Regional Development

The geographical landscape of Armenia makes it difficult for village population residing in the mountainous areas to reach the city centre, and thus significantly impacts on agricultural productivity. This also results on the accumulation more than 60% of the Armenian GDP in the capital city of Yerevan. Taking into account this conditionality, the government of Japan has been assisting Armenia in narrowing down the proximity between urban and rural areas and boosting the overall rural economic development processes through the provision of grants aimed at infrastructure building. The projects implemented in infrastructure and capacity building sectors, including through construction of power distribution networks formed the basis for sustainable economic development and contributed to raising people's living standards. According to the Rolling Plan designed in April 2015, Japanese government assured to implement 1) "Supporting Energy Sector Program," 2) "Promoting Private Sector Development and Strengthening Basic Economic Structure" and 3) "Rural Development Program". Among the planned projects, two ODA loan projects, including "Power Transmission and Distribution Network Improvement Project" and "Yerevan Combined Co-Generation Power Plant Project,"<sup>20</sup> possess importance for the advancement of country's energy capacity and raising the productivity of power distribution networks. In addition to the implementation of projects in the power sector, the Japanese government has been also supporting the SMEs and local industries' development through implementation of technical cooperation projects, such as OVOP project.

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<sup>19</sup> Supra n.11.

<sup>20</sup> Ministry of Foreign Affairs of Japan (MOFA), ODA by Region: Central Asia and the Caucasus, Rolling Plan for the Republic of Armenia, 2014 ed., <[http://www.mofa.go.jp/policy/oda/page\\_000010.html#armenia](http://www.mofa.go.jp/policy/oda/page_000010.html#armenia)> (accessed 3 May 2018).

## Priority Area 2: Strengthening of Disaster Prevention Measures

It is apparent that due to the geographical location of Armenia, predominantly in the mountainous area, the occurrence of the natural disasters, such as earthquakes and landslides are quite often in the country. In this connection, Japan has been assisting Armenia to improve its disaster risk reduction measures by transmitting and sharing Japanese technologies during the prevention, emergency and reconstruction stages as outlined in Table 4. The “Strengthening Regional Measures for Disaster Prevention Program” was designed to scale up these efforts and was included in the Rolling Plan for Armenia. In order to formulate the human resources development and disaster risk reduction capacity of Armenia, there have been implemented a number of technical cooperation projects, including “The Study on Landslide Disaster Management,” the “Project for Seismic Risk Assessment and Risk-Management Planning,” “Development of Communities Affected by Landslides” and the “Landslide Disaster Management Project”<sup>21</sup>.

In addition to the above-mentioned projects in the main policy areas, a number of a project directed at the improvement of services in educational and healthcare sectors are being integrated into the current rolling plan for Armenia. According to this plan, technical cooperation projects dealing with the construction of health centres and provision of materials and equipment to rural schools have been also implemented<sup>22</sup>.

**Table 4. JICA Projects in Armenia**

| <b>Yen Loan Projects</b>  |                          |                                  |
|---|--------------------------|----------------------------------|
| <b>Name of project</b>  | <b>Amount (mln. JPY)</b> | <b>Date of signing or period</b> |
| Electricity Transmission and Distribution Project                             | 5,399.0                  | 1998/12/8                        |
| Yerevan Combined Cycle Co-Generation Power Plant Project                      | 15,918.0                 | 2005/3/29                        |
| Additional credit to Yerevan Combined Cycle Co-Generation Power Plant Project | 10,491.0                 | 2008/5/27                        |
| <b>Technical Assistance</b>   |                          |                                  |
| <b>Name of project</b>  | <b>Amount (mln. JPY)</b> | <b>Date of signing or period</b> |
| The Project for Health-Maternal   | 130.0                    | 2004-2006                        |

<sup>21</sup> JICA, “Activities in Armenia,” Tokyo; <<https://www.jica.go.jp/armenia/english/activities/index.html>> (accessed 3 May 2018).

<sup>22</sup> Supra n. 20.

|  |                          |                                  |
|--|--------------------------|----------------------------------|
| and Child Health / Reproductive Health   |                          |                                  |
| Development of Communities affected by Landslides  | 10.696                   | 2004-2006                        |
| Human Resources Development Project for SME's  | 110.0                    | 2005 – 2008                      |
| Seismic Risk Assessment and Risk Management Planning   | 340.0                    | 2010 – 2012                      |
| Project for Development of Local Production and Promotion of Local Brands                                      | 225.4                    | 2013-2016                        |
| Project for Landslide Disaster Management  | 325.3                    | 2014-2017                        |
| <b>Grant Aid</b>   |                          |                                  |
| <b>General Grant Aid</b>   |                          |                                  |
| <b>Name of project</b>   | <b>Amount (mln. JPY)</b> | <b>Date of signing or period</b> |
| Project for Improvement of Medical Equipment of "Armenia" medical centre                                       | 518.0                    | 2000/4/3                         |
| Project for Improvement of Medical Equipment   | 495.0                    | 2001/12/20                       |
| The project for Improvement of Road Maintenance Equipment for Yerevan City                                     | 541.0                    | 2002/8/13                        |
| The Project for the Improvement of Obstetrical Service in the Republic of Armenia                              | 209.0                    | 2005/3/29                        |
| Improvement of Fire Equipment in Yerevan City  | 881.0                    | 2009/2/10                        |
| The Project for the Improvement of Equipment for Restoration of Collections of the National Gallery of Armenia | 27.90                    | 2009/11/25                       |
| <b>Grant Assistance for Underprivileged Farmers(2KR)</b>   |                          |                                  |
| Support for purchase of agricultural equipment and fertilizers, etc.   | 400.0                    | 1997/4/10                        |
|  | 400.0                    | 1998/3/26                        |
|  | 300.0                    | 1999/4/30                        |
|  | 310.0                    | 2000/4/3                         |
|  | 400.0                    | 2001/6/14                        |
|  | 320.0                    | 2002/3/6                         |
|  | 200.0                    | 2004/3/22                        |
|  | 110.0                    | 2006/3/9                         |
|  | 170.0                    | 2008/1/16                        |
| 170.0  | 2009/9/4                 |                                  |
| <b>Non - Project Grant Aid</b>   |                          |                                  |
| Support for purchase of agricultural fence, printing paper, vehicles, etc.                                     | 500.0                    | 1997/4/10                        |

Source: JICA, "Activities in Armenia," Tokyo; <<https://www.jica.go.jp/armenia/english/activities/index.html>> (accessed 3 May 2018).

### 3.5 Japan's Country Assistance Program for Kyrgyzstan

#### 3.5.1 Japan's ODA Policy towards Kyrgyzstan

As it was mentioned earlier, in the first half of the 1990s, Kyrgyzstan out of the five Central Asian countries drew the most attention of the Japanese government, which was manifested by Japanese foreign minister's visit to the country in 1992 (Kawato 2008). Japanese interest in Kyrgyzstan was justified by its small-sized economy and lack of natural resources to uplift its development and, thus, it was assumed that Japan could play a significant role, through the provision of ODA, to affect positively on country's further economic development. However, over the course of bilateral interaction between the two states, Japanese interest in Kyrgyzstan has slowed down since Kyrgyz side was not ready for the implementation of Japan's large-scale assistance projects and, therefore, Japan shifted its priority orientation towards Kazakhstan and Uzbekistan (Kawato 2008).

Despite the fact that Kyrgyzstan is not in the top five Japanese ODA recipient countries, Japan serves as one of the influential donors in the country providing its support for the "(1) enhancement of transport infrastructure; (2) agricultural development; (3) social development; (4) human resource development in an open market environment; and (5) greater access to basic human needs, including human security"<sup>23</sup>.

Japanese efforts to provide assistance for country's socio-economic development was supplemented by the provision of foreign aid in the form of credits and grants. The total value of Japanese ODA to Kyrgyzstan from 1992 to 2005 accounted at around 389 mln. USD.<sup>24</sup> The big portion of these funding was channelled for infrastructure development projects including for the realization of two big projects such as Bishkek-Manas International Airport Modernization Project (5454 bill JPY), Bishkek-Osh Road Rehabilitation Project (total 18266 bill JPY). Along with the realization of large-scale projects in the transportation field, Japanese ODA was also used for the overall improvement the efficiency and maintenance of the country's transportation sector through procurement of equipment and modernization efforts,

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<sup>23</sup> Erica Marat, "Kyrgyzstan: Japan's Prime Partner in Central Asia?" in *Japan's Silk Road Diplomacy: Paving a Road Ahead*, ed. Christopher Len, Tomohiko Uyama, and Tetsuya Hirose (Washington, DC: Johns Hopkins University, 2008), 87.

<sup>24</sup> Japanese embassy in Kyrgyz Republic, "Japanese-Kyrgyz relationships," Bishkek; <[http://www.kg.emb-japan.go.jp/relation\\_r.htm](http://www.kg.emb-japan.go.jp/relation_r.htm)> (accessed 3 May 2018).

as illustrated in Figure 5.<sup>25</sup> The second biggest direction of Japanese ODA is connected with the provision of funding for the reformation and advancement of Kyrgyzstan's financial sector as shown in Figure 15. Japan has been actively supporting the process of country's payment system improvement through setting the master plan and implementation of banking settlement reporting system (3.44 billion USD).<sup>26</sup>

During the period of 1993 and 1997, Kyrgyzstan received \$200 mln. aid from Japan. Most of these funding was channelled for industrial development of the Kyrgyz Republic. The projects accomplished in this field were related to mining, including increasing country's potential for oil and gold and uranium mining, in the first place.<sup>27</sup> By 2001, Japan had become a No.1 donor for Kazakhstan, Kyrgyzstan, and Uzbekistan and organized several in-house consultation meetings of donors for Tajikistan in Tokyo (Kawato 2009).

The economic cooperation between two countries is regulated by a Kyrgyz-Japanese Economic Committee (KJEC). The KJEC was set to promote joint trade and bilateral business partnership activities. According to the joint meeting of the Committee, held in September 1997, both parties agreed to regulate the foreign direct investment process through facilitating the interaction between Japanese and Kyrgyz state structures and private companies. As a result of bilateral business development, Kyrgyzstan was able to absorb Japanese technological advancement products, such as cars, equipment for different fields of industry, and electronics. In return, Japan imported precious metal and various types of chemicals from Kyrgyzstan.<sup>28</sup>

Japanese engagement with Kyrgyzstan went beyond the established official channels of communication conducted by JICA, Japanese Ministry of Foreign Affairs and Japan Bank for International Cooperation. Japan has been also actively using multilateral institutions, such as the World Bank (WB) and Asian Development Bank (ADB) for the delivery of its development assistance. The assistance provided through these channels represents Japanese capacity building efforts accomplished in the form of human resources development trainings, Japanese

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<sup>25</sup> Central Asia and ODA Loans. Japan Bank for International cooperation. 2008. p.5.

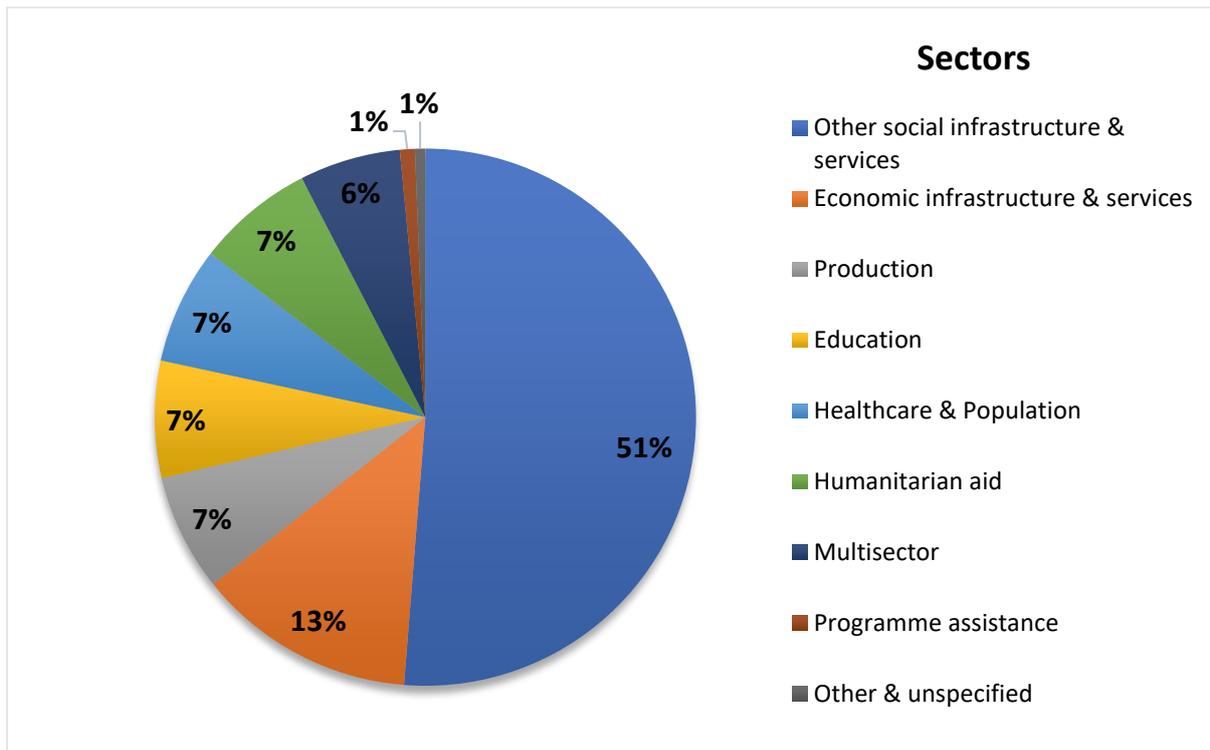
<sup>26</sup> "Kyrgyz and Japanese FMs discuss prospects for bilateral cooperation," *Kabar*, 30 March 2017, available at <http://kabar.kg/eng/news/kyrgyz-and-japanese-fms-discuss-prospects-for-bilateral-cooperation/>

<sup>27</sup> Esen Usabaliev, "Japanese Politics in Central Asia in View of Another Possible Center of Power," *Central Asia & Central Caucasus Press AB*, accessed 3 May 2018, <[http://www.ca-c.org/journal/2001/journal\\_eng/cac-05/16.usuben.shtml](http://www.ca-c.org/journal/2001/journal_eng/cac-05/16.usuben.shtml)>

<sup>28</sup> Japanese embassy in Kyrgyz Republic, "Japanese-Kyrgyz relationships," Bishkek; <[http://www.kg.emb-japan.go.jp/relation\\_r.htm](http://www.kg.emb-japan.go.jp/relation_r.htm)> (accessed 3 May 2018).

classes, seminars for Kyrgyz entrepreneurs in business development and tourism promotion. These capacity building and technical cooperation projects are being organized and coordinated by the Kyrgyz Republic-Japanese Center for Human Resources Development (KRJC) established under the Kyrgyz National University.

**Figure 15. Bilateral ODA to Kyrgyzstan by sector, 2014-2015**



Source: Compiled from the data by OECD, 2017; available at <https://goo.gl/7r9dP2> (accessed on 3 May 2018).

The official visit of Kyrgyzstan’s president, Almazbek Atambaev to Japan in 2013 has contributed to the advancement of the bilateral relations between two states. Within the framework of his visit, Atambaev met with the Prime Minister Shinzo Abe to discuss and exchange views on bilateral relations between two countries, as well as issues pertinent to regional and international stability. As a result of this visit, two parties signed “the Memorandum of Cooperation between the Ministry of Economic Affairs of the Kyrgyz Republic and the Ministry of Economy, Trade and Industry of Japan; Memorandum on cooperation in the field of education between the Ministry of Education and Science of the

Kyrgyz Republic and the Ministry of Education, Culture, Sports, Science and Technology of Japan (MEXT).”<sup>29</sup>

### *3.5.2 Japan’s Development Assistance Policy for Kyrgyzstan*

Since the establishment of a bilateral relationship between Japan and Kyrgyzstan, Japan has been providing its substantial assistance for the Kyrgyz government to achieve democratic governance and transition into a market economy while stressing the need for the preservation of human security throughout the transition process (see Figure 16). For example, Japan has been supporting Kyrgyzstan’s transition into a market economy by allocating its Loan Aid for the improvement of transportation infrastructure and delivered Grant Aid for the improvement of the technical capacity of major medical facilities through provision of necessary medical equipment. The country assistance policy was formulated by Japan taking into account country’s economic weakness and thus increasing country’s economic potential was set as a top priority. Japan’s development assistance policy was sought to serve as the “catalyst” for promoting self-help efforts toward the achievement of economic development and was accomplished in line with the Country Development Strategy (CDS) of the Kyrgyz Republic.

### *3.5.3 Priority Area 1: Development of Infrastructure for Economic Growth*

#### Development of Transportation Infrastructure

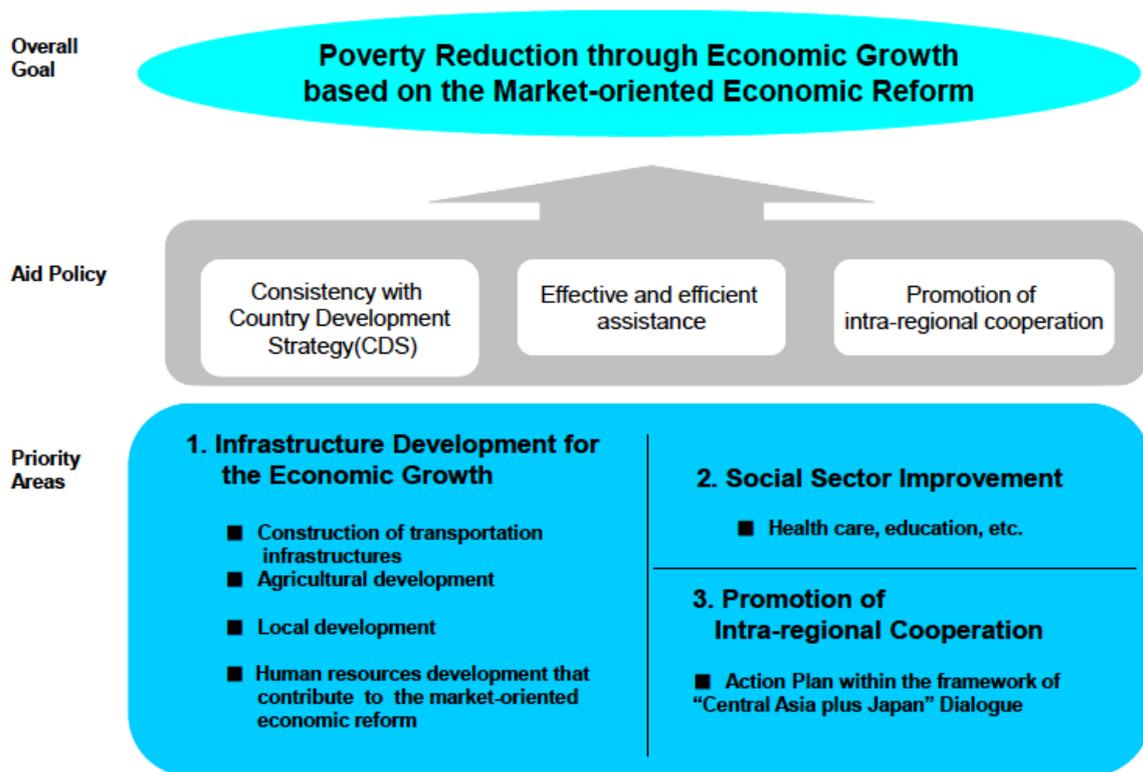
The geographical location of the Kyrgyz Republic at the intersection between East and West had been playing an important role for Kyrgyzstan for accomplishing its commercial transactions and product channelling over the time. However, given the fact that Kyrgyzstan is landlocked and predominantly consists of a mountainous area, with no direct access to the sea and Europe, the development of transportation infrastructure serves as an important condition for accomplishing its economic activities. Besides, since the Soviet times, the overall road conditions in the country have worsened, making it difficult for rural people to reach country’s remote areas at times when disasters occur or during the winter period. The proper

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<sup>29</sup> “Kyrgyzstan i Yaponiya podpisali ryad dokumentov o sotrudnichestve,” Vecherniy Bishkek, 27 February 2013. <<http://www.vb.kg/218344>> (accessed 3 May 2018).

transportation facilities, as such, are being considered by Japan, would enable Kyrgyzstan to position itself as a regional distribution hub and a gateway for the Central Asian region by connecting the east-west and north-south routes.

**Figure 16. Conceptual Diagram of Country Assistance Program for Kyrgyzstan**



Source: MOFA, Japan Country Assistance Policy for Kyrgyzstan 2009; <[http://www.mofa.go.jp/policy/oda/assistance/pdfs/e\\_Kyrgyz2009.pdf](http://www.mofa.go.jp/policy/oda/assistance/pdfs/e_Kyrgyz2009.pdf)> (accessed 3 May 2018).

Japanese efforts to support the transportation infrastructure development was formulated taking into account Kyrgyzstan’s potential to facilitate the regional cooperation and economic interaction with the neighbouring countries. Besides, the development of infrastructure was deemed by Japan as not only could facilitate the intra-regional trade with neighboring counties, such as China, but would also “stimulate the development of other areas of the economy, including mining and manufacturing, tourism, agriculture, and could serve as a precondition for enhanced intra-regional cooperation in each of these sectors.”<sup>30</sup>

<sup>30</sup> MOFA, Japan Country Assistance Policy for Kyrgyzstan 2009; <[http://www.mofa.go.jp/policy/oda/assistance/pdfs/e\\_Kyrgyz2009.pdf](http://www.mofa.go.jp/policy/oda/assistance/pdfs/e_Kyrgyz2009.pdf)> (accessed 3 May 2018).

Taking into account the importance of this conditionality, Japanese ODA policy for Kyrgyzstan was concentrated “on the implementation of projects and programs aimed at the construction of road and bridges, provision of construction equipment for road reconstruction, and strengthening of road maintenance systems.”<sup>31</sup> More specifically, Japan has been providing Yen Loans for the Kyrgyz government for the construction of main automobile roads and railroads. Along with the bilateral aid, Japan has been also collaborating with other donors and the Kyrgyz government to implement projects contributing to “the improvement of systems for promoting the efficiency of road administration, standardization of customs procedures, promotion of intra-regional distribution, and development of human resources for these areas.”<sup>32</sup>

### Agricultural Development

Although the agricultural sector of Kyrgyzstan is not internationally competitive and encompasses only 3% of the country’s landscape, it employs about 60% of the country’s labour force and more than 35% of country’s GDP is generated from the sector<sup>33</sup>. In addition, some farm products are exported to the neighbouring countries of Central Asia. However, after the collapse of the Soviet Union and the disintegration of large-scale collective farms, the availability of unharvested crops and farm equipment to cultivate them have also become one of the major problems in the sector.

The development of the agricultural sector is sought by Japan to contribute to the country’s industrial development since it is closely connected with other supporting industries, such as light industry, food processing industry, and handicrafts industry<sup>34</sup>. For instance, the advancement of the food processing industry is believed to facilitate the marketing of value-added agricultural products and thus contributing to the development of the overall agriculture.

Japanese government’s support for the development of the agricultural sector of Kyrgyzstan was thus focused on the infrastructure development through the provision of farming equipment, development of irrigation, and the construction of the necessary processing

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<sup>31</sup> Supra n. 25.

<sup>32</sup> Ibid.

<sup>33</sup> Food and Agriculture Organization (FAO), The Kyrgyz Republic: Opportunities and challenges to agricultural growth, Annual Report, 2011 ed., <<http://www.fao.org/3/a-i2711e.pdf>> (accessed 3 May 2018).

<sup>34</sup> Supra n.25.

facilities<sup>35</sup>. These efforts were accomplished in order to stimulate Kyrgyzstan's niche market so that country can enhance its capacity to produce speciality goods and raise its competitiveness in relation to the neighbouring markets specializing on grain production. Alternatively, Japan has been also implementing capacity building and human resource development programs facilitating the improvement of the agricultural technique and farmers' agricultural practices.

### Local Development

The dissolution of the Soviet Union left not only Kyrgyzstan's industry in a vulnerable situation but also resulted in the bankruptcy of a number of factories and collective farms which used to be the main source of income for the vast majority of country's population. This process has further led to the overall stagnation of country's rural economy while also creating severe poverty, possessing a significant threat to human security. In addition, poor and inherent infrastructure in the fields of transportation, communications, healthcare and education has also contributed to the slowing down of the regional economic processes by eliminating the revitalization prospect<sup>36</sup>. The southern region of Kyrgyzstan had become the hub for radical Islamic groups and joined Afghanistan's drug trafficking route. The occurrence of this situation created an alarming prospect for country's national security posing substantial threat beyond the regional boundaries of the country and threatening the overall stability of the region. Thus, the first priority for the Japanese government has become the community empowerment through the introduction of local development projects as illustrated in Figure 17.

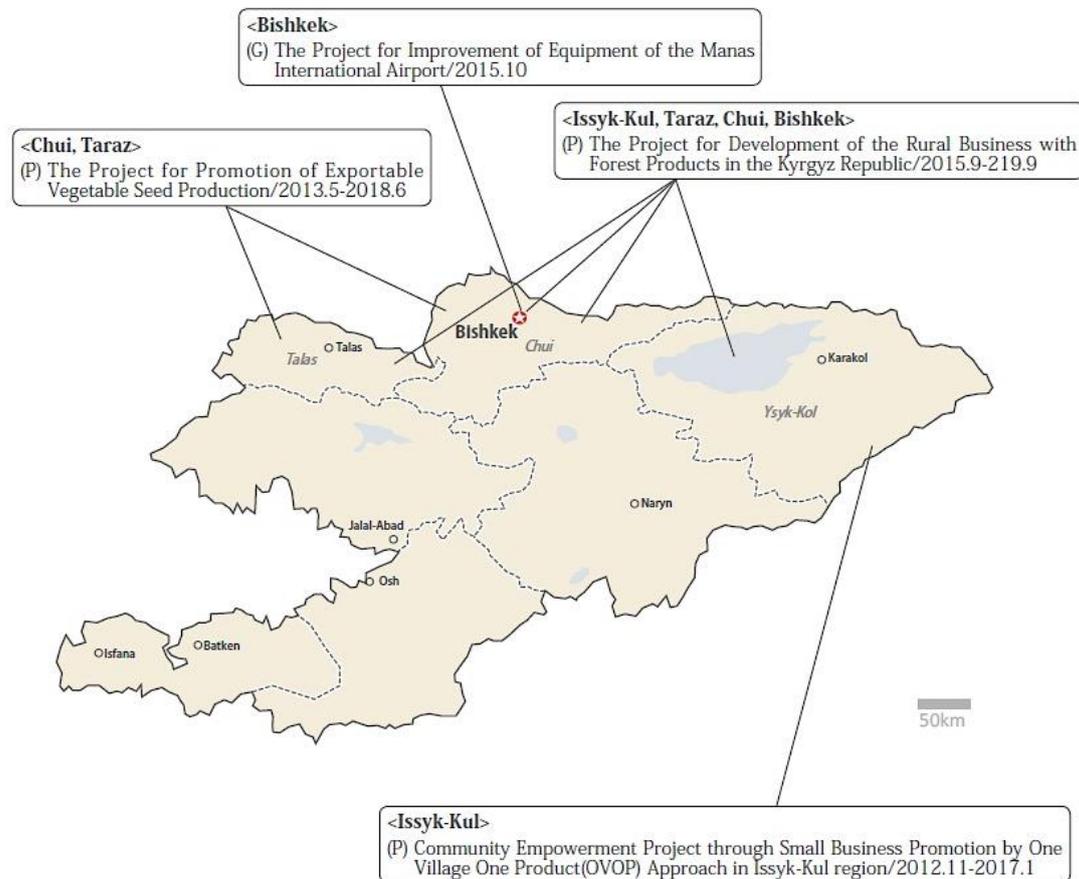
In this regard, the introduction of the OVOP concept in certain regions of the country has served as an essential infrastructure development and capacity building method enabling the country to revitalize the regional economy and gain socioeconomic development. The local development program of Japan has also played an important role for the revitalization of the local community and the environment.

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<sup>35</sup> Supra n. 25.

<sup>36</sup> Ibid.

**Figure 17. Maps of JICA’s Major Projects in Kyrgyzstan**



Source: JICA, “Map of JICA Major Projects in the Kyrgyz Republic,” Bishkek.  
<[https://libportal.jica.go.jp/library/Data/PlanInOperation-e/CentralAsiaCaucasus/745\\_Kyrgyz-e.pdf](https://libportal.jica.go.jp/library/Data/PlanInOperation-e/CentralAsiaCaucasus/745_Kyrgyz-e.pdf)> (accessed 3 May 2018).

### Human Resources Development to Contribute to the Transition to a Market Economy

Kyrgyzstan is well-known among Central Asian states for its introduction of the fast-track transitioning into the market economy through its attainment of World Trade Organization (WTO) membership, liberal approach towards privatization, land distribution reforms, and promotion of domestic trade and industry. Despite the favourable and uttermost efforts of Kyrgyzstan to liberalize its economy, its efforts haven’t brought the desired results, because the majority of the country’s entrepreneurs have been practising old business administration techniques since Soviet times. Besides, in most cases, public officials tend to confront with the challenge of effective governance given the fact that they lack adequate and proper knowledge on how to pursue a public administration and tackle the problems arising throughout the process of transitioning towards the liberal market economy.

Thereby, one of the priority directions of Japanese assistance to Kyrgyzstan has become the provision of support for human resources development aimed at fostering the country's transition to market economy. In its efforts to facilitate country's human resources capacity, Japanese government has been providing technical cooperation grants in order to support the "development of the legal system for the market economy, governance improvement for enhancement of democracy that affects development of sound market economy, and legal system improvement for the establishment of the rule of law."<sup>37</sup> Another significant step undertaken by Japan in relation to human resources development can be observed in the example of Japan Centers for Human Resources Development that was established in three countries of Central Asia, including in Kyrgyzstan. These Centers tend to deliver the necessary capacity building trainings and share expert knowledge, and therefore, serving as an effective tool for increasing country's potential for economic growth.

#### *3.5.4 Priority Area 2: Assistance in Social Safety Net*

In developing countries like Kyrgyzstan, it's important that economic development is followed not only by the generation of gross domestic product (GDP) but it's also essential that country can sustain its development by the transparent distribution of public wealth and improvement of living standards, especially for the poor strata of the population. Despite an intensive and substantial assistance by the international community, Kyrgyzstan has been experiencing some serious challenges in the social sector. This is especially apparent in Kyrgyzstan's healthcare field. Taking into account this circumstance, Japan has been providing four grants and delivering medical equipment in order to uphold the maternal and child healthcare systems of the country. More specifically, Japan in partnership with other donor countries and multilateral institutions, such as the World Bank has been supporting the realization of country-wide social sector reform by providing assistance in the areas of education and healthcare.

#### *3.5.5 Priority Area 3: Promotion of Intra-Regional Cooperation*

Maintaining and sustaining a bilateral relationship with Kyrgyzstan is essential for the implementation of Japan's country assistance policy in the region. In this regard, "Central Asia plus Japan" Initiative serves as the main mechanism for the development of mutually-beneficial

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<sup>37</sup> Supra n. 25.

interaction between the countries of the region and Japan. According to the Action Plan adopted in June 2006 during the 2<sup>nd</sup> Foreign Ministerial Meeting of the “Central Asia plus Japan” Dialogue, Japan declared to provide assistance in the areas which has a direct impact on the development of the intra-regional cooperation such as prevention of terrorism and narcotics, clearance of anti-personnel mines, poverty alleviation, health and medical care, environmental conservation, disaster risk reduction, energy/water, trade and investment, and transportation.

Based on these priority areas of cooperation between the countries of Central Asia, Japan has been formulating and providing its assistance in the form Yen Loan to implement projects that support the promotion of intra-regional cooperation. Majority of the projects in this policy area were related to the implementation of projects in the transportation and electric power sectors.

## **CHAPTER IV: Re-examining the OVOP Project in Armenia**

This chapter aims to provide an overview of the OVOP case study in Armenia by discussing the project design, implementation method as well as project output in the respective country. The chapter starts by providing an overview of the economic development situation in Armenia in order to develop an understanding of the rationale for OVOP project implementation. It will then proceed with the discussion of the main activities and policies undertaken in order to implement the OVOP concept in Armenia.

### **4.1 Background to the Macroeconomic Situation of Armenia**

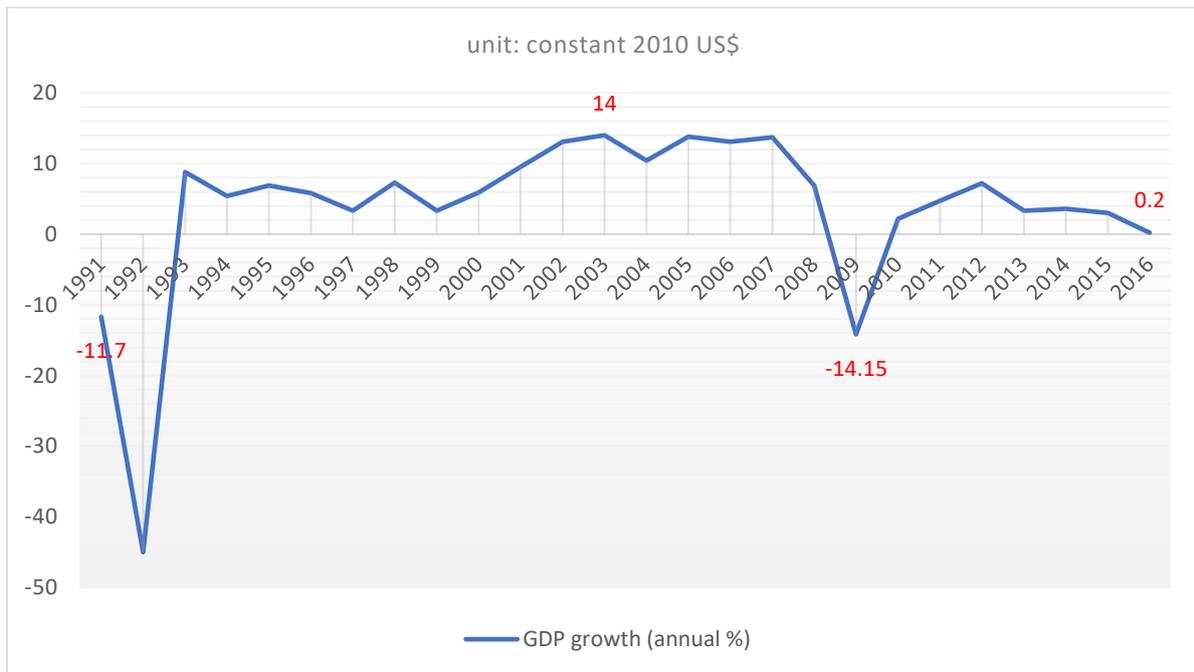
#### *4.1.1 Recent Economic Developments and GDP Growth*

Armenia is a lower-middle income country with a gross national income (GNI) of USD 3,760 per capita (2016) which has grown annually at an average rate of 7% since 2005 (World Development Indicator, 2016). Armenia has achieved remarkable economic growth during the 2000s, yet with the outbreak of the 2009 global financial crisis, the Armenian growth mode had slowed down (see Figure 18). Since then, Armenia has witnessed slight and gradual recovery. The slow growth during the financial crisis period has also revealed the weak points and unsustainability of the Armenian economic development model and thus implied the reconsideration of it by the government. Before the crisis, Armenian economy was developing at 12 percent rate annually. Up until 2008, construction was the major sector of the Armenian economy accounting for 25% share in GDP and had been expanding at 5.2 times during the period of 2000-2008 (World Bank).

In October 2008, the government issued the Sustainable Development Program (SDP) of Armenia in order to revitalize its economy and achieve a per capita income in excess of US\$10,000 by 2025 (i.e. three times higher than its 2012 level). The SDP set the following main policy directions: (i) general economic policies; (ii) employment generation to mitigate poverty; (iii) agriculture and rural development; (iv) infrastructure development; (v) family and child benefits as mainstay of social protection; (vi) health; (vii) education; (viii) public

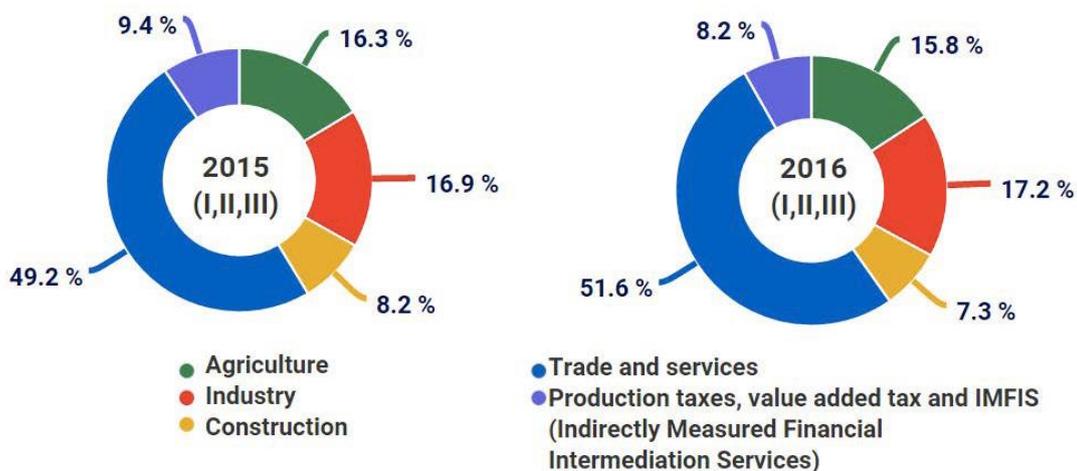
administration effectiveness, governance and accountability, e-government, public financial management; (ix) judicial system reform; and (x) anti-corruption policies<sup>38</sup>.

**Figure 18. GDP growth rate of Armenia (1991-2016)**



Source: Author’s compilation based on the World Bank data; available at <https://data.worldbank.org/country/Armenia>; (accessed 3 May 2018).

**Figure 19. The Structure of Armenian GDP According to Economic Sectors**



Source: Friedrich Ebert Foundation, “The Economic Situation in Armenia: Opportunities and Challenges in 2017,” Yerevan; <<http://library.fes.de/pdf-files/bueros/georgien/13248.pdf>> (accessed 3 May 2018).

<sup>38</sup> Republic of Armenia, Sustainable Development Program (October 2008).

In 2015, the total value of the Armenian GDP amounted to 5.032 trillion AMD. A year later, in 2016, the GDP of Armenia constituted 3.543 trillion AMD as shown in Figure 20. Over the past two years, Armenian economy has experienced a recession and low growth rate. In 2014, the economic growth level of Armenia constituted 7.2%, while in previous year this level embarked 3.5%. In 2015, it recorded at 3.0%. In terms of GDP per capita level, the distribution of the total public wealth generated in 2015 amounted to 1 million 674 thousand AMD or 3504.3 US<sup>39</sup>.

**Figure 20. Key Macroeconomic Trends and Projections**

|   | 2014 | 2015  | 2016 e | 2017 f | 2018 f | 2019 f |
|---|------|-------|--------|--------|--------|--------|
| <b>Real GDP growth, at constant market prices</b>         | 3.6  | 3.0   | 0.2    | 2.7    | 3.1    | 3.4    |
| Private Consumption                                       | 1.0  | -7.9  | -3.9   | 0.5    | 2.3    | 2.7    |
| Government Consumption                                    | -1.2 | 4.5   | 2.5    | -3.9   | 4.6    | 6.2    |
| Gross Fixed Capital Investment                            | -2.2 | 3.0   | -4.6   | 0.6    | 1.6    | 1.9    |
| Exports, Goods and Services                               | 6.4  | 4.9   | 17.0   | 12.4   | 6.5    | 5.8    |
| Imports, Goods and Services                               | -1.0 | -15.1 | 2.2    | 5.5    | 4.8    | 4.5    |
| <b>Real GDP growth, at constant factor prices</b>         | 3.9  | 4.0   | 0.8    | 2.3    | 2.8    | 3.1    |
| Agriculture   | 6.1  | 13.2  | -5.8   | 3.5    | 2.7    | 2.2    |
| Industry  | -2.3 | 3.7   | -0.9   | 4.5    | 3.8    | 3.5    |
| Services  | 8.3  | -3.6  | 8.9    | -0.8   | 1.9    | 3.4    |
| <b>Inflation (Consumer Price Index)</b>                   | 3.0  | 3.7   | -1.4   | 1.5    | 3.2    | 3.0    |
| <b>Current Account Balance (% of GDP)</b>                 | -7.6 | -2.6  | -2.4   | -2.7   | -3.2   | -3.6   |
| <b>Financial and Capital Account (% of GDP)</b>           | 7.9  | 4.2   | 4.6    | 3.3    | 3.8    | 4.1    |
| Net Foreign Direct Investment (% of GDP)                  | 3.3  | 1.5   | 2.3    | 4.5    | 6.5    | 7.4    |
| <b>Fiscal Balance (% of GDP)</b>                          | -1.9 | -4.8  | -5.4   | -2.7   | -2.5   | -2.6   |
| <b>Debt (% of GDP)</b>                                    | 43.7 | 48.8  | 55.3   | 56.7   | 58.0   | 58.2   |
| <b>Primary Balance (% of GDP)</b>                         | -0.4 | -3.0  | -3.5   | -0.6   | -0.4   | -0.5   |
| <b>Poverty rate (\$2.5/day PPP terms)<sup>a,b,c</sup></b> | 26.3 | 22.6  | 23.9   | 23.8   | 23.0   | 22.2   |
| <b>Poverty rate (\$5/day PPP terms)<sup>a,b,c</sup></b>   | 75.9 | 71.7  | 73.4   | 73.3   | 72.4   | 71.3   |

Source: The World Bank. Macroeconomic and Fiscal Management Global Practice and Poverty Global Practice. Notes: e=estimate, f=forecast.

- Calculations based on ECAPOV harmonization, using 2011-ILCS, 2014-ILCS, and 2015-ILCS.
- Projection using point-to-point elasticity (2011-2014) with pass-through =0,7 based on private consumption per capita in contrast LCU.
- Actual data: 2014, 2015. Nowcast: 2016. Forecast are from 2017 to 2019.

According to the Armenian Statistical Service data, the actual growth rate was recorded as 0.41% in 2015. The index of economic activity of Armenia has decreased to 92.2% in October of July 2016<sup>40</sup>.

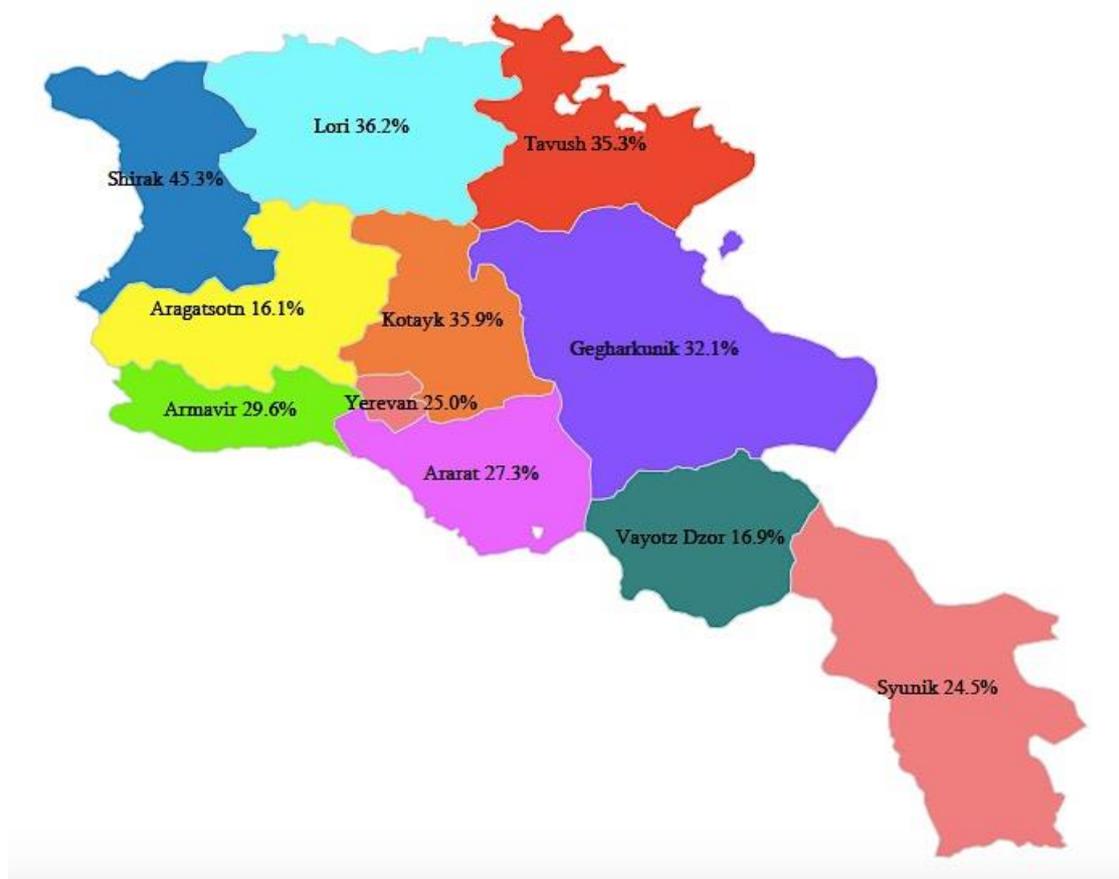
<sup>39</sup> National Statistical Service of the Republic of Armenia, "Statistical Yearbook 2016," Yerevan. <<http://www.armstat.am/file/doc/99499428.pdf>> (accessed 3 May 2018).

<sup>40</sup> Friedrich Ebert Foundation, "The Economic Situation in Armenia: Opportunities and Challenges in 2017," Yerevan; <<http://library.fes.de/pdf-files/bueros/georgien/13248.pdf>> (accessed 3 May 2018).

#### 4.1.2 Poverty and Inequality

Currently, 29.8% of the Armenian population live below the national poverty line<sup>41</sup>. The fast-economic growth and socio-economic development during the 2000s have also resulted in the significant reduction of poverty level from 53.5% to 27.6% in 2004-2008. However, with the outbreak of the financial crisis in 2008, along with the majority of developing countries, the poverty alleviation progress has slowed down in Armenia. Since 2008, the government of Armenia was able to eradicate poverty and decrease it only by 4.3%. In 2005, the absolute poverty rate in the country reported 29.8% and 2% of the country's population is reported to be living in extreme poverty. The poverty disparity varies throughout the country (see Figure 21). For instance, in 2015 poverty constituted 29.4% in urban areas and 30.4% in rural areas.

**Figure 21. Poverty Rate by Consumption Aggregate, by Regions and in Yerevan, 2015**



Source: The World Bank, "Armenia - Integrated Living Conditions Survey 2015," Washington DC; <<http://microdata.worldbank.org/index.php/catalog/2964>> (accessed 3 May 2018).

<sup>41</sup> Asian Development Bank, "Poverty in Armenia," Manila; <<https://www.adb.org/countries/armenia/poverty>> (accessed 3 March 2018).

Despite the fact that the overall poverty level in the urban area is much less than that of in rural areas, we may observe a totally different story if we separate capital city of Yerevan from our calculation (see Table 5). Because, while in Yerevan the poverty rate constitutes to 25%, in other towns of the country the poverty rate is much higher than in rural areas. Besides, it is also noteworthy to mention that poverty rates differ by regions (marzes). For instance, the poverty rate in the Shirak region of Armenia is 15.5% higher than the average index in the country. In 2015, the same index was reported to be 16-17% for the Aragatsotn and Vayots Dzor regions.

**Table 5. The territorial dynamics of the poverty level in 2008-2012**

|  | 2008  | 2012  |
|--|-------|-------|
| Total, Armenia                                   | 27.6  | 32.4  |
| Yerevan  | 20.1  | 25.6  |
| Aragatsotn                                       | 20.3  | 21.2  |
| Ararat   | 31.3  | 34.6  |
| Armavir  | 24.5  | 34.3  |
| Gegharkunik                                      | 32.0  | 35.5  |
| Lori   | 34.2  | 38.7  |
| Kotayk   | 39.5  | 42.5  |
| Shirak   | 42.4  | 46.0  |
| Syunik   | 20.3  | 25.6  |
| Vayots Dzor                                      | 21.1  | 20.7  |
| Tavush   | 23.2  | 27.5  |
| <b>Characteristics of regional disparity</b>     |       |       |
| <b>Average across marzes (including Yerevan)</b> | 28.1  | 32.1  |
| <i>Index, 2008 = 100</i>                         | 100.0 | 114.2 |
| <b>Disparity range</b>                           | 22.3  | 25.3  |
| <i>Index, 2008 = 100</i>                         | 100.0 | 113.5 |
| <b>Average absolute deviation</b>                | 7.1   | 7.2   |
| <i>Index, 2008 = 100</i>                         | 100.0 | 101.4 |

Source: National Statistical Service of the Republic of Armenia. "Social Snapshot and Poverty in Armenia, 2013," Yerevan. <<http://www.armstat.am/en/?nid=80&id=1503>> (accessed 3 May 2018).

#### 4.1.3 Gross Income of Rural Households

The average gross income level has increased in rural communities by 30.4% during the period of 2008-2015, mainly due to the increase of the private transfers from relatives residing outside Armenia. While the main source of income in rural households is aggregated through the sales of agricultural products and livestock, consumption of own production food, in 2015 only 25.6% of the gross (per capita) household income was generated through accomplishing agricultural activities. In previous years, however, the role of agricultural activities in income

generation was much higher and constituted to 38.8% in 2008, 35.6% in 2009, 29.4% in 2010, 32.4% in 2011, 30.8% in 2012, 30.9% in 2013 and 28.5% in 2014 (see Table 6).<sup>42</sup>

The role and significance of remittances from relatives living abroad as a source of income in rural communities has gained a momentum from 2008 to 2015. During this period, the total value of household income in rural communities generated through remittances has increased from 6.6% of gross income in 2008 to 7.7% in 2015. On the contrary to international transfers, the share of remittances from relatives within Armenia decreased by 0.5 percentage points (from 0.7% in 2008 to 0.2% in 2015)<sup>43</sup>.

**Table 6. Armenia: Sources of Household Nominal Income by Urban and Rural Communities, 2008 and 2015 (Average Monthly Per capita Income)**

|   | Urban communities |               |             |             | Rural communities |               |             |             |
|---|-------------------|---------------|-------------|-------------|-------------------|---------------|-------------|-------------|
|   | AMD               |               | Percent     |             | AMD               |               | Percent     |             |
|   | 2008              | 2015          | 2008        | 2015        | 2008              | 2015          | 2008        | 2015        |
| <b>1. Monetary income, including:</b>                     | <b>30174</b>      | <b>58 607</b> | <b>96.8</b> | <b>97.9</b> | <b>20 754</b>     | <b>42 103</b> | <b>78.0</b> | <b>88.1</b> |
| Hired employment  | 18068             | 35 371        | 57.9        | 59.1        | 7 881             | 17 963        | 29.6        | 37.6        |
| Self-employment   | 3084              | 5 675         | 9.9         | 9.5         | 1 092             | 3 468         | 4.1         | 7.3         |
| Sales of agricultural products and livestock              | 201               | 233           | 0.6         | 0.4         | 4 670             | 6 698         | 17.6        | 14.0        |
| Income on property (rental income, interest, equity gain) | 49                | 181           | 0.2         | 0.3         | 10                | 7             | 0.0         | 0.0         |
| Public pensions and benefits                              | 5006              | 10 033        | 16.1        | 16.8        | 4 615             | 8 049         | 17.3        | 16.8        |
| Transfers, <i>of which:</i>                               | 3094              | 5 248         | 9.9         | 8.7         | 1 950             | 3 792         | 7.3         | 7.9         |
| From relatives residing in Armenia                        | 587               | 681           | 1.9         | 1.1         | 195               | 113           | 0.7         | 0.2         |
| From relatives residing outside of Armenia                | 2507              | 4 557         | 8.0         | 7.6         | 1 755             | 3 679         | 6.6         | 7.7         |
| Other income  | 672               | 1 866         | 2.2         | 3.1         | 536               | 2 126         | 2.1         | 4.5         |
| <b>2. Non-monetary income, including:</b>                 | <b>1010</b>       | <b>1 261</b>  | <b>3.2</b>  | <b>2.1</b>  | <b>5852</b>       | <b>5 688</b>  | <b>22.0</b> | <b>11.9</b> |
| Consumption of own production food                        | 686               | 908           | 2.2         | 1.5         | 5 642             | 5 550         | 21.2        | 11.6        |
| Non-food products and services received free of charge    | 324               | 353           | 1.0         | 0.6         | 210               | 138           | 0.8         | 0.3         |
| <b>Total gross income</b>                                 | <b>31184</b>      | <b>59 867</b> | <b>100</b>  | <b>100</b>  | <b>26 606</b>     | <b>47 791</b> | <b>100</b>  | <b>100</b>  |

Source: Armenia - Integrated Living Conditions Surveys 2008-2015.

As shown in Table 6, despite the increase of average income level by 30.4% during the period of 2008-2015, the average consumption of rural population increased only by 2.2%. Table 6 demonstrates that real income increased in the third, fourth and fifth quintiles of consumption. However, during the first quintile, the poorest population has experienced the decrease of income by 41% and by 12% during the second quintile.

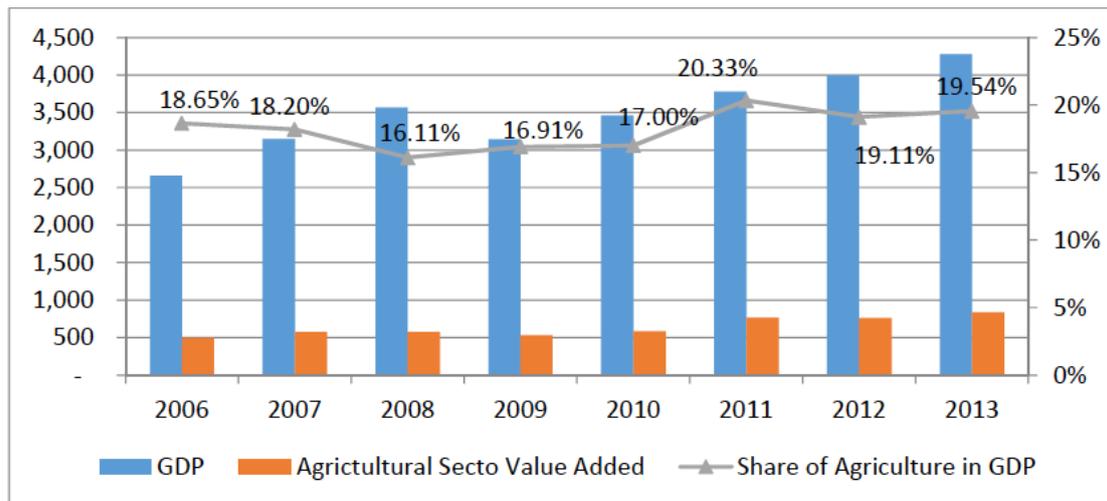
<sup>42</sup> National Statistical Service of the Republic of Armenia, "Part 1 – Armenia: Poverty Profile in 2008-2015," Yerevan; <[http://www.armstat.am/file/article/poverty\\_2016\\_eng\\_2.pdf](http://www.armstat.am/file/article/poverty_2016_eng_2.pdf)> (accessed 3 May 2018).

<sup>43</sup> Ibid.

#### 4.1.4 Rural Development Outlook

Agriculture is the major economic sector in Armenia, accounting for 17.7% of GDP in 2016 (25.5% in 2000)<sup>44</sup>, employing 38.6% of the population in 2010 compared to 18.6% in 2000 (see Figures 21 and 22). Given the fact that around 36% of the country’s population resides in villages, agriculture play an important role not only for the livelihoods of rural population but also for the overall country’s rural area development. In Armenia, out of total 915 communities, 866 are located in rural areas and thus agriculture serves as the main source of income for the majority of the village population. In 2012, the agricultural sector of Armenia employed 457.4 thousand people, which accounts for 38.9% of the country's total employment and 75.2% of rural area employment<sup>45</sup>. While the share of the agricultural sector in the Armenian GDP accounts less than 20% (2016), the share of the agricultural-origin and processed food products in 2013 was 21%, and in the structure of exported goods - 28.5%<sup>46</sup>.

**Figure 22. Dynamics of Value Added of Agricultural Sector Compared with GDP Growth, billion AMD**



Source: Avenue Consulting, “Agriculture in Armenia: Snapshot,” Yerevan.  
 <<http://www.avenueconsulting.am/resources/avenue/uploads/pdf/aafab24852e8b106fd66818c0349bf8e.pdf>>  
 (accessed 3 May 2018).

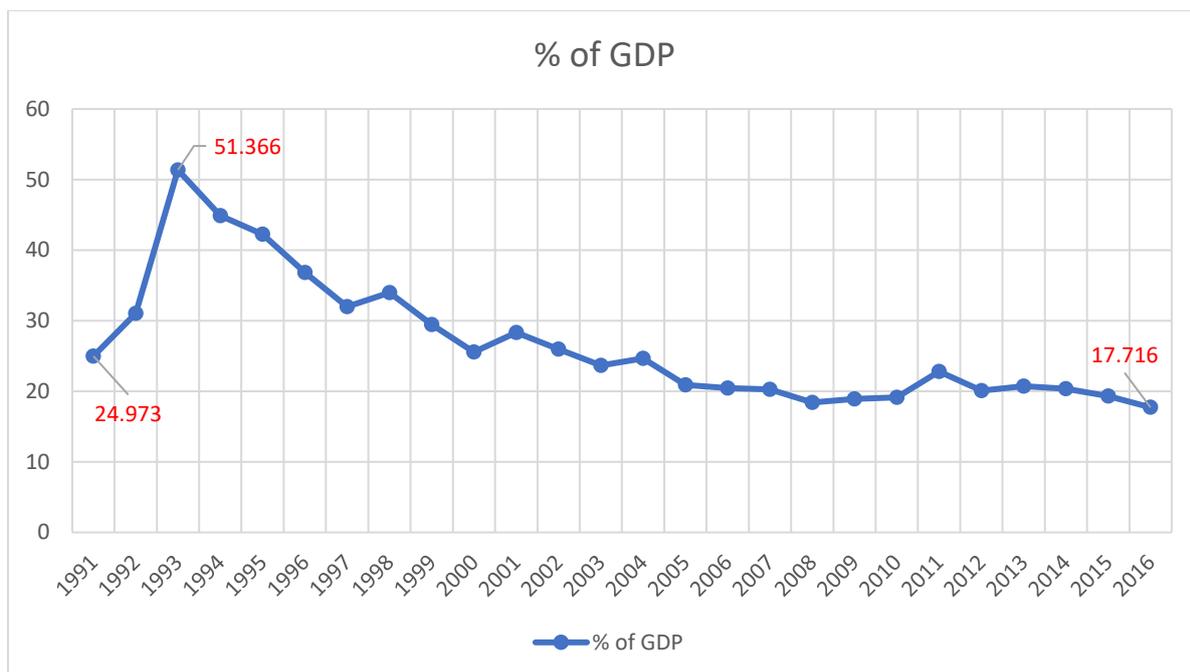
<sup>44</sup> The World Bank, “Armenia - Integrated Living Conditions Survey 2015,” Washington DC;  
 <<http://microdata.worldbank.org/index.php/catalog/2964>> (accessed 3 March 2018).

<sup>45</sup> Avenue Consulting, “Agriculture in Armenia: Snapshot,” Yerevan.  
 <<http://www.avenueconsulting.am/resources/avenue/uploads/pdf/aafab24852e8b106fd66818c0349bf8e.pdf>>  
 (accessed 3 March 2018).

<sup>46</sup> Ibid.

Since 2009, after the global financial crisis, the value added of the agricultural sector in GDP of Armenia has started to increase as shown in Figure 23. Over the period of 2010-2013, the average share of agriculture in Armenian GDP constituted 19%. The most productive Marzes of Armenia in the agricultural sector are Armavir, Ararat and Gegharkunik. The cumulative gross production of these three Marzes reported as 464.9 billion Armenian drams in 2013, which accounts for 50.6% of the gross agricultural output of Armenia as reflected in Table 7.<sup>47</sup>

**Figure 23. Armenian agriculture, value added (% of GDP)**



Source: Author’s compilation based on the World Bank data; available at <https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=AM>; (accessed 3 May 2018).

As the below table indicates, during the period of 2009-2013, the high performing Marz, from financial capital accumulation perspective, was reported to be Gegharkunik Marz, gross production of which accounted to 70.7 million Armenian Drams. The highest growth percentage of 88.12% was recorded in Shirak Marz<sup>48</sup>. The total value of gross agricultural output from plant growing and animal husbandry is presented below:

<sup>47</sup> Supra n. 45.

<sup>48</sup> Ibid.

**Table 7. Gross agricultural output per Marzes of Armenia and Yerevan**

| Year                     | 2009                               | 2010         | 2011         | 2012         | 2013         |
|--------------------------|------------------------------------|--------------|--------------|--------------|--------------|
|                          | <b>Gross output, billion Drams</b> |              |              |              |              |
| Yerevan                  | 5                                  | 5.4          | 5.8          | 7.5          | 8.5          |
| Aragatsotn               | 54.6                               | 61.4         | 80           | 82           | 89.1         |
| Ararat                   | 89.1                               | 108.5        | 139.4        | 124          | 136.4        |
| Armavir                  | 109.1                              | 104.5        | 136.2        | 144          | 163.2        |
| Gegharkunik              | 94.6                               | 125.7        | 160.6        | 160.6        | 165.3        |
| Lori                     | 37.3                               | 41.8         | 56.1         | 59.7         | 67.3         |
| Kotayk                   | 39.9                               | 40.6         | 51.1         | 52.7         | 56.7         |
| Shirak                   | 56.4                               | 71.2         | 94.1         | 97.8         | 106.1        |
| Syunik                   | 33.8                               | 36.3         | 47.9         | 52.7         | 62.3         |
| Vayots Dzor              | 11.5                               | 13.9         | 15.7         | 18.2         | 20.0         |
| Tavush                   | 24.4                               | 28.3         | 38.3         | 41.2         | 43.7         |
| <b>Total for Armenia</b> | <b>555.7</b>                       | <b>637.6</b> | <b>825.2</b> | <b>840.4</b> | <b>918.6</b> |

Source: Avenue Consulting, "Agriculture in Armenia: Snapshot," Yerevan.  
 <<http://www.avenueconsulting.am/resources/avenue/uploads/pdf/aafab24852e8b106fd66818c0349bf8e.pdf>>  
 (accessed 3 May 2018).

**Table 8. Gross agricultural output, billion AMD4**

| Year  | 2009          | 2010          | 2011          | 2012          | 2013          |
|---|---------------|---------------|---------------|---------------|---------------|
| <b>Agriculture , of which</b>                   | <b>555.7</b>  | <b>637.6</b>  | <b>825.2</b>  | <b>840.4</b>  | <b>918.6</b>  |
| <i>Plant growing</i>                            | <i>346.4</i>  | <i>392.7</i>  | <i>456</i>    | <i>511.5</i>  | <i>572.9</i>  |
| <i>Share of Plant Growing in Agriculture</i>    | <i>62.34%</i> | <i>61.59%</i> | <i>55.26%</i> | <i>60.86%</i> | <i>62.37%</i> |
| <i>Animal husbandry</i>                         | <i>209.3</i>  | <i>244.9</i>  | <i>369.2</i>  | <i>328.9</i>  | <i>345.7</i>  |
| <i>Share of Animal Husbandry in Agriculture</i> | <i>37.66%</i> | <i>38.41%</i> | <i>44.74%</i> | <i>39.14%</i> | <i>37.63%</i> |

Source: Avenue Consulting, "Agriculture in Armenia: Snapshot," Yerevan.  
 <<http://www.avenueconsulting.am/resources/avenue/uploads/pdf/aafab24852e8b106fd66818c0349bf8e.pdf>>  
 (accessed 3 May 2018).

As one can assume from the Tables 8 and 9, Armenian agriculture is mainly focused on plant growing, which produces the high rate of gross output. Similarly, the animal husbandry also plays a significant role in Armenian agriculture and has shown a significant growth over the last years. In 2011, the growth of animal husbandry accounted to more than 120 billion Armenian Drams. It is noteworthy to mention that, agriculture, tends to be one of the key sources for value-added production and rural development in Armenia. This can be observed widely in Table 9.

**Table 9. Agriculture and rural development, 2008-2012**

|   | 2008   | 2009   | 2010   | 2011   | 2012   |
|---|--------|--------|--------|--------|--------|
| Value added in agriculture, y-o-y % change          | 3.3%   | 6.0%   | -16.0% | 14.0%  | 9.5%   |
| Value added in agriculture, % of GDP                | 16.3%  | 16.9%  | 17.0%  | 20.3%  | 19.1%  |
|   |        |        |        |        |        |
| Employment in agriculture, thousand persons         | ...    | ...    | 457.4  | 457.4  | 437.2  |
| Non-farm employment in rural area, thousand persons | ...    | ...    | 100.1  | 85.9   | 108.2  |
|   |        |        |        |        |        |
| Labor productivity in agriculture, thousand drams   | ...    | ...    | 1,286  | 1,679  | 1,748  |
| Non-farm labor productivity, thousand drams         | ...    | ...    | 3,946  | 4,193  | 4,396  |
|   |        |        |        |        |        |
| Credits to agriculture, mln drams                   | 36,467 | 44,177 | 52,365 | 73,440 | 91,890 |
| Credits to agriculture-to-GDP ratio, %              | 6.3%   | 8.3%   | 8.9%   | 9.6%   | 12.0%  |

Source: Armenia Development Strategy for 2014-2025.

## 4.2 Japan's Rural Development Strategy in Armenia

### 4.2.1 The Rationale for OVOP Project Implementation

Since the collapse of the Soviet Union and the establishment of the newly independent Republic of Armenia in 1991, the country shifted to a market economy model of economic envelopment and has been able to achieve steady economic growth rate since 2000 (see Table 10). Along with the main sectors of country's economy, the private sector including small and medium-sized enterprises (SME) play a significant role and considered to be one of the priority areas contributing to the development of Armenian economy as shown in Table 11. Thus, the government of Armenia has been carrying out the necessary measures to stimulate the further enhancement of the SME field through the introduction of the state support system for SME. One of the main documents issued by the government in this direction is the "Concept for SME Development Policy and Strategy in Armenia" which was adopted in August 2000.

**Table 10. Basic information about Armenia**

|                                   |  |
|-----------------------------------|--|
| Area                              | 29,743 km <sup>2</sup>   |
| Population                        | 3.06 million (2014 World Bank) One-third of the population resides in the capital, Yerevan   |
| Ethnicity, language, and religion | <ul style="list-style-type: none"> <li>● Ethnicity: 97.9% Armenian</li> <li>● Language: Armenian. Russian is also used</li> <li>● Religion: Christianity, Armenian Apostolic Church</li> </ul> |
| Economy                           | GDP per capita USD3,873.50 (2014: World Bank)  |

|                     |   |
|---------------------|---|
| Industry            | Armenia's main industries are: Agriculture, machinery production, jewellery processing (diamond), cotton cultivation, grapes cultivation, vegetables, flourishes in agriculture, and wheat and barley as grain production. Wine production has a long history and their brandy is called Armenian cognac, which is renowned worldwide. Export items are: food processing products, alcoholic and non-alcoholic beverages, sulphur, iron ore, and fuel. Import items are cereals, animal and vegetable oils, tobacco, pharmaceutical goods, cosmetics, and daily necessities.  |
| Culture and tourism | Armenia is the first state in the world that accepted Christianity as a state religion. Armenia has three world heritage sites related to Christianity. Due to these historical and cultural tourism resources, several tourists visit from Western Europe, except in winter. In addition, more than 10 million diasporas, living outside Armenia, also have become a major market for Armenian tourism.  |
| Rural government    | Armenia is constituted by the capital Yerevan and 10 regions called Marz. The Governor is appointed by the central government and the local administration system is centralised. The central government cannot plan and implement the deployment of the rural region and industry but rather supervise its management and adjustment.<br>Armenia includes 915 communities (both in the cities and villages), of which 49 are considered the city and 866 rural. Yerevan has a special administrative status as the capital and the mayor is selected by election every four years. Yerevan has 12 semi-autonomous districts. |

Source: JICA, "Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report," Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

In addition, starting from 2001, annual programmes for support of SME are being introduced and implemented by Armenian Ministry of Trade and Economic Development. The Small and Medium Entrepreneurship Development National Center of Armenia (SMEDNC) is authorized to provide state support to SMEs in Armenia and implements the Armenian policy for SME development.

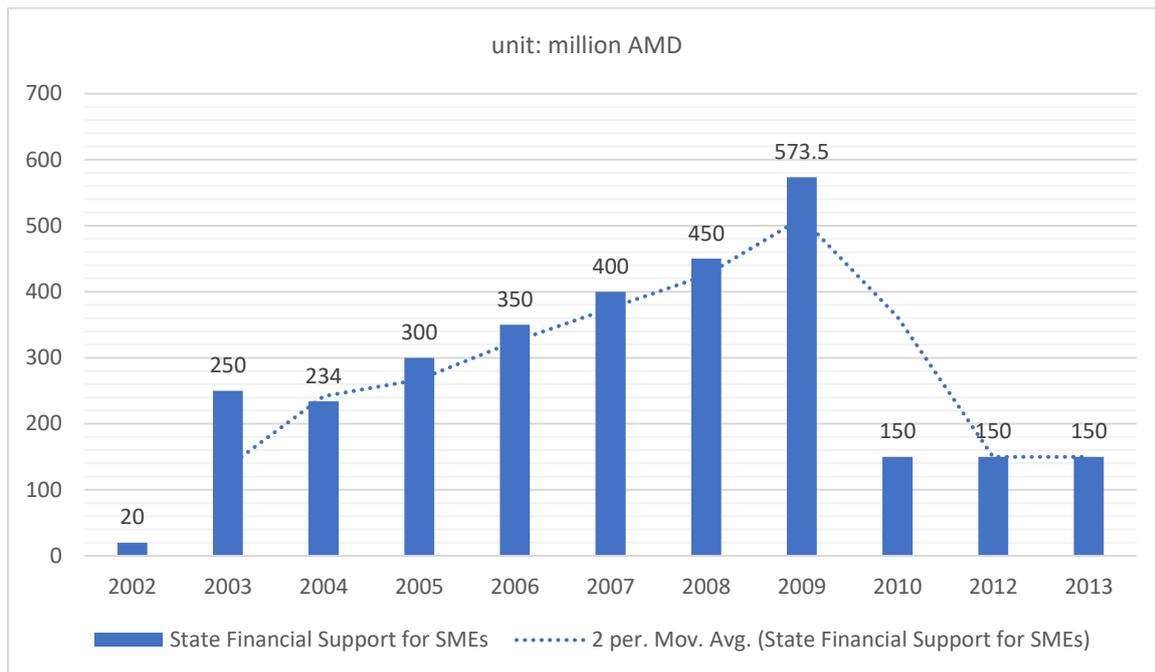
**Table 11. The Value and Contribution of SMEs in Armenia**

|                           | Number of workers | Sales amount          | Total asset value     |
|---------------------------|-------------------|-----------------------|-----------------------|
| <b>Microenterprises</b>   | Under 10          | Under AMD 100 million | Under AMD 100 million |
| <b>Small enterprises</b>  | Under 50          | Under AMD 500 million | Under AMD 500 million |
| <b>Medium enterprises</b> | Under 250         | Under AMD 1 billion   | Under AMD 1.5 billion |

Source: United Nations Economic Commission for Europe (UNECE), "Brief Analysis of SME State Support in the Republic of Armenia," Geneva; <<http://www.unece.org/fileadmin/DAM/ceci/icp/Review/Studies/10.pdf>> (accessed 3 May 2018).

The main activity direction of SMEDNC is accomplished through implementation of annual SME State Support Programs with the state's financial support. Since 2002, a number of Armenian SMEs have benefitted from these programmes as shown in Figure 24.

**Figure 24. State Expenditure for SME support in Armenia**



Source: United Nations Economic Commission for Europe (UNECE), “Brief Analysis of SME State Support in the Republic of Armenia,” Geneva; <<http://www.unece.org/fileadmin/DAM/ceci/icp/Review/Studies/10.pdf>> (accessed 3 May 2018).

For instance, SMEDNC’s Technical and Financial Assistance Programmes were implemented with an aim of i) provision of information and consultancy on all the aspects of doing business in Armenia; ii) promotion and branding of local products; iii) sales promotion; iv) export promotion; v) start-up support; vi) support to realize new technology/innovation; vii) provision of loan guarantees; and so on.

The total amount of state spending on SME support programmes from 2002 to 2008 amounted to 1.6 billion AMD and around 20,000 start-ups and SME have received financial support from the state. The detailed state budget allocations are presented in Figure 24.

Since the adoption of the SME State Support Strategy in 2001, a number of SME support programmes are being introduced and implemented based on the Strategy. Most recently, the attention of the State was directed to the reinforcement of the regional and local SMEs in order to increase income and employment level of rural population. Therefore, as part of the bilateral cooperation between Japan and Armenia, the government of Armenia requested for Japanese assistance in order implement the OVOP project. The project was launched by JICA on March

2013 and was scheduled for three subsequent years. The Project was aimed at the development of marketing methods to support local SMEs in Armenia. In order to achieve Project objectives, a step-by-step action plan was developed. The concept of Armenian OVOP Project was generated based on OVOP experiences in Japan and other countries, as well as experiences of SMEDNC and other agencies in Armenia including the brand concept<sup>49</sup>.

In addition to Japan, a number of other international cooperation agencies have also provided support and implemented policies related to the small and medium entrepreneurs, including Partnership for Rural prosperity (PRP) was implemented by the United States Agency for International Development (USAID), United Nations Development Programme (UNDP) has been assisting the efforts of the government of Armenia to improve the quality of life and well-being of Armenian people since 2004, German Federal Enterprise for International Cooperation (GIZ) has provided support for Armenian SMEs in the framework of its technical assistance project<sup>50</sup>.

#### *4.2.2 The Administration of OVOP Project*

From March 2013 to February 2016, JICA in partnership with the Small and Medium Entrepreneurship Development National Center of Armenia (SMEDNC) has implemented the technical cooperation project titled “Development of Local Production and Promotion of Local Brands” (hereafter referred to as “Project”) through application of the OVOP concept to improve the local economic development prospect and local businesses’ marketing activities.

Throughout the project implementation process, SMEDNC’s activities were accomplished in compliance with the Armenian policy for SME development. More specifically, the Center’s activities are carried out through (i) offering both technical and financial assistance to the SMEs, (ii) having the regional office in each region, and (iii) promoting the start-up’s new formal businesses. The OVOP Project has been implemented by SMEDNC’s Central Office and its Regional branches. The geographical location of the SMEDNC offices is presented below:

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<sup>49</sup> JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 March 2018).

<sup>50</sup> Ibid. p. 15.

The SMEDNC’s Central office comprises of six main operational units and overtakes the following main functions:

- **Local Economic Development Department:** Analyzing the economic potential of villages
- **Business Internationalization Department:** Export promotion, foreign contacts establishment and cooperation, improvement, and commercialization of innovative initiatives of SMEs on the international scene, etc.
- **Information and Analysis Programs Department:** Providing companies with information on legislative amendments, application of innovations and new technologies, business contacts, attraction and management of financial resources, licensing, standardisation, etc.
- **Consulting Support Programs Department:** Providing companies with consultancy
- **Training Department:** Training for trainers and enterprises
- **Financial Support Department:** Loan Guarantees Provision Program

The Project activities have been developed by a team consisting of both Japanese and Armenian experts (see Figure 24) and governed by the decisions made by a special Joint Coordinating Committee (JCC). Over the course of project implementation, there were held three JCC meetings, as noted in Table 12:

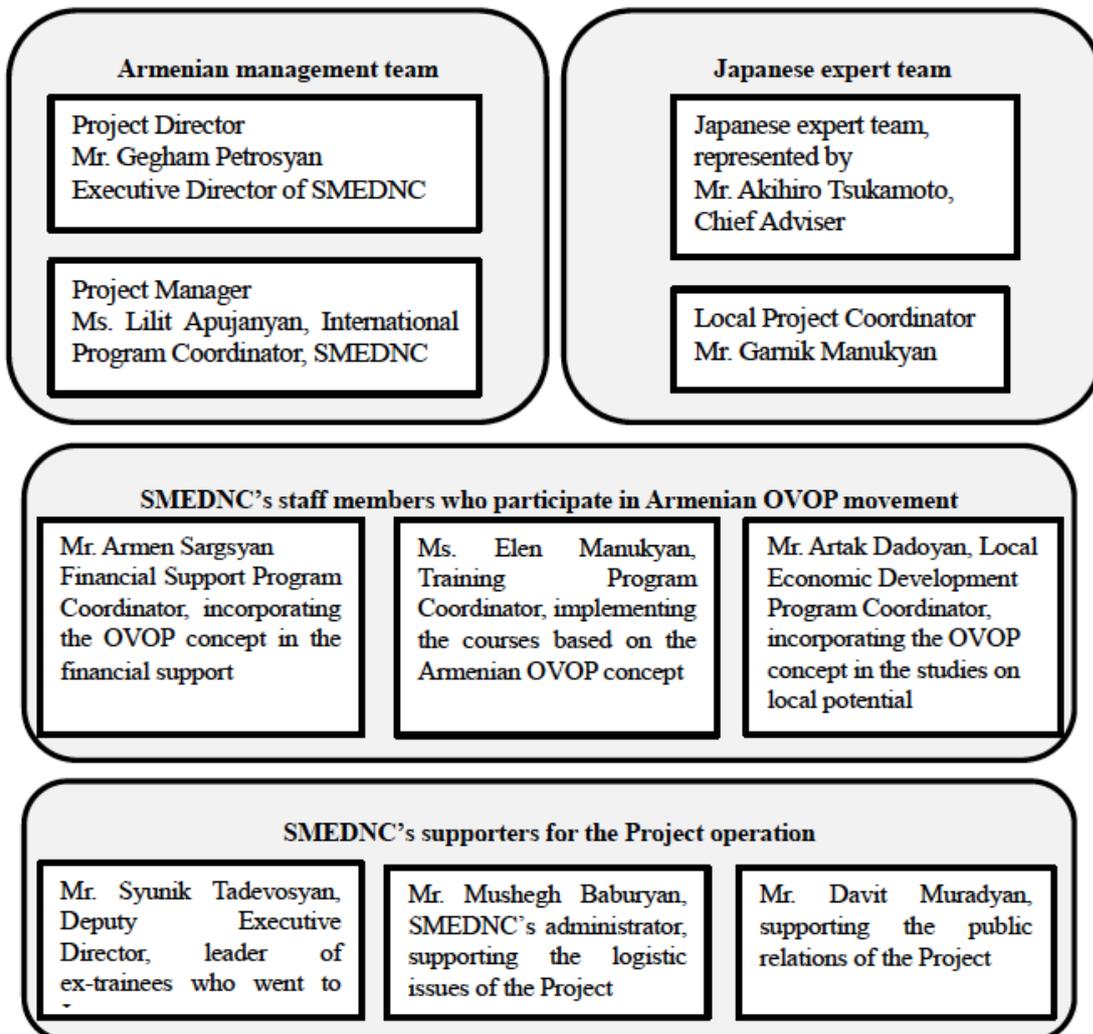
**Table 12. Joint Coordination Committee meetings**

| Meeting                           | Date            | Main Points Discussed  |
|-----------------------------------|-----------------|--|
| <b>1<sup>st</sup> JCC Meeting</b> | 22 January 2014 | <ul style="list-style-type: none"> <li>• The progress and the current situation of the Project;</li> <li>• Activities to be implemented in 2014 (OVOP pilot activities, including cheese, dried fruits, etc.)</li> </ul>   |
| <b>2<sup>nd</sup> JCC Meeting</b> | 31 October 2014 | <ul style="list-style-type: none"> <li>• The Project activities should be developed in accordance with the Project Design Matrix (PDM) confirmed on October 15, 2012.</li> <li>• The important OVOP plot activities should include the promotion of cheese, B&amp;B (small hospitality service), and so on.</li> </ul> |
| <b>3<sup>rd</sup> JCC Meeting</b> | 30 October 2015 | <ul style="list-style-type: none"> <li>• The terminal evaluation team presented that the project objective would be achieved as programmed.</li> <li>• Both Japanese and Armenian sides confirmed the evaluation result mentioned above.</li> </ul>  |

Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

In addition, the Project activities have been also coordinated by SMEDNC’s partner international cooperation agencies, including UNDP (the tourism development activities at Bjni village) and USAID (dried fruits and spices promotion activities at Vedi town).

**Figure 25. Project team structure - Armenia**



Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

#### 4.2.3 Project Implementation Process

##### Capacity Development

Throughout the OVOP project implementation process, Japan has been supporting the application of the OVOP concept in Armenia through the provision of technical and expert support. More specifically, Japan has been supplying the SMEDNC with the necessary equipment, such as desktop computers, copy machines, product processing machinery in order to stimulate the project implementation process. The technical equipment provided by Japan valued at 33,372.441 USD and 92,036 Yen.<sup>51</sup> In addition, occasionally, Japanese experts from Kihatsu Management Consulting Ltd. and Unico International Ltd. have also visited Armenia and provided their consultations on the best practices and lessons on product development, marketing and export, based on the OVOP project implementation practices generated in Japan and overseas.

Over the three years, the staff of the SMEDNC have participated in the training courses held in Japan. In total, 24 SMEDNC staff were able to pay a visit to Japan in order to acquire the necessary knowledge for the implementation of the OVOP concept in Armenia<sup>52</sup>. According to the SMEDNC's Financial Support Programs Coordinator, Mr. Armen Sargsyan, who undergone a special training in Japan, these trainings enabled the SMEDNC staff to acquire the skills and knowledge necessary for effective Project implementation:

“During the training in Japan, we visited some rural areas where I saw how the agricultural cooperative works. I like its mechanism, especially the financial support component and how the cooperative takes care of promotion and sales of the members' products. I'd like to have a similar mechanism in Armenia as well.

After leaning the OVOP concept, our approach to the applicants of the SMEDNC loan scheme is changed now. During the selection process of the applicants, we prioritize a new business which relates to the Armenian OVOP concept. For example, those who try to utilize local resources, try to add unique stories on their products or have any business ideas related to the Armenian OVOP concept have high possibility to be financed.”<sup>53</sup>

### Local Operational Expenses

The total amount of local operational costs, including the expenses for purchasing the technical equipment, covered by the Japanese side, amounted to about 47 million Japanese yen, as shown

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<sup>51</sup> Supra n 49, p. 20.

<sup>52</sup> Ibid, 19.

<sup>53</sup> JICA, “Casebook of One Village One Product,” Tokyo; <[https://www.jica.go.jp/armenia/english/office/others/c8h0vm00009se4d9-att/ongoing\\_02.pdf](https://www.jica.go.jp/armenia/english/office/others/c8h0vm00009se4d9-att/ongoing_02.pdf)> (accessed 3 March 2018).

in Table 13. The local operation expenses associated with the organization of the training courses for local businesses, covered by Armenian side, which incorporated itself funding not only from SMEDNC but also from various private companies accounted to 56,840 USD.

**Table 13. Local operational expenses covered by the Japanese side**

|  |                             |
|--|-----------------------------|
| Actual expenditures for the 1st year (Mar. 2013-Mar.2014)                | JPY 11,880 thousands        |
| Actual expenditures for the 2nd year (Apr. 2014-Mar.2015)                | JPY 14,798 thousands        |
| Contracted amount for expenditures for the 3rd year (Apr. 2015-Feb.2016) | JPY 20,587 thousands        |
| <b>TOTAL</b>   | <b>JPY 47,265 thousands</b> |

Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

**Table 14. Local operational expenses covered by the Armenian side**

| Year | Disbursement (USD) | Organization         |
|------|--------------------|----------------------|
| 2013 | 1,700              | SMEDNC               |
| 2014 | 1,000              | SMEDNC               |
|      | 7,100              | Viva Fruits LLC      |
| 2015 | 2,640              | SMEDNC               |
|      | 8,400              | Viva Fruits LLC      |
|      | 19,000             | Fruiteria LLC        |
|      | 17,000             | Seiran Arakelyan LLC |

Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

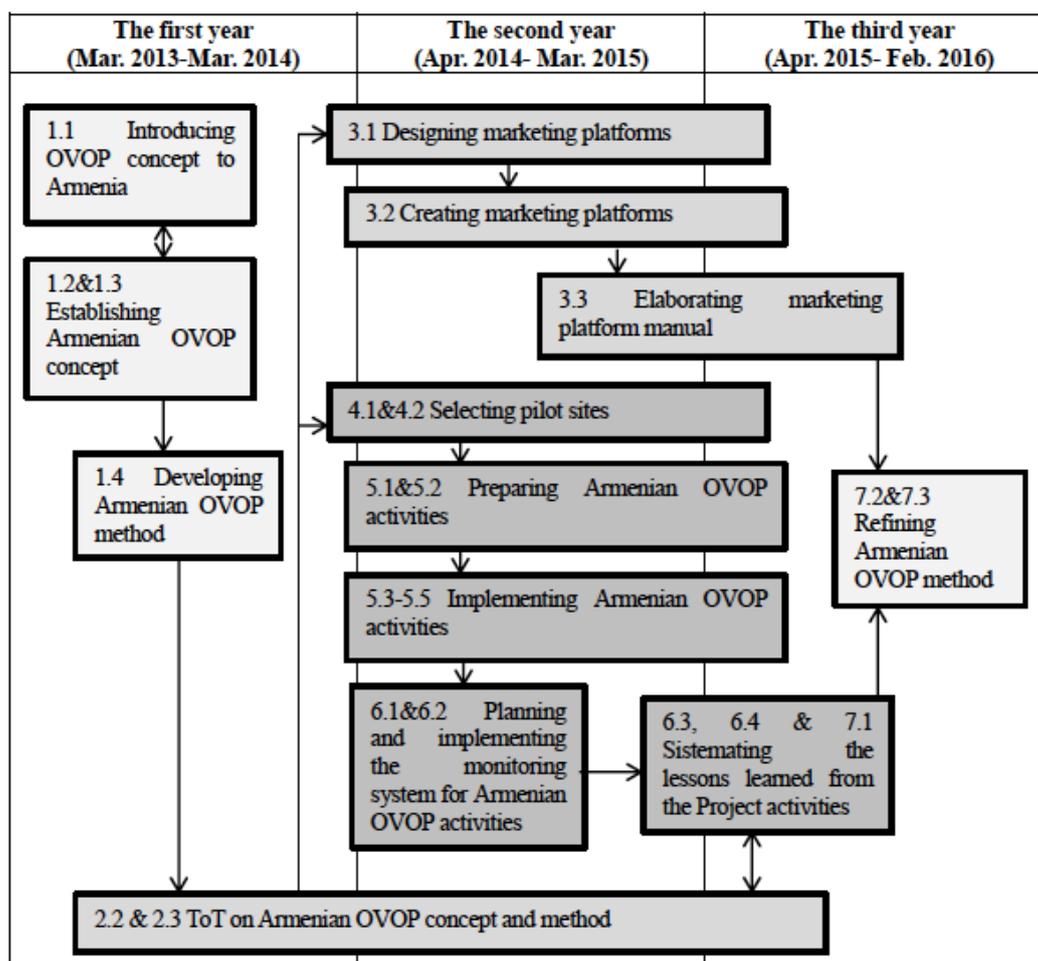
The Project implementation activities were carried out with the specific operational and thematic considerations. During the first year of project implementation, the OVOP pilot activities were accomplished with the emphasis on the formulation and development of the Armenian OVOP concept. Subsequently, the concentration was given to the development of marketing platforms as shown in Figure 26. During the final year, the project outputs were summarized, and evaluation of Project experiences was conducted. The below-provided chart illustrates the Project activity directions followed throughout the three years and the main activities carried out as part of Project implementation (see Table 15).

**Table 15. Main activities and events in each month since the beginning of the Project**

| Year | Month | Progress of activities, Major events of Project management, etc.  |   |
|------|-------|---|---|
| 2013 | 3     | The Project was started.  |   |
|      | 4     | JICA experts (Chief Advisor & Project Coordinator) arrived in Yerevan.  |   |
|      | 5     | OVOP kick-off workshop was organised.   |   |
|      | 6     | Planning of the first training course in Japan was completed.   |   |
|      | 7     | The first training course in Japan was organised with nine participants.  |   |
|      | 8     | The first draft of the OVOP handbook was prepared.  |   |
|      | 9     | The first ToT was organised in Armenia.   |   |
|      | 10    | Ijevan Art Festival was organised as the first practice of event-type marketing platform. The OVOP pilot activities for wine promotion were started.                                  |   |
|      | 11    | Armenian OVOP methods were analysed to introduce in SMEDNC's start-up programmes.   |   |
|      | 12    | The OVOP pilot activities for cheese promotion (Khndzoresk village, Syunik region) were started.  |   |
|      | 2014  | 1   | The 1 <sup>st</sup> Joint Coordinating Committee (JCC) meeting was held at SMEDNC.  |
|      |       | 2   | Consumer market survey in Yerevan was started as a monitor-type marketing platform. |
| 3    |       | The first year of the Project operation was closed.   |   |
| 4    |       | The OVOP pilot activities for dried fruit products promotion were started.  |   |
| 5    |       | The OVOP pilot activities for cheese promotion (Lusashogh village, Ararat region) were started.   |   |
| 6    |       | OVOP Armenia Facebook page was established as a monitor-type marketing platform.  |   |
| 7    |       | The Project director and manager in Armenia were changed. The second training course in Japan was started with seven participants.  |   |
| 8    |       | The OVOP pilot activities for olive products promotion were started.  |   |
| 9    |       | The OVOP pilot activities for tourism promotion were started.   |   |
| 10   |       | The festival on rural products in Yerevan was organised as the second practice of event-type marketing platform. The 2 <sup>nd</sup> JCC meeting was held at the Ministry of Economy. |   |
| 11   |       | The second ToT (on <i>Kaizen</i> -OVOP) was organised in Armenia.   |   |
| 12   |       | The number of followers of OVOP Armenia Facebook page reached 3,000.  |   |
| 2015 | 1     | Additional training for cheese producers was organised.   |   |
|      | 2     | The OVOP pilot activities on agrotourism were started.  |   |
|      | 3     | The second year of the Project operation was closed.  |   |
|      | 4     | Olive products were presented in the capital city's market.   |   |
|      | 5     | SMEDNC has formally included Armenian OVOP methods into its start-up programme. The first event to present Japanese wine to Armenian wineries was organised.                          |   |
|      | 6     | The third training course in Japan was completed, with eight participants. The OVOP pilot activities on tourism promotion (Garni village, Kotayk region) were started.                |   |
|      | 7     | The first event on agrotourism at Chiva village (Vayots Dzor region) was organised.   |   |
|      | 8     | The OVOP pilot activities on tourism promotion (Bjni) were started.   |   |
|      | 9     | Activities for analysing the possibility to export Armenian wine and dried fruits were started.   |   |
|      | 10    | The terminal evaluation for the Project progress was started.   |   |
|      | 11    | Seminar on refined Armenian OVOP method was organised.  |   |
|      | 12    | The roadside station to be set up in Armenia was designed.  |   |
| 2016 | 1     | The final seminar on the Project was organised.   |   |
|      | 2     | The Project has been completed.   |   |

Source: JICA, "Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report," Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

**Figure 26. Flowchart of the Project activities**



Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

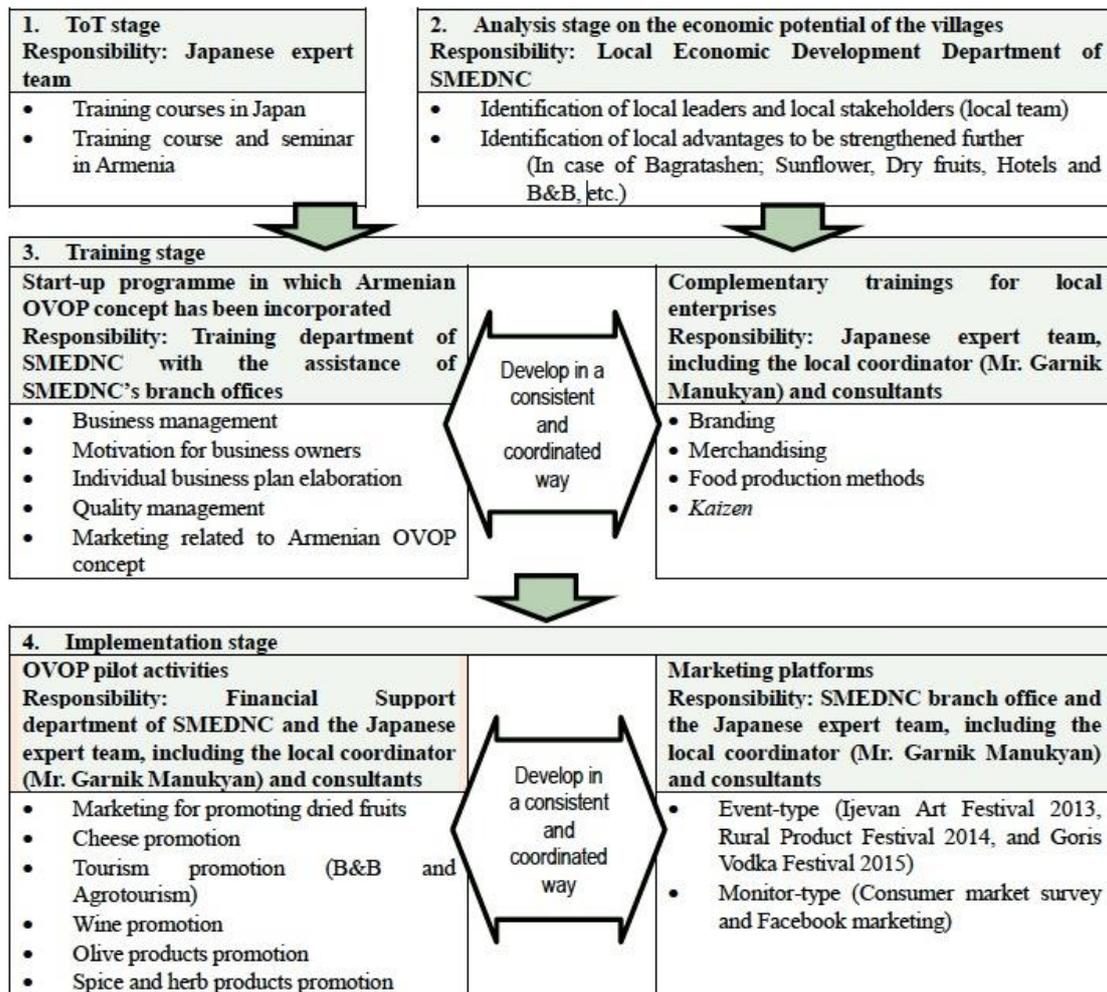
#### 4.2.4 Project Implementation Method

The OVOP project activities have been implemented based on the following main principles:

- 1) Aligning the project activities to SMEDNC;
- 2) Reinforcing both individual enterprises and regional competitiveness, by applying the Armenian OVOP concept;
- 3) Applying *Kaizen*, as the Armenian OVOP method

The detailed description of the OVOP Project implementation system is illustrated below:

**Figure 27. Project implementation and operation system**



Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

As it was mentioned earlier, the primary stage of the OVOP project implementation involved the organization of a series of capacity development activities in the form of training of trainers (ToT) courses designed to teach project participants about marketing and business administration methods. The training department of SMEDNC has conducted several ToT sessions with the Japanese experts since September 2013<sup>54</sup>. During the period of 2013 and 2014, total 81 experts, including SMEDNC and NGO staffs have participated in these trainings.

The OVOP concept was utilized by SMEDNC in several activities as shown in Figure 28.

<sup>54</sup> Supra n 53, p. 6.

**Figure 28. OVOP implementation at SMEDNC central office**

| <b>SME DNC's Department</b>                     | <b>Activities in which Armenian OVOP concept is applied</b>  |
|---|--|
| <b>Training Department</b>                      | <ul style="list-style-type: none"> <li>• Implementing OVOP training to the SME DNC staffs and related organizations</li> <li>• Application of the Armenian OVOP concept (Marketing) in the CEFE start-up support program</li> </ul>        |
| <b>Information Support Department</b>           | <ul style="list-style-type: none"> <li>• Providing SMEs with information on the Armenian OVOP concept and methods, such as Kaizen, 5S, group marketing, branding, etc.</li> </ul>  |
| <b>Financial Support Department</b>             | <ul style="list-style-type: none"> <li>• Giving priority to the business ideas related to the Armenian OVOP concept when approving the SME DNC loans</li> <li>• Coordinating the loan provision with the OVOP technical support</li> </ul> |
| <b>Local Economic Development Department</b>    | <ul style="list-style-type: none"> <li>• Introducing OVOP approach to regional and local SMEs so that the enterprises can increase the value of their products/ services, by utilizing their originality and local resources</li> </ul>    |
| <b>Business Internationalization Department</b> | <ul style="list-style-type: none"> <li>• Combining the OVOP approach with the activities of other international agencies. (E.g. OVOP approach with GIZ, EU, and USAID marketing approaches).</li> </ul>                                    |

Source: JICA. “Casebook of One Village One Product.” Tokyo. <[https://www.jica.go.jp/armenia/english/office/others/c8h0vm00009se4d9-att/ongoing\\_02.pdf](https://www.jica.go.jp/armenia/english/office/others/c8h0vm00009se4d9-att/ongoing_02.pdf)> (accessed 3 May 2018).

### Training courses in Japan

The training courses organized in Japan was aimed primarily for the SMEDNC staff, however, some private sector representatives were also able to take part on them and contribute to the course discussions. In July 2013, the first training for 9 SMEDNC officials was organized in Japan in order to develop their understanding of the OVOP concept. Over the course of the first training in Japan, participants were able to learn about development and strengthening of local brands. Throughout the training course participants got an insight into OVOP practices in Japan

by studying the examples of relevant Japanese entities<sup>55</sup>. Table 16 shows the thematic orientation of each trainings held in Japan.

**Table 16. Focus and purpose of the trainings in Japan**

|             | Main focus          | Main purpose   |
|-------------|---------------------|--|
| Course 2013 | OVOP concept        | To facilitate starting Armenian OVOP activities                                |
| Course 2014 | Practical marketing | To promote the practices of Armenian OVOP activities                           |
| Course 2015 | Policy discussions  | To involve the Armenian OVOP practices in the state policy for SME development |

Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

The content of the second course in Japan was related to capacity building and marketing. As shown in Table 16, the objective of the second course was to familiarize participants with the Projects activities in Japan in the example of wine and cheese promotion with an aim of stimulating the project implementation process.

The third training was held in 2015 and was dedicated to providing participants with an opportunity to acquire knowledge and learn more about SME development policy and analysis of the possibility to reinforce the linkage between Armenian and Japanese enterprises. The content of the course also included study visits to Japan Finance Corporation (JFC) and Japanese companies.

### Training courses in Armenia

The main objective of the training courses held in Armenia since 2013 was to create a pool of Armenian experts to implement the OVOP project (see Table 17). During the second ToT training course, participants have learnt about seven tools for quality control, seven tools for product planning, branding theories, and branding practices. Nowadays, a number of ToT participants are reported to be applying the OVOP methods in their activities in relation to their work with other local small enterprises. For instance, one of the experts of the SMEDNC’s Vayots Dzor regional branch office, Lilit Hokobyan, also serves a trainer on Armenian OVOP methods and shares her knowledge with local enterprises in her region.

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<sup>55</sup> Supra n 49, p. 34.

**Table 17. ToT sessions organized in Armenia**

|  |   |
|--|---|
| <p>First OVOP ToT session on <i>Kaizen-OVOP</i></p> <p>5, 6, and 17 September 2013</p> <p>18 participants</p>          | <p>The first OVOP ToT had 18 participants, including 14 SMEDNC staff members and three from other organisations. The training curriculum included the following modules:</p> <ul style="list-style-type: none"> <li>▪ Review of the training course in Japan</li> <li>▪ Basic marketing knowledge and platform</li> <li>▪ Branding</li> <li>▪ Intangible platform for marketing</li> <li>▪ P7 and conjoint analysis</li> <li>▪ 5S</li> <li>▪ Onpaku</li> </ul> <p>The participants evaluated the usefulness of the training at the end of the session, and their feedback was mostly positive. Sessions on Onpaku, branding, and sales promotion of rural products were especially highly evaluated in terms of usefulness.</p> |
| <p>ToT <i>Kaizen</i> as a part of the CEFE ToT (1)</p> <p>30 October &amp; 15 November 2013</p> <p>20 participants</p> | <p>This session was carried out so that CEFE trainers could apply:</p> <ul style="list-style-type: none"> <li>▪ Japanese branding and product development methods</li> <li>▪ 5S and quality management</li> </ul>   |
| <p>Seminar on 5S and marketing</p> <p>14 February 2014</p> <p>11 participants</p>                                      | <p>This session was carried out to enable persons responsible for facilitation of OVOP pilot activities, to understand:</p> <ul style="list-style-type: none"> <li>▪ Consumers' preferences on cheese, wine, and services related to tourism</li> <li>▪ Marketing training based on market information</li> <li>▪ Application of 5S in food processing industries in Armenia</li> </ul>   |
| <p>Seminar on P7</p> <p>19 May 2014</p> <p>6 participants</p>  | <p>This session was held on May 19, with the participation of six staff members of CARD, one of the big NGOs in Armenia, because of the following background:</p> <ul style="list-style-type: none"> <li>▪ CARD applied conjoint analysis, one of the seven tools for product planning (P7), and presented the analysis results in the workshop held on May 16, to facilitate marketing activities of dried fruit producers at Meghri town (Syunik region).</li> <li>▪ The Project team provided CARD's staff with this seminar to improve the application of this tool, which comes from Japan.</li> </ul>   |
| <p>ToT for B&amp;B trainers</p> <p>12 September 2014</p> <p>4 participants</p>   | <p>This session was organized to present some Japanese technical tools, including quality management tools and branding methods to the trainers contracted by the Project team.</p> <p>The trainees provide local businesses with training and consultation by using these Japanese business operation tools.</p>   |
| <p>Second ToT on <i>Kaizen-OVOP</i></p> <p>5-7 November 2014</p> <p>21 participants</p>                                | <p>This second ToT was developed to reinforce the technical capacity of SMEDNC's staff and BDS providers on marketing and <i>Kaizen</i> methods based on the Armenian OVOP concept.</p> <p>The picture presents the practice on Fish Bone Diagram, one of the seven QC (Quality Control) tools.</p>   |

|   |  |
|---|--|
| Seminar on refined Armenian OVOP<br>3 November 2015<br>21 participants  | The seminar was organised to share the refined Armenian OVOP method, by presenting the Armenian OVOP guidebook kit.  |
| Third ToT on <i>Kaizen-OVOP</i><br>3-4 November 2015<br>21 participants | This final ToT complemented the first and second ToTs. The participants presented their experiences of applying the Armenian OVOP method and discussed methods to improve its application.<br><br>Furthermore, the ToT had a session for discussions about the possibility to sell Armenian products to the Japanese market. |

Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

#### 4.2.5 Overview of Armenian OVOP Concept

The Armenian OVOP concept was developed in May 2013 and, since then, has been applied for marketing activities on cheese, tourism services, wine, dried fruits, and olive products at several Armenian villages and towns. The Armenian OVOP Concept was developed and defined by SMEDNC as “the integrated efforts to promote the local economy, small enterprises, products, and services in a coordinated manner, by utilizing local resources and culture” as depicted in Figure 28.

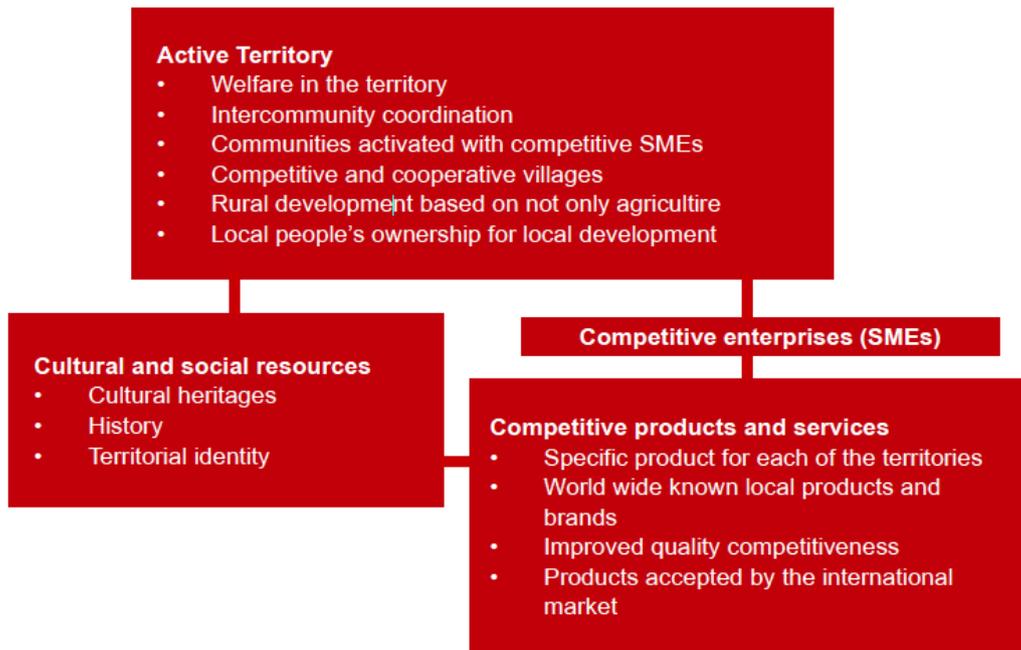
According to the SMEDNC’s Tavush Branch Director, Mr. William Ohanyan, the OVOP concept was designed to improve the original advantages of local products, and was aimed to promote not only the development of individual companies but is also sought to incorporate the prospect for local and regional economic development:

“When the OVOP concept was introduced to our branch office, I thought it was just a way to promote the local products to the Yerevan market. But after participating in the training in Japan in 2013, I understood that the concept was to specialize the products based on their original advantages to conquer the market. The advantages can be anything like stories of town, history, and producer. By observing examples with my own eyes in Japan, I got more knowledge and reliance on the usefulness of this approach.

Now, when I meet with local SMEs or join start-up training, I always introduce this approach to the SME owners and stress the importance of utilizing the original specialities of their products. I also tried to utilize the ONPAKU approach by organizing the Ijevan Art Festival. This approach is to utilize the local event for introducing SMEs’ products as a trial. The results were better than my expectations. During the event, we tried and confirmed the demands for new products, such as olive products and dried fruits covered with chocolate from Bagratashen village. Also, we created a new business network which now helps local SME owners to introduce their

businesses each other. For example, the dried fruits producer introduces his products at a B&B in Ijevan.”<sup>56</sup>

**Figure 29. Overview of Armenian OVOP Concept**



Source: JICA. “Casebook of One Village One Product.” Tokyo.  
 <[https://www.jica.go.jp/armenia/english/office/others/c8h0vm00009se4d9-att/ongoing\\_02.pdf](https://www.jica.go.jp/armenia/english/office/others/c8h0vm00009se4d9-att/ongoing_02.pdf)> (accessed 3 May 2018).

The official introduction of the OVOP concept to the relevant enterprises took place in the form of a workshop with around 50 participants in May 2013. The 17 out of 50 participants declared that the OVOP concept was useful for the local economic development. During the workshop, the official slogan – “Touch the Culture, Feel the Nature and Taste the Tradition” and a logo of the Armenian OVOP concept were also introduced.<sup>57</sup>

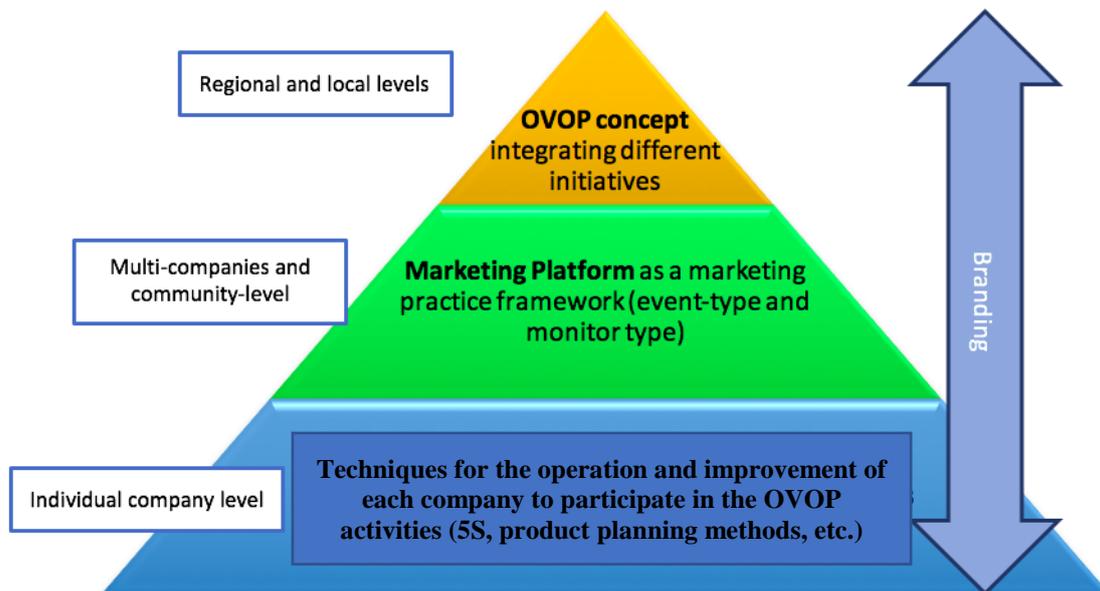
<sup>56</sup> Supra n 53.

<sup>57</sup> Ibid.

#### 4.2.6 Armenian OVOP Methods

Throughout the OVOP concept development process, different technical methods have been incorporated into the Armenian OVOP method and were applied to the Armenian OVOP project activities. These methods are constituent and inter-dependent, as shown in Figure 30. The main characteristic of the Armenian OVOP methods is that it can incorporate itself into different efforts aimed at promoting local economic and business development. The marketing platform is designed to provide local SMEs with a place in order to enable them to conduct their marketing practices. Besides, in addition to the provision of marketing platform, the widely used Armenian OVOP method also includes the application of different business operation techniques such as 5S, product planning methods, etc., which aim to help local companies participating in the Armenian OVOP movement to improve their business operations and product/service quality.

**Figure 30. System diagram of OVOP implementation methods**



The branding efforts accomplished as one of the OVOP methods implies the improvement not only the brand value of individual companies and their products but was also directed at raising the ‘territorial brand’ as a whole. It was believed that it is possible to improve village’s brand through the improvement of local enterprises’ products and services. Because, when the village has a good reputation, the product marketing efforts of local enterprises can be easily enhanced.

Therefore, one of the core components of Armenian OVOP methods is connected with the improvement of branding at regional, local, and individual enterprise levels.

It is noteworthy to mention that, the Armenian OVOP methods consisting of technical components have been acquired and adopted by Armenian OVOP experts and participating enterprises through undertaking specialized training courses in Japan and Armenia. The main components of Armenian OVOP methods are presented below:

**Table 18. Methods applied in Armenian OVOP activities**

|  |   |
|--|---|
| Marketing methods                      | <ul style="list-style-type: none"> <li>• Merchandising</li> <li>• Branding</li> <li>• Statistical analysis on the consumer market</li> <li>• Group marketing methods, including Onpaku</li> <li>• Facebook marketing</li> </ul> |
| <i>Kaizen</i> (Continuous Improvement) | <ul style="list-style-type: none"> <li>• 5S</li> <li>• Q7 (Seven tools for quality management)</li> <li>• P7 (Seven tools for product development)</li> </ul>   |

In addition to the activities carried out by SMEDNC, several project activities have been also supported by the local consultants, who were contracted by the Project team. Below is presented the main activities accomplished by subcontracted agencies:

**Table 19. Activities developed by subcontracted agencies**

| Year          | Contents   | Tasks   | Outputs  |
|---------------|--|---|--|
| <b>First</b>  | Platform creation contracted with Mr. Heriknaz Galstyan on 17 Sep., 2013 | ➤ Organising the Ijevan Art Festival as the Project's first event-type marketing platform   | Ijevan Art Festival was organised as the first implementation of the Project's marketing platforms |
|               | Cheese training, contracted with CARDAGROSERVICE on 30 Oct., 2013        | <ul style="list-style-type: none"> <li>➤ Analysis of cheese processing industries;</li> <li>➤ Planning and implementing the training course for cheese producers</li> </ul>   | 27 producers participated in the courses, and the cheese productivity in Khndzoresk was improved.  |
| <b>Second</b> | Cheese promotion contracted with Marog on 19 Jun., 2014                  | ➤ Advising cheese promotion in Gegharknik region  | Cheese brand for Chkalovka village was developed.  |
|               | Olive processing training contracted with Mr. Zhirayr on 16 Jun., 2014   | <ul style="list-style-type: none"> <li>➤ Technical advice for establishing the training centre for olive processing</li> <li>➤ Implementing the training for olive producers by applying the Armenian OVOP concept</li> </ul> | 15 participants were trained in the course for processing olives.                                  |

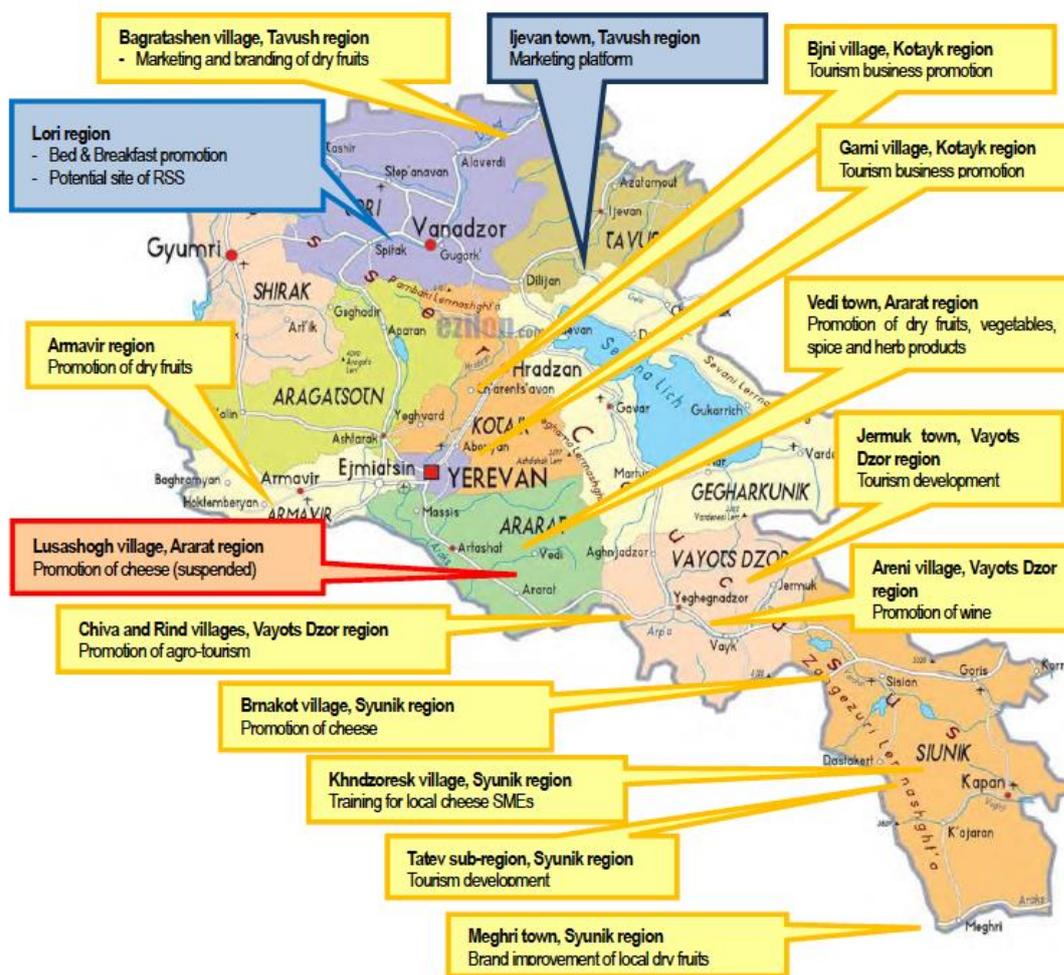
|              |   |  |   |
|--------------|---|--|---|
|              | Tourism promotion in Tatev sub-region contracted with Apricot Plus on 11 Sep., 2014               | <ul style="list-style-type: none"> <li>➤ Training for entrepreneurs in tourism and related industries, by applying the Armenian OVOP concept</li> </ul>  | 17 participants were trained and 11 elaborated their business plans.  |
|              | Cheese training, contracted with CARDAGROSERVICE on 30 Sep., 2014                                 | <ul style="list-style-type: none"> <li>➤ Implementing the training course for cheese producers</li> <li>➤ Monitoring the participants in the training course organised in the previous year</li> </ul>   | The hygiene conditions of the cheese producers were improved.   |
|              | Tourism promotion in Kotayk and Vayots Dzor regions contracted with Apricot Plus on 12 Dec., 2014 | <ul style="list-style-type: none"> <li>➤ Planning tourism promotion with the local people</li> </ul>   | The economic potential was identified.  |
|              | OVOP products improvement contracted with CARDAGROSERVICE on 14 Nov. 2014                         | <ul style="list-style-type: none"> <li>➤ Implementing the training for cheese producers</li> <li>➤ Assistance for pilot wineries</li> <li>➤ Monitoring the progress of the activities being developed by the dried fruits producers</li> </ul> | Five cheese producers in Khndzoresk were trained. Local products were promoted.   |
| <b>Third</b> | Tourism promotion in Kotayk and Vayots Dzor regions contracted with Apricot Plus on 25 May 2015   | <ul style="list-style-type: none"> <li>➤ Training for entrepreneurs in tourism and related industries by applying the Armenian OVOP concept</li> </ul>   | 18 participants were trained and 8 elaborated their business plans, in Garni village. The first event for local product promotion was organised in Chiva village. |
|              | Tourism promotion in Kotayk region contracted with Apricot Plus on 7 Aug. 2015                    | <ul style="list-style-type: none"> <li>➤ Training for entrepreneurs in tourism and related industries by applying the Armenian OVOP concept</li> </ul>   | Different courses had been developed and 12 participants elaborated their business plans.   |
|              | Tourism promotion at Jermuk town contracted with 3R Strategy on 7 Oct. 2015                       | <ul style="list-style-type: none"> <li>➤ Training for entrepreneurs in tourism and related industries by applying the Armenian OVOP concept</li> </ul>   | 13 participants were trained and 11 elaborated their business plans.  |
|              | Local products promotion in Syunik region contracted with CARDAGROSERVICE on 5 Nov. 2015          | <ul style="list-style-type: none"> <li>➤ Technical advice for dried fruits and cheese producers in Syunik region by applying the Armenian OVOP concept</li> </ul>  | The issues to be tackled by producers in the Syunik region were identified.   |

Source: JICA, "Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report," Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

#### 4.2.7 Application of Armenian OVOP Concept

At present, Armenian OVOP concept and methods are being applied in 12 different sites (towns and villages) of the country, as shown in Figure 31. These 12 sites can be categorized into three main types: (i) cluster promoted by the local leading company, (ii) tourism development site by collaborations among local businesses, and (iii) important bases for promoting the Armenian OVOP movement.

**Figure 31. Overview map of Armenian OVOP activities**



Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

The first type includes itself Bagratashen village (Tavush region) and Vedi town (Ararat regions) which received training by local ‘leading company’ conducted through using the equipment lent by the SMEDNC (see Table 20). As an output of this practice, the local

enterprises in these two regions increased their productivity on processing olives, dried fruits, and dried herbs.

**Table 20. Local companies supervised with OVOP concept by the SMEDNC branch offices**

| Region      | Company name                                  | Activity   |
|-------------|---|--|
| Aragatsotn  | IE Edgar Serobyen                             | Roquefort cheese production  |
|             | IE Hamazasp Ghazaryan                         | Dried fruit production   |
|             | IE Shushanik Nersisyan                        | Production of bedding accessories  |
| Ararat      | IE Lusine Stepanyan                           | Dried fruit production   |
|             | IE Garnik Manukyan                            | Dried fruit production   |
|             | Artak   | Cheese production  |
| Armavir     | Tsiatsan Ani, LLC                             | Dried fruit production   |
|             | Vaki Pharm, LLC                               | Cosmetic oil from herbs and fruits   |
|             | IE Vardan Vardanyan                           | 1. Wine and brandy production<br>2. Wooden souvenir production<br>3. Barrels for wine and brandy |
| Kotaik      | Meghvi Qaghaq, LLC                            | Apiculture products  |
| Lori        | Aram Commercial Center production cooperative | Wild fruit vodka, pine honey and pine jams production  |
|             | IE Luzia Ghambaryan                           | Production of salted peanuts   |
|             | ECOMIS, LLC                                   | Cattle breeding and meat sales   |
| Shirak      | IE Garegin Koseyan                            | Napkin production  |
|             | Qarastgh, LC                                  | Stone mining and processing  |
|             | Gevorg yev Vahan, LLC                         | Textile  |
| Syunik      | Mkrtich Babayan, LLC                          | Lavash production  |
|             | IE Araks Javahiryen                           | Textile  |
|             | IE Samvel Saqunc                              | Cheese production  |
| Tavush      | IE Gurgen Abovyan                             | Cheese production  |
|             | Ijevan Food, LLC                              | Fruit canning  |
|             | MIRG, LLC                                     | Fruit canning  |
| Vayots Dzor | IE Arman Hakhverdyan                          | Wine tasting hall  |
|             | IE Avet Karapetyan                            | Plastic can production   |
|             | IE Gohar Badalyan                             | Food service   |

Source: JICA, "Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report," Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

The tourism development cluster includes Garni and Bjni villages in Kotayk region, where the newly opened businesses have collaborated with each-other in order to achieve local economic development objective.

The third type, includes Areni village of Vayots Dzor village, which served as a stimulus for the enhancement and reinforcement of the overall OVOP movement through the revitalization of village's winemaking practice.

Throughout the Armenian OVOP project implementation process, these 12 sites were able to improve their production capacity and succeed in the developed of six main products and services, including cheese, dried fruits, wine, dried herbs, processed olives, and tourism service as shown in Table 20.

In total, 248 entrepreneurs and owners of SMEs benefited from participation in the training courses organized within the framework of the Armenian OVOP movement. Tables 20 and 21 reflect the thematic orientation and the beneficiaries of these trainings courses.

**Table 21. Participants in the seminars and training courses for local businesses**

| Training  |           | Women | Men | TOTAL |
|---|-----------|-------|-----|-------|
| OVOP seminar for the participants in Ijevan Festival          | Oct. 2013 | 12    | 5   | 17    |
| Training for cheese producers in Gegharkunik region           | Feb. 2014 | 7     | 8   | 15    |
| Training for cheese producers at Khndzoresk                   | Feb. 2014 | 0     | 12  | 12    |
| Branding seminar for dried fruits producers working at Meghri | May. 2014 | 8     | 13  | 21    |
| Olive processing course in Bagratashen                        | Sep. 2014 | 11    | 3   | 14    |
| Start-up training with OVOP concept, Tatev subregion          | Sep. 2014 | 6     | 11  | 17    |
| 2nd Training for cheese producers working at Khndzoresk       | Jan. 2015 | 0     | 5   | 5     |
| Agro-products processing training, at Chiva village           | Jun. 2015 | 16    | 5   | 21    |
| Workshops for women working groups at Chiva village           | Jun. 2015 | 16    | 0   | 16    |
| Start-up training with OVOP concept, at Garni                 | Jun. 2015 | 11    | 7   | 18    |
| Agro-products processing training, at Bjni                    | Aug. 2015 | 14    | 6   | 20    |
| Hospitality training at Bjni                                  | Sep. 2015 | 11    | 5   | 16    |
| Start-up training with OVOP concept, at Bjni                  | Sep. 2015 | 16    | 3   | 19    |
| Dried fruits and herb training at Vedi town                   | Oct. 2015 | 10    | 15  | 25    |
| Start-up training with OVOP concept, at Jermuk                | Nov. 2015 | 6     | 6   | 12    |
| <b>TOTAL</b>  |           | 144   | 104 | 248   |
|   |           | 58%   | 42% | 100%  |

Source: JICA, "Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report," Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

The application of the Armenian OVOP concept was integrated into daily activities of the SMEDNC's central office and branch offices and are being implemented through the provision of support for the local SMEs. Table 20 illustrates the names of Armenians SMEs which took part in the OVOP training (ToT) program held in 2014 and received support from the SMEDNC's branch offices.

#### *4.2.8 Overview of OVOP Activities*

##### Marketing Platforms

As part of OVOP project implementation process, there have been developed three types of marketing platforms including: 1) monitor-type, 2) event-type, and 3) shop-type. These platforms were developed in order to enable local enterprises to collect information about their clients' needs and opinion so that they could apply them for the betterment and improvement the quality of their products and services. The detailed description of each type of the marketing platform is provided below.

##### Monitor-type marketing platform

Within the framework of OVOP movement, local entrepreneurs were able to utilize two sources of monitoring, such as 1) through social networking services (SNS) and 2) through conducting structured questionnaire survey for consumers. The first type of monitoring entails using Facebook for communication with potential consumers. The Armenian OVOP Facebook page has proved to be useful in disseminating and promoting information about products produced within the framework of the Armenian OVOP movement. This kind of information was utilized and has been viewed by more than 3,000 Armenian OVOP Facebook page followers (2014).<sup>58</sup> In addition, the Facebook page tends to be gratifying for collecting followers – consumers' opinion in an efficient manner (see Table 22). In 2014, Armenian OVOP Facebook page was able to collect about 50 responses to the questionnaire on consumers' preferences on bed and breakfast (B&B) service in Armenia.

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<sup>58</sup> Supra n 49, p. 40.

The second type of activity that has been reinforced as a monitor-type marketing practice is connected with conducting questionnaire surveys. In 2014, the Project team used this method to survey 200 sampled consumers in Yerevan<sup>59</sup>. The main objective of this survey was to learn about targeted consumers' preferences on the products and services related to cheese, wine, meat, spices, herbs and dried fruits production as well as tourism service in Armenian local areas.

**Table 22. Comparison among different OVOP Facebook pages (as of July 17, 2017)**

| Facebook Page                                     | Opening   | No. of Followers |
|---|-----------|------------------|
| <b>OTOP Thailand</b>                              | Nov. 2012 | 7.163            |
| <b>OVOP Armenia</b>                               | Jun. 2014 | 3.090            |
| <b>OVOP Kyrgyzstan</b>                            | Sep. 2013 | 1,211            |
| <b>OVOP Malawi</b>                                | Oct. 2013 | 722              |
| <b>OVOP Hanoi</b>                                 | Apr. 2012 | 458              |
| <b>International OVOP Committee (Oita, Japan)</b> | Feb. 2005 | 151              |
| <b>OVOP Indonesia</b>                             | Apr. 2012 | 50               |

*Source:* JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

### Event-type marketing platform

The event-type marketing platforms have been developed in the form of a promotional event aimed at disseminating the information and sell local products and services for customers. On October 25, 2013, the Project team organized the Ijevan Art Festival, which provided an opportunity for OVOP movement participants to showcase their products in specialized sales booths and interact with the potential consumers. Before the event, the local producers have undergone a special training on marketing and branding as part of the Armenian OVOP concept implementation. Throughout the event, the participants were also able to collect consumer voices and learn the real demand for their products. For example, based on the collected user voices during the event, an olive products producer found out that there is a big demand for Armenian olives which resulted in the establishment of an olive processing company later on. Another example suggests that local producers were able to form a business network to promote each other's products and services. As a result of this initiative, owners of the B&B service familiarized their customers with the dried fruits, while dried fruits producers

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<sup>59</sup> Supra n 49, p. 40.

introduced the B&B service to their customers.<sup>60</sup> The owner of B&B service called “Anahit” declared that she introduced her B&B at the event and got acquainted with other different businessmen. She was able to add four more rooms to accommodate their guests and she got a lot of new connections after the event.<sup>61</sup>

Another activity that was accomplished in this direction is Rural Product Festival held on 10-11 October 2014. The contribution to sustainable agriculture in Armenia by introducing environmentally friendly products has served as the main driver behind the organization of this event. During the event, several OVOP movement participants as represented by small enterprises demonstrated and sold their products, as well as were able to interact and collect customer voices. The main outcomes of the Festival for OVOP participants are summarized in Table 23.

**Table 23. Results generated by the event-type platform.**

| # | Company  | Output generated   |
|---|--|--|
| 1 | <b>‘BeeCity’ LLC<br/>(Honey production)</b>            | <ul style="list-style-type: none"> <li>➤ The company has received new enquiries on products from customers who saw the flyer made for the event.</li> <li>➤ The NGO Green Lane invited the company to participate in another event. Thus, the company has expanded their business network.</li> </ul>  |
| 2 | <b>‘Bagfruit’ LLC<br/>(Dried Fruit Producer)</b>       | <ul style="list-style-type: none"> <li>➤ The company was invited to other events, including a trading event in Georgia, a rural product festival coordinated by a major hotel chain, etc.</li> <li>➤ After the event, the company initiated new business deals with a commercial business they were acquainted with at the event.</li> <li>➤ The company has received new orders from a private company for a New Year event.</li> </ul> |
| 3 | <b>Nairyan Dried Fruits<br/>(Dried Fruit Producer)</b> | <ul style="list-style-type: none"> <li>➤ After the event, a major French supermarket chain made an inquiry to start a deal with the producer.</li> <li>➤ After the event, the company has secured a contract with the Hyatt Hotel chain.</li> <li>➤ The Ministry of Agriculture ordered dry fruits for their new year event.</li> </ul>  |
| 4 | <b>Vardan Simonyan IE<br/>(Wine Producer)</b>          | <ul style="list-style-type: none"> <li>➤ The company has received many inquiries about their products and an order for a New Year event.</li> </ul>  |
| 5 | <b>Haroutyun<br/>Hovhannisyun<br/>(Wine Producer)</b>  | <ul style="list-style-type: none"> <li>➤ The company has started new business deals with commercial businesses that visited their booth.</li> </ul>  |
| 6 | <b>‘LenHov’ LLC<br/>(Cheese Producer)</b>              | <ul style="list-style-type: none"> <li>➤ A cheese expert from France contacted the producer and visited the factory after the event.</li> <li>➤ Post-event, the company commenced sales to a big supermarket in Yerevan.</li> </ul>  |

Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

<sup>60</sup> Supra n 49, p. 42.

<sup>61</sup> Supra n 53, p. 11.

### Shop-type marketing platform

The shop-type marketing platform was developed to provide an immediate and efficient way of communication between producers and customers. These platforms have been developed in the form of Antenna shop, roadside station (RSS) and direct sales depot for agricultural producers (farmers' market). The Antenna shop was set up in order to provide companies based in remote areas of Armenia to test their products in the target market along with the collection of onsite information about consumer experiences. Roadside station (RSS) type of marketing platform is aimed at connecting drivers and communities located along the major driveways. The farmers' market depot enabled local agricultural product producers to sell their products outside their traditional marketing channels.

## **4.3 Practices of Armenian OVOP Activities and their Impact**

### *4.3.1 Cheese promotion*

Since November 2013, the Project has implemented activities to support local cheese producing enterprises at Khndzoresk village (Syunik region), Brnakot village (Syunik region), and Lusashogh village (Ararat region).

#### Development of cheese production at Khndzoresk village, Syunik region

The population of the Khndzoresk village is comprised of 2,000 people and about 90% of the population sustain their livelihoods through agricultural practices, more specifically by animal husbandry. In 2014, the village had 4,000 heads of cattle. The total number of 3,000 milk cows are reported to produce 30,000 litres of milk daily. The village is well-known for cheese production and the daily produced milk is processed by five registered cheese producers in the village. However, the results of the survey on 200 sampled consumers in Yerevan concluded that majority of women indicated a desire for small producers' cheese following the hygienic standards in producing cheese for the children. In this regard, as part of the OVOP project implementation, 16 local cheese producers have participated in training courses in 2014. Throughout their participation in these training courses the local cheese producers have learned how to improve their production technique by applying (i) the Cheese Processing Manual published by SMEDNC with the technical assistance of the Japanese government, and (ii) 5S,

a set of Japanese methods to improve productivity and quality.<sup>62</sup> This, in turn, contributed to the improvement of the quality of cheese and increased the competitiveness of the brand cheese produced by local enterprises in Khndzoresk village. Local cheese production was also believed to be impacted positively about 110 local farmers since with the increase of the demand for cheese produced Khndzoresk village, the more milk was utilized for cheese production, as shown in Figure 32. Below is presented the main activities related to the human capital accumulation and its impact on the operation productivity of local cheese producers:

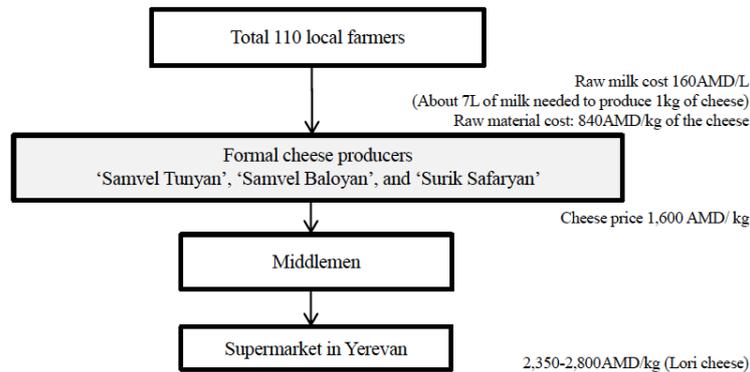
**Table 24. The human capital accumulation and its impact on productivity at Khndzoresk village**

|  |  |
|--|--|
| <b>Input (Training Courses)</b>                        | The local cheese producers have participated in training courses twice:<br><br>1) Training cheese producers at Khndzoresk (Feb. 2014)<br>2) 2nd Training cheese producers working at Khndzoresk (Jan. 2015)  |
| <b>Human Capital accumulation (Knowledge acquired)</b> | Due to the course, the cheese producers acknowledged:<br><br><ul style="list-style-type: none"> <li>▪ Appropriate organization of the reception and storage of milk;</li> <li>▪ Milk pricing based on fat percentage;</li> <li>▪ Washing and disinfection of equipment and stock;</li> <li>▪ Production of cheese in accordance with high sanitary norms;</li> <li>▪ Advanced technology of Suluguni and Chanakh cheese production;</li> <li>▪ Organisation of salting, packaging, and storage of cheese;</li> <li>▪ Analysis of cheese with a pH-meter;</li> <li>▪ Standards for cheese production premises;</li> <li>▪ The attitude of cheese plant employees towards the work;</li> <li>▪ Heating and cooling systems at a cheese plant;</li> </ul> |
| <b>Output (Impact on Productivity)</b>                 | 1) All six formal cheese producers had increased their production in 2014.<br><br>2) All six formal cheese producers apply 5S today, as noted below:<br><br><ul style="list-style-type: none"> <li>▪ Every producer currently uses special detergents. Before the training, most participants washed cisterns only with cold water or at best with hot water without detergents.</li> <li>▪ Most workers wear special gumboots.</li> <li>▪ They wash the workplace daily.</li> <li>▪ They have a recipe for standardising their product.</li> <li>▪ Employees of cheese-making facilities started wearing special uniforms.</li> </ul>   |

Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

<sup>62</sup> Supra n 49, p. 48.

**Figure 32. Cheese value chain (Khndzoresk)**



Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

### Cheese promotion at Lusashogh village, Ararat Region

Lusashogh village inhabits a population of about 600 and holds about 2,000 cows. In May 2014, a cheese factory called “LenHov” LLC was established by three co-funding owners with the financial assistance of SMEDNC. Through the application of the Armenian OVOP concept, the company was able to improve the quality of cheese. More specifically, the company applied (i) Cheese Processing Manual published by SMEDNC with a technical assistance of the Japanese government, and (ii) 5S, a set of the Japanese methods to improve productivity and quality. As a result of Armenian OVOP concept application, the company developed a brand-new cheese based on local and national identities. Prior to the application of the OVOP concept the company had experienced difficulty with the promotion of their cheese to local customers since consumers misperceived the origin of the Lusashogh cheese with the “Karakhach” (a combination of Turkish and Armenian words meaning ‘black cross’). Therefore, based on market survey results the company has developed a new logo and label. The renovation of the product design and concept has resulted in the increase of sales and more favourable view by consumers. One of the owners of the “LenHov” LCC, Mr. Gagik Hokobyan reported that:

“The number of our customers and sales doubled after the project implementation. Our product labels were designed based on the customer’s voices, which makes our products more popular because retailers can trust our products with them. Also, we participated in the food expo in Yerevan two times.

I didn’t have such a chance before to sell and connect with other businessmen. More and more farmers around village get benefit from our cheese factory now. We choose

and buy only quality milk. Then the farmers also pay more attention to the quality now. I hope the village develop more and become popular as it was in the Soviet time.”<sup>63</sup>

The factory’s operation following the Armenian OVOP concept has positively impacted the local community’s economy by benefitting about 50 local farmers. The income level of these local farmers has also increased due to the purchase of their milk for the production of cheese by the factory. In addition, Lusashogh has become more reputable as a cheese production area by local consumers and sold 10 tons of cheese in 2014. The produced cheese was sold not only at a regional supermarket in Vedi, but also, due to the brand promotion efforts, at a supermarket in Yerevan (NorZovq).<sup>64</sup>

#### *4.3.2 Dried fruit promotion*

The Project has promoted marketing activities for dried fruits in Bagratashen village (Tavush region), Meghri (Syunik region), and Armavir city (Armavir region). Below is provided the detailed description of main activities conducted and results achieved through the application of the Armenian OVOP concept.

##### Promotion of dried fruits in Bagratashen village, Tavush region

Tavush region is one of the most popular fertile areas in the country. Majority of the regions’ population specialize in dried fruits production. One of the dried fruits producers is “Bagfruits” LLC, which was founded by three young farmers of the region. Through participation in the Armenian OVOP movement, the company has significantly improved its brand image and attractiveness to consumers. The results of the survey conducted in Yerevan, as shown in Figure 33, revealed that a sunny image was perceived as ‘natural products with high quality’ by consumers. This segment of consumers comprises of intellectual workers and housewives who are prone towards natural products and tend to think that it's unnecessary to add sugar and other additives for dried fruits. Based on the market survey results, the company used the image of sunshine in the new logotype for their dried fruits, as shown below:

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<sup>63</sup> Supra n 53, p. 17.

<sup>64</sup> Ibid.

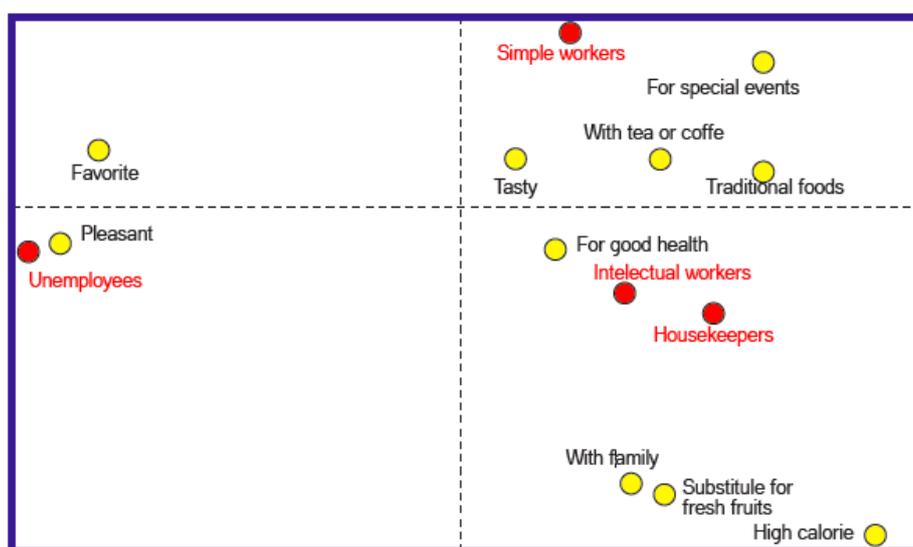


New logotype of dried fruits from Bagratashen



Product labels with the new logotype

**Figure 33. Sampled consumers' observations on dried fruit consumption**



Source: JICA. "Casebook of One Village One Product." Tokyo.  
 <[https://www.jica.go.jp/armenia/english/office/others/c8h0vm00009se4d9-att/ongoing\\_02.pdf](https://www.jica.go.jp/armenia/english/office/others/c8h0vm00009se4d9-att/ongoing_02.pdf)> (accessed 3 May 2018).

The owner of the company, Mr. Artur Babajanyan reported that their production volume has increased by ten times due to the application of the Armenian OVOP concept:

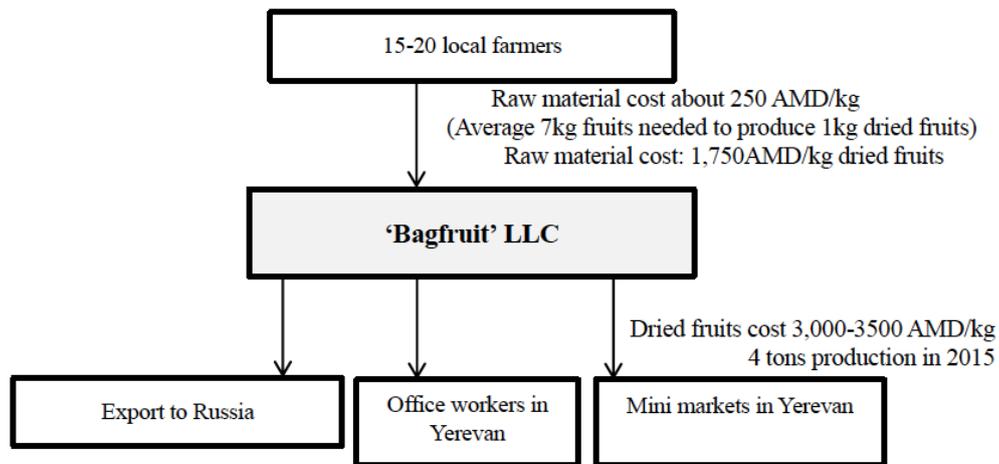
"We have increased the quantity of dried fruit production by ten times since the project started. Now the business is working very well and we are exporting the products to Russia and Spain. For Spain, we sold 540 kg of dried peach without sulfur last year and got an order for this year as well. Also, we have been invited by the Georgian officials to their food exposition every year after joining the event organized by the OVOP project."<sup>65</sup>

Through participation in the Armenian OVOP movement, the company was also able to take part in the food expo in 2013 and 2014, which resulted in the expansion of its business networks and customer base in Russia and Spain.

<sup>65</sup> Supra n 53, p. 23.

In addition, the production volume of the company has also increased and reached 4 tons in 2015. Since 2015 the company also started to sell its products to the supermarkets in Yerevan. Based on the information on consumers’ preferences, gathered during their participation in the food expo, the company has started to produce new products including fruit candy, dried fruits with flower shapes and images. As illustrated in Figure 34, the company used raw fruits purchased from 15 local farmers and thus, contributed to the income increase of these farmers.

**Figure 34. Dried fruits value chain (Bagfruits)**



Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

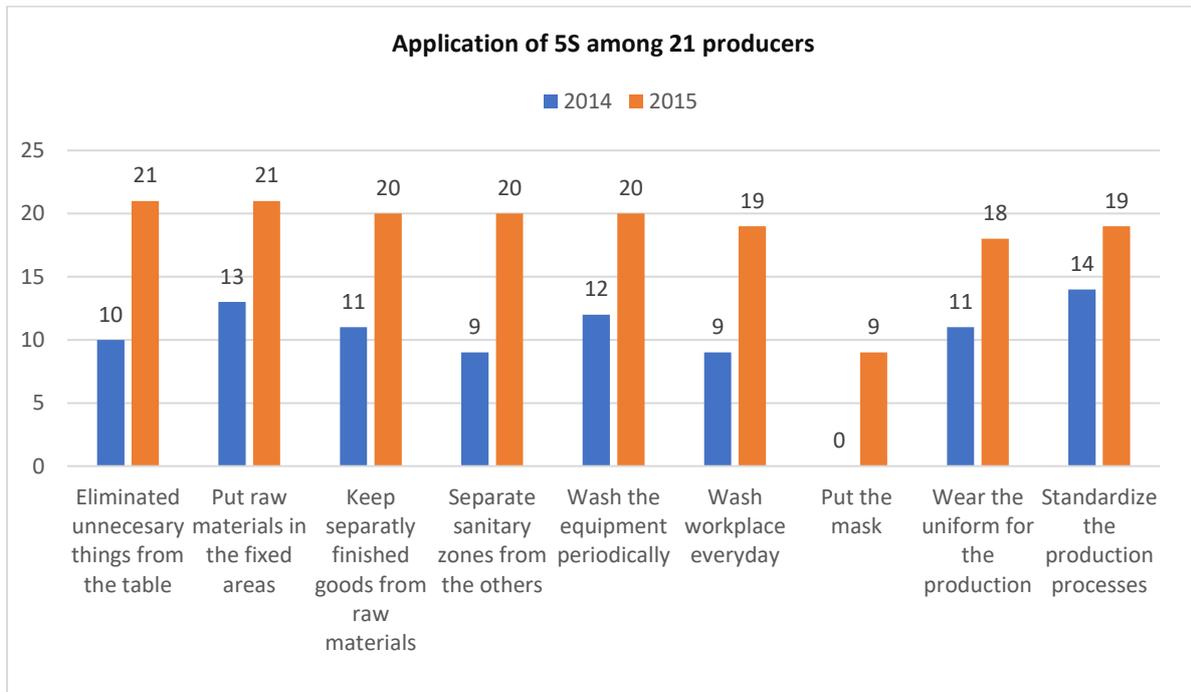
Reinforcing marketing activities of dried fruit producers in Meghri, Syunik region

Meghri town is considered to be one of the hottest areas of Armenia. It encompasses of arid landscape yet covered with lush green due to the Meghri River. The results of the market survey conducted by an Armenian NGO called “CARD”, using the conjoint analysis as part of the Seven Tools for Product Development (P7), concluded that the production and marketing of ‘Meghri’ brand of dried fruits would attract more customers than the ‘Yerevan’ brand in Yerevan. This survey was accomplished using the Japanese quality management approach.

In May 2014, a training course on the Armenian OVOP methods for 21 local dried fruit producers in Meghri was organized. The content of the training course was related to the improvement of the products in Meghri by applying the Armenian OVOP methods such as 5S,

a set of Japanese tools for the improvement of productivity and quality. After the training, the following results were generated through conducting semi-structured interviews with the training participants:

**Figure 35. Increase in the number of dried fruits producers who apply 5S**

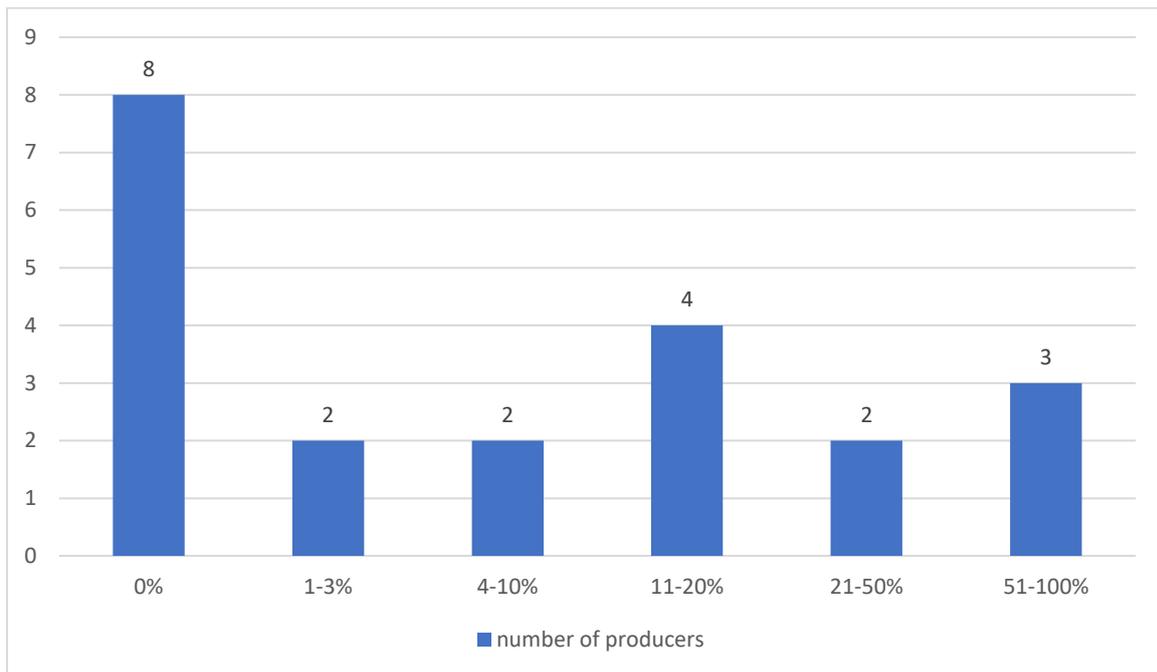


Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

The survey results have also revealed that the majority (95%) of the training participants applied new knowledge, acquired during the training, in their daily operations such as regular cleaning of working place, sorting of the finished goods and the raw materials, and maintaining a cleanliness of the production equipment and tools.

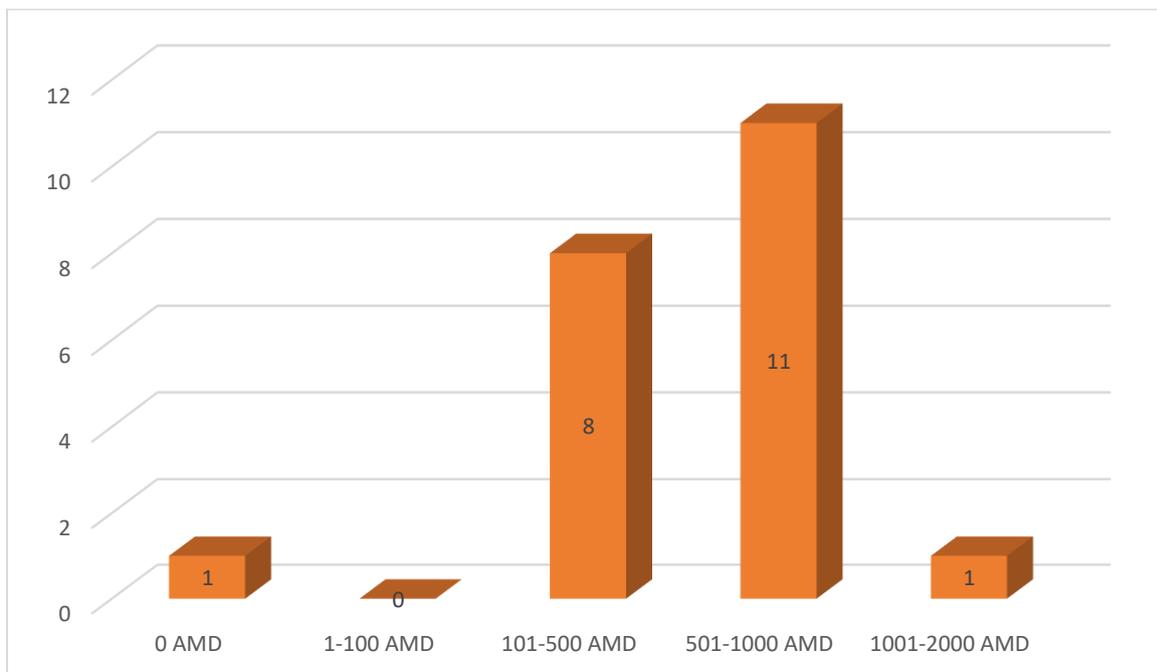
Thirteen producers (among the 21) increased the production volume in 2014 and seventeen producers increased or maintained the production and sales volume in 2015, as shown in Figure 36 below:

**Figure 36. Increase in production volume in 2014 (21 dried fruit producers in Meghri)**



The increase in production has also led to the increase in the sales and unit sales price, as shown in Figure 37. In 2015, the 10 participants out of 21 increased their sales unit price<sup>66</sup>.

**Figure 37. Increase in unit sales price in 2014 (21 dried fruit producers in Meghri)**

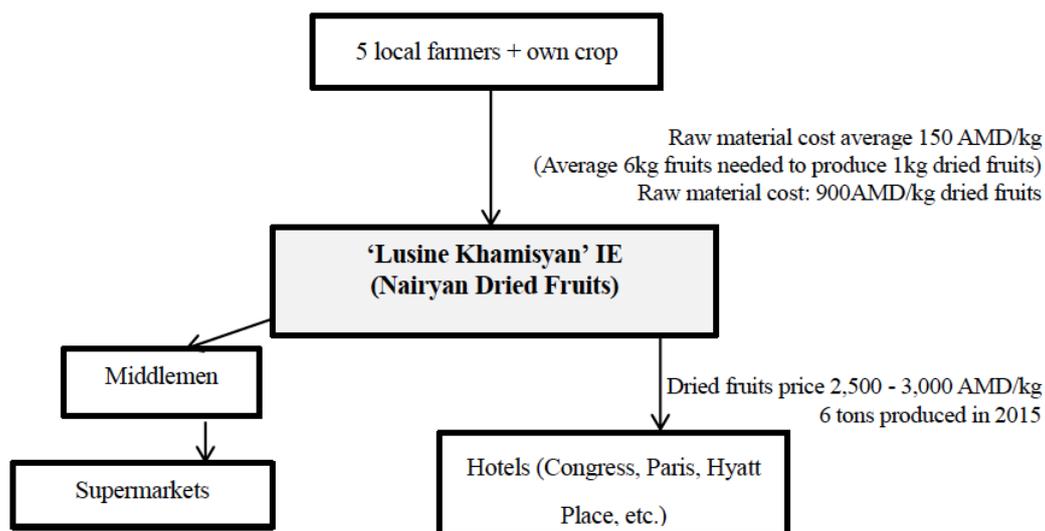


<sup>66</sup> Supra n 49, p. 55.

## Technical support activities of dried fruit producers around Armavir city, Armavir region

Armavir region is considered to be one of the main production areas of dried fruits in Armenia. It has large and flat fertile land. As part of Armenian OVOP project implementation activities, 10 dried fruit producers from the region participated in the training and expanded their knowledge base on the production of quality dried fruits with proper techniques (see Figure 38). One of the participants of the training organized in Armavir region has become Ms. Lusine Khamisyan who established a local enterprise called ‘Nairyan Dried Fruits’ with the support from the OVOP project<sup>67</sup>. As a result of OVOP concept application, the company doubled its production volume in 2015 from that in 2014<sup>68</sup>. In addition, ‘Nairyan Dried Fruits’ has reached an average ten tons of production through gaining new orders by the Ministry of Agriculture and signing contracts with several supermarkets, major hotels in Yerevan, such as the Hyatt Place Hotel, and exporting companies<sup>69</sup>.

**Figure 38. Dried fruits value chain (Nairyan Dried Fruits)**



Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

<sup>67</sup> Supra n. 53, p. 27.

<sup>68</sup> Supra n. 49, p. 56.

<sup>69</sup> Supra n. 53, p. 27.

### *4.3.3 Tourism promotion*

The marketing platform exercise conducted in the form of a questionnaire survey of 200 consumers in Yerevan city revealed that Tatev village (Syunik region), Jermuk town (Vayots Dzor region), and Garni village (Kotayk region) could become a highly demanded touristic spot for domestic people if the necessary conditions are provided. Taking into account this conditionality, the Armenian OVOP movement developed project activities to develop the domestic tourism infrastructure through the introduction of new touristic services, such as Bed and Breakfast (B&B) at these sites.

#### B&B promotion in Tatev sub-region

Tatev is well-known as a place inhabiting itself the centuries-old Tatev Monastery and ‘Tatev’ cableway, which is considered to be the longest in the world having the 5,750 meters longitude. Yet, the surveyors declared that the region is not hospitable enough despite the fact that is considered to be one of the attractive touristic sites. Thus, the Project team decided to introduce a new type of touristic service including B&B in order to revitalize the local hospitality and image. In 2014, the Project developed a ‘Start-up Business Support Program’ for local B&B businesses within the framework of OVOP project. The Program was implemented in the form of a training for B&B development for 20 persons from three villages, including Tandzatap, Halidzor, and Shinuhayr. Throughout the training course, the participants have learnt about operation of B&B, marketing, formulation of the business plan, and paid visit to a successfully operating B&B, etc. Upon the end of the training course on 10 November 2014, the participants developed 11 business plans promoting the local economic development.

According to the business plans of the 11 B&B services, it was expected that the total revenue would increase from 4.6 million AMD (2014) to 21 million AMD in 2015 due to the increase in income from lodging, catering and sales of agriproducts.

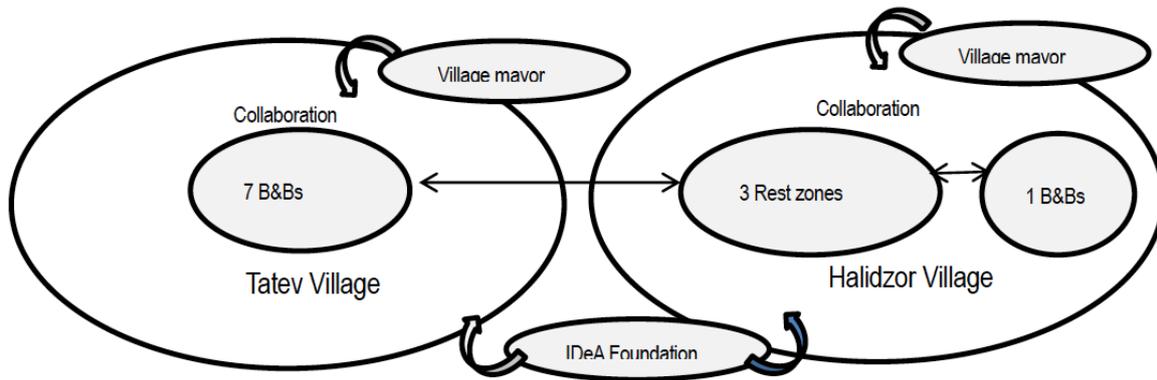
After the training course, there were opened 10 B&B businesses and 8 of them were able to receive financial assistance from SMEDNC in order to improve the accommodation facilities. One of the owners of the B&B business, Mr. Norayr Grigoryan noted that:

“Training was useful to know the importance of clean circumstance of the room according to the provided criteria. Also, I built a smaller room following the advice.

Now I am ready to open my B&B. I was organizing some sightseeing tour in the region but didn't come up with the idea to open a B&B. I'm thankful to the project which gave me the chance to create a new business by opening my own B&B. Now I can serve attractive tour programs and comfortable rooms for international tourists."<sup>70</sup>

Another owner of the B&B business, Mr. Volodia Simonyan, developed an artificial pond and a small farm through the application of the Armenian OVOP concept. This facility enabled the incoming guests with an opportunity to do fishing and consume fresh vegetables.

**Figure 39. Collaboration among new businesses in Tatev sub-region**



Source: JICA, "Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report," Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

B&B promotion in Garni, Kotayk Region

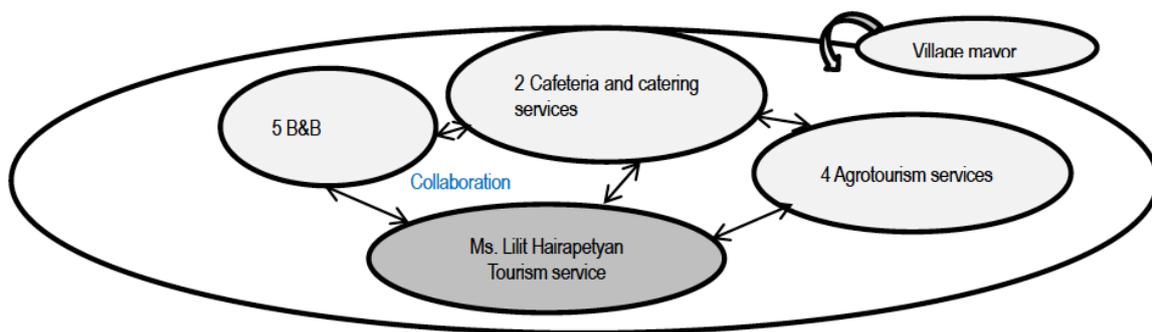
Garni tends to be one of the most popular touristic sites of Armenia. Yet, only 6 B&B businesses were operating in 2014. In June 2015, the Project conducted start-up business training course for 18 local participants. The main objective of the training was to reinforce the technical capacity of local businesses dealing with tourism, including restaurants and B&B services through the application of the OVOP concept. As a result, 12 business plans were presented at the end of the training. Out of 12 business plans, 8 of them were realized as 3 B&Bs, 3 businesses related to tourism, 1 dried fruits production, and 1 sewing workshop. All 8 businesses were developed with an aim of attracting more tourists to the region based on the Armenian OVOP concept. The OVOP movement participants from Garni also benefitted from collaboration within touristic service enterprises coordinated by the Armenian B&B Association President Ms. Ophelie Petrosyan.

<sup>70</sup> Supra n. 53, p. 31.

### Tourism promotion in Bjni village, Kotayk region

Although Bjni is not considered as one of the hotspots of touristic activities, it possesses rich mineral water resources which could facilitate the development of touristic businesses in the village. Since 2015, the Project team, in partnership with the UNDP, launched OVOP activities. The main direction of the Project activities in Bjni was accomplished in the form of training courses for local people interested in establishing tourism-related businesses. During these training courses, 12 local entrepreneurs had developed their business plans for starting touristic businesses. The cooperation between local businesses have been also established, and local fishers were able to sell their fish dishes to the guests at local B&Bs as illustrated in Figure 40. In addition, Ms. Lilit Hairapetyan was able to facilitate the coordination of the network among touristic service providers in the village, as described below.

**Figure 40. Collaboration among new businesses in Bjni**



Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

### Agrotourism development in Chiva and Rind Villages, Vayots Dzor region

Vayots Dzor is regarded as one of the historical sites of Armenia covered with mountains and several medieval monasteries, forts, caves, and camping spots. However, Chiva and Rind villages lack sufficient capacity to attract investors and tourists in comparison to other touristic sites in the same region. Therefore, the OVOP concept was applied to the Project activities to improve the touristic attractiveness and increase the employment opportunities for women and young people in two villages. The results of the market survey had identified that agrotourism could serve as a catalyst for local economic development, given the fact that village population

tend to produce a wide variety of fresh and processed agricultural products. As such, on 11 July 2015, the Project facilitated the organization of an event enabling local producers to demonstrate their products and cultural activities. A few months later, in October 2015, 5 local farmers from Chiva village exhibited and sold their products in the Areni Wine Festival. After the Festival, there were monitored the inflow of some tourists into Chiva village and thereby, the touristic route of Areni-Chiva was developed.

#### Tourism promotion in Jermuk town, Vayots Dzor region

The results of the market survey revealed the insufficiency of the hospitality service in Jermuk town despite its well-known reputation as a famous touristic spot. During the period of October and November 2015, the Project team had implemented training course for local entrepreneurs in order to raise the quality of touristic services in the town. As a result, 11 local entrepreneurs, comprising of 4 B&B businesses, 4 restaurants, 2 service agencies, and 1 bakery, had refined their business plans for accomplishing their businesses in 2015.

#### Publication of the B&B guidebook ‘Hospitable Lori’

Haghpat and Kober monasteries are located in Lori region and are included in the UNESCO World Heritage Sites list, which makes this region one of the popular tourist destinations. However, it is believed that the capacity of available accommodation is not sufficient. Therefore, the Project team published a B&B guidebook, called ‘Hospitable Lori’ in order to stimulate the regional economic development through promoting tourism and lodging services in the region. Eight unknown, but available B&Bs, including ‘Aghasu Tun’ guesthouse, ‘Arima’ guesthouse, ‘Artemi’ guesthouse, ‘Gayane’ hotel, ‘Iris’ guesthouse, ‘Mary’ guesthouse, ‘Sergo Davtyan’ guesthouse, and ‘Sana’ guesthouse, were included in the guidebook and being promoted as viable B&B services in the region<sup>71</sup>. The owner of the ‘Sergo Davtyan’ guesthouse noted that the number of guests has increased by 40% in 2015 due to the introduction of his guesthouse in the B&B guidebook.<sup>72</sup>

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<sup>71</sup> JICA. “Casebook of One Village One Product.” Tokyo.  
<[https://www.jica.go.jp/armenia/english/office/others/c8h0vm00009se4d9-att/ongoing\\_02.pdf](https://www.jica.go.jp/armenia/english/office/others/c8h0vm00009se4d9-att/ongoing_02.pdf)> (accessed 3 March 2018).

<sup>72</sup> Ibid, p. 34.

As part of Project activities, 6 of B&B businesses had undergone business start-up training, 2 of them received informational support, and 3 of them were able to attract financial support from SMEDNC.

#### *4.3.4 Promotion of Processed Olives*

##### Processed olives in Bagratashen village

Bagratashen village is well-known areas for olive production in Armenia. It has 40 hectares of olive gardens and produces about 20-25 tons of olives annually. However, olive production is reported to lack of prospect to generate a high profit since the production was accomplished in domestic conditions and the ready products were sold in the local market. Despite this, olive production is used to be one of the promising areas of entrepreneurship in this area. The activities carried out within the framework of the Armenian OVOP movement, has enabled Mr. Vigen Hovhannisyan to establish his enterprise called ‘Viva Fruits, LLC’ and revitalize the olive production in Bagratashen village. Through participation in the Armenian OVOP movement, Mr. Hovhannisyan have acquired the mastery of different technologies, including olive production and harvesting, plant structure, raw material pre-treatment methods, storage of raw material before processing, pre-heat processing of raw materials, fundamentals of heat sterilisation, food recipes and technical computations, brine preparation, olive fermentation, heat sterilisation techniques, food quality control and evaluation, packaging, labelling, and storage of finished products<sup>73</sup>.

The Project team provided support in adding a value to the olive production of Viva Fruits, LLC. The Program Coordinator of the SMEDNC, Mr Artak Dadoyan, reported that:

“Olive production of Tavush region is a successful example. The project showed us different approaches and made the olive meet the international standards. The project started from quality improvement, and then implemented marketing activities such as logo/label design and participation to the food expo or cultural events. Now the producer is selling the olive products not only in the domestic market but also in other countries like Russia. With such success story, it is easy now for us to meet beneficiaries and convince them to start working together. We talk about OVOP and the olive success story to them that how a product can be developed, popularized and improved. And if we show the results, the local people start believing us because it is a success case of Armenia, not from other unknown countries.”<sup>74</sup>

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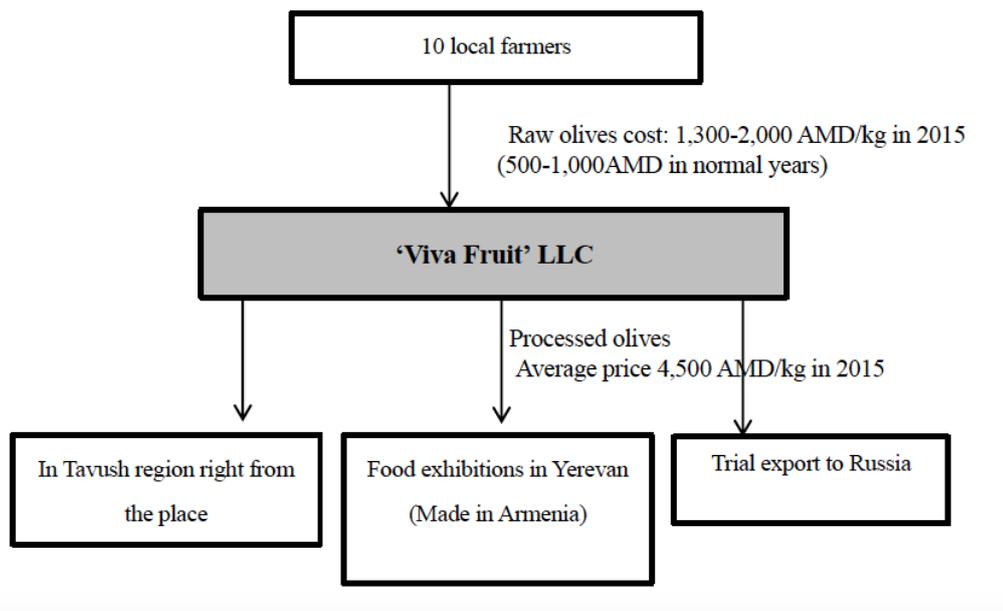
<sup>73</sup> Supra n. 49, p. 65.

<sup>74</sup> Supra n. 53, p. 21.

After application of the OVOP concept, the company has started to produce and sell bottled olive products with a brand name ‘Viva Fruit’. In addition, the consumer got accustomed to buy Armenian-grown olive products than those exported from Spain, Italy or other countries. This, in turn, contributed to the establishment of the new value chain, which is supposed to serve as a vital condition for the local economic development, as illustrated in Figure 41. According to the owner of the company, Mr. Viven Hovhannisyanyan, the application of the OVOP concept has increased the visibility of their products and thus made it more profitable:

“There was no visible symbol to show our product before. But now we have our own logo and label to show in the market. Also, we didn’t know much customers before, but after participating the OVOP project’s event, we got popularity in the region and exchanged contacts with other retailers and have more negotiations and orders now. Without the OVOP concept, my business could not reach to this outcomes at this moment. Most importantly, the OVOP concept gave me confidence to run the business successfully.”<sup>75</sup>

**Figure 41. Olive value chain (Bagrateshen)**



Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

<sup>75</sup> Supra n. 53, p. 20.

#### 4.3.5 Promotion of Wine

##### Promotion of wine in Areni Village, Vayots Dzor region

Areni village tends to attract many international tourists due to its centuries-old history of wine-making. There are two types of wineries in Areni village: 1) small wineries which produce wine predominantly for domestic consumption or for selling in the local market and 2) medium-sized wineries which are known for the production of elite wines at a larger scale. Within the framework of Armenian OVOP movement, two local enterprises took part in the project activities and promoted their products.

The first is Areni wine factory which applied different OVOP methods, such as the popularization of information about their product through the production of brochures and exhibiting their winery product at the specialized tasting room. Application of these methods resulted in the improvement of their brand image and increased their sales to two times over the three years, as noted by the owner of the Areni wine factory, Mr. Vartan Simonyan:

“I got more customers and contacts of businessmen after joining the event which the OVOP project organized. My business is now stable while other businessmen struggle with unstable customers. It was very interesting to listen to the consumers’ voice directly at the event and very helpful for improving our product quality.”<sup>76</sup>

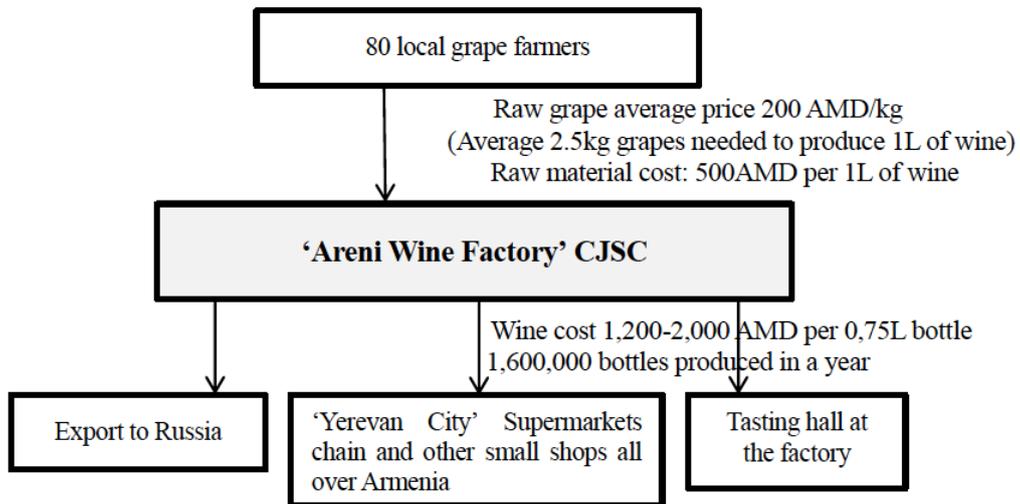
The second one is ‘Areni Ginetun’ (House of Areni wine), which was established in 2012. The difference of it from the Areni wine factory is that it produces not only grape wines, but also different fruit wines compressed in traditional local dishes.

Both of the local wine producers participated in the Areni Wine Festival 2015, organized by the Project team. During their participation in the Festival, along with the producers of other agricultural products, the participants also got an opportunity to demonstrate and share information about their winery products to the Japanese companies. As a result of their participation in the Armenian OVOP movement, the wine producers from Areni village have increased their prospects to promote Armenian touristic services for Japanese people and generate more sales through reinforcement of their value chains, as shown in Figure 42.

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<sup>76</sup> Supra n. 53, p. 29.

**Figure 42. Wine value chain (Areni wine Factory)**



Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

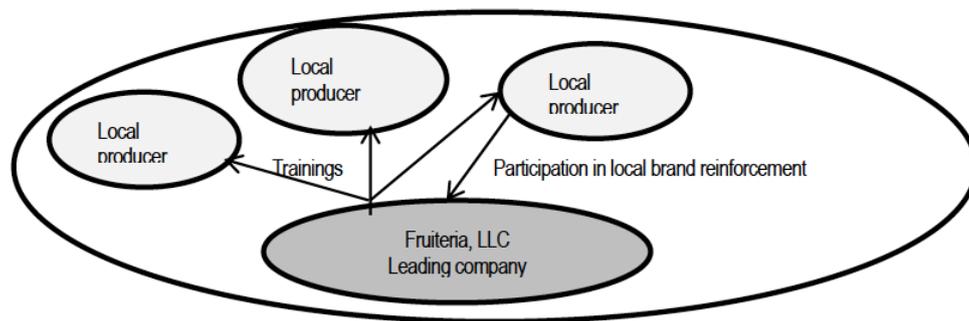
#### 4.3.6 Promotion of Herb and Spice Products

##### Promotion of herb and spice products in Vedi town, Ararat region

Fruiteria, LCC, is one of the leading dried fruits producers in Ararat region. SMEDNC established a partnership with Fruiteria, LCC, in order to implement project activities and train other local SMEs so that they are integrated into the territorial brand enhancement process. In October 2015, the SMEDNC in partnership with the USAID conducted its first training course for 24 local producers of dried fruits and herbs in Vedi town. Throughout the training the participants had acquired the knowledge of Armenian OVOP methods, European market requirements for imported products, including hygiene and the use of processing machinery and production tools.

As a result of OVOP project activities, the network of local producers has been formulated, as demonstrated in Figure 43. One of the participants of the OVOP courses on branding held in May 2014 and October 2015 in Vedi, developed a new type of product (dried herb), by applying the OVOP concept.

**Figure 43. Collaboration among local producers in Vedi**



Source: JICA, “Project on Development of Local Production and Promotion of Local Brands in the Republic of Armenia: Final Report,” Tokyo; <[http://open\\_jicareport.jica.go.jp/pdf/1000025041.pdf](http://open_jicareport.jica.go.jp/pdf/1000025041.pdf)> (accessed 3 May 2018).

The next chapter provides an overview of the OVOP case study in Kyrgyzstan and discusses the project design, implementation method as well as project output in the respective country. The chapter starts by providing an overview of the economic development situation in Kyrgyzstan and thus build a foundation for the further examination of the OVOP project implementation. It will then proceed with the discussion of the main activities and policies undertaken in order to implement the OVOP concept in Kyrgyzstan.

## CHAPTER V: OVOP Policy for Community Empowerment: The Case of Kyrgyzstan

### 5.2 Background to the Macroeconomic Situation of the Kyrgyz Republic

Kyrgyzstan is known as a hotspot of political and social instability following numerous revolutions and ethnic strife since its independence in 1991. Those following developments in the post-Soviet space initially identified the country as the Switzerland of Central Asia, being the most liberal republic in the region. This was due to the relative freedom enjoyed by its citizens and their assertiveness: the population repeatedly reacted to increased authoritarianism by chasing its leaders away and thus instilled hope in the outside world that democracy would prevail. However, despite these struggles, the country has dropped in the rankings and was recently declared as partly-free by Freedom House<sup>77</sup>. Moreover, instability in the South of the republic in June 2010, resulting in several hundreds of deaths<sup>78</sup> has further reinforced fears that Kyrgyzstan had too many cracks to become a stable democracy.

After Tajikistan, Kyrgyzstan is the poorest country in Central Asia. According to UNDP, 44.7% of the population is believed to be living below the poverty line.<sup>79</sup> In 2013 it ranked 125<sup>th</sup> on the Human Development Index<sup>80</sup> which reflects the overall low life quality.<sup>81</sup> Its ranking as 136<sup>th</sup> on the Corruption Perceptions Index 2014<sup>82</sup> gives insight into the economic situation in the country as corruption is usually associated with social inequality and bad business.

In Kyrgyzstan, urban/rural, ethnic and regional divides can be noted (see Figure 44). Research has revealed that there are still substantial differences within the country itself: rural areas and

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<sup>77</sup> Freedom House in Kyrgyzstan, "Kyrgyzstan," Freedom House, Washington D.C.; <<https://freedomhouse.org/country/kyrgyzstan#.VI3KhSuUdlj>> (accessed 10 May 2018).

<sup>78</sup> Luke Harding, "Death toll grows as Kyrgyzstan ethnic violence escalates," *The Guardian* (Moscow), June 13, 2010, <<http://www.theguardian.com/world/2010/jun/13/kyrgyzstan-shoot-to-kill-ethnic-violence>> (accessed 10 May 2018).

<sup>79</sup> UNDP Kyrgyzstan, "Were we are" UNDP; <<http://www.kg.undp.org/content/kyrgyzstan/en/home/mdgoverview/overview/mdg1/>> (accessed 10 May 2018).

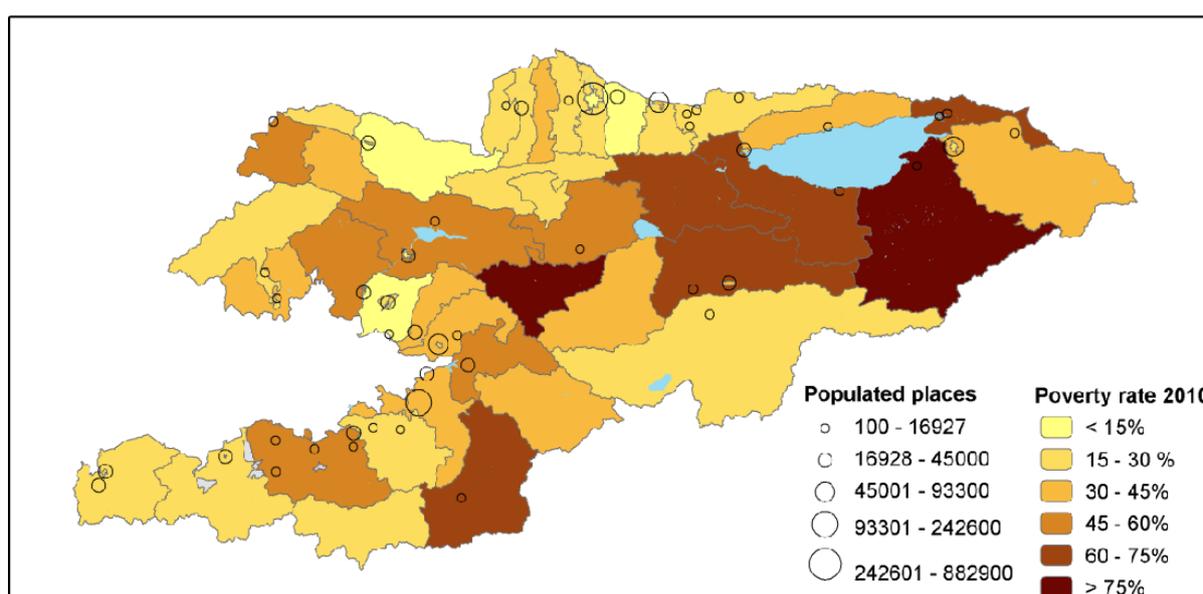
<sup>80</sup> UNDP, "Table 1: Human Development Index and its components" UNDP, New York; <<http://hdr.undp.org/en/content/table-1-human-development-index-and-its-components>> (accessed 10 May 2018).

<sup>81</sup> UN Kyrgyzstan, "Kyrgyzstan basic statistics," UN; <<http://un.org.kg/en/kyrgyzstan/basic-statistic>> (accessed 10 May 2018).

<sup>82</sup> Transparency International, *Corruption Perception Index 2014*, (Germany, 2014).

the southern oblasts are more affected by poverty.<sup>83</sup> In contrast, Bishkek, the capital, boasts lower poverty rates, with most of the government's investments remaining close to the centre of power.<sup>84</sup> Moreover, large families, common among the titular population and not Russians, are more likely to be poor in the post-Soviet period.<sup>85</sup> This is believed to be linked to the fact that price controls and subsidies were lifted with the end of communism and these large families had to start to fend for themselves. Finally, the south of the country is deemed far poorer than the north. This stems from the lack of infrastructure and industry in that region as funds are concentrated in the north. Inevitably, such differences also encourage social conflict.

**Figure 44. Poverty Map and Administrative Map of the Kyrgyz Republic**



Source: The World Bank and NSC team calculations based on KIHS 2009 and Population Census 2009.

Poverty has gone hand in hand with mass migration as migrants seek to ensure their survival by moving to countries with better living conditions. Low and irregular wages, high unemployment as well as instability were some of the factors pushing Kyrgyz citizens to go abroad. According to official statistics, 52% of the Kyrgyz population lives outside the country, predominantly in Kazakhstan and Russia.<sup>86</sup> At the same time, these same migrants are responsible for mass cash flows back into the country in the form of remittances (see Figure

<sup>83</sup> Ziya Cologlu, "Enduring Poverty in Kyrgyzstan," *The Washington Review of Turkish & Eurasian Affairs*; <<http://www.thewashingtonreview.org/articles/poverty-in-kyrgyzstan.html>> (accessed 10 February 2018).

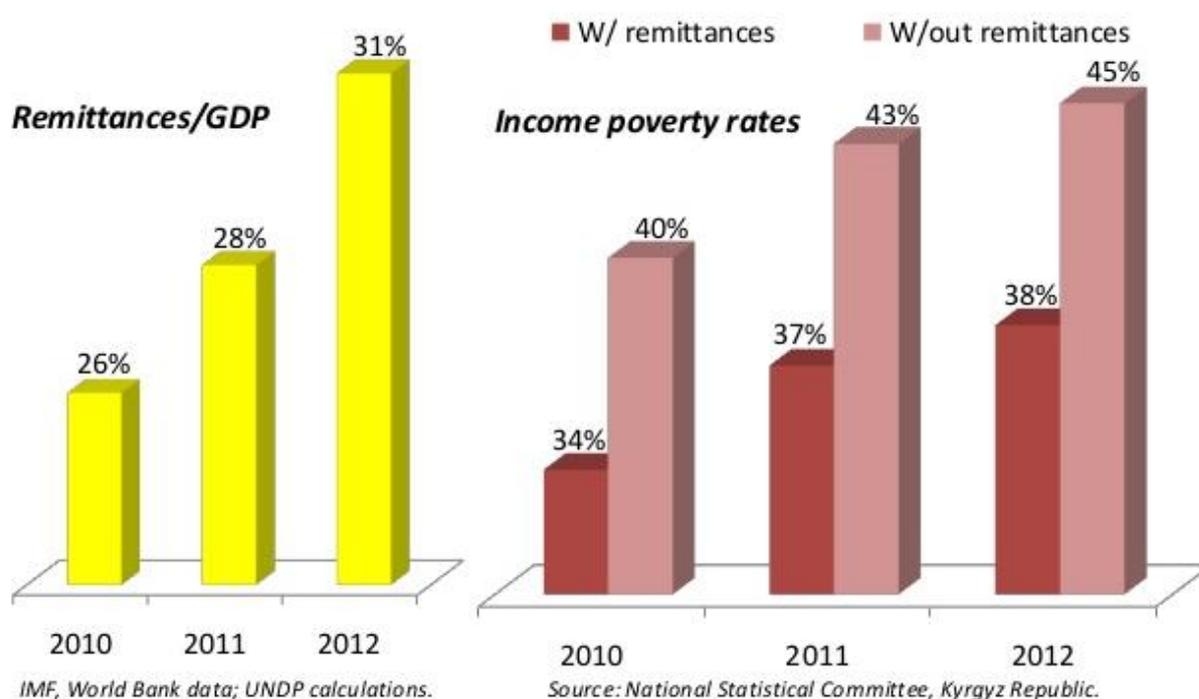
<sup>84</sup> *Ibid.*

<sup>85</sup> *Ibid.*

<sup>86</sup> Ulugbek Badalov, "Kyrgyzstan's Emigration Challenge," *The Washington Review of Turkish & Eurasian Affairs*; <<http://www.thewashingtonreview.org/articles/kyrgyzstans-emigration-challenge.html>> (accessed 10 February 2018).

2). In fact, about 15% of the GDP of Kyrgyzstan is made up of such transfers.<sup>87</sup> While this could be interpreted as a positive means of economic survival, such migration waves also lead to a brain drain with the best experts leaving for more fertile lands. On top of this, remittances are not a stable source of income on which to build up a country. This became evident during the global economic crisis when remittances started to dry up and the Kyrgyz population saw large parts of its income disappear.<sup>88</sup>

**Figure 45. Remittances and Poverty Reduction in Kyrgyzstan.**



Source: UNDP in Europe and CIS, 2017.

It is important to bear in mind that Kyrgyzstan, unlike its neighbours, does not have large reserves of hydrocarbons to fuel its economy. While other Central Asian countries may face the same structural problems as Kyrgyzstan, they have been able to make up for these shortcomings by falling back on their energy wealth (see Figure 3). This has enabled Kazakhstan and Turkmenistan, for instance, to boast impressive growth without implementing far-reaching measures to restructure the economy and combat corruption. Kyrgyzstan must,

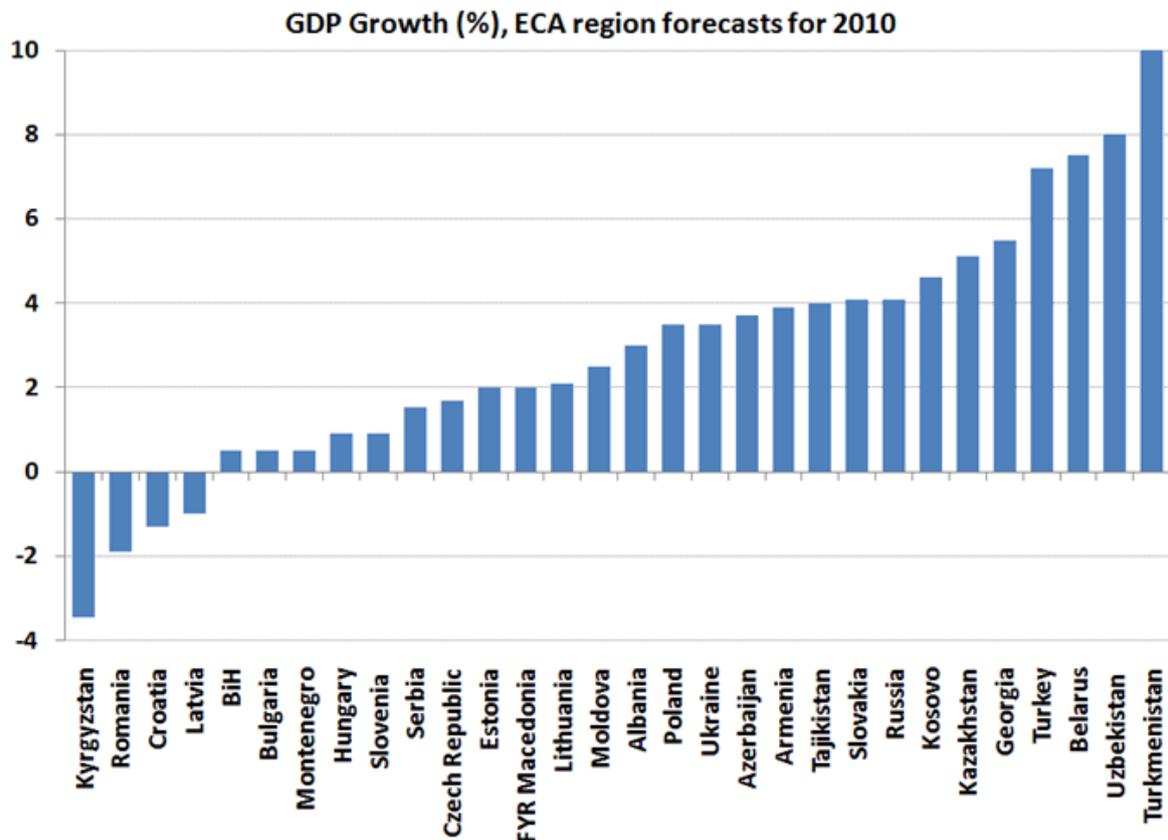
<sup>87</sup> Ibid.

<sup>88</sup> Kale Seagraves, "How the Kyrgyzstan story relates to poverty," Poverty News Blog; <<http://povertynewsblog.blogspot.jp/2010/04/how-kyrgyzstan-story-relates-to-poverty.html>> (accessed 10 May 2018).

therefore, conceive of alternative ways of generating income in order to escape from the scourge of poverty and instability.

During Soviet times, Kyrgyzstan was already one of the poorest countries in the Soviet Union. However, its plight worsened with the end of Communism. Kyrgyzstan was heavily hit by the breakdown of its structures as industry collapsed. This is explained by the fact that Soviet production was one large conveyor belt and as the economy was dismantled, Kyrgyzstan was forced to rebuild itself again from scratch. The gravity of the situation manifested itself in a decrease of national income by 75.1% in 1994 compared to Soviet times and a dramatic drop in living standards.<sup>89</sup>

**Figure 46. GDP Growth Rate in Europe and Central Asia.**



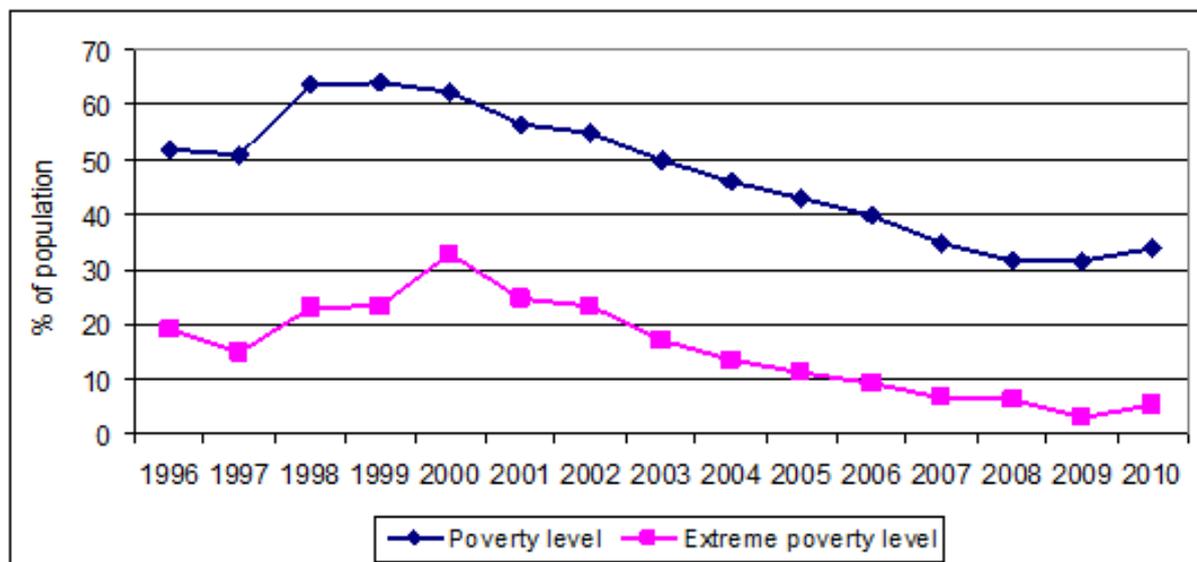
Source: Author's compilation based on the World Bank data; available at <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=Z7>; (accessed 3 May 2018).

<sup>89</sup> Supra n. 88.

The political leadership of the country has always been considered liberal for Central Asian standards. For instance, Kyrgyzstan was the country to carry out the speediest liberalization of its market<sup>90</sup> and the first member to join the World Trade Organization. This eagerness to westernize may partially be explained by the absence of natural resources in the country which makes it more open to integrating into global structures. However, this has not, contrary to predictions by international financial organizations, helped the country grow economically as countries with far more conservative reform models have outshone Kyrgyzstan.

When looking at the current situation in the country, it must be said that a major source of social inequality and poverty is the local political culture. In Central Asian countries in general, politics follow a clan-based logic where the state’s resources are funnelled into their networks of loyalty and not redistributed to serve the common good. This means that people outside the network are ignored and do not get a slice of the state’s cake. The result is feelings of disgruntlement, desperation and potential radicalism as a response to poverty. At the same time, international organizations become hesitant about granting loans lest these simply disappear in the administration’s pocket.

**Figure 47. Poverty Dynamics in Kyrgyzstan.**



Source: UNDP, “About Kyrgyz Republic,” Kyrgyzstan; <http://www.kg.undp.org/content/kyrgyzstan/en/home/about-us.html> (accessed 3 May 2018).

<sup>90</sup> The World Bank, *Poverty Mapping in the Kyrgyz Republic: Methodology and Key Findings*, 76690. (Washington, D.C, 2013), 19.

## 5.2 Japan`s Rural Development Strategy in Kyrgyzstan

### 5.2.1 The Rationale for OVOP Project Implementation

During the period from November 2003 to December 2004, JICA conducted a study on the Integrated Development of the Issyk-Kul Oblast, in order to identify the areas of urgent need for Japan`s development assistance and support for the social and economic development of the Issyk-Kul Oblast of the Kyrgyz Republic. Upon completion of the study, a detailed Master Plan for Integrated Issyk-Kul Development was developed. According to this plan, a set of activities addressing the issue of community-driven development through enhancement of economic activities and social services at the village level were mainstreamed. The project activities directed at community-driven development had been formulated based on JICA`s prior pilot project operations at three villages in Issyk-Kul Oblast.

The Issyk-Kul Region is located in the east of Kyrgyzstan and considered one of the seven oblasts (provinces) of the country (see Figure 48). Its area comprises about 23,000 km<sup>2</sup> and covered with the Issyk-Kul Lake and mountain ranges of Tyan-Shan. The Oblast inhabits several villages which are located close to the Lake due to the established transportation routes and channels to the mountain ranges.

**Figure 48. Location of Issyk-Kul Region**



Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo.  
<[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

**Table 25. Basic Data on Issyk-Kul Oblast**

|   |               |                  |                |                 |
|---|---------------|------------------|----------------|-----------------|
| <u>Administration:</u>  |               |                  |                |                 |
| <ul style="list-style-type: none"> <li>▪ Number of Rayon: 5</li> <li>▪ Number of Aiyl Okругu: 58</li> </ul>   |               |                  |                |                 |
| <u>Population:</u>  |               |                  |                |                 |
| <ul style="list-style-type: none"> <li>▪ Total population: 437,200 (January 2009)<br/>- 8.2% of the national population (5,362,000)</li> <li>- 29% in urban and 71% in rural areas</li> <li>▪ Employed population: 180,300 (2008)</li> <li>▪ Registered unemployed population: 4,902 (2008)</li> <li>▪ Ethnic composition:<br/>- Kyrgyz 79.0%, Russian 13.0%, Kazakh 1.7%, Tatar 1.7%, Kalmyk 1.2%, Uigur 1.0%, Ukraine 0.7%, Dungan 0.7%, Uzbek 0.7%, and others 0.3%</li> </ul> |               |                  |                |                 |
| <u>Economy</u>  |               |                  |                |                 |
| GDP and GDP per capita in 2008  | Unit          | Issyk-Kul Oblast |                | Kyrgyz Republic |
|   |               | With Kumtor      | Without Kumtor |                 |
| GDP   | (million KGS) | 21,259.8         | 11,672.2       | 187,991.9       |
| -Share in the Republic  | (%)           | 11.3             | 6.2            | 100.0           |
| GDP per capita  | (KGS)         | 48,761           | 26,771         | 35,618.5        |
| -Share in the Republic  | (%)           | 139.9            | 75.2           | 100.0           |
| <p>Note: The figures in a column of "without Kumtor" are estimated based on a share of Kumtor gold mining in the Republican GDP which was 5.1% (9,588 million KGS) in 2008 (News agency; <a href="http://eng24.kg">http://eng24.kg</a>).</p> <ul style="list-style-type: none"> <li>▪ Poverty rate: 52.2%, extremely poverty rate: 16.9% (2008)</li> <li>▪ Land use: 4,472,000 ha in total (Agricultural lands: 36.8% of the total area)</li> </ul>                               |               |                  |                |                 |
| <u>Socio-economic data:</u>   |               |                  |                |                 |
| <ul style="list-style-type: none"> <li>▪ Number of educational institutions: 42 infant schools, 198 general schools (1-11grade) (2008)</li> <li>▪ Number of doctors and beds (per 10,000 people): 16.5 doctors, 30.2 beds (2008)</li> </ul>   |               |                  |                |                 |
| <u>Tourism</u>  |               |                  |                |                 |
| <ul style="list-style-type: none"> <li>▪ Number of foreign tourists to the Kyrgyz Republic: 2,435.4 thousand people (2008)</li> <li>▪ Number of hotels and guest houses: 115 hotels, 28 guest houses (2008)</li> </ul>  |               |                  |                |                 |

Source: National Statistical Committee of the Kyrgyz Republic, Statistical Yearbook 1999, 2004-2008, 2009.

The Kyrgyz government issued a number of Laws on Community Based Organizations (CBOs) and provided a legal framework for the establishment of CBO Associations at the community level. In accordance to the Government Resolution P-172, dated on March 2010, the Issyk-Kul

Oblast state government have also integrated the ‘OVOP movement’ into its Strategic Development Plan activities.<sup>91</sup>

Since then, the Issyk-Kul Oblast state government have accomplished set of activities to empower local community through utilizing state financial resources. Majority of activities in this direction were conducted through the provision of financial support and lack of opportunities to provide a non-material way of support. In this regard, the application of OVOP concept in order to contribute to the capacity building was seen as a new approach to effectively empower the local communities of the Issyk-Kul Oblast.

On August 10, 2006, JICA and the Issyk-Kul Oblast Administration (IK-OSA) agreed on the implementation of the Community Empowerment Project in the Issyk-Kul Oblast of the Kyrgyz Republic (hereinafter referred to as “the Project”) as part of Japan’s Technical Cooperation programme. The Project implementation started in January 2007 and has been implemented over the subsequent four years in two phases. The Project came into existence as a result of mutual consistency of the policy priority direction of both governments.

The main objective of the Project was set as to revitalize the socio-economic development of the Issyk-Kul Oblast in harmony with the preservation of the environment, as defined in the Record of Discussion (R/D) dated August 10<sup>th</sup>, 2006. The Project has been implemented following the Project Design Matrix (PDM), which was revised twice in September 2007 (1<sup>st</sup> revision) and in May 2008 (2<sup>nd</sup> revision). A summary of the original (version 1) and subsequent (versions 2 and 3) PDM is provided below:

**Table 26. Summary of Project Design Matrix**

|  |
|--|
| <p><u>Overall Goal:</u><br/>(Unchanged) Socio-economic revitalization in the Issyk-Kul Oblast in harmony with the preservation of the Environment</p>  |
| <p><u>Project Purpose:</u></p> <ul style="list-style-type: none"> <li>▪ The establishment of a sustainable system for regional development through community empowerment (version 1)</li> <li>▪ The establishment of a sustainable system for regional development through community empowerment with the OVOP Movement (version 3)</li> </ul> |
| <p><u>Outputs in Phase I (Preparatory Phase):</u><br/>(Unchanged) Preparation of an Implementation System consisting of personnel, budget, capacity, networks, etc. which is capable of conducting Phase II</p>  |

<sup>91</sup> JICA. “Community Empowerment Project in the Issyk-Kul Oblast.” Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 March 2018).

Outputs in Phase II (Full-scale Cooperation Phase):

(version 1)

1. The effective organization of some model communities in the Issyk-Kul Oblast
2. The formulation of Community Development Plans for the regional development
3. The vitalization of regional economy by the effective implementation of the pilot projects, based on the community development plan
4. The improvement of administrative capacities of Issyk-Kul Oblast's staff in relation to community empowerment

(Version 3)

1. A well-functioning Implementation System
2. The empowerment of pilot communities through the OVOP Movement
3. The verification of the effectiveness of community empowerment method through the OVOP Movement

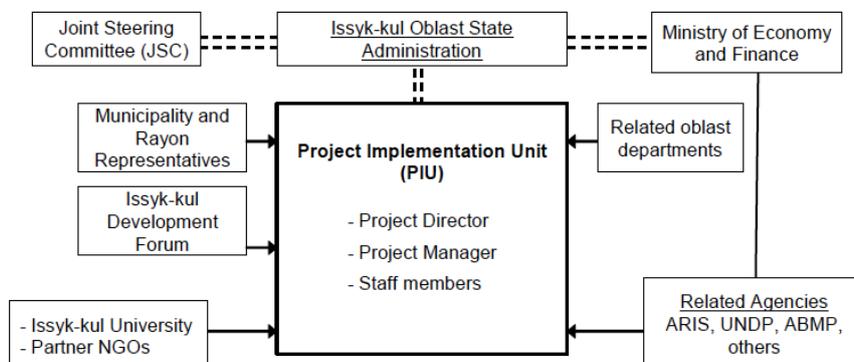
Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast." Tokyo.  
<[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

### 5.2.2 Administration of the OVOP Project

The Project has been implemented in two phases in accordance with the Master Plan, mentioned earlier. According to this Master Plan, during the first phase, the Issyk-Kul Oblast State Administration along with the support of the Kyrgyz Ministry of Economy and Finance was assigned to implement the Project in close cooperation with JICA (see Figure 49).

In 2004, the Project stakeholders organized Issyk-Kul Development Forum in order to support the Project implementation process and exchange views on activities aimed at community-driven development. During the Forum, it was decided that the Project would be accomplished in partnership with the Issyk-Kul State University, associations of the private sector, and NGOs.

**Figure 49. Institutional Setting for Implementation of OVOP Project in Kyrgyzstan**



Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo.  
<[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

At the state level, the Ministry of Economy and Finance of the Kyrgyz Republic was assigned to serve as an administrator and facilitator of interactions among the Project stakeholders and other relevant organizations pursuing programs related to the Kyrgyz OVOP concept. However, due to the re-organization of the Ministry of Economy and Finance into the Ministry of Finance, since August 2007, the Ministry of Economic Development and Trade (MoEDT) has been taking a central role for the coordination of the OVOP Project. During the second phase, the Aid Strategy Department within the MoEDT was assigned to carry out the Project implementation duties. However, on 20 October 2009, the Ministry responsible for project coordination became unclear owing to the re-organization of the MoEDT into the Ministry of Economic Regulation. In addition to the Kyrgyz public institutions, the Project has been also implemented in cooperation with the ARIS (particularly its Village Investment Program) and UNDP (Poverty Reduction Program).

The Joint Steering Committee (JSC) was formulated in order to provide timely guidance and access the progress made in relation to OVOP project implementation in Kyrgyzstan. The JSC was formulated from:

- Representative of the Ministry of Economy and Finance;
- Head of relevant Local Self Governments;
- Representative of Issyk-Kul Development Forum;
- Any other person decided by the Oblast State Administration;
- JICA Resident Representative;
- Leader of JICA Expert Team;
- Any other person decided by JICA

In order to support the Project Implementation Unit (PIU) within Issyk-Kul Oblast State Administration and the relevant institutions dealing with the implementation of the OVOP project in Kyrgyzstan, JICA formulated a team of experts (the JICA Expert Team), who provided expert support throughout the project implementation cycle. In total, 12 experts were assigned by JICA who contributed to the 74.4 person-months<sup>92</sup> over the course of project implementation.

The following members were assigned to the PIU as of the end of August 2007:

**Table 27. Assignment of PIU Members**

| Position         | Stated in R/D  | Present Situation (End of August 2007)   |
|------------------|--|--|
| Project Director | Mr. Alyshbaev K. K<br>First Vice Governor                                  | No change  |
| Project Manager  | Mr. Imanaliev Almaz<br>Head of Department                                  | No change  |
| PIU Member       | 1) Ms. Mamedova S. A<br>Head of Department                                 | Promoted to Deputy Governor (July 2007)  |
|                  | 2) Ms. Orozova G. J  | Now on maternity leave   |
|                  | 3) Mr. Mambetkulov T. II<br>Chief specialist (External Economic Relations) | Mr. Dunganayev M.A<br>Leading specialist (Agriculture and Processing Industry) |

Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

Over the course of the Project implementation, there were held seven meetings of JSC with a purpose of reviewing the project progress and exchanging views on the planned activities as well as evaluation of Project outputs. The description of the JSC meetings is presented in the below Table 28.

**Table 28. Overview of Joint Steering Committee meetings**

| Phase I                      |                 |  |
|------------------------------|-----------------|--|
| Meeting                      | Date            | Main Points Discussed  |
| Extraordinary Session of JSC | 24 January 2007 | 1) The framework of the J-CEP to be implemented by the combination of the OVOP Movement and social/livelihood improvement was agreed by the JSC members; |

<sup>92</sup> A "person month" is the metric for expressing the effort (amount of time) principal investigators (PIs), faculty and other senior personnel devote to a specific project (definition by the U.S. Department of Health and Human Services).

|                        |                   |   |
|------------------------|-------------------|---|
|                        |                   | <ol style="list-style-type: none"> <li>2) The contents of the pre-pilot project, herb cultivation and processing in selected villages together with social/livelihood improvement activities, was also agreed by the JSC members, and</li> <li>3) The PIU Project Manager requested JICA for support in the assignment of a coordinator and assistants and in the market survey of potential products to be developed under the OVOP operations.</li> </ol> |
| <b>JSC Meeting N.1</b> | 17 September 2007 | <ol style="list-style-type: none"> <li>1) Appointment of the PIU members</li> <li>2) Budget arrangements for the pilot project</li> <li>3) Supporting system to the OVOP Movement by the MoEDT</li> <li>4) Budgetary support to the OVOP Movement</li> </ol>  |
| <b>Phase II</b>        |                   |   |
| <b>JSC Meeting N.2</b> | 16 May 2008       | <ol style="list-style-type: none"> <li>1) The J-CEP's strategy for community empowerment</li> <li>2) The overall pilot project plan, and</li> <li>3) Revision of the PDM based on items 1) and i2).</li> </ol>  |
| <b>JSC Meeting N.3</b> | 9 April 2009      | <ol style="list-style-type: none"> <li>1) The progress of the J-CEP based on Progress Report No.3, and</li> <li>2) The implementation system for community empowerment with the OVOP Movement.</li> </ol>   |
| <b>JSC Meeting N.4</b> | 3 August 2009     | <ol style="list-style-type: none"> <li>1) Confirm the J-CEP progress and outputs with the Kyrgyz side, and</li> <li>2) Give advice and guidance on further implementation of the J-CEP.</li> </ol>  |
| <b>JSC Meeting N.5</b> | 3 December 2009   | <ol style="list-style-type: none"> <li>1) The progress of the J-CEP based on Progress Report No.4, and</li> <li>2) The contents of the draft Guidelines for the OVOP Movement promotion</li> </ol>  |
| <b>JSC Meeting N.6</b> | 14 July 2010      | <ol style="list-style-type: none"> <li>1) Both sides confirmed the evaluation results in the JSC meeting and agreed on the points presented in a Terminal Evaluation Report.</li> </ol>   |

Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo.  
[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf) (accessed 3 May 2018).

### 5.2.3 Project Implementation Process

The Project has been implemented in two phases. The first phase of the Project was accomplished from January to September 2007, during which the pre-pilot project activities under the concept of the OVOP Movement and the main operational directions of the Project Implementation Unit (PIU) were accomplished. At the end of Phase I, based on the outcomes of the pre-pilot project activities, it was decided to proceed with the implementation of Phase II.

Phase II has been accomplished approximately 35 months during the period of November 2008 to September 2010. During this Phase, the Project implemented pilot project activities by providing operational support for the six pilot Community-Based Organizations (CBOs). The

business operations of the selected six CBOs were conducted in two cycles. During the first cycle from September 2008, three CBOs maintained their community-driven business operations and have been supported by Project team for about two years. The second cycle started from July 2009 with three CBOs, which received support from the Project team for a year.

Over the course of Phase I, the preparatory work was conducted both in Japan and Kyrgyzstan. The content of these activities covered the following main issues:

- 1) Project implementation planning and preparation of the draft Inception Report,
- 2) Review of the current situation of the community-driven development including the activities and programs of related stakeholders in the Issyk-Kul Oblast,
- 3) Discussion with stakeholders, and
- 4) Finalization of the Inception Report based on the results of (2) and (3) above<sup>93</sup>.

#### Capacity Development Seminars

Counterpart trainings for the Kyrgyz OVOP project team members were organized by JICA in Japan. Over the project implementation, there were held three counterpart trainings, including one during the Phase I and twice in Phase II. JICA Expert Team provided the necessary support to the IK-OSA with the training program preparation and with the submission of other relevant documentation. The list of participants and the detailed description of each training sessions held in Japan is provided below:

**Table 29. Counterpart Training in Japan**

| Session                              | Date                   | Place           | Participants  |
|--------------------------------------|------------------------|-----------------|---|
| 1 <sup>st</sup> Counterpart Training | Aug. 24 - Sep. 1, 2007 | Oita Prefecture | <ol style="list-style-type: none"> <li>1) Mr. Alyshbaev Kalybek Keneshovich (First Deputy Governor of Issyk-Kul OSA cum Project Director of the OVOP Project)</li> <li>2) Mr. Almaz Imanaliev (Project Manager, OVOP Project)</li> <li>3) Ms. Kasimbekova Lira (Leading Specialist, MoEDT)</li> </ol> |

<sup>93</sup> Supra n. 91, p. 4.

|                                      |                    |                 |   |
|--------------------------------------|--------------------|-----------------|---|
| 2 <sup>nd</sup> Counterpart Training | Sep. 23 - 27, 2008 | Oita Prefecture | <ol style="list-style-type: none"> <li>1) Ms. Mamedova Svetlana (Deputy Governor of the Issyk-Kul OSA cum PIU Member)</li> <li>2) Mr. Ibraev Bakyt (Project Manager of OVOP)</li> <li>3) Ms. Beishebaeva Venera (Deputy Head of Jeti-Oguz RSA)</li> <li>4) Mr. Shamshiev Nasriddin (Head of Regional Policy Dept., MoEDT)</li> </ol>  |
| 3 <sup>rd</sup> Counterpart Training | Oct. 13 -23, 2009  | Oita Prefecture | <ol style="list-style-type: none"> <li>1) Mr. B. Kupeshev (Head of Ak-Suu RSA)</li> <li>2) Mr. S. Kerimkulov (Head of Tup RSA)</li> <li>3) Mr. T. Chekiev (Head of Jeti-Oguz RSA)</li> <li>4) Mr. T. Mansurov (Head of Issyk-Kul RSA)</li> <li>5) Mr. Z. Jumaliev (Head of North Interregional Dept., MoEDT)</li> <li>6) Mr. A. Alymbekov (Chief Specialist of Industry, Transportation and Communication Dept. of Issyk-Kul OSA cum PIU Member)</li> </ol> |

Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

In addition to the counterpart trainings in Japan, several capacity building seminars for IK-OSA (PD, PM, PIU members and officers of various divisions related to the OVOP project); Rayon and Municipality Administrations (Ak-Suu, Tup, Jeti-Oguz, Issyk-Kul, Karakol and Balykchy); Issyk-Kul State University; NGOs; and private organizations were organized in Kyrgyzstan. One joint workshop during the Phase I and five joint seminars in Phase II. The content and description of these seminars are provided below Table 30.

**Table 30. Joint Seminars held in Kyrgyzstan**

| <b>Phase I</b>                        |                 |                            |   |
|---------------------------------------|-----------------|----------------------------|---|
| <b>Seminar</b>                        | <b>Date</b>     | <b>No. of Participants</b> | <b>Objective</b>  |
| Joint Workshop                        | 18 January 2007 | 28                         | <ul style="list-style-type: none"> <li>▪ Implementation of the Project under the concept of the OVOP Movement;</li> <li>▪ Integration of social and/or livelihood improvement programs into the OVOP Project activities;</li> </ul> |
| <b>Phase II</b>                       |                 |                            |   |
| Joint Seminar on Progress Report N. 2 | 15 May 2008     | 45                         | <ul style="list-style-type: none"> <li>▪ Reaching consensus on the strategy of the J-CEP and the overall pilot project plan, and</li> </ul>   |

|  |                 |    |   |
|--|-----------------|----|---|
|  |                 |    | <ul style="list-style-type: none"> <li>▪ confirming the progress of the pilot project among the participants.</li> </ul>  |
| Joint Seminar on Progress Report N.3             | 10 April 2009   | 42 | <ul style="list-style-type: none"> <li>▪ the presentation of the progress of the pilot project, and</li> <li>▪ discussion on the system for further community empowerment through the OVOP Movement.</li> </ul>   |
| Joint Seminar on Progress Report N. 4            | 4 December 2009 | 40 | <ul style="list-style-type: none"> <li>▪ presentation of the progress of the pilot project based on Progress Report No.4,</li> <li>▪ sharing the contents of the draft Guidelines for the OVOP Movement promotion among the stakeholders;</li> <li>▪ group discussion on the question “What we can do for sustainable regional development with the OVOP Movement considering the current system” and sharing the discussion results among the stakeholders.</li> </ul> |
| Joint Seminar with JICA Terminal Evaluation Team | 9 July 2010     | 40 | <ul style="list-style-type: none"> <li>▪ review of the project concept and strategy for community empowerment with the OVOP Movement,</li> <li>▪ presentation of achievements and perspectives by the main stakeholders of the Project, and</li> <li>▪ (iii) review of the recommendations, made by the main stakeholders at the Joint Seminar on 4<sup>th</sup> December 2009, for sustainable regional development with the OVOP Movement.</li> </ul>                 |
| Bishkek Seminar                                  | 4 August 2010   | 45 | <ul style="list-style-type: none"> <li>▪ presenting the good practice of “community empowerment with the OVOP Movement”, and</li> <li>▪ introducing the guidelines for further expansion of the Movement to the parties concerned at the central level.</li> </ul>  |

Source: JICA. “Community Empowerment Project in the Issyk-Kul Oblast,” Tokyo.  
<[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

## Budget Allocation

It's important to mention that no specific budget was arranged for the implementation of the OVOP Project. Despite the fact that there was no single budget arrangement formulated in relation to the OVOP Project, the IK-OSA/PIU was able to allocate about 1,820 USD. In addition, the IK-OSA also arranged the reduced amount of fees and for renting and production of OVOP products by instructing relevant government agencies, including Tax Inspectorate and Social Insurance Fund, Forestry Service, Architecture Office, Sanitation and Epidemiology Center, and Hospital in relation to the issuance of permissions for opening new businesses at reduced price. This state policy allowed the reduction of fees required for a business set up procedures by 22,864 KGS (about 490 USD), as described in Table 31.

**Table 31. Reduced Amount of Fees for Production and Sale of OVOP Products**

| Required Procedure  | Agency in Charge                           | Required Fee at Each Procedure (KGS) |                         |         |
|---|--|--------------------------------------|-------------------------|---------|
|   |  | Regulated                            | Applied to OVOP Project | Balance |
| 1) Designing of the rebuilding plan for the processing workshop             | Rayon Architecture Office                  | 5,000                                | 3,000                   | 2,000   |
| 2) Obtaining permission for rebuilding                                      | Rayon Architecture Office                  | 1,000                                | 0                       | 1,000   |
| 3) Laboratory test of products to obtain sanitary conclusion                | Oblast Sanitation and Epidemiology Center  | 726                                  | 0                       | 726     |
| 4) Obtaining certificate for sale after inspection of workshop and products | Karakol Testing and Standardization Center | 4,150                                | 2,160                   | 1,990   |
| Total cost per CBO  |  | 10,870                               | 4,160                   | 5,716   |
| Total cost for 4 CBOs   |  | 43,504                               | 16,640                  | 22,864  |

Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

### *5.2.4 Project Implementation Method*

According to the OVOP Project implementation strategy developed before the start of Phase I, the following points were referred as to be essential steps for community empowerment:

- 1) To provide support for villages/communities having the potential for, and interest in, production/processing of OVOP products and aiming at the development of human resources in rural area and creation of the Issyk-Kul Brand (IK-Brand);
- 2) To support villages/communities in the marketing of OVOP products aiming at the creation of a new value chain in which producers, purchasers, retailers, consumer groups and other supporters for the OVOP Movement are networked;
- 3) To build a network for the promotion of the OVOP Movement involving both the public and private sectors, and
- 4) To send information to the Central Government agencies on technical barriers to opening and operating community-based business aiming at the simplification of official restrictions.<sup>94</sup>

Based on this community empowerment strategy, a special project implementation mechanism was developed, as described in Figure 50. The key players for the implementation of the community empowerment plan were chosen four actors consisting of 1) villages/communities, 2) OVOP Service Provider, 3) Karakol Student Research Shop (KSRS), and 4) Bishkek Antenna Shop. Below is provided the detailed description of each project implementing actor.

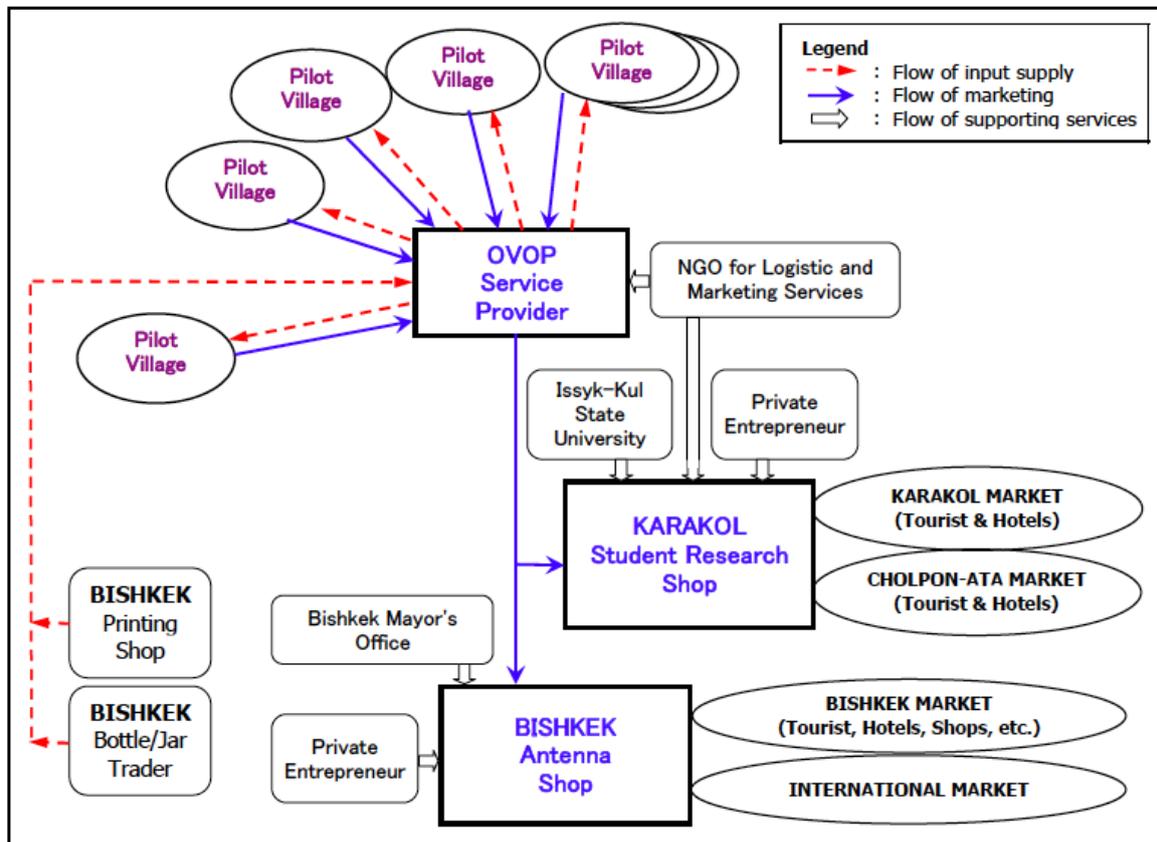
- 1) Villages/Communities: The OVOP Project was aimed at provision of support for the villages and local communities that have potential for and interest for the production of local products through applying OVOP concept. As such, this group was meant to serve as a primary target for maintaining Project's community empowerment objective. In this regard, the Project provided support for this target group, taking into account the limited capacity and difficulties for operating local businesses, by providing its technical support that enabled these communities to form a group, operationalize their business ideas, produce and sell their OVOP products. Yet, there were provided limited financial support for the group. The Project's support to the local communities was delivered in the form of facilities, equipment, and material necessary for launching their businesses. The list of equipment provided by the Project is presented in Table 32. In addition, a special mechanism to ensure the sustainability of the local businesses have

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<sup>94</sup> Supra n. 91, p. 16.

been formed that obliged the recipients of this equipment to repay the same value of the purchased items over the time.

**Figure 50. OVOP Promotion and Operation Plan**



Source: JICA. “Community Empowerment Project in the Issyk-Kul Oblast,” Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

- 2) OVOP Service Provider: is chosen among local NGOs with a substantial practice on the marketing of local products and familiarity with stakeholders in the market. The OVOP Service provided was assigned to 1) supply of requisite materials and services for the production/processing of OVOP products to the villages/communities, 2) providing technical support for processing of OVOP products, and 3) providing marketing services for the sale of OVOP products.<sup>95</sup>

<sup>95</sup> Supra n. 91, p. 17.

**Table 32. List of Equipment Provided by the Project**

| No. | Item   | Qty | Unit | Specification  |
|-----|--|-----|------|--|
| 1   | Desktop Computer   | 2   | Unit | CRT 17D  |
| 2   | Printer  | 2   | Unit | Canon LBP-2900<br>HP Color LaserJet 1500L            |
| 3   | UPS  | 1   | Unit | APC Back BK5001                                      |
| 4   | Fax machine  | 1   | Unit | Panasonic KX-FT931                                   |
| 5   | Copy machine   | 1   | Unit | Canon 1620   |
| 6   | Mobile telephone   | 4   | Unit | Nokia  |
| 7   | Heater   | 2   | Unit | N/A  |
| 8   | Meeting table  | 3   | Unit | Round (1), Rectangle (2)                             |
| 9   | Bookshelf  | 3   | Unit | Copy machine shelf (1)<br>Wooden bookshelf (2)       |
| 10  | Projector  | 1   | Unit | Acer XD1270D   |
| 11  | Herb drying machine  | 3   | Unit | Already given to Shaty, Sary-Dobo and Maman villages |
| 12  | Herb seeds (including import commission, transportation, quarantine) | 1   | Set  |  |
| 13  | Thermometer  | 3   | Unit |  |
| 14  | pH measure   | 1   | Unit |  |
| 15  | Construction of Herb distiller                                       | 1   | Unit | Already given to Maman village                       |
| 16  | Equipment and tools for soap making                                  | 1   | Set  |  |

Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

- 3) Karakol Student Research Shop (KSRS): was set up in September 2008 to serve as a marketing spot in the city. Due to the agreement between the Issyk-Kul State University and IK-OSA, the KSRS sought to be using the premises of Institute of Economy and Management of the Issyk-Kul State University to carry out marketing operation of the IK-Brand products. The operation of the KSRS was carried out by student volunteers of the Issyk-Kul State University. In total, there were chosen ten student volunteers who have an interest in conducting research on marketing of OVOP products and their promotion.
- 4) Bishkek Antenna Shop: was not opened as planned due to the disagreement between IK-OSA and Bishkek Mayor Office to obtain premises for Antenna Shop free of charge.

### 5.2.5 Overview of Kyrgyz OVOP Concept

The Kyrgyz OVOP concept was developed with an aim of supporting the revitalization of the socio-economic development of the Issyk-Kul Oblast. The concept incorporated itself into the

maintenance and preservation of regional development practice through community empowerment. The Kyrgyz OVOP concept was sought to be a “community empowerment practice that entails capacity development of the local community to solve the problems with the application of the local resources.”<sup>96</sup>

Based on the Kyrgyz OVOP concept, four main principles were developed by the Project team, including:

- 1) ***Development of Self-Concept***: Trust, Unity, Responsibility, Confidence, Awareness, Participation, Commitment, Vision, Initiative;
- 2) ***Acquisition of Skills & Knowledge***: Planning, Monitoring and Evaluation, Analysis, Facilitation, Decision-making, Problem-solving, Conflict Resolution, Leadership
- 3) ***Organizational Development***: NGO/CBO registration, Coordination/Management, Contact between groups, Association/Cooperative registration, Development of internal regulation;
- 4) ***Development of Infrastructure***: Processing workshop, Public facilities (schools, hospitals, cultural centre, etc.), Civil engineering and construction (roads, bridges, etc.)

The components of each principle are illustrated in the below Table 33:

**Table 33. Components and Elements which OVOP Project covers**

| <u>Development of Self-Concept</u> | <u>Acquisition of skills and Knowledge</u> |
|------------------------------------|--|
| ✓ Trust                            | ✓ Planning                                 |
| ✓ Unity                            | ✓ Monitoring and Evaluation                |
| ✓ Responsibility                   | ✓ Analysis                                 |
| ✓ Confidence                       | ✓ Facilitation                             |
| ✓ Awareness                        | ✓ Decision-making                          |
| ✓ Participation                    | ✓ Problem-solving                          |
| ✓ Commitment                       | ✓ Conflict Resolution                      |
| ✓ Vision                           | ✓ Leadership                               |
| ✓ Initiative                       | ✓ Marketing                                |
| ✓ Gender                           |  |

<sup>96</sup> Source: JICA. “Community Empowerment Project in the Issyk-Kul Oblast,” Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 March 2018).

|   |   |
|---|---|
| <u>Organizational Development</u>   | <u>Development of Infrastructure</u>  |
| <ul style="list-style-type: none"> <li>✓ NGO/CBO registration</li> <li>✓ Coordination/Management</li> <li>✓ Contact between groups</li> <li>✓ Development of internal regulation</li> <li>✓ Business Cooperation</li> </ul> | <ul style="list-style-type: none"> <li>✓ Processing workshop</li> <li>✓ Sales/Trade Shop</li> </ul> |

Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo.  
 <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

**Table 34. Means/tools used to fulfil OVOP principles**

|   |  |
|---|--|
| <u>Development of Self-Concept</u>  | <u>Acquisition of skills and Knowledge</u>   |
| <ul style="list-style-type: none"> <li>➤ Meetings</li> <li>➤ Seminar</li> </ul>   | <ul style="list-style-type: none"> <li>➤ Meetings (w/ OVOP Project Team)</li> <li>➤ Meetings (JL, VC, JA)</li> <li>➤ Seminar (by OVOP Project)</li> <li>➤ Seminar (by local specialists and experienced persons)</li> <li>➤ Study Tour</li> <li>➤ KSRS</li> <li>➤ Partnership w/ Guest Houses/Hotels</li> <li>➤ Fairs/Expos</li> </ul> |
| <u>Organizational Development</u>   | <u>Development of Infrastructure</u>   |
| <ul style="list-style-type: none"> <li>➤ Negotiations with relevant officials, state structures, private sectors, etc.<br/><br/>(Jamaats' participation is not necessarily required.)</li> <li>➤ Visit and meet with Institutions within Karakol</li> <li>➤ Organize/Arrange Meetings/Seminars</li> <li>➤ Correspondence (letters/via phone)</li> <li>➤ Consultations on organizational procedures, including registration of<br/><br/>NGO/CBO (Jamaat)</li> <li>➤ Support in elaboration (development) of Internal Regulation</li> </ul> | <ul style="list-style-type: none"> <li>➤ Credit for renovation</li> <li>➤ Technical Assistance</li> </ul>  |

Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo.  
 <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

### 5.2.6 Application of the Kyrgyz OVOP Concept

#### Selection of Pre-pilot villages (Phase I)

During the first session of the JSC, the herb production was chosen as one product for the implementation of the pre-pilot project taking into account Issyk-Kul's potential to conduct marketing operations using the herb as a specific product. The pre-pilot project was commenced by the PIU and JICA Expert Team until the end of January 2007. Two villages from Tup Rayon, such as Shaty village in Tup Aiyl Okrug (AO) and Sary-Dobo village in Aral AO were selected as the pre-pilot project sites (see Table 35). The two villages were selected based on the following four main steps:

- 1) On 26<sup>th</sup> January 2007, the Tup and Ak-Suu Rayons submitted their nominations of 13 villages in five AOs that has the potential for herb cultivation to the PIU's consideration;
- 2) On 3<sup>rd</sup> February 2007, the workshops were held by JICA Expert Team in Tup and Ak-Suu Rayons with the participation of the Head of respective AOs. The main objective for organizing these workshops was to narrow down and shorten the list of candidate villages for pre-pilot project activities. As part of workshop program, the JICA Expert Team and the Herb Production Supporting Team (HPST) conducted a session on OVOP herb production technology and herb marketing potential.
- 3) On 15<sup>th</sup> February 2007, workshops were organized in the respective candidate villages with the participation of farmers interested in herb cultivation. The Organizers of the workshop observed lack of leadership in Ak-Suu Rayon and faced the poor organization of the event. Over the workshop, the final selection criteria for candidate villages was formulated.
- 4) On 16<sup>th</sup> February 2007, the PIU examined the information collected during the third workshop and identified two villages only from Tup Rayon for pre-pilot project implementation. According to the final selection results, two villages, including Shaty and Sary-Dobo were identified as pre-pilot villages.

During the workshops held on 14<sup>th</sup> March 2007 in Shaty village and on 15<sup>th</sup> March 2007 in Sary-Dobo village, the OVOP project formally established a farmers' organization for the

production of Calendula. A specialized herb market research was conducted in the form of a survey of the government offices, producers, and private companies dealing with herb collection, processing, selling and exporting, during the period from March to April 2007 to explore the potential and marketability of the product in the Issyk-Kul Oblast. The survey results had shown that there is a high demand for herbs grown in the Issyk-Kul Oblast both in the domestic and foreign markets. However, the survey results had also revealed that the market potential of herbs was not utilized properly given the high demand for herbs in Kazakhstan and Russian and low level of production volume in the Issyk-Kul Oblast.

**Table 35. Number of members and area of Calendula producers group in Pre-pilot Villages**

| Pre-pilot sites       | Members       | Cultivation Area (ha) |
|-----------------------|---------------|-----------------------|
| Shaty Village         |               |                       |
| - Leader farmer       | 1 household   | 0.4                   |
| - Cooperative         | 8 households  | 3.0                   |
| Sub-total             | 9 households  | 3.4                   |
| Sary-Dobo Village     |               |                       |
| - School Group (CBO)  |               | 0.4                   |
| - Farmers Group (CBO) | 4 households  | 0.8                   |
| Sub-total             | 4 households  | 1.2                   |
| Total                 | 13 households | 4.6                   |

Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

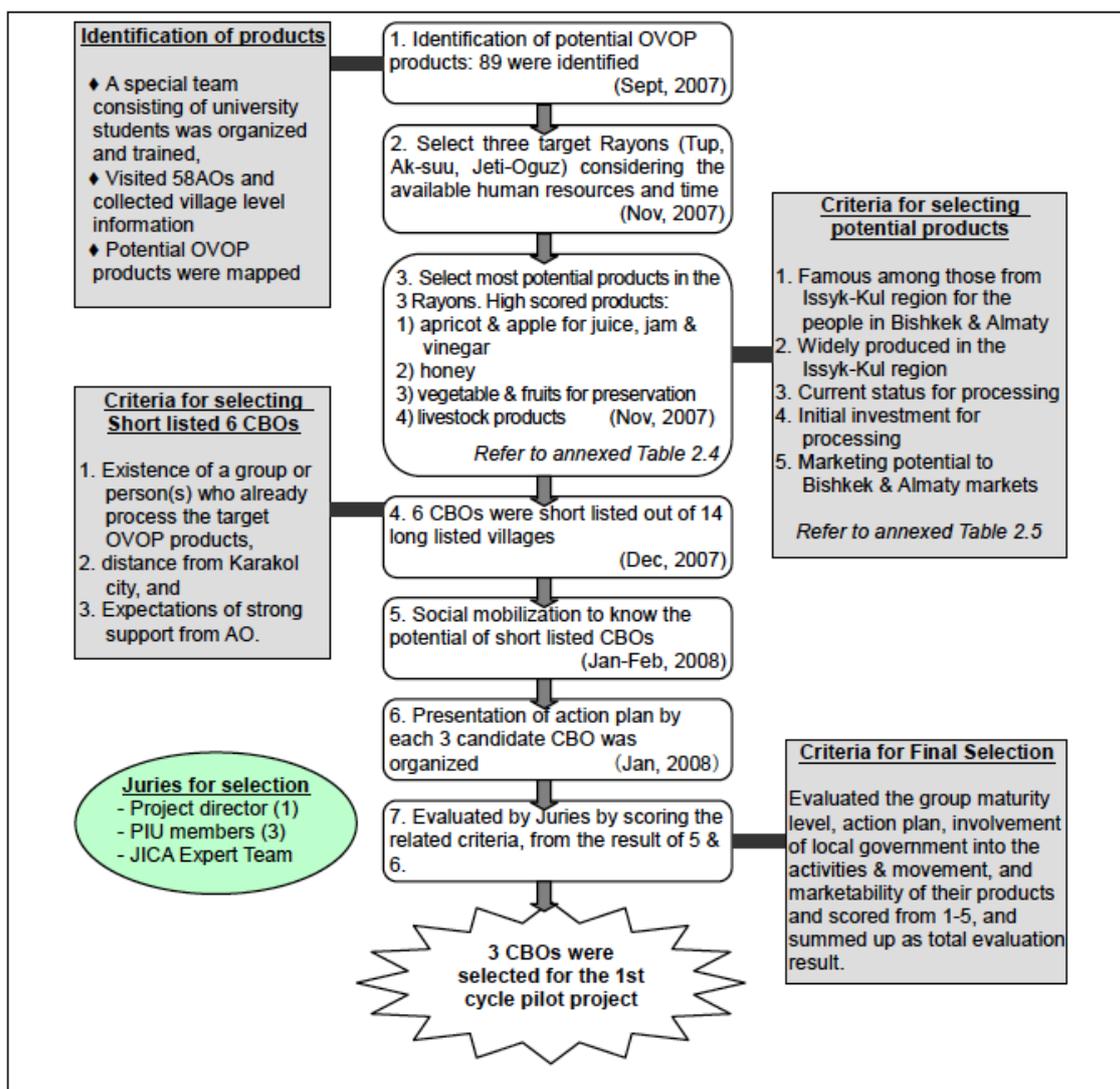
In Shaty village, one cooperative group led by a farmer with Calendula cultivation experience was established prior to the commencement of the pre-pilot project. In Sary-Dobo village, two CBOs were assigned to undertake Calendula cultivation activities. The School Group in Sary-Dobo village participated in the pre-pilot project in order to generate income from Calendula production at the school farm and use the accumulated capital for school's operations. Table 35 provides an overview of members and cultivation area exploited for Calendula production in each village.

#### Selection of Potential Products and Pilot Villages/Communities (Phase II - Cycle I)

The selection of potential pilot villages/communities for the 1<sup>st</sup> cycle was conducted through working together and identifying the attitude of target CBOs towards the OVOP Movement

over the course of action plan preparation. The selection process took six months and three CBOs were identified as finalists as illustrated in Figure 51.

**Figure 51. Selection Process of the 1<sup>st</sup> Cycle Pilot CBOs**



Source: JICA. “Community Empowerment Project in the Issyk-Kul Oblast,” Tokyo. [http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf) (accessed 3 May 2018).

A series of meetings were planned by the sub-contracted NGO with the guidance of the Expert Team as part of the selection process. These meetings can be categorized into two main parts. During the first part of the meetings organized in December 2007 around 200 participants from six potential pilot villages took part in it. The main objective of the workshop was to familiarize participants with the concept of the OVOP Movement, the purposes and plans of the pilot

project, the expected responsibilities to be taken by the potential pilot villages and the process of pilot-village selection including the schedule of the Second Workshop.<sup>97</sup>

The second workshop was organized at each six potential pilot villages during the period from January to February 2008 with the intention of formulating an overall action plan to facilitate the process of organizational development and production. Over the course of the second workshop, the participants met twice a week in order to work on their action plans as shown in Table 36. The workshop participants benefitted from receiving guidance from relevant agencies and organizations, such as Kyrgyz State Standard, Sanitation Epidemiological Service, Environmental Protection Service, Tax Inspection Service, Marketing Service Center.

**Table 36. Content of the workshops organized during the selection process**

| 1 <sup>st</sup> Part   | 2 <sup>nd</sup> Part  |
|--|---|
| <ul style="list-style-type: none"> <li>✓ Presentation to explain J-CEP and OVOP Movement</li> <li>✓ Film show “Irodori” (an example of community empowerment in Japan)</li> <li>✓ Discussion among the participants over possibilities and the application of the OVOP Movement in the Issyk-Kul Oblast.</li> <li>✓ Analysis of stakeholders and the current situations (advantages and disadvantages) of their potential</li> <li>✓ OVOP production in stages of raw-material collection, processing, bottling/packaging, labelling,</li> <li>✓ transportation, sales and marketing.</li> <li>✓ Discussion on the roles and responsibilities to be undertaken by the CBO members, local government</li> <li>✓ offices and J-CEP.</li> </ul> | <ul style="list-style-type: none"> <li>✓ Organizational Development plan includes; formulation of villagers’ organizational structure, assignment of personnel for the organizational management and determination of responsibilities of each person, and the establishment of the organizational rules.</li> <li>✓ Production/processing plan; collection of raw materials; processing of raw materials; procurement of materials and machinery required for production/processing; marketing of the OVOP product(s); required assistance from local administrations; required assistance from the J-CEP; cooperation with other villages; required certificates and permissions; and required research/survey for clarification of unknown factors.</li> </ul> |

Source: JICA. “Community Empowerment Project in the Issyk-Kul Oblast,” Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

After two workshops, the three CBOs were chosen. In addition, the OVOP project team decided to continue provision of support for the CBO from Maman village, separately from the potential pilot CBOs. The description of 1<sup>st</sup> cycle pilot CBOs is provided in the below Table 37.

<sup>97</sup> Supra n 91, p. 22.

**Table 37. Characteristics of 1st Cycle Pilot CBOs and partner CBO**

1<sup>st</sup> Cycle Pilot CBOs

|  |   |
|--|---|
| <p><b>ADILET</b><br/>Wildberry jam</p>  | <p>Jergez Village, Keregetash AO, Ak-Suu Rayon<br/>Registration: not yet registered<br/>14 Members (F7 and M7)<br/>Structure: Leader and Members<br/>No system for regular meetings and record keeping<br/>Workshop: member's home kitchen<br/>Equipment: cooking heater, pot, etc.</p>                   |
| <p><b>BEREKE</b><br/>Wildberry jam</p>  | <p>Chonkyzylsuu Village, Svetlaya Poliyana AO, Jeti-Oguz Rayon<br/>Registration: not yet registered<br/>8 Members (F4 and M4)<br/>Structure: No official structure<br/>No system for regular meetings and record keeping<br/>Workshop: members' home kitchen<br/>Equipment: cooking heater, pot, etc.</p> |
| <p><b>SHIRIN</b><br/>Dry fruits</p>    | <p>Saruu Village, Saruu AO, Jeti-Oguz Rayon<br/>Registration: not yet registered<br/>10 Members (F5 and M5)<br/>Structure: No official structure<br/>No system for regular meetings and record keeping<br/>Workshop: member's home kitchen<br/>Equipment: electrical fruit drying machine</p>             |

Partner CBO

|  |  |
|--|--|
| <p><b>UZDAR*</b><br/>Herbal soap</p>  | <p>Maman Village, Oktybr AO, Ak-Suu Rayon<br/>Registration: not yet registered<br/>12 Members (F10 and M2), Family and friend oriented<br/>Structure: No official structure<br/>No system for regular meetings, some experiences of record keeping<br/>Workshop: member's private workshop<br/>Equipment: herb dryer</p> |
|--|--|

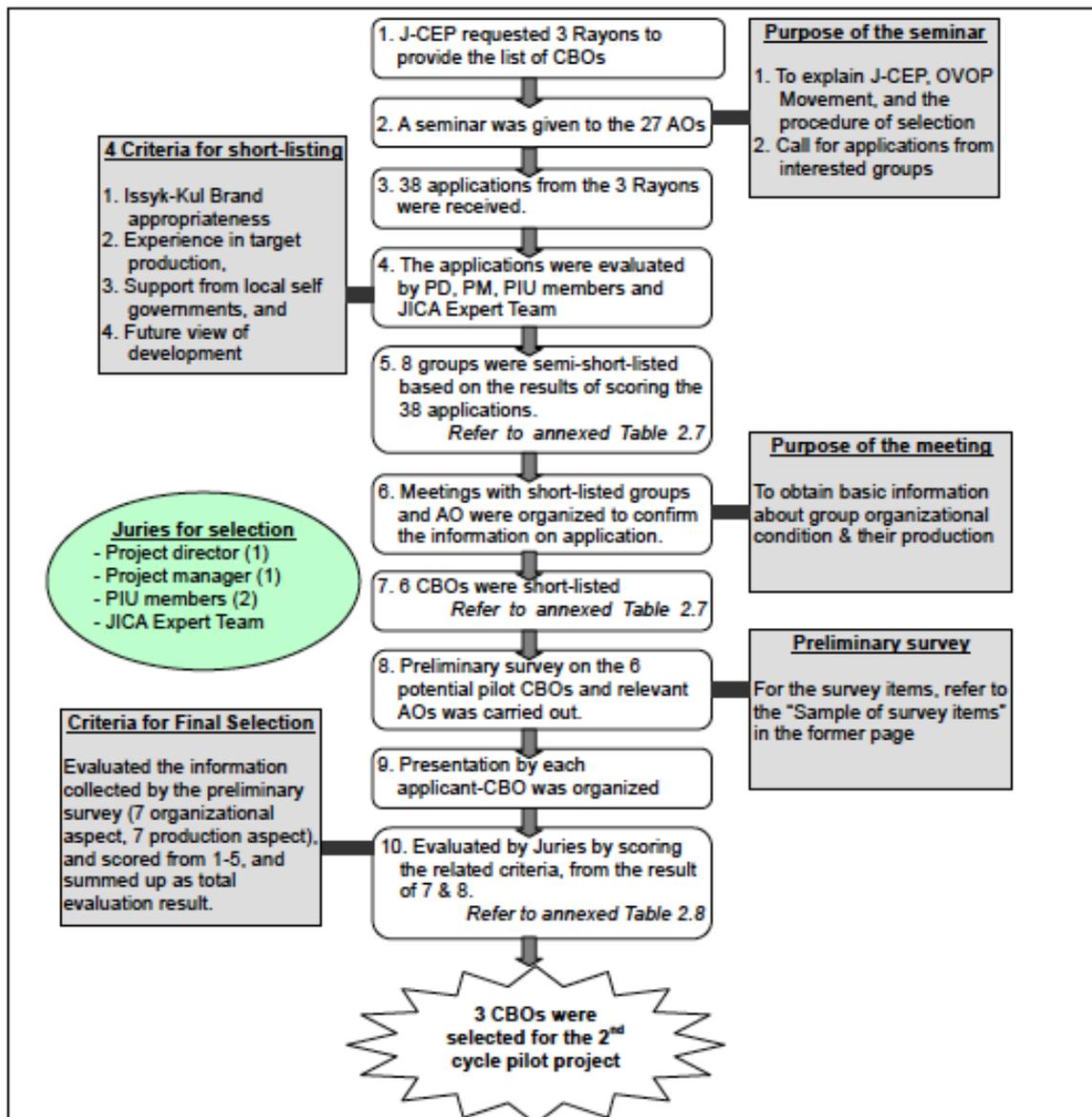
Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo.  
<[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

Selection of Potential Products and Pilot Communities (Phase II – Cycle II)

The selection method for the 2<sup>nd</sup> cycle pilot project was changed taking into account the selection process of the 1<sup>st</sup> cycle. The change in the selection methodology came to existence in order to i) find enthusiastic and positive groups to work for the OVOP Movement, not only those interested in receiving external support for improvement of their livelihood, considering the remained time of the project, and ii) identify a more simplified method for the

OSA/Rayon/AO to be able to take over after completion of the project.<sup>98</sup> The selection of the 2<sup>nd</sup> cycle pilot villages/communities took place from October to the end of December 2008 using the following procedure:

**Figure 52. Selection process of the 2<sup>nd</sup> Cycle Pilot CBOs**



Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

<sup>98</sup> Supra n. 91, p. 35.

After the end of the two-month-long selection process, there were selected the following three CBOs for the 2<sup>nd</sup> cycle pilot project as depicted in Table 38.

**Table 38. Characteristics of 2<sup>nd</sup> Cycle Pilot CBOs**

|  |   |
|--|---|
| <p><b>AK SHOOLA</b><br/>Wool/Felt Handicraft</p>    | <p>Tasma Village, Karasaev Aiyl Okrug, Tup Rayon<br/>Registered as a CBO in 2003<br/>8 Members (7F and 1M), Not family oriented<br/>Structure: Leader and Members<br/>No system for regular meetings and record keeping<br/>Facility: Processing Workshop provided by AO<br/>Equipment: Wool processing machine available</p>   |
| <p><b>ONOR BULAGY</b><br/>Wool/Felt Handicraft</p>  | <p>Barskoon Village, Barskoon Aiyl Okrug, Jety-Oguz Rayon<br/>Registered as CBO in 2005<br/>8 Members (5F and 3M), Family and friend oriented<br/>Structure: Leader, Secretary, Accountant, Marketing, Designer, Members<br/>No system for regular meetings, some experience of the record keeping<br/>Facility: Processing Workshop provided by AO<br/>Equipment: Wool processing machine is not available</p> |
| <p><b>ERBOL</b><br/>Wool/Felt Handicraft</p>      | <p>Tosor Village, Tamga Aiyl Okrug, Jety-Oguz Rayon<br/>Registered as Workshop in 2007<br/>14 Members (9F and 5M), Family oriented<br/>Structure: No official structure<br/>No system for regular meetings, some experience of the record keeping<br/>Facility: Processing Workshop provided by AO<br/>Equipment: Wool processing machine available</p>   |

Source: JICA. “Community Empowerment Project in the Issyk-Kul Oblast,” Tokyo.  
<[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

**Figure 53. Location of Pilot CBOs**



Source: JICA. “Community Empowerment Project in the Issyk-Kul Oblast,” Tokyo.  
<[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

### 5.2.7 Kyrgyz OVOP Methods

#### Phase I

##### Technical and Marketing Guidance

In order to support the implementation of the pre-pilot project a special guiding mechanism, namely Herb Production Support Team (HPST) was established. One of the core objectives of this mechanism was to assist selected CBOs with their business operations through delivering knowledge of technical and marketing technique to the Calendula producers group. The HPST was formed from a lecturer on agronomy from the Issyk-Kul State University, a leader of Kyrgyz Herb Producers Association (KHPA) and a herb trader/processor. Later, an expert from the Kyrgyz Medical Institute joined a team in order to provide advice on the issue of Calendula allergy in Shaty village.

The HPST was also responsible for the arrangement of Calendula seeds. The Team was able to arrange a total of 100 kg of Calendula seeds, out of which 64 kg was distributed to Shaty village, 19,5 kg to Sary-Dobo village and 16,5 kg to Maman village.

The HPST carried out trainings and workshop dedicated at familiarizing the participating project participants with the Calendula cultivation technique and marketing methods. In total, two trainings and two workshops were held, including:

- 1) On 3<sup>rd</sup> February 2007, the HPST organized a workshop on herb production technology and marketing potential of Calendula production in Tup and Ak-Suu Rayons;
- 2) On 27<sup>th</sup> February 2007, the HPST conducted a workshop on herb production technology and marketing potential in the pre-pilot villages of Shaty and Sary-Dobo in order to form a Calendula producers group.
- 3) On 12<sup>th</sup> April 2007, a practical technical training course on seeding technology and selling procedures was organized for the participating pre-pilot villages;
- 4) On 12<sup>th</sup> June 2007, a practical technical training on thinning and irrigation technique was conducted for the Calendula producers group members from pre-pilot villages.

### Trial of Solar Drying Facility

A trial solar drying facility was constructed by OVOP Project in cooperation with KHPA in three locations, including Shaty, Sary-Dobo and Maman villages. The exploitation of the new facility by Calendula producers group had been regarded as less effective in comparison to the original way of drying. Because herb producers had to monitor frequently the drying process through changing the position of drying layers and constantly changing the plastic sheets used for covering drying house during the windy weather conditions. As such, the majority of producers opted for a conventional way of drying instead of using a time-consuming method of herb drying.

### Training for Community Empowerment

The Project team organized a one-month long training for community empowerment at the end of July 2007. The training was aimed at a group of people consisting of OVOP herb farmers' organizations and pursued the target of stimulating the livelihood improvement activities at each pre-pilot villages. During the training course, the participants had an opportunity to develop an action plan for livelihood improvement operations and got familiarized with the family budgeting and business plan development approaches. The training was implemented in close partnership with the local NGO called "Community Development Alliance (CDA)", which served as a subcontractor of the Project.

The training had four main components, including:

- 1) a study tour to Boz-Beshek village, Jety-Oguz Rayon to learn the practices of local community-based organizations in maintaining effective community development activities through social mobilization.
- 2) Training/workshop on social mobilization
- 3) Training/workshop and consultations on business planning, and
- 4) Post-training activities based on the training outputs.<sup>99</sup>

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<sup>99</sup> Supra n. 91, p. 10.

Over the course of training sessions in the pre-pilot villages, the participants expressed their interest in learning more about the community empowerment ways through partaking in a study tour to learn about the ways being utilized in other sites of the country that they could apply to the development of their own communities.

The training course on social mobilization allowed participants to establish a partnership between two pre-pilot villages. Moreover, the participants were also briefed on (i) how to register a group at the AO level to attain a legal status, (ii) how to develop projects and attract donors for their own community development, (iii) accounting principles for cash assets within the group, (iv) how to establish and develop a group or a community fund, and (v) What are the principles of CBO or cooperative collective activities.<sup>100</sup>

In addition to the knowledge of social mobilization, the participants were also able to access their accounting skills through conducting an analysis of their own income-generating activities, including the cost of their production. This component of the workshop contributed to the improvement of their accounting and business planning skills.

## Phase II

### Market Research on Potential Products

During the first cycle of Pilot Project, the market research on the potential OVOP product was carried out from December 2007 to February 2008 through visiting major supermarkets and bazaars in Bishkek and Karakol. The survey conducted in the first cycle concentrated in identifying the potential and marketability of major products from fruits (jam, fresh juice, vinegar, dry fruits, herbal soap, and herbal oil) of the Issyk-Kul Oblast.

In the second cycle, market research on potential OVOP products was conducted from November to December 2008 and was undertaken through observation the activity of local felt producers, manufacturers, retailers and handicrafts in Karakol and Bishkek. The data gathered

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<sup>100</sup> Supra. n 91, p. 10.

through survey research identified the availability of felt, its price and potential for development of the new type of felt made souvenirs in the market.

### Setting up Processing Workplaces

In order to accelerate the production process, the Project team set up several workplaces at each pilot CBOs under the supervision of the sub-contracted NGO during the period of July and August 2008 (1<sup>st</sup> cycle) and June 2009 (2<sup>nd</sup> cycle). These workplaces were formulated hand in hand with the renovation of existing premises of the project participants.

The OVOP Project purchased and delivered the basic renovation materials under the supervision of the renovation specialist (sub-contracted NGO), while CBOs contributed to the renovation efforts with the provision of labour work and some existing materials, such as lime, painting brush, loam, sand, nails, etc. The Project had also purchased the necessary tools and equipment upon request.

During the first cycle, all CBOs were able to set up their workplaces by the end of August 2008 and obtained the necessary certificates and permissions from relevant state institutions in their Rayons, including architecture office, sanitary office and fire office to be able to proceed with the exploitation of their premises. However, during the second cycle, CBO Erbol couldn't set up their workplace by completing the renovation works due to the lack of necessary human resources and other internal problems.<sup>101</sup>

### Technical trainings (2<sup>nd</sup> Cycle)

Several technical trainings were organized by the Project in order to improve the quality of OVOP products of the participating CBOs during the second cycle of Pilot Project. The detailed description of the content of these trainings is provided in Tables 39, 40 and 41.

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<sup>101</sup> Supra n. 91, p. 38.

**Table 39. First technical training session during the second phase (2<sup>nd</sup> cycle)**

|                 |  |
|-----------------|--|
| Objective:      | To train the handicraft CBOs in the technology of quality wool processing, and felt products making and marketing  |
| Date:           | July 7- 8, 2009 (2 days)   |
| Venue:          | CBO Ak Shoola leader's yard in Tasma village   |
| Participants:   | 15 participants (5 members from each CBO)  |
| Trainers:       | One felt making specialist, one marketing specialist from CACSA RC (Central Asia Craft Support Association Regional Centre)  |
| Program content | <ul style="list-style-type: none"> <li>✓ efficient method of sorting and cleaning wool,</li> <li>✓ making different thickness of felt by hand depending on the purposes,</li> <li>✓ lecture on marketing of felt products, and</li> <li>✓ comments on the present CBOs' products for improvement.</li> </ul> |

Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo.  
[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf) (accessed 3 May 2018).

**Table 40. Second technical training session during the second phase (2<sup>nd</sup> cycle)**

|                 |  |
|-----------------|--|
| Objective:      | To train the handicraft CBOs in embroidery technique to improve quality of their felt products applicable to the market requirements   |
| Date:           | August 18 -20, 2009 (3 days)   |
| Venue:          | Altynbek guest house, Karakol  |
| Participants:   | 11 participants (Ak Shoola: 4, Erbol: 3, Onor Bulagy: 4)   |
| Trainers:       | One embroidery specialist from CACSA RC  |
| Program content | <ul style="list-style-type: none"> <li>✓ various traditional embroidery technologies which exist in Kyrgyz including the ones which are not inherited these days,</li> <li>✓ how to match colours of threads in embroidering,</li> <li>✓ meaning of patterns in products, and</li> <li>✓ the steps to follow from preparation, designing to production.</li> </ul> |

Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo.  
[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf) (accessed 3 May 2018).

**Table 41. Third technical training session during the second phase (2<sup>nd</sup> cycle)**

|                 |  |
|-----------------|--|
| Objective:      | To train the handicraft CBOs in techniques of dyeing using natural plants and chemical materials   |
| Date:           | July 23-24, 2010 (2 days)  |
| Venue:          | "Green Yard" Guest house, Karakol  |
| Participants:   | 11 participants (Ak Shoola: 6 members, Onor Bulagy: 5 members)   |
| Trainers:       | One dyeing specialist from CACSA RC  |
| Program content | <ul style="list-style-type: none"> <li>✓ meaning of dyes coloured by natural plants,</li> <li>✓ technology of collection of herbs, barks, roots and leaves for preparation of dyeing materials,</li> <li>✓ practical work sessions (wool, silk and cotton dyeing, natural dyes, chemical dyes),</li> <li>✓ comparative analyses of chemical dyes, different technologies of wool dyeing using chemical dyes and places for purchasing, and</li> <li>✓ colour palette out of main colours.</li> </ul> |

Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo.  
[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf) (accessed 3 May 2018).

### Technical training by Japanese short-term expert – design specialist (2<sup>nd</sup> Cycle)

As part of supporting the construction of OVOP product brands, individual technical training sessions for each CBOs were organized with the participation of Japanese short-term expert on product designing. During the second cycle of the Pilot project, two sessions were held in September and in March-April 2009. These trainings were conducted in each CBO for 4-5 times and enabled participants to get familiarized i) how to characterize the OVOP products of CBOs as IK-Brand, ii) how to diversify the products, especially in terms of color variation, iii) introduction of new technology using felting needle, iv) proposing the idea of new products, and v) instruction to improve the existing products.<sup>102</sup>

After the training with an expert, two CBOs, namely Ak Shoola and Onor Bulagy demonstrated the improvement of their product brands. For instance, two CBOs prepared several samples of their felt products and demonstrated them during the AgroProd Expo held on 18-21 September 2009 in Bishkek. In addition, participation in this event also allowed CBOs to examine the market and observe the views of the customers. The trainings sessions conducted by a Japanese expert are reported to be effective for all CBOs, but despite the similar approach and time allocated to the CBO Erbol couldn't make any progress with sampling.

### Study tours

The Project team organized six, including three study tours during the 1<sup>st</sup> cycle and three study tours in the 2<sup>nd</sup> cycle of Pilot Project, as shown in Tables 42 and 43. These study tours were organized both by the Project and on the initiative of participating CBOs. The defining characteristics of these tours are that they provided an opportunity for project participants to obtain new knowledge so that they could improve their products and build a partnership with CBOs.

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<sup>102</sup> Supra n. 91, p. 39.

**Table 42. Study Tours Organized for 1st Cycle Pilot CBOs**

| Date              | Objectives   | Major sites visited  | Participants   |
|-------------------|--|--|--|
| 22-24 April, 2008 | <ul style="list-style-type: none"> <li>◆ Proceed necessary procedure for opening business (Calculate the nutritional value of the product)</li> <li>◆ Learn from the experienced organization</li> <li>◆ Learn the negotiation with jar and packaging companies</li> <li>◆ Market research in the supermarket, souvenir shop, and gift shops in Bishkek</li> </ul> | <ul style="list-style-type: none"> <li>◆ certified body for applying Nutrition Value calculation (Cholpon-ata)</li> <li>◆ Cooperative “Ai Cam Dan” (Issyk-ata)</li> <li>◆ Jar company “AIG Service”</li> <li>◆ Package company “Chetin”, “Tatan” for obtaining information on package sealing machine</li> <li>◆ Quality Souvenir Shops</li> </ul> | 8 members<br>(2 from each CBO)                                     |
| 3- 5 August, 2009 | <ul style="list-style-type: none"> <li>◆ To investigate possibilities of organizing sales in Cholpon-Ata</li> <li>◆ To collect information on packaging materials and labels by visiting printing houses in Bishkek</li> <li>◆ To collect information on jars by visiting jar companies in Bishkek and Tokmok</li> </ul>   | <ul style="list-style-type: none"> <li>◆ Shops in Cholponata: Aidana, Ursus, Dariya, Seyil, Goluboi Issyk-Kul and Ala-Too</li> <li>◆ Packaging/label materials: Chetin and Iz Basma</li> <li>◆ Printing company: Continent Plus and Al Salaam</li> <li>◆ Glass jars: AIG service (Bishkek), Chui glass(Tokmok)</li> </ul>                          | 3 members<br>(one member from each CBO: Adilet, Bereke and Shirin) |
| 20 October, 2009  | <ul style="list-style-type: none"> <li>◆ CBO Shirin and Adilet members will learn the technology CBO Bereke uses in barberry and sea buckthorn berry jam processing</li> <li>◆ CBO Shirin and Adilet members will learn how CBO Bereke keep records and implement J-Activities</li> </ul>  | <ul style="list-style-type: none"> <li>◆ CBO Bereke, Chonkyzylsuu Village, Jety-Oguz Rayon</li> </ul>  | 7 Bereke members and 3 Shirin members                              |

Source: JICA. “Community Empowerment Project in the Issyk-Kul Oblast,” Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

**Table 43. Study Tours Organized for 2nd Cycle Pilot CBOs**

| Date   | Objectives   | Major sites visited   | Participants                   |
|--|--|---|--------------------------------|
| 5 <sup>th</sup> - 7 <sup>th</sup> March 2009 | <ul style="list-style-type: none"> <li>◆ To learn felt workshop management and marketing from experienced organizations (including quality control, arrangement of workshop, etc.)</li> <li>◆ To know the global standard quality souvenirs, through visiting EXPO, learning standard of CACSA, and making market research in souvenir shops</li> <li>◆ To learn the possibilities of packages, labels, and way of making order to printing company</li> </ul> | <ul style="list-style-type: none"> <li>◆ Felt Art Expo “Orchid”, organized by designer “AIDAI” (Bishkek)</li> <li>◆ Printing company “Jagur”, “Co-Grafic” (Bishkek)</li> <li>◆ CACSA RC (Bishkek)</li> <li>◆ Quality felt art group, “Tumar”</li> <li>◆ Quality felt souvenir shops (Tasiana, Tumar, etc.)</li> <li>◆ Felt workshop, “Felt Art Studio”, “Altyn Oimok” (Bokonvaevo)</li> </ul> | 6 members<br>(2 from each CBO) |
| 9 <sup>th</sup> August, 2009                 | <ul style="list-style-type: none"> <li>◆ To learn quality handicrafts made by 100 craft masters from Central Asia, Russia and India.</li> <li>◆ To collect any information about materials, design, new technologies, good materials, etc.</li> </ul>  | <ul style="list-style-type: none"> <li>◆ 4<sup>th</sup> International Festival on Culture Dialogue” by CACSA and Ministry of culture with support of Issyk-Kul RSA (Cholponata)</li> </ul>  | 11 members from 3 CBOs         |

|                            |   |  |                       |
|----------------------------|---|--|-----------------------|
| 12th - 13th February, 2010 | ◆ To observe and examine the possibility of participating in future CACSA organized handicraft fair | ◆ Handicraft fair organized by CACSA (Karavan centre, Bishkek) | 5 members from 3 CBOs |
|----------------------------|---|--|-----------------------|

Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

### Promotional Events

Pilot CBOs participated in a series of events in order to promote their products and showcase their community empowerment activities. Prior to each event, participating CBOs accomplished joint preparations for the event by rehearsing and sharing their view on each others presentation. In total, CBOs participated in 12 events during the first cycle and in 11 events during the second cycle of the Pilot project. The detailed description of these events is presented in Tables 44 and 45.

**Table 44. Feature Events Participated by 1st Cycle CBOs**

| Date   | Event  | Objectives  | Participants                                 |
|--|--|---|--|
| 23 <sup>rd</sup> - 25 <sup>th</sup> Oct, 2008    | Japan Center EXPO (Bishkek) "Design and Modern life based on the Experience of Japan" ( by KRJC)   | PR, sales, collection of comments   | CBO:8<br>ET:2, KSRS: 2<br>JOCV:1             |
| 29 <sup>th</sup> Oct - 1 <sup>st</sup> Nov, 2008 | AgroProd EXPO (Bishkek) (by MAWPI and Chamber of Commerce and Industry)  | PR, sales, collection of comments   | CBO:7<br>ET:2, KSRS: 2                       |
| 19 <sup>th</sup> Dec, 2008                       | Meeting and presentation toward potential partner guesthouses/hotels in Karakol (OSA) (by J-CEP)   | Introduction of J-CEP activities & IK-Brand, discuss possibility of collaboration | GHs/Hotels: 8<br>CBOs: 4<br>ET: 8<br>KSRS: 4 |
| 13 <sup>th</sup> - 14 <sup>th</sup> , Mar 2009   | Joint wrap up workshop among 1st cycle CBOs  | Wrap up of the first year activities  | CBO:4<br>ET: 4                               |
| 25 <sup>th</sup> July, 2009                      | CBT festival (Jeti-Oguz) (by Community Based Tourism)  | PR, sales, collection of comments   | CBO:7<br>ET:6, KSRS: 5                       |
| 18 <sup>th</sup> - 21 <sup>st</sup> Sept, 2009   | AgroProd EXPO (Bishkek) (by MAWPI and Chamber of Commerce and Industry)  | PR, sales, collection of comments   | CBO:12<br>ET:4, KSRS: 2                      |
| 17 <sup>th</sup> Oct, 2009                       | Rayon Harvest Festival   | PR, sales, collection of comments   | CBO: 2<br>KSRS: 3                            |
| 31 <sup>st</sup> Nov - 1 <sup>st</sup> Dec, 2009 | At Chabush Festival (Barskoon village, Jeti-Oguz) (by Barskoon AO and a local travel agency with the support of Kyrgyz Ate Foundation, The Chrisensen Fund, Pamir's Bridges and Embassy of France) | PR, sales, collection of comments   | CBO:13<br>ET:5, KSRS: 11                     |

|  |   |   |                        |
|--|---|---|------------------------|
| 4 <sup>th</sup> Dec, 2009                        | Joint Seminar (OSA) (by J-CEP)                                    | Presentation of progress of pilot projects, discussion on sustainable regional development with OVOP Movement | 44 participants        |
| 11 <sup>th</sup> Mar, 2010                       | OVOP Movement Promotion Workshop (Talas) (by JICA Bishkek Office) | Presentation of CBO activities  | CBO: 3<br>KSRS: 1      |
| 21 <sup>st</sup> Mar, 2010                       | PR campaign during Nooruz holiday                                 | PR, sales, collection of comments   | CBO:3<br>ET:1, KSRS: 4 |
| 19 <sup>th</sup> May, 2010                       | Summer product presentation (OSA)                                 | Presentation of summer products and approval as IK-Brand  | 41 participants        |
| 30 <sup>th</sup> Apr - 2 <sup>nd</sup> May, 2010 | 12 <sup>th</sup> International Exhibition Fair, "Kyrgyzstan 2010" | PR, sales, collection of comments   | CBO:4<br>ET:2, KSRS: 5 |
| 29 <sup>th</sup> May, 2010                       | 12 <sup>th</sup> Issyk-Kul Tourism Fair                           | PR, networking with potential business partners, sales, collection of comments                                | CBO:5<br>ET:2, KSRS: 3 |

Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

**Table 45. Feature Events Participated by 2nd Cycle CBOs**

| Date   | Event  | Objectives  | Participants                 |
|--|--|---|------------------------------|
| 25 <sup>th</sup> Mar, 2009                       | Presentation of sample products  | Presentation of first samples products to receive comments  | 41 participants              |
| 25 <sup>th</sup> July, 2009                      | CBT festival (Jeti-Oguz) (by Community Based Tourism)  | PR, sales, collection of comments   | CBO: 7<br>ET: 6, KSRS: 5     |
| 18 <sup>th</sup> - 21 <sup>st</sup> Sept, 2009   | AgroProd EXPO (Bishkek) (by MAWPI and Chamber of Commerce and Industry)  | PR, sales, collection of comments   | CBO: 12<br>ET: 4<br>KSRS: 2  |
| 31 <sup>st</sup> Nov - 1 <sup>st</sup> Dec, 2009 | At Chabush Festival (Barskoon village, Jeti-Oguz) (by Barskoon AO and a local travel agency with the support of Kyrgyz Ate Foundation, The Chrisensen Fund, Pamir's Bridges and Embassy of France) | PR, sales, collection of comments   | CBO: 13<br>ET: 5<br>KSRS: 11 |
| 5 <sup>th</sup> Nov, 2009                        | Presentation of sample products  | Presentation of winter marketing products and approval as IK-Brand  | 39 participants              |
| 4 <sup>th</sup> Dec, 2009                        | Joint Seminar (OSA) (by J-CEP)   | Presentation of progress of pilot projects, discussion on sustainable regional development with OVOP Movement | 44 participants              |
| 11 <sup>th</sup> Mar, 2010                       | OVOP Movement Promotion Workshop (Talas) (by JICA Bishkek Office)  | Presentation of CBO activities  | CBO: 3<br>KSRS: 1            |
| 21 <sup>st</sup> Mar, 2010                       | PR campaign during Nooruz holiday  | PR, sales, collection of comments   | CBO:3<br>ET:1, KSRS: 4       |
| 19 <sup>th</sup> May, 2010                       | Summer product presentation (OSA)  | Presentation of summer marketing products and approval as IK-Brand  | 41 participants              |
| 30 <sup>th</sup> Apr - 2 <sup>nd</sup> May, 2010 | 12 <sup>th</sup> International Exhibition Fair, "Kyrgyzstan 2010"  | PR, sales, collection of comments   | CBO:4<br>ET:2, KSRS: 5       |

|                            |   |  |                        |
|----------------------------|---|--|------------------------|
| 29 <sup>th</sup> May, 2010 | 12 <sup>th</sup> Issyk-Kul Tourism Fair | PR, networking with potential business partners, sales, collection of comments | CBO:5<br>ET:2, KSRS: 3 |
|----------------------------|---|--|------------------------|

Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

## 5.3 Overview of OVOP Activities and their Impact

### 5.3.1 Phase I

#### Herb production in Pre-pilot villages

Calendula seeds were imported and distributed among the participants of the pre-pilot project. The herb seeds were imported from three different places, including from Germany, Botanical garden in Bishkek and Japan. Five new species of herb seeds, including Red Calendula (3.0 kg), Basil (1.0 kg), Hyssop (1.0 kg), Lemon Balm (1.0 kg), and Savory (1.0 kg), were imported from Germany with the support of German Agency for Technical Cooperation (GTZ) in order to cultivate them in the Issyk-Kul Oblast. Most of the seeds were distributed to KHPA for cultivation purposes. In addition, 50 g. of each species were also provided to the Botanical Garden in Bishkek. In turn, the Botanical Garden arranged the provision of another type of herb seeds, such as *Origanum Officinale* (500 seedlings) and Mint [F1 variety] (1,000 seedlings) to KHPA. These seeds were planted as a trial during the 2007 crop season.

Another type of herb seeds was arranged by Japan for trial purposes in the Issyk-Kul Oblast, although in low quantity. The imported seeds from Japan included Lavender (about 0.6 ml), English Lavender (0.6 ml), Hyssop (0.4 ml), Common Thyme (0.5 ml), Large Sweet Basil (0.5 ml), Peppermint (0.5 ml), German Chamomile (0.6 ml), and Echinacea (0.1 ml).<sup>103</sup> These seeds were distributed to the relevant project partners at Maman village, Karakol municipality and Kyzyl-Suu village.

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<sup>103</sup> Supra n. 91, p. 11.

Among all seeds, only Hyssop, Common Thyme and Sweet Basil were grown in Karakol, while Hyssop and Sweet Basil in Jety-Oguz. Later, there had been observed that only Sweet Basil progressed towards the harvest stage in Karakol and Jety-Oguz.

The Project collected the necessary data and information from calendula group members in Shaty village and estimated the income increase effect of the distributed crops. The net income in Shaty village amounted to 44,900 KGS<sup>104</sup>, as presented in the below table:

**Table 46. Estimated Net Income of Calendula per Hectare in Shaty Village**

| Product                | Yield (kg) | Unit Price (KGS/kg) | Gross Income (KGS) | Production Cost (KGS) | Net Income (KGS) |
|------------------------|------------|---------------------|--------------------|-----------------------|------------------|
| Calendula (dry flower) | 1,600      | 45                  | 72,000             | 27,100                | 44,900           |

Source: JICA. “Community Empowerment Project in the Issyk-Kul Oblast,” Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

The net income per household for two types of Calendula producers generated the following results in Shaty village:

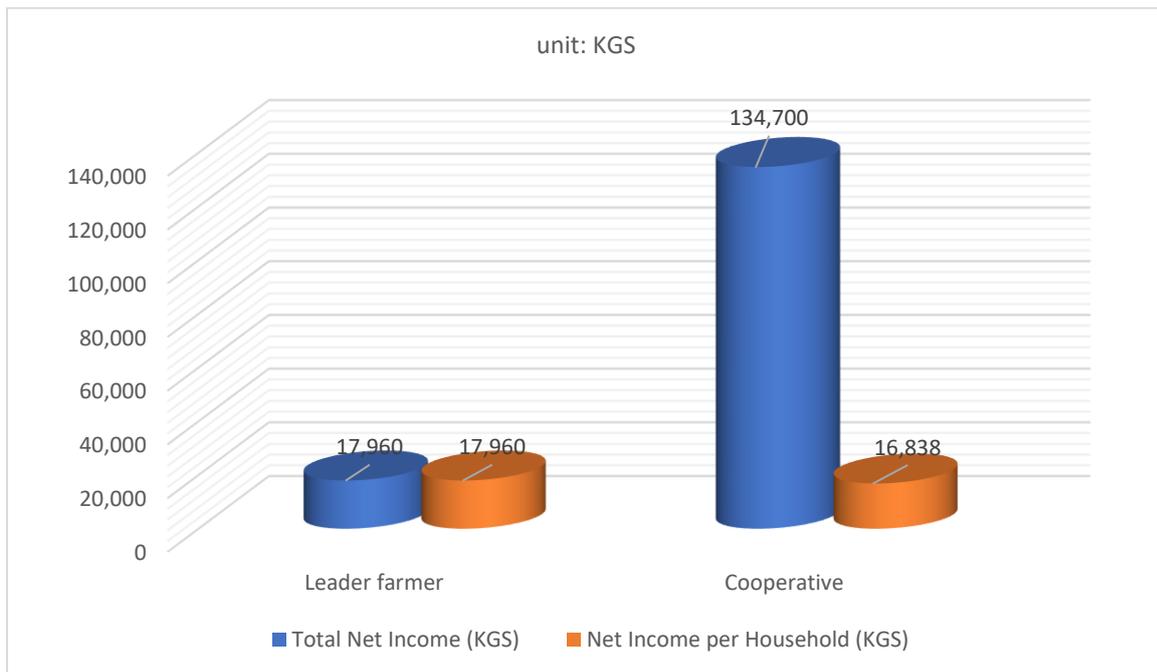
**Table 47. Estimated Net Income of Calendula per household in Shaty village**

|                  | Members (Household) | Cultivation Area (ha) | Total Net Income (KGS) | Net Income per Household (KGS) |
|------------------|---------------------|-----------------------|------------------------|--------------------------------|
| Leader farmer    | 1                   | 0.4                   | 17,960                 | 17,960                         |
| Cooperative      | 8                   | 3.0                   | 134,700                | 16,838                         |
| Total or Average | 9                   | 3.4                   | 152,660                | 16,962                         |

Source: JICA. “Community Empowerment Project in the Issyk-Kul Oblast,” Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

<sup>104</sup> Supra n. 91, p. 11.

**Figure 54. Comparison of the Net Income of Calendula producers in Shaty village**



The generated amount of net income is reported to constitute to the 20% of the both producers’ average annual expenditure estimated at 80,000 KGS per household. Based on the baseline data analysis, the Project team concluded that the production of Calendula contributed to the 20% increase in income to the producers in Shaty village.<sup>105</sup>

### 5.3.2 Phase II

#### 1<sup>st</sup> Cycle Products

During the 1<sup>st</sup> cycle of the Pilot Project, the products were produced from vegetables and fruits, including barberry jam, dried fruits and herbal soaps. These products were targeted mostly at tourists since they tend to be less competitive in the domestic market. Over the course of production, no special technical training on the processing technique was provided given the fact that all three pilot CBOs and one partner CBO, were experienced enough to produce and sell their products. The list of OVOP products produced during the 1<sup>st</sup> cycle is provided below:

<sup>105</sup> Supra n. 91, p. 11.

**Table 48. OVOP Products Produced in the 1<sup>st</sup> Cycle of Phase II**

| CBO                      | 2008  | 2009  | 2010   |
|--------------------------|---|---|--|
| CBO Adilet               | Barberry jam (Aug-Sep)<br>Sea buckthorn jam (Oct-Dec) | Dandelion jam (Apr)<br>Pine corn jam (May-Jun)<br>Stone berry jam (Jul-Aug)<br>Barberry jam (Aug-Sep) | Dandelion jam (May)<br>Pine corn jam (May-Jun)<br>Pine corn syrup (May-Jun)<br>Stone berry jam (Jul-Aug)<br>Barberry jam (Aug-Sep)<br>Mountain currant jam (Aug)<br>Rosehip jam (Oct)<br>Sea buckthorn jam (Oct-Dec) |
| CBO Bereke               | Barberry jam (Aug-Sep)<br>Sea buckthorn jam (Oct-Dec) | Barberry jam (Aug-Sep)<br>Sea buckthorn jam (Oct-Jan)   | Dandelion jam (May)<br>Pine corn jam (May-Jun)<br>Barberry jam (Aug-Sep)<br>Rosehip jam (Oct)<br>Sea buckthorn jam (Oct-Dec)   |
| CBO Shirin               | Dried apple, pear, and apricot (Jul-Oct)              | Dried apple (Sep-Dec)<br>Dried apricot snack (Aug-Sep)  | Dried apple and pears (Aug-Oct)<br>Dried apricot snack (Aug-Sep)   |
| CBO Uzdar* (partner CBO) | Herbal soap (all year around)                         | Herbal soap (all year around)   | Herbal soap (all year around)  |

Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

**Table 49. Plan and Result of Production of OVOP Products in the 1<sup>st</sup> Cycle CBOs**

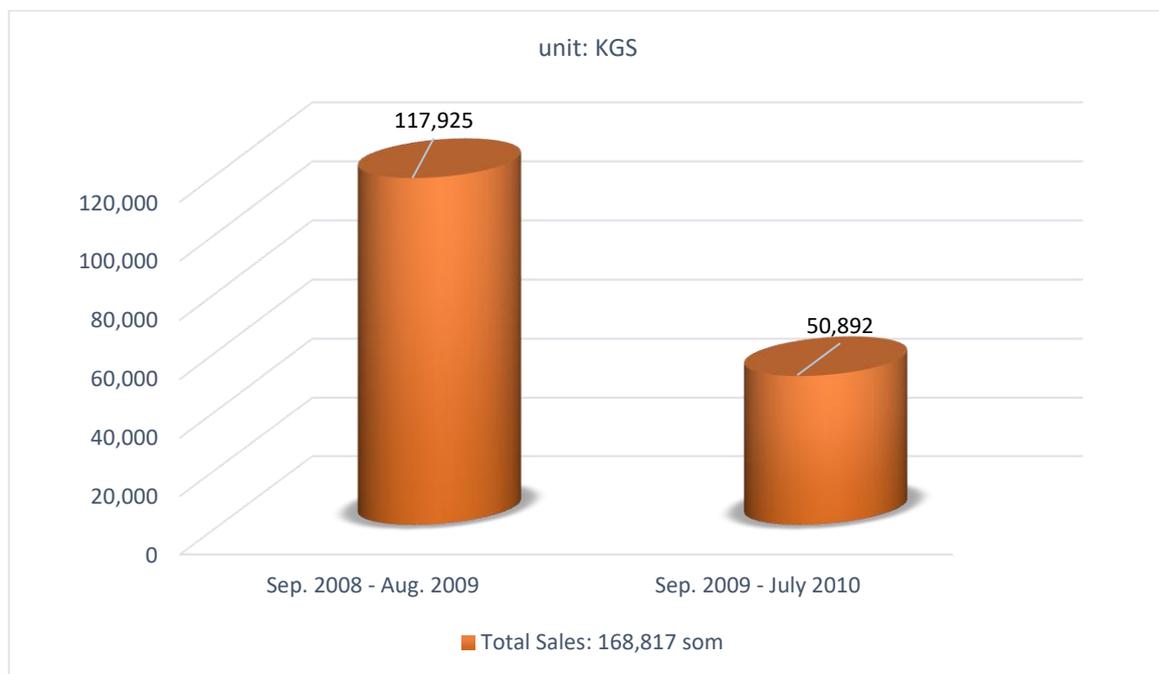
| CBO                  | Products                       | 2008  |        |            | 2009    |           |           | 2010               |           |          |
|----------------------|--------------------------------|-------|--------|------------|---------|-----------|-----------|--------------------|-----------|----------|
|                      |                                | Plan  | Result |            | Plan    | Result    | Plan      | Result as for July |           |          |
| Adilet               | Barberry jam (228g)            | 675kg | 0 kg   | -          | 204kg   | 400units  | -         | 372units           | 100 jars  | -        |
|                      | Barberry jam (450g)            |       |        | -          |         | 250units  | -         | 66units            |           |          |
|                      | Sea buckthorn berry jam (228g) | 675kg | 665kg  | 1,440units | 180.9kg | 300units  | 0kg       | -                  | 100 jars  | -        |
|                      | Sea buckthorn berry jam (450g) |       |        | 749units   |         | 250units  | 0kg       | -                  |           |          |
|                      | Dandelion jam (350g)           |       |        |            | -       | -         | -         | 18units            | 200 jars  | 0        |
|                      | Dandelion jam (450g)           |       |        |            | -       | -         | -         | 5units             |           | 180 jars |
|                      | Pine corn jam (350g)           |       |        |            | -       | -         | -         | 120units           | 300 jars  | 251 jars |
|                      | Pine corn syrup                |       |        |            | -       | -         | -         | -                  | 100 jars  | 55 jars  |
|                      | Stone berry jam (228g)         |       |        |            | -       | -         | -         | 60units            | 100 jars  | -        |
|                      | Wild currant jam               |       |        |            |         |           |           |                    | 50 jars   | -        |
|                      | Hawthron jam                   |       |        |            |         |           |           |                    | 100 jars  | -        |
|                      | Rosehip jam                    |       |        |            |         |           |           |                    | 100 jars  | -        |
| Bereke               | Barberry jam (228g)            | 250kg | 294kg  | 686units   | 856kg   | 200units  | -         | 216 jars           | 2000 jars | -        |
|                      | Barberry jam (450g)            |       |        | 305units   |         | 1800units | -         | 763 jars           |           |          |
|                      | Sea buckthorn berry jam (228g) | 250kg | 195kg  | 184units   | 400kg   | 228units  | -         | 268 jars           | 1000 jars | -        |
|                      | Sea buckthorn berry jam (450g) |       |        | 340units   |         | 772units  | -         | 472 jars           |           |          |
|                      | Dandelion jam                  |       |        |            |         |           |           |                    | 250 jars  | 252 jars |
|                      | Pine corn jam                  |       |        |            |         |           |           |                    | 100 jars  | 129 jars |
| Rosehip jam          |                                |       |        |            |         |           |           | 250 jars           | -         |          |
| Shirin               | Dry apple (50g)                | 150kg | 71.7kg | 314units   | 200kg   | -         | 90kg      | 252 units          | 40 kg     | -        |
|                      | Dry apple (100g)               |       |        | 314units   |         | -         |           | 227 units          |           |          |
|                      | Dry apple (150g)               |       |        | 162units   |         | -         |           | 3 units            |           |          |
|                      | Dry pear (50g)                 | 150kg | 4kg    | 83units    | 50kg    | -         | 0kg       | -                  | 24 kg     | -        |
| Apricott snack (20g) | 50kg                           | 0kg   | -      | 50kg       | -       | 1000kg    | 1681units | 40 kg              | -         |          |
| Uzdar                | Soap                           | 170kg | -      |            | -       | -         | -         | 591 pcs            | 1200 pcs  | 205 pcs  |

Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

### 5.3.3 Wildberry jams production by CBO Adilet in Jergez Village, Ak Suu Rayon

CBO Adilet was established in April 2008 and is led by Ms. Gul'jan Sagynbaeva. The number of CBO members at the time of establishment consisted of 14 in total, out of which 7 were females and 7 male members. By July 2010 this number reduced to 3 members consisting of 2 females and 1 male in total. This, in turn, has impacted in slowing down of the production level. The total sales of CBO Adilet products amounted to 168,817 KGS over the 23 months from September 2008 to July 2010, as shown in Figure 56.

**Figure 55. Sales Results of CBO Adilet Products**



Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

Throughout the OVOP Movement, the CBO Adilet had produced products by applying Kyrgyz OVOP Concept. These products included wild berry jams (barberry, sea-buckthorn, stone berry, rosehip, mountain currant, hawthorn), dandelion jam, pine cone jam and elixir. Through conducting sales of their products, the CBO made significant effort to return the credit.

Over the course of its participation in the OVOP Movement, the CBO Adilet learned to run business and conduct planning of business operations, including production and financial

management. Although the CBO was able to achieve some positive results in terms of sales of their products, it had become difficult to continue business operations due to the decrease of the CBO members' number. In order to share their experience gained through participation in the OVOP Movement and attract new members, the CBO made a presentation in their village on March 2010, yet their efforts didn't produce any positive outcome. On the other hand, the participation in the OVOP Movement enabled CBO Adilet to generate some profit from sales of products which was utilized by CBO though channelling the profit in the form of a microcredit at a lower interest rate to the villagers who are interested in running their own local businesses.

**Table 50. Sales Rate to Production Amount: as of end of July 2010**

| Producer   | Item          | Size (g) | No. of Production | No. of Sales | Sales rate to amount of production |
|------------|---------------|----------|-------------------|--------------|------------------------------------|
| CBO Adilet | Sea-buckthorn | 228      | 1440              | 766          | 53%                                |
|            | Sea-buckthorn | 450      | 749               | 489          | 65%                                |
|            | Barberry      | 228      | 372               | 149          | 40%                                |
|            | Barberry      | 450      | 66                | 42           | 64%                                |
|            | Dandelion     | 350      | 18                | 14           | 78%                                |
|            | Dandelion     | 450      | 185               | 21           | 11%                                |
|            | Pinecone jam  | 350      | 371               | 193          | 52%                                |
|            | Stone berry   | 228      | 60                | 59           | 98%                                |

Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

#### 5.3.4 Wildberry jams production by CBO Bereke in Chong-Kyzyl-Suu Village

The CBO Bereke started its business operations in April 2008 with 8 members and kept all its members by the end of the Project. Through the application of the OVOP concept, the CBO produced wild berry jams (barberry, sea-buckthorn, rosehip), dandelion honey, pine cone honey. The total sales of CBO Bereke amounted to 276,020 KGS, as described in Figure 56.

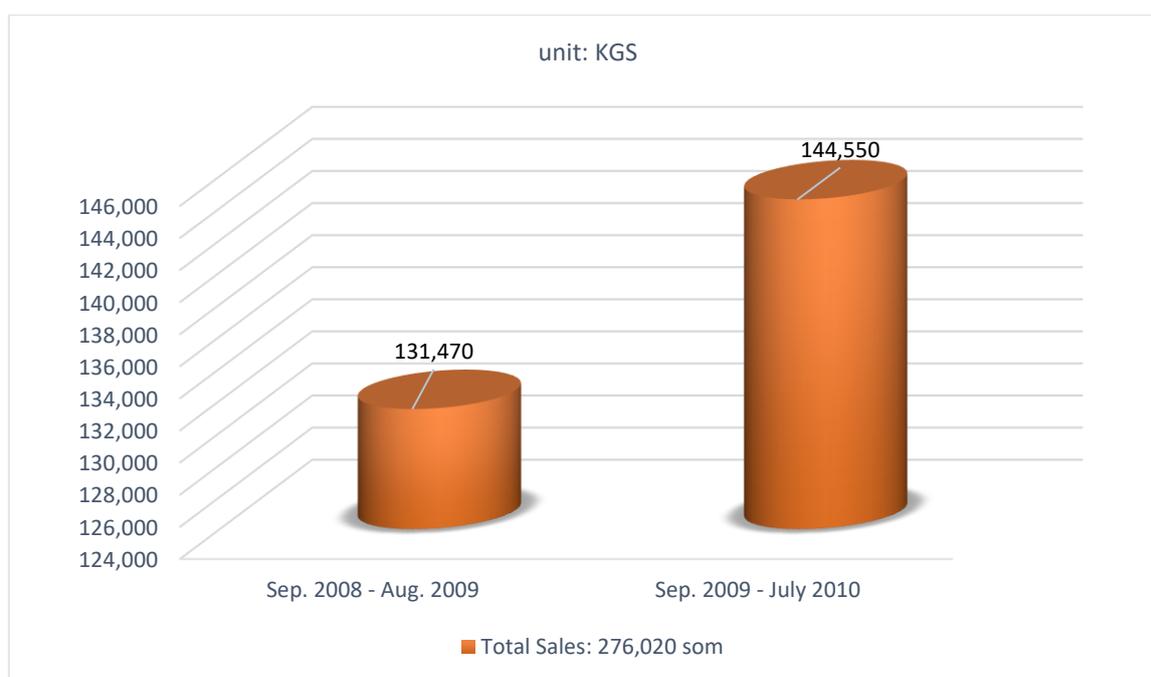
Through participation in the OVOP Movement, the CBO got an opportunity to learn about business administration and apply this knowledge in practice by conducting the business operation and sales of their products. In addition, the CBO was able to purchase the necessary materials for the production of their products using their own savings acquired through sales. Over the course of their participation in the Project, the CBO was able to establish its marketing

channel not only in Bishkek but was also able to establish business contacts with Russian business owner.

After the end of the Project, some villagers expressed their wish to join the CBO. Given the fact that the head of the village was one of the members of CBO, it was easy for the CBO to expand their cycle of influence and raise their brand’s reputation. For instance, some villagers reported that they tend to purchase CBO products in order to give them to their friends saying that they were made in their village.

The CBO is projected to utilize biogas for the production of jam within the framework of JICA’ project. This is supposed to serve a good practice for community revitalization.

**Figure 56. Sales Results of CBO Bereke Products**



Source: JICA. “Community Empowerment Project in the Issyk-Kul Oblast,” Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

**Table 51. Sales Rate to Production Amount: as of end of July 2010**

| Producer   | Item     | Size (g) | No. of Production | No. of Sales | Sales rate to amount of production |
|------------|----------|----------|-------------------|--------------|------------------------------------|
| CBO Bereke | Barberry | 228      | 894               | 789          | 88%                                |
|            | Barberry | 450      | 1068              | 732          | 69%                                |

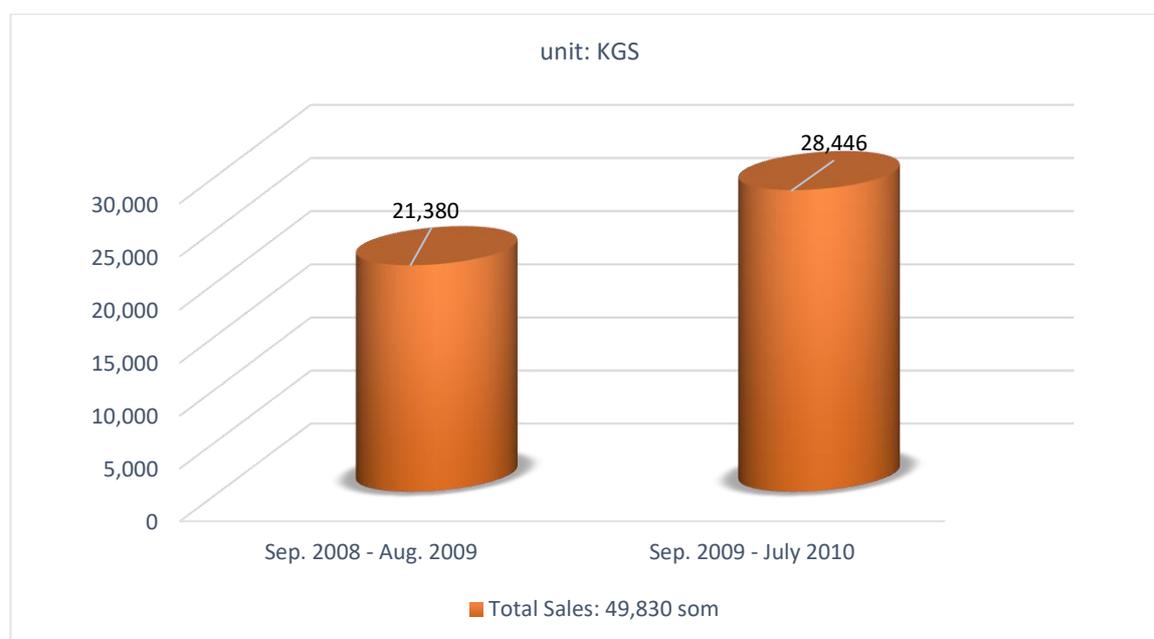
|  |               |     |     |     |     |
|--|---------------|-----|-----|-----|-----|
|  | Sea-buckthorn | 228 | 453 | 365 | 81% |
|  | Sea-buckthorn | 450 | 860 | 653 | 76% |
|  | Dandelion     | 450 | 252 | 26  | 10% |
|  | Pinecone jam  | 450 | 129 | 13  | 10% |

Source: JICA. “Community Empowerment Project in the Issyk-Kul Oblast,” Tokyo.  
 <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

### 5.3.5 Dried Fruits production by CBO Shirin in Saruu Village, Jeti-Oguz Rayon

CBO Shirin was established with 8 female members in April 2008 and led by Ms. Umut Ibraeva. By July 2010 the number of its members reduced due to the lack of management skill and passive attitude of members. This situation occurred partly because of the anxiety and distrust from the members, whose explanation on payments was treated as unreasonable. During their participation in the OVOP Movement, the CBO was able to produce dried fruits from apple, pear and apricot. In total, the CBO succeeded to accumulate 49,830 KGS sales value, as shown in Figure 57. This value is the lowest in comparison to two 1<sup>st</sup> cycle CBOs. However, despite the failure with the marketing of their products, the CBO made some steps to improve their products’ value and brand by changing their product design and changing their production from dry fruits to apricot pastila and tea.

**Figure 57. Sales Results of CBO Shirin Products**



Source: JICA. “Community Empowerment Project in the Issyk-Kul Oblast,” Tokyo.  
 <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

Given the lack of business administration skills, the CBOs activity was less effective although CBO kept the Accounting record following the instructions from the Project.

Due to the poor production volume, it was hard to establish a proper marketing channel, yet the CBO made some efforts through negotiation with the Rayon administration to gain an access for the promotion of their products at Rayon’s resort area and Kumtor mining company.

Through participation in the OVOP Movement, the CBO was able to produce competitive products taking into account the market needs. However, no significant impact of CBO activities on local community was observed.

**Table 52. Sales Rate to Production Amount: as of end of July 2010**

| Producer   | Item      | Size (g)    | No. of Production | No. of Sales | Sales rate to amount of production |
|------------|-----------|-------------|-------------------|--------------|------------------------------------|
| CBO Shirin | Dry apple | 50          | 566               | 350          | 62%                                |
|            | Dry apple | 100         | 541               | 249          | 65%                                |
|            | Dry apple | 150         | 165               | 162          | 98%                                |
|            | Dry apple | new package | 29                | 29           | 100%                               |
|            | Dry apple | 50          | 83                | 82           | 99%                                |
|            | Pastila   | 20          | 1681              | 722          | 43%                                |

Source: JICA. “Community Empowerment Project in the Issyk-Kul Oblast,” Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

### 2<sup>nd</sup> Cycle Products

During the 2<sup>nd</sup> cycle of Pilot Project, all OVOP products were made of felt/wool. The emphasis was given to the production of high-quality felt/wool souvenirs and home appliances using the Issyk-Kul image to be competitive domestically, given the popularity of felt products in the Kyrgyz souvenir market.

Before proceeding to the product production, all CBOs carried out trials to develop the concept of their products and prepare high-quality felt products as an IK-Brand. All of the products were targeted at tourists and thus, the marketing mechanism of the products was set to summer and winter tourism seasons. Depending on the market demand, some CBOs continued production of their products regardless of seasonal adjustment (see Figure 59). Throughout the

production and marketing process, the CBOs collected the customer views in order to learn about the demand for their product in the market and modify their products according to the comments and wish of the customers.

**Figure 58. Production and Marketing Plans of 2<sup>nd</sup> Cycle CBOs**

| Year                      | 2009        |             |             |     |                                     |                        |     |     |                              |            |                               |                  | 2010 |     |                              |             |                               |                  |     |     |  |
|---------------------------|-------------|-------------|-------------|-----|-------------------------------------|------------------------|-----|-----|------------------------------|------------|-------------------------------|------------------|------|-----|------------------------------|-------------|-------------------------------|------------------|-----|-----|--|
| Month                     | Feb         | Mar         | Apr         | May | Jun                                 | Jul                    | Aug | Sep | Oct                          | Nov        | Dec                           | Jan              | Feb  | Mar | Apr                          | May         | Jun                           | July             | Aug | Sep |  |
| Marketing category        |             |             |             |     |                                     | Trial summer marketing |     |     |                              |            |                               | Winter marketing |      |     |                              |             |                               | Summer marketing |     |     |  |
| Production                | 1st samples |             | 2nd samples |     |                                     |                        |     |     | Samples for winter marketing |            |                               |                  |      |     | Samples for summer marketing |             |                               |                  |     |     |  |
|                           |             |             |             |     | Products for trial summer marketing |                        |     |     |                              |            | Products for winter marketing |                  |      |     |                              |             | Products for summer marketing |                  |     |     |  |
| Presentation & Evaluation |             | ☆<br>25 Mar |             |     | ☆<br>mid of June                    |                        |     |     |                              | ☆<br>6 Nov |                               |                  |      |     |                              | ☆<br>19 May |                               |                  |     |     |  |

Source: JICA. “Community Empowerment Project in the Issyk-Kul Oblast,” Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

### 5.3.6 Felt/wool souvenirs production by CBO Ak Shoola in Tasma Village, Tup Rayon

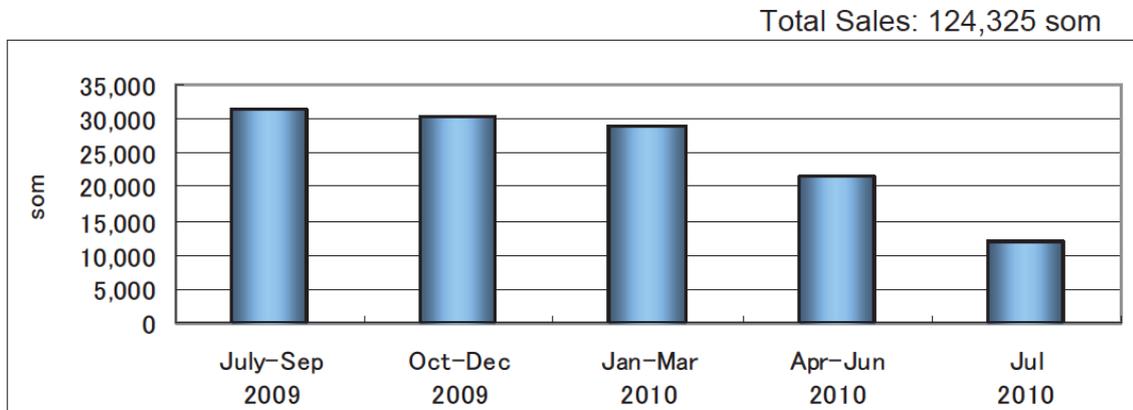
The CBO Ak Shoola was founded in 2003 and led by Ms. Urumkan Rysalieva. The CBO joined the OVOP Movement in 2009 with 8 female members. Through the application of OVOP concept, the CBO produced 30 varieties of products, such as slippers, bags, scarves, bird-nest mascots, gloves, wrist warmers, etc. with different colours, design and size. In total, the CBO produced 595 items. By the end of July 2010, the total sales of CBO amounted to 124,325 KGS, as illustrated in Figure 59.

The CBO was regarded as trustworthy and well-organized by the Project team due to its exceptional leadership and a good balance of members’ roles. However, the enterprise was not familiar well with the business administration tactics and thus encountered problems with paper works throughout the project implementation process.

In addition, the CBO is reported to be responsive and kept all the necessary materials and equipment for production tidy by appointing the corresponding personnel in charge of maintenance. Throughout their participation in the OVOP Movement, the CBO members got

an opportunity to advance their skills in developing a product design as well as the basics of running a business.

**Figure 59. Sales Results of CBO Ak Shoola Products**



Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

Over the course of their business operations, the CBO was able to return all credits borrowed and sustain their operations by generating profit which was used for purchasing necessary materials for production.

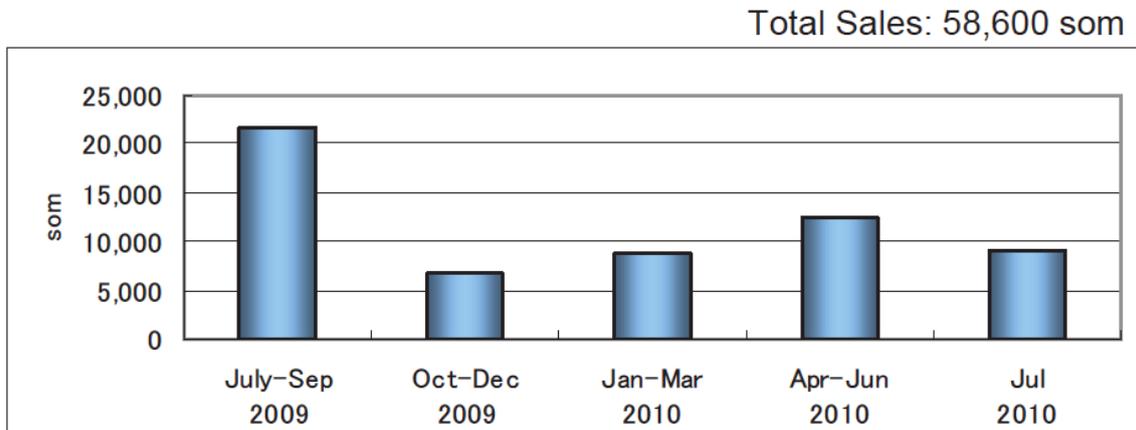
The CBO Ak Shoola made some presentations for their village people and shared their experience of participation in the OVOP Movement and on how they make felt products out of wool to school children. In addition, the CBO's impact on the local community can be also examined in its partnership and networking activities. For instance, the CBO made some donations to support handicapped people who make necklaces for local dance group for their performance. It is also noteworthy to mention that, the CBO's operations served as an inspiration for the establishment of a new CBO specializing in the production of herbal soaps with the support of Japan Overseas Cooperation Volunteer (JOCV) in April 2010.

### *5.3.7 Felt/wool souvenirs production by CBO Onor Bulagy in Barskoon Village*

Established in 2005, the CBO Onor Bulagy joined the OVOP Movement with 8 members consisting of 5 females and 3 male members. Under the leadership of Ms. Sozul Aibasheva, the CBO produced 42 varieties of products: wall ornament, felt beads necklace, key holders,

bags, mobile cases, camera cases, yurt ornaments, etc. with different colours, design and size. In total 879 items with a sales value of 58,600 KGS were produced within the framework of OVOP Movement.

**Figure 60. Sales Results of CBO Onor Bulagy Products**



Source: JICA. "Community Empowerment Project in the Issyk-Kul Oblast," Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

By the end of Project, the CBO developed an understanding of how to create and maintain their product design. Owing to this practice, the CBO succeeded in completing their plan. However, their subsequent productivity slowed down due to the reduction of CBO members, as shown in Figure 60. In this regard, the CBO made some effort to attract new members from local vocational school.

Prior to the start of the Project, there were only two wool carding machines in the village which used to create difficulties for the local community to use this service. Thus, the CBO decided to overtake a wool carding business activity in order to ease this process and to pay back the credit borrowed for purchasing the machine.

### 5.3.8 Felt/wool souvenirs production by CBO Erbol in Tosor Village, Jeti-Oguz Rayon

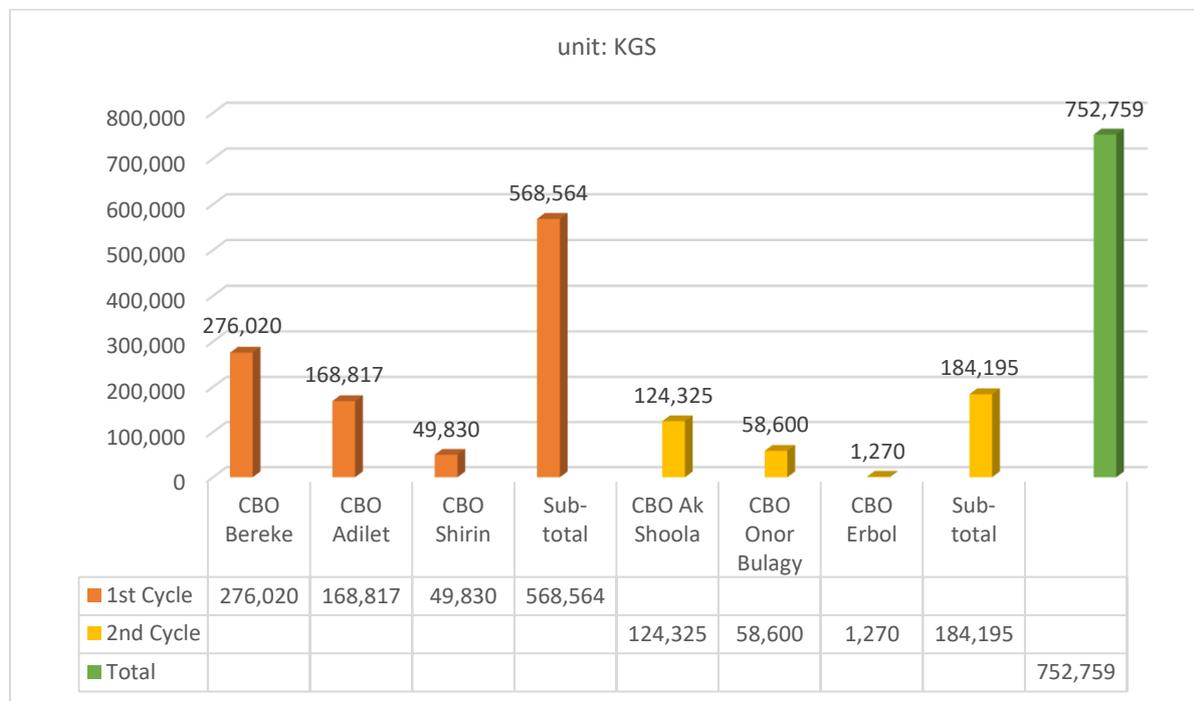
CBO Erbol joined the OVOP Movement with 14 members in 2009 in order to produce wall ornament, key holder, necklace, bag, and yurt ornament. Throughout the Project, the CBO was able to produce only 5 kinds of products, including coaster and teapot cover sets, cup cases, etc. with different embroideries and colours. By the end of July 2010, the CBO could only sell

1 set of teapot mat for 1,270 KGS. Given the fact the CBO Erbol was formed as a family-type business, the distribution of roles and maintaining business operations as a group was not carried out as planned. Besides, the necessary administrative and paper works such as keeping a record, accounting records were not accomplished in a proper way. As such, the CBO was not able to make it until the end of the Project. Over the course of Project implementation, the CBO lack of enthusiasm to gain new knowledge and advance their skills in business administration and produce high-quality products.

### Sales Results

As shown in the below Figure 61, the total amount of sales achieved by CBOs throughout the OVOP Project constituted to 752,759 KGS. The distribution of the sales results based on project cycles denotes that during the 23 months, from September 2008 to July 2010, 1<sup>st</sup> cycle CBOs have generated 568,564 KGS sales output. The sales figures of the 2<sup>nd</sup> cycle CBOs` sales during the 13 months from July 2009 to July 2010 resulted in 184,195 KGS.

**Figure 61. Total sales of Pilot CBOs during Project period**



Source: JICA. “Community Empowerment Project in the Issyk-Kul Oblast,” Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

### Average earnings of CBO members

The scale and figure of an average earnings of CBO members produced different outcome since each CBO`s sales output varied from each other. As illustrated in Table 53, during the 1<sup>st</sup> cycle the earnings of only two CBOs, namely CBO Bereke and CBO Shirin had increased, while the reduction in production volume resulted negatively and constituted to the reduction of their earnings to – 30% in case of CBO Adilet members.

**Table 53. Average earnings per CBO member in 1<sup>st</sup> cycle pilot CBOs**

| CBO    | Sept 2008- Aug 2009 |                        |                         |                           | Sept 2009- July 2010 |                        |                         |                           |
|--------|---------------------|------------------------|-------------------------|---------------------------|----------------------|------------------------|-------------------------|---------------------------|
|        | No. of members      | Sales as a whole (KGS) | Income to the CBO (KGS) | Earnings per person (KGS) | No. of members       | Sales as a whole (KGS) | Income to the CBO (KGS) | Earnings per person (KGS) |
| Adilet | 5                   | 117,925                | 58,960                  | 11,792                    | 3                    | 50,890                 | 25,445                  | 8,482                     |
| Bereke | 10                  | 131,470                | 65,740                  | 6,574                     | 8                    | 144,550                | 72,275                  | 9,034                     |
| Shirin | 4                   | 21,380                 | 10,690                  | 2,673                     | 5                    | 28,450                 | 14,225                  | 2,845                     |
| Uzdar  | 5                   | 42,622                 | 21,310                  | 4,262                     | -                    | 31,277                 | -                       | -                         |

Source: JICA. “Community Empowerment Project in the Issyk-Kul Oblast,” Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

During the 2<sup>nd</sup> cycle, only two CBOs such as Ak Shoola CBO and Onor Bulagy CBO were able to increase their earnings to 8.5-9.0%, while Erbol CBO members didn't achieve an increase in their earnings due to their poor performance and inconsistency with the project procedures, as shown in Table 54.

**Table 54. Average earnings per CBO member in 2<sup>nd</sup> cycle pilot CBOs**

| CBO         | Sept 2009- July 2010 |                        |                         |                           |
|-------------|----------------------|------------------------|-------------------------|---------------------------|
|             | No. of members       | Sales as a whole (KGS) | Income to the CBO (KGS) | Earnings per person (KGS) |
| Ak Shoola   | 8                    | 124,325                | 62,162                  | 7,770                     |
| Onor Bulagy | 5                    | 58,600                 | 29,300                  | 5,860                     |
| Erbol       | 6                    | 1,270                  | -                       | -                         |

Source: JICA. “Community Empowerment Project in the Issyk-Kul Oblast,” Tokyo. <[http://open\\_jicareport.jica.go.jp/pdf/12004040\\_01.pdf](http://open_jicareport.jica.go.jp/pdf/12004040_01.pdf)> (accessed 3 May 2018).

## **CHAPTER VI: Discussion and Comparative Analysis**

This chapter provides an analysis of the research findings and discusses the effectiveness of Japan`s development assistance in recipient countries. The discussion around the role and contribution of Japan for local economic development will be based on the research findings regarding the compliance of project output with the OVOP principles.

In addition, this chapter provides the explanation for the contributions of the research findings to the local economic development theory. It also examines the concepts of human capital, endogenous development and constructivists` stand, including the role of Japanese ODA in supporting the local economic development process, along with the major criticism derived from the research findings.

Lastly, this chapter summarizes the validity of the author`s arguments regarding Japanese development assistance in recipient countries.

### **6.1 The Effectiveness of Armenian OVOP Project**

The OVOP project was implemented in Armenia from March 2013 to February 2016 and was aimed at supporting the local economic development activities through improving local businesses` operational and marketing efforts. The Project was implemented based on the two main components, namely through introduction to and accomplishment of OVOP activities by local businesses and supporting their entrepreneurial operations by developing a marketing platform where local businesses could exchange information, collect customer reviews and constantly improve their products and services. Based on the investigation of the project activities elaborated in Chapter IV, the research findings suggest that the project was implemented successfully. The main reasons for the success of the OVOP Project in Armenia can be summarized as follows:

- 1) The introduction of the OVOP concept in Armenia was followed by the development of a marketing platform which allowed project participants - local businesses to gather the necessary customer information which in turn facilitated the improvement as well the development of the new local products and services;

- 2) The Research findings also suggests that majority of Armenian local businesses who participated in OVOP project activities were able to generate positive outputs owing to the increase in their production volume, customer base, along with the development of new products and services;
- 3) The Project has also contributed to the formation of a partnership between local entrepreneurs, which enabled local businesses to scale up their business operations and marketing activities.

The research findings have revealed that the success of the OVOP project in Armenia was based on the following main factors:

- The project participants were able to improve their services and products and as such to increase their income due to the utilization of OVOP concept in their business operations. This was carried out mainly through utilization of local resources, territorial identities and attributes, as well as by cooperation among different local enterprises.
- The application of OVOP principles and activities in local business and marketing operations have facilitated the increase in production volume. This was achieved owing to the adoption of the Japanese business administration methods, including Kaizen, 5S, the seven tools for Quality Management (Q5), the seven tools for product planning.
- The Armenian OVOP project was accomplished efficiently because it was supported by local government. The project activities were aligned with the national SME development policy which served as the main basis for the sustained and efficient implementation of project activities in the field.

Owing to these factors there have been generated a favourable project output as represented by the increase in the production volume and income of local enterprises. From a production point of view, there have been observed not only the improvement of already existing service and products, but it has been also followed by the launch of new local entities and services within the framework of OVOP project implementation. Over the course of OVOP project implementation there have been achieved the following positive outcomes:

### *6.1.1 Improvement in local products and services*

A number of local enterprises were able to improve the efficiency and quality of their products due to their participation in the OVOP project. Such, for instance, 14 local cheese producers at Khndzoresk village from Syunuk region were able to learn and practice how to use raw milk more efficiently and increase their product quality. 16 cheese producers from the same village improved the quality of their products, while 6 of them achieved this result due to the application of the 5S method. In addition to the improvement of the cheese products, 16 local enterprises have observed the increase in their cheese yield. Similarly, a group of dried fruit producers in Armavir region have learnt the new technique of production which resulted in the overall improvement of their products. After application of OVOP concept, some local touristic businesses have been also to improve the quality of hospitality services and increase the accommodation capacity in Syunuk region.

### *6.1.2 Increase in production volume and income*

With the improvement of the quality of local products and services, a number of local businesses were also able to increase their production volume. For instance, after application of the Japanese quality improvement methods local dried fruits producers at Bagratashen village have increased their production volume up to four tons. Another group of dried fruit producers, comprising 20 local producers at Meghri town, Syunuk region increased their unit sales price, while 13 of these producers were able to increase their overall production. Some participants of the OVOP project have achieved a surplus in their production. For instance, one of the local businesses in Armavir region, namely “Nairyan Dried Fruits” after participation in the OVOP project increased its production volume by 150% in 2015. In tourism sphere, some local businesses have also achieved positive results after application of the OVOP concept. One example relates to B&B Sergo Davtyan, which has experienced the increase in its sales by 40%.

### *6.1.3 Introduction of new products and services*

Over the course of OVOP project implementation, there have been created new enterprises with the help of SMEDNC. Local businesses specializing in olive production at Bagratashen

village from Tavush region developed and introduced the new brand of bottled olive products in the market. In addition to olive products, the new brands of dried fruits have been also developed in the same village as part of OVOP movement. A new product under the label “Nairyan Dried Fruits” from Armavir region was introduced not only to the local market but it has also been channelled to international hotels based in Yerevan. Majority of new enterprises have been also opened in the tourism promotion field. For instance, after participation in the business training organized within the framework of OVOP projects, 11 local entities adopted the new concept of `Bed & Breakfast` and established the new type touristic businesses in Syunuk region. Similarly, 8 local touristic spots have been formally opened in Garni village, Kotayk region. In addition, 24 local entrepreneurs from Bjni village and Jermuk town, Kotayk region have received a business administration training and introduced their business plans for operationalization as part of OVOP project implementation.

The research findings suggest that one of the main contributions of Japan to the local economic development in Armenia is connected with the introduction of the Japanese product quality improvement method – Kaizen. As part of OVOP project implementation in Armenia, the Japanese experts and project staff introduced Kaizen to local businesses and this, in turn, enabled them to adopt and use it in their business operations. Based on this method local enterprises learned to collect the customer opinion in order to improve the quality of their products and services. As such, the utilization of Kaizen as part of Japanese human accumulation practices in Armenia can be regarded as one of the essential factors that contributed to the success of the OVOP project.

In addition to Japan`s efforts to improve the quality of local products, the introduction of a marketing platform has also played an important role in supporting the local economic development in Armenia. Throughout the project implementation, the majority of project activities focused on the use of consumer opinion and continuously improve products and services. The utilization of marketing platform by project participants has significantly contributed to not only to the improvement of their products and services but also stimulated the partnership relationship among local enterprises.

## 6.2 The Effectiveness of Kyrgyz OVOP Project

The economic impact of the OVOP project in Kyrgyzstan is hardly measurable due to the fact that the project participants possess small number. On the contrary to Armenian case, where research findings found a significant improvement in the product quality, increase in sales and income, the review of the effectiveness of OVOP project in Kyrgyzstan using the same measurement metric suggests that the project can be hardly regarded as successful. Nevertheless, the project has generated some positive outcomes which might not have been observed in the case of Armenia. In Kyrgyzstan, the OVOP project was aimed at supporting community-based organizations and contribute to community empowerment efforts of the local government. From this perspective, it should be noted that the project concept has been adopted by implementing partners, stakeholder and local communities as well as operationalized successfully throughout the project cycle. The community empowerment strategy carried out by JICA has also proved to be vital and relevant in scaling up the overall local development process. Over the course of project implementation, the following positive results have been achieved:

- 1) The participating CBOs were able to receive not only material but also technical support for the operationalization of their businesses;
- 2) The application and utilization of the OVOP concept in the activity of some CBOs have proven to be useful in scaling up the community development efforts by local authorities;
- 3) The project has enabled the collaboration not only within the CBO members but also to establish a partnership and benefit from the support of student volunteers in the process of project implementation;

On the other hand, the research findings have revealed that the project didn't produce a significant economic value, that is, it didn't contribute to the increase of income and sustainable operation of local CBOs. The low level of impact of the project on local economic development can be regarded for the following main reasons:

- Lack of technical and timely support by local administration (IK-OSA). Additionally, no unit in charge of the OVOP movement at central level was established;

- PIU served as an observer and coordinated seminars/workshops rather than directly getting involved in the project activities;
- No specific budget was arranged by IK-OSA for project implementation;
- No IK-Brand product channelling mechanism was developed;
- Lack of business administration skills by CBOs members

While the emphasis of the project was at supporting local community empowerment, the research findings revealed that the project has also contributed to a lesser degree to the socio-economic revitalization of the Issyk-Kul Oblast. This was done mainly through the utilization of local resources and identity in the process of community development.

Despite the fact that there have been produced not many products as part of OVOP project implementation, it is also remarkable to mention that overall the project has contributed to the attainment of new knowledge and learning of new technique of product development by CBO members. Such, for instance, the trainings organized by JICA enabled CBO members to receive specialized trainings on human resources development, product development and marketing. This, in turn, enabled the CBO members to put in practice the acquired new knowledge in the advancement and reformation of local services and products.

Another significant aspect of the OVOP movement in Kyrgyzstan is connected with the establishment of a partnership with a Japanese company named MUJI which resulted not only in the attainment of the on-the-job training by OVOP project participants but this partnership has also contributed to the expansion of the marketing channel of some CBOs. As a result of the established partnership between MUJI and JICA, some CBOs specializing in felt production got an opportunity to introduce and sell their products in Japan. This partnership has enabled Kyrgyz CBOs to produce a new type of felt goods including cell phone cases and cardholders and showcase them in Japan. These new felt products were introduced in the Japanese market during the Christmas season. Their production increased from 10,000 units in 2011 to over 20,000 units by 2013 (MOFA 2013). The marketing a felt products in Japan has

generated a significant output as represented by the increase of sales from 55,618 US\$ in 2011 and 53,550 US\$ in 2012.<sup>106</sup>

The production and marketing of other Kyrgyz OVOP products including honey, jam, and herbal soap contributed to the slight increase of the income of CBO members. Despite the limited quantity of OVOP products, the marketing of some OVOP products has generated a remarkable outcome. For instance, the monthly sales of all OVOP products within a year period has increased from 672 US\$ in 2011 to 3,171 US\$ by 2012<sup>107</sup>.

While the economic impact of the OVOP project in Kyrgyzstan was not as significant as in the case of Armenia, the research findings suggest that the project played a remarkable role in supporting the local community, that is, women empowerment. This, in turn, enabled the participating CBOs to operationalize their entrepreneurial activities and sustain their households. The Kyrgyz OVOP project outcome can be hardly reported to be successful in a country-level since it didn't contribute to the establishment of new services and products as such, but it benefited project participants at an individual level by enabling them to operationalize their production and marketing activities.

### **6.3 Comparative Analysis of the Two OVOP Projects and Their Relations**

The previous chapters examined the main features of the two OVOP projects in Armenia and Kyrgyzstan as well as highlighted the considerate deviation in the project design, implementation methods and outcomes, despite the fact that both projects strived to share the same OVOP principles. Tables 1,2,3,4 summarizes these differences from the perspective of input and output, whereas project design, project implementation methods and project outcomes are regarded as the main metric for accessing these two projects.

The main differentiation in two projects is associated with the thematically focus of the project. As shown in Tables 1, the emphasis in Armenian case was strongly related to the revitalization

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<sup>106</sup> Kanako Mukai and Ryo Fujikura, "One village one product: evaluations and lessons learnt from OVOP aid projects," *Development in Practice*, 25:3 (2015);

<<https://www.tandfonline.com/doi/abs/10.1080/09614524.2015.1020763>> (accessed 3 March 2018).

<sup>107</sup> Ibid.

of the 12 Armenian sites, whereas in case of Kyrgyzstan the project scope was limited to only one site - Issyk-Kul Oblast. This selection served as a key factor for the variance of the project output. Another attribute of the two projects is that there were selected different products as part of the OVOP project implementation. The product development and its marketing serve one of the crucial attributes of the OVOP movement. The product development strategy pursued by Japan in both cases seem to be identical in a way that in both cases the project aimed at the development of value-added products and services, yet as depicted in Table 58 the quantitate and nature of these local products varied exponentially. The variation in the local product selection has been instrumental in defining the product development, its marketing and channelling strategies. Unlike Armenian case, where the main sources of production included a variety of exportable products, including cheese, dried fruits, processed olives, wine, herbs and spice products, in Kyrgyz case the production was limited to a small number of products such as handicrafts and cosmetics products which generated less economic value.

**Table 55. OVOP Project Design and Implementation in Armenia and Kyrgyzstan**

|                                    | <b>Armenia</b>   | <b>Kyrgyzstan</b>  |
|------------------------------------|--|--|
| <b>Project period</b>              | 2013 – 2016  | 2007 – 2011  |
| <b>Project phases</b>              | Phase I: OVOP concept application (the pilot study was integrated into overall project activities)   | Phase I: pilot study<br>Phase II: project implementation   |
| <b>Project objective</b>           | <i>“Promotion of local economy, small enterprises, products, and services in a coordinated manner, by utilizing local resources and culture”</i> | <i>“Socio-economic revitalization in the Issyk-Kul Oblast in harmony with the preservation of the environment”</i> |
| <b>Target audience</b>             | Small and Medium-sized Enterprises (SMEs)  | Community-Based Organizations (CBOs)   |
| <b>Project team</b>                | 10: Armenian (9), Japanese (1)   | 19: Kyrgyz (6), Japanese (13)  |
| <b>Project Partners (local)</b>    | USAID, UNDP, GIZ   | Issyk-Kul State University, UNDP, ARIS, associations of the private sector, and NGOs                               |
| <b>Project partners (Japanese)</b> | Japanese wine company  | MUJI   |
| <b>Implementing body</b>           | The Small and Medium Entrepreneurship Development National Center of Armenia (SME DNC)   | Issyk-Kul Oblast Administration/<br>Kyrgyz Ministry of Economy and Finance   |

The differences in the production strategy can be explained through observation of the OVOP project objectives, which indicates that in Armenian case the focus on the overall revitalization of the country`s agricultural and touristic sites enabled the project participants not only to develop new products but also new services. Unlike Armenian case, in Kyrgyzstan, the

concentration on local community empowerment transformed into the production strategy and resulted in the development of a few commodities, as shown in Tables 1 and 4. In Kyrgyzstan, as shown in Table 55 the production of local commodities was based on the project objectives which put an emphasis on socio-economic development while utilizing local attributes. While both projects shared the same idea of producing value-added commodities, the local environment and policy orientation set by project implementing entities contributed to the utilization of different types of local resources. While the OVOP concept doesn't specify the set of commodities and services to be produced over the course of OVOP project implementation, it does, however, emphasize the production of commodities which generate a remarkable marketing output. This notion seems to be preserved in both cases but to the degree that project implementers were able to identify their niches and concentrate on the development of products and services taking into account their competitiveness and marketability.

Another attribute of the OVOP project where we can distinguish a difference is related to the project implementation methods applied in both cases. The conventional OVOP project implementation method is often associated with the provision of the myriad of support, including technical, financial, marketing, and consultation. As described in Table 56, the degree of support for project implementation both by Japanese side and by local authorities in two cases was different. It is noteworthy to mention that in both cases the project implementation was carried out with a provision of both material and non-material support as represented by the provision of technical assistance and organization of capacity building activities. Nonetheless, the traditional OVOP concept stresses the need for the provision of financial support to a lesser degree and concentrate on non-financial support, in both cases we can observe that both countries received a combination of support by project implementing bodies. In case of Kyrgyzstan, as shown in Table 56, the Japanese support to project implementation was limited to the provision of a non-financial support, although CBOs were able to receive some sort of a credit funding for their business development. This trend seems to be adequate to the conventional OVOP principles, yet on the contrary to the Kyrgyz case, Japanese technical support to Armenia denotes a significant deviation as depicted in Table 56. Thus, from this point of view, one may conclude that, in Armenian case, Japanese financial support for project implementation may contradict with the conventional OVOP concept. On the other hand, the local support provided in both cases also varies. As one can observe, local

government support for project implementation was extremely limited in the case of Kyrgyzstan which, in fact, contributed to the malfunctioning of project activities and resulted in the shortages of project outcomes. On the contrary to Kyrgyz case, in case of Armenia, the project participants benefitted from receiving a combination of support not only from Japan but also from their local authorities.

**Table 56. Overview of Japan`s support for project implementation**

|   | <b>Armenia</b>   | <b>Kyrgyzstan</b>  |
|---|--|--|
| <b>Local operational expenses (covered by Japan)</b>        | 47 million JPY   | -  |
| <b>Local operational expenses (covered by host country)</b> | 56,840 USD   | 1,820 USD  |
| <b>Project Staff training in Japan</b>                      | - 5 times<br>- 24 SMEDNC staff were able to pay a visit to Japan<br><br>Topics covered:<br><br>- OVOP Concept<br>- Practical marketing<br>- Policy discussions | - 3 times<br>- 13 people<br><br>Topics covered:<br><br>- Implementation of the Project under the concept of the OVOP Movement; |
| <b>Legal Framework/State Support</b>                        | Concept for SME Development Policy and Strategy in Armenia (adopted in August 2000)  | Laws on Community Based Organizations (CBOs)   |
| <b>Technical Support (by Japanese side)</b>                 | 33,372.441 USD   | 2,835.593 USD  |

The significant deviation can be also observed on what kind of project implementation methods were used by implementing bodies as shown in Table 57. Owing to the project site selection and OVOP concept specification, the different project implementation and support has been maintained. The key difference derives from the fact that in case of Armenia the project activities were aligned to SMEDNC activities and thus the realization of the OVOP operations has been strongly supported by SMEDNC and its partners. Unlike Armenian case, project implementation in Kyrgyzstan was followed by the introduction of OVOP concept to project participants and to a lesser degree with the provision of marketing and production trainings. Over the course of project implementation, local enterprises established both domestically and international marketing channels, yet in case of Kyrgyzstan majority of the processed product were distributed internally and only some felt and wood products were channelled to Japan. Unlike Kyrgyzstan, some Armenian enterprises got an opportunity to market and showcase

their products not only in Japan but also to the neighbouring countries including Russia and Spain.

Another major difference in project implementation methods derives from the OVOP practices that have been carried out by JICA in respective countries. Although project participants from Kyrgyzstan received product marketing and development training it was limited and not enough to build up sustainable businesses. Unlike Kyrgyzstan, participants from Armenia expanded their understanding and acquired new knowledge about product quality improvement, business administration, product marketing, as well as got introduced with the Japanese business administration methods. The variance in project implementation also resulted in the improvement of the overall product development and preservation of quality assurance of local products.

As shown in Table 57 and discussed in previous chapters, the application of Japanese business administration methods including *Kaizen* and *Onpaku* has served as a key factor defining the successful implementation of OVOP project in Armenia. Whereas the quality assurance was kept in mind throughout the project implementation in Kyrgyzstan, the low quality of some local products processed over the course of OVOP movement has resulted in diminishing the economic value of the project in Kyrgyzstan. Thus, along with the introduction of product development and marketing technique, it is essential that OVOP project participants gain knowledge of quality assurance. This was not the case of Kyrgyzstan and, therefore one of the distinctions of the Armenian case to the Kyrgyz one can be deduced from this side of the project.

**Table 57. Overview of OVOP project implementation methods**

|   | <b>Armenia</b>  | <b>Kyrgyzstan</b>   |
|---|---|---|
| <b>Project Implementation Method</b>  | 1) Aligning the project activities to SMEDNC;<br>2) Reinforcing both individual enterprises and regional competitiveness, by applying the Armenian OVOP concept;<br>3) Applying <i>Kaizen</i> , as the Armenian OVOP method | 1) Providing support for processing of OVOP products (major)<br>2) Providing support for marketing of OVOP products (limited) |
| <b>Training sessions organized in host country (for Project participants)</b> | - 8 times<br>- 104 people attended  | - 6 times<br>- 240 people   |

|                             |   |   |
|-----------------------------|---|---|
| <b>OVOP methods applied</b> | <i>Marketing methods:</i> <ul style="list-style-type: none"> <li>• Merchandising</li> <li>• Branding</li> <li>• Statistical analysis of the consumer market</li> <li>• Group marketing methods, including <i>Onpaku</i></li> <li>• Facebook marketing</li> <li><i>Kaizen (Continuous Improvement)</i> <ul style="list-style-type: none"> <li>• 5S</li> <li>• Q7 (Seven tools for quality management)</li> <li>• P7 (Seven tools for product development)</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Development of self-concept</li> <li>• Acquisition of skills and knowledge</li> <li>• Organizational development</li> <li>• Development of infrastructure</li> </ul> |
|-----------------------------|---|---|

The accumulation of human capital has been the key attribution in both cases, however, the nature and the type of knowledge delivered to project participants were different. Table 58 outlines the main differences in the Japanese practice of supporting the human capital development in both cases. Since the main objective of this research was to distinguish to what extent human capital accumulation played a role in attaining local economic development, it must be noted that the major deviation in the course of knowledge generation in both cases was targeted at the same type of an audience. As shown in Table 58, in both cases Japan provided training not only to OVOP project participants but also for those who were responsible for its implementation. Despite the fact the number of trainings for project staff very per case, it is noteworthy to mention that regardless of the case, Japan strived to familiarize the project implementing staff with the OVOP concept and its benefit by inviting them to observe it in the case of Oita prefecture.

In line with Japan`s support for human capital accumulation in respective counties, the main distinction in this process can be seen on the way these trainings were delivered. For instance, in case of Kyrgyzstan the thematic focus of these trainings was limited to the acquisition of the knowledge of the product processing and improving its quality. Unlike Kyrgyz case, the human capital accumulation process in Armenia was based on the provision of targeted trainings to specific entrepreneurship groups, which enabled them to gain a specialized knowledge in the field of their business operation, in addition to improving their general knowledge of business administration and product marketing.

**Table 58. Japan`s Support for Human Capital Accumulation**

|   | <b>Armenia</b>  | <b>Kyrgyzstan</b>   |
|---|---|---|
| Project sites                                       | 12 different sites (towns and villages)   | 1 site (Issyk Kul Oblast)   |
| OVOP practices                                      | <ul style="list-style-type: none"> <li>• Cheese promotion</li> <li>• Dried fruit promotion</li> <li>• Tourism promotion</li> <li>• Promotion of Processed Olives</li> <li>• Promotion of Wine</li> <li>• Promotion of Herb and Spice Products</li> </ul>  | <ul style="list-style-type: none"> <li>• Barberry jam</li> <li>• Dried fruits</li> <li>• Herbal soaps</li> <li>• Felt/wool souvenirs production</li> </ul>  |
| Project beneficiaries                               | 250 entrepreneurs   | 74 people   |
| Local enterprises                                   | 25 SMEs   | 7 CBOs  |
| Human capital accumulation (number of participants) | 248   | 15  |
| Training Topics                                     | <ul style="list-style-type: none"> <li>• Start-up training</li> <li>• Agro-products processing training (general)</li> <li>• Training for cheese producers</li> <li>• Training for dried herb producers</li> <li>• Training for dried fruits producers</li> <li>• OVOP seminar (general)</li> <li>• Training for hospitality sector professionals</li> <li>• Workshop for women</li> <li>• Olive processing course</li> </ul> | Technical trainings related to: <ul style="list-style-type: none"> <li>• the technology of quality wool processing, and felt products making and marketing;</li> <li>• embroidery technique to improve quality of the felt products;</li> <li>• techniques of dyeing using natural plants and chemical materials</li> </ul> |

The deviation in the human capital development tactic used by Japan is caused, by predominantly, the project objectives in which the delivery of new knowledge and practices was connected with the thematic orientation of the project. Therefore, in case of Kyrgyzstan, where the project was set to support the local authorities` community empowerment efforts, the scope and nature of the trainings delivered to project participants were in line with the main project objectives. Nevertheless, on the contrary to Kyrgyz case, in Armenia Japanese efforts to educate local entrepreneurs was also carried out with partner institutions namely UNDP, USAID and GIZ.

#### **6.4 Features of Case Studies and Their Compliance with the OVOP Principles**

As discussed earlier, the key metric for accessing the effectiveness of the selected case studies is based on their compliance with the OVOP principles. Table 59 showcases three case studies, where two sites in Oita prefecture were chosen as a model for successful project implementation and the two subsequent case studies are compared in relation to the example of Oita sites. The two sites in Oita prefecture namely, Oyama and Yufuin have been regarded

as one of the successful cases which were able to generate high economic value and achieve project sustainability. While the success and effectiveness of each case is dependent on different factors, to mention few, on the size of a country where the project has been implemented, the level of support provided for project implementation, as well as the type of project activities and practices accomplished as part of project implementation, the key attribute for measuring the replicability of OVOP concept in other parts of the world is measured by their compliance with the traditional OVOP principles.

As discussed earlier, in the selected case studies two countries were able to generate two different outcomes, in which the Kyrgyz case has produced the lower level of economic impact, caused by insufficient degree of wages and production volume, whereas the Armenian case has shown a remarkable project output as represented by high level of production and increase in household income. Despite these major differences in project outcomes, the effectiveness and sustainability of these two case studies can be also accessed based on their compliance with the OVOP principles (Hiramatsu 2006).

It is noteworthy to point out that the achievement of project sustainability is deemed to be dependent on the fulfilment of all three principles that OVOP concept adheres. In this research, the due consideration was given to review the process of bilateral relationship building between Japan and two developing countries to review on the human capital development practice accomplished as part of OVOP project implementation. Similarly, OVOP concept suggests that in order to achieve the overall success of the project, the empowerment of project implementing people, that is, human resources development (Principle 3) is essential to achieve the rest two principles. More specifically, the development of human resources is deemed to be fundamental in order to satisfy other two principles.

While reviewing the selected case studies, we may observe that the methods applied in project implementation in each case were different. Owing to the fact that OVOP concept is deemed to be a crucial element for the introduction of OVOP movement in developing countries, the way the project is being implemented can also affect the replicability and comparability of the overseas projects with the conventional examples of OVOP projects in Japan. Despite these variations, the selected two case studies have shown that OVOP concept can be replicated and adopted successfully in different countries beyond Japan.

**Table 59. OVOP Projects and their compliance with three principles**

| Case Study        | Principle 1:<br>Local yet global           | Principle 2:<br>Self-reliance and<br>creativity                                  | Principle 3:<br>Human resources<br>development   |
|-------------------|--|--|--|
| <b>Japan</b>      |  |  |  |
| Oyama             | High-quality fruits and vegetables         | Farmers' markets and restaurants   | Sending young people to Israel   |
| Yufuin            | High quality Japanese inn with hot springs | Cooperation amongst local industries and restricting outsider invasion           | Learning cases in Germany  |
| <b>Kyrgyzstan</b> |  |  |  |
| Talas Region      | High quality felt products                 | Showroom sales both locals and tourists  | On-the-job training for production and sales management                                |
| Issyk-Kul Region  | High-quality wool products                 | Local brand shops opening and sales to Japan by MUJI                             | Trainings on product development and marketing skills                                  |
| <b>Armenia</b>    |  |  |  |
| Syunik Region     | Green tourism                              | Targeting specific customers and improvement of product quality                  | Technology transfer from Japan and expert trainings                                    |
| Tavush Region     | Dried fruit and olive production           | Improving marketing and branding of the dried fruits made by the local producers | Implementing onsite trainings to the SME DNC staffs and related organizations in Japan |

The Armenian case can be treated as one of the successful OVOP projects. The discussion of its sustainability and effectiveness, accomplished in the previous section, revealed the strong connection between project output and its compliance with the OVOP principles. Majority of produced commodities as part of OVOP project implementation in Armenia has been showcased not only to the domestic customers but with the assistance of project staff, JICA and partner organization, some of the high-quality OVOP products have been also exported to Russia, Spain, and Japan. The partnership between Japanese wine companies and local wine producers in Armenia enabled local businesses to introduce their products to Japanese people (Principle 1). Over the course of project implementation majority of local enterprises in Tavush region established marketing and product channelling ways, some of the local businesses have not only targeted local market but also paved a way to showcase their products in the capital city.

In addition, the application of new business models such as “Bed & Breakfast” contributed to the establishment of several new types of touristic businesses in Syunuk region. In the same

region, the application of OVOP concept and utilization of local cultural elements has resulted in raising the competitiveness of local products and increase their sales (Principle 2). Similarly, the products and services introduced as part of OVOP concept replication have resulted in the development of new brand products in Tavush, Armavir, Kotayk regions. The production of cheese, dried fruit, olive, wine and herbs by Armenian local businesses are deemed to be successful and sustainable.

The human capital accumulation process in Armenia was based not only on learning product development and marketing technique, but it is also remarkable that local entrepreneurs acquired the knowledge of product quality improvement and business administration from Japanese experts. Through participation in trainings and expert workshops, local entrepreneurs learned to improve the quality of their products and by so doing increase their revenues. In addition, the accumulated knowledge and expertise in product development and marketing has been shared with other entrepreneurs (Principle 3). The transmission of the accumulated human capital through peer-to-peer learning and training of trainers have served as a milestone for scaling up project objectives and achieving project sustainability.

The Kyrgyz case can be also seen as a sustainable project. Despite the fact that there have not been generated high economic impact, the project output constitutes the full compliance with three principles. Over the course of project implementation, some Kyrgyz CBOs in Issyk-Kul region succeeded in producing high-quality wool products and sell them. Along with the profitable marketing of these wool products, the establishment of a partnership with Japanese company – MUJI enabled CBOs to showcase their local products in Japan (Principle 1). Inspired by the case of OVOP project in Issyk-Kul region, later, JICA decided to implement project activities in other parts of Kyrgyzstan, namely in Talas region. The partnership and marketing of Kyrgyz wool and felt products developed by CBOs in Issyk-Kul and Talas regions also pushed local marketers to improve the quality of their products in order to increase their competitiveness in the international market. On the contrary, the absence of product certification mechanism was one of the central elements that slowed down the production cycle and left some CBOs` products to be sold solely in local areas and lost the possibility of entering an international market. These obstacles can be taken into consideration by Kyrgyz authorities in order to guarantee project sustainability in a longer term.

As it was noted earlier, the project played a crucial role and paved a remarkable effort in supporting local community empowerment. Although the majority of Kyrgyz CBOs acted as single business entities and strived to accomplish their business operations unilaterally, they demonstrated less creativity and self-reliance in product development. As part of OVOP project implementation, there have been not only the transfer of Japanese expertise and knowledge of product marketing, but the involvement of Japanese and Kyrgyz volunteers in this process also played a huge role in the achievement of the overall project objective (Principle 2). As such, from this point of view, we may conclude that the utilization of self-reliance principle has not been accomplished fully in the Kyrgyz case. Moreover, the initial mistrust between project participants in regard to project outcome and to local authorities hindered the possibility of showcasing enthusiasm and creativity. This, in turn, resulted in project success to be questioned and suspended.

The attainment of product development and marketing skills has been effective for some Kyrgyz CBOs to successfully operationalize the production of OVOP products and sell them in brand shops (Principle 3). While the accumulation of basic knowledge of production and marketing through partaking in on-the-job trainings conducted with Japanese experts was useful for CBOs to further their business operations, the lack of initial business administration skills in CBO members hindered the application of the generated knowledge in running small businesses. While the main reason for some project partisans like CBOs Erbol not to fulfil the project, was based on the lack of motivation and enthusiasm to sustain the production cycle, the fact that CBO members were not trained to run small businesses also played a role in hindering the project sustainability.

Given the fact that OVOP concept entails the consideration and application of cultural and identical features pertinent to a specific place, it's not appropriate to expect the same level of fulfilment of all principles in all cases. Nevertheless, one may observe through comparison of case studies in relation to the case of Oita prefecture some commonalities and distinguish the factors contributing to the success of a project or hindering it. Thus, it is extremely important to preserve OVOP principles and treat them as a blueprint for effective replication of the Oita prefecture`s success, while also taking into account the aspects that were left behind in other cases, in the development of OVOP projects in developing countries.

## Conclusion

As described in this paper, over the last two decades, Japan has been providing a significant amount of its foreign aid to support the economic development process in Central Asia and the Caucasus. In addition to serving as the main instrument for the maintenance of regional development, Japanese ODA has also served as the main tool for establishing a bilateral relationship and supporting Japan`s foreign policy objectives in recipient countries. Despite the fact that Japan has been pursuing the similar development policy objective – the achievement of sustainable economic development in both countries, Japan has been practising different tactics to operationalize this goal in target countries.

The development policy areas for both regions were set taking into account the socio-economic situation in respective countries and was focused mainly on stimulating economic development, human resources development, capacity development, and infrastructure development. These areas were set and deemed by Japan as important to gain a long-term impact on economic growth and regional development in Central Eurasia.

The study has shown that majority of Japanese development projects, in general, resulted positively in recipient countries. This was achieved owing to transmission of Japan`s funding and expertise through the established country assistance program. As exemplified in the paper, the ODA Policy set by Japan enabled Armenia to benefit from receiving technical assistance to support its agricultural and private sectors. This, in turn, has served as an important factor in revitalizing the local economic development of the country. In Kyrgyzstan, Japanese efforts to support the revitalization of the Kyrgyz economy was limited to the provision of technical assistance and implementation of infrastructure development projects. These projects had less impact on economic development of the country since projects implemented under Japanese ODA scheme had less exposure and generated less economic opportunities to scale up the country-wide development process. Nevertheless, unlike Armenian case, in Kyrgyzstan, Japan`s efforts to spur the economic development of the country was accomplished by multi-vector operations in the areas of transport infrastructure, agricultural development, social development, and human resources development. These projects were deemed as crucial in supporting local communities and enabling them to benefit from Japanese expertise and technology.

The Japanese interaction with countries beyond Southeast Asia also denotes its strong aspiration for maintaining an extended and closer tie with the countries of Central Asia and the Caucasus. The ODA serves for Japan as a crucial postwar innovative mechanism for the transmission of its material and non-material resources that have been utilized by Central Asian and South Caucasian recipient countries for the achievement of their economic development gains. The further direction of Japanese development assistance to the target countries can make a greater contribution to the achievement of their economic development goals if it would be focusing on supporting not only the infrastructure development projects but would also integrate local capacity building projects, which in turn, may create a greater and significant economic value to spur the overall economic development of recipient countries. Provision of support to local community empowerment projects can also ensure that development projects implemented by Japan benefit not only the central government but may also increase the grass root development prospect.

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