Sustainable Silk and Handicraft Production

<table>
<thead>
<tr>
<th>Name of Sub-Project</th>
<th>Sustainable Silk and Handicraft Production</th>
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<tbody>
<tr>
<td>Amount from TDF</td>
<td>$1,098,800</td>
</tr>
<tr>
<td>Amount from Project Partners</td>
<td>$909,800</td>
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<tr>
<td>Implementation Period</td>
<td>2009-2013</td>
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<tr>
<td>Sub-Executing Agency</td>
<td>Lao Handicrafts Association</td>
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<td>Date of Design</td>
<td>March 2009</td>
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1. Context

Background
The Handicraft sector is dominated by small informal producers which, according to the Lao Handicraft Association, loosely fit into 7 categories: textiles, non-timber forest based products, jewelry, cultural products, recycled products, pottery and lastly organic products such as food and cosmetics. A UNIDO study conducted on this sector in 2003 estimated an employment of 30-40,000 full time workers, with another 100,000 working part time. Out of an approximate value of $30-40 million from the sector, it is estimated that more than half is from handmade textiles. More than 65% of the members of the Lao Handicraft Association are involved in the handmade textile business. The majority of these are engaged in processing or selling of silk and silk products. The Ministry of Industry and Commerce estimates that silk products made up more than $1 million in exports in 2006, but many of those involved in this sector feel that this is an underestimation.

Traditional Lao textiles have significant market potential. Hand-woven textiles in Lao PDR reflect the strong tradition of weaving that makes them unique in the global market place. High value silk products are being sold to interior designers in New York and Tokyo. But, it is estimated that 80-90% of the silk yarn, for making Lao textiles, comes from either: Vietnam, China or Thailand. A core problem for the expansion of this export industry is the shortage of domestic silk yarn. The Vientiane Capital’s Chief for Agriculture and Forestry Extension Centre estimates that the production of Lao silk in the country is only around 25 tons with approximately 150-200 hectares under mulberry plantations. Other sources estimate that production could be twice as large as this. At current low levels of productivity, this would mean that an estimated 4,500 to 9,000 persons are employed just in primary production of silk.

The key constraints for additional silk export production, at this stage of the development of the Lao silk industry, are related to the supply of good quality silk yarn. The current sales price for raw silk yarn varies from 18 to 21 per kilo. The production of more yarn is constrained at the farm level by: cost effective investments in modern systems of production; better knowledge of inputs at critical points in the value chain; and from the supply of high quality eggs.

The main objective of this project is to sustainably expand the production of high quality Lao silk so that it can be fed into the silk textile value chain thereby enabling an expansion of silk handicraft exports to the global market, while creating additional jobs and incomes in rural areas.

Silk represents a tiny percentage of the global textile fibre market. Globally, cotton accounts for 40% of the world fibre consumption, wool accounts for about 2.5%, while silk accounts for only 0.2% (WTO, 2006). Yet, the actual trading value of silk and silk products is much more significant than this volume would suggest. Silk is a premium priced agricultural commodity; the unit price of raw silk is roughly twenty times that of raw cotton (FAOSTAT, 2007). World production of raw silk stood at

1 It is estimated that 1 ton of silk yarn can be produced from 10 hectares of land and this amount typically employs 30 families (5 persons per family), more or less full time. Source: Mai Savanh Lao. But most silk production is done on a part time basis, hence the estimated employment of 4,500 to 9,000 persons employed.
2 The current prices for good silk cocoons is between 18,000 to 22,000 kip per Kg., while the price for silk yarn is about 200,000 Kip (1=$10,867 Kip)
3 “While both men and women play an important role in the silk sector, women provide most of the labour for production.” Lao Economic Acceleration Program for the Silk Sector (LEAPPS), Project Summary, November 2006, USAID
135 thousand tons in 2004, a 20% increase relative to 1995, when production stood at 113 thousand tons. The global production of raw silk from 1995 to 2004 is shown below.

China is by far the world’s biggest raw silk producer, with a 70% share of the world production in 2004, followed by India (13%), Vietnam (9%), Turkmenistan (3%), Brazil and Thailand respectively with 1% each (FAOSTAT, 2007). In terms of exports, China also tops the list (90%). India and Vietnam currently export only a small percentage of their overall production. It is estimated, by various professionals in Laos, that domestic production is somewhere between 20 and 30 tons per annum. This compares with a total volume of 1,550 in Thailand and 12,000 tons in Vietnam. Given the similarities of the geographical and climatic conditions with Thailand and Vietnam, the production potential in Laos is enormous. One of the aims of this project is to add a further 25 tons to the annual production of silk yarn in Laos in the next four years.

All of the key actors in the silk value chain in Laos are members of the Lao Handicraft Association, this project will also aim at strengthening selected services of the association, particularly those related to the organization of commercial handicraft trade fairs and support for the improvement of domestic design capacities.

**Rationale for the Project and how it Contributes to TDF Outcomes**

The objective of the Trade Development Facility is to support in the establishment of the National Integrated Framework Governance Structure (NIFGS) and implement activities which facilitate trade and cross border movement of goods. These activities in turn support the GoL’s larger aims of poverty reduction and economic development as reflected in the National Social and Economic Development Plan. The overarching outcomes being pursued are:

- A better trading environment with simplified bureaucratic procedures including customs.
- An improved legal and regulatory framework.
- Enhanced general capacity of line ministries and agencies involved in the trade sector.
- Improved private sector capacity to compete in international markets,
- More effective participation in bilateral and multilateral negotiations, and
- An increased competitiveness of Lao PDR products and a contribution to poverty reduction.

This project is specifically related to improving the capacity of the private sector to compete in international markets while at the same time stimulating employment, particularly in rural areas.

There are 5 components to the TDF and this project would fall under Component C “Export Competitiveness and Business Environment”. In this component the aim is to increase the competitiveness of key sectors through improving the relevant parts of the business environment and by “sector-specific growth, driven by local companies that are successful in

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4 Trade Development Facility PAD, October 2008, page 3
raising the sophistication of their operations and strategies and increasing their competitiveness" In this component export competitiveness is broken down into 3 main factors "a) domestic productivity, which determines the cost of production; b) trade costs, which determine the cost of moving and/or of exporting the good and/or services and, c) the effective level of market access which is determined by the extent of unilateral, regional or multilateral trade reforms and the capacity to meet standards and overcome information gaps on export markets".

This project will concentrate primarily on the production side (quantity and quality standards) and partly on the market access issues. In addition to the trade development objectives being met, there are also significant outcomes in the area of poverty alleviation. The central aim of the project is to reach approximately 900 additional rural families and to create the potential for an additional income of between $600-1,800 per family per year.

2. Project Description

The international demand for Lao textiles is very good, but currently the bulk of production is focusing on the lower end of the market. Part of the reason for this is the inadequate supply of local high quality silk yarn at an affordable price. In short, there is a supply constraint. Almost any quantity of local silk yarn can be produced and sold. Marketing is not a serious bottleneck; production is. Greater production of the basic raw material for this industry will increase its capacity to produce more for the export market.

As can be seen from the production figures on the previous page, Laos will always be a small producer in comparison to China, Vietnam and Thailand. Its overall competitive advantage is to focus on smaller production quantities with high value added. Terms like “handmade”, “traditional”, organic etc do increase the value added of Lao textiles. This niche market however is demanding, and while certification in this area is still embryonic, it is a trend that will emerge in the not too distant future. To meet the needs of this market, Laos will need to ensure that the raw materials that they are using are “controllable” and meet the standards that the market demands; in other words that the raw materials are indeed produced in Laos. Without these assurances the demand will be weak and volatile and customers will only purchase from Laos when they cannot source from other countries. The Ministry of Industry and Commerce, in its Silk Handicraft Strategy (2007-2009) also points to the improvement of the silk raw material supply as the first priority of its strategy.

Objective

The project logic is as follows: silk makes up the largest segment of the handicraft sector, exports can be increased in the silk industry by increasing the quantity and quality of silk yarn; to increase silk yarn more farmers need to be brought into the production system; rearing silk worms productively to the cocoon stage requires extension; this extension capacity exists mainly in the private sector; the private sector is constrained primarily by their ability to train and support more farmers. This project will address the constraints of the private sector to promote additional and sustainable silk production.

Components

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5 Op Cit page 40
6 JETRO, in cooperation with the Lao Handicraft Association, created the brand “Chai Lao” as a way to enhance the value of locally produced Lao handicrafts.
Component 1: Silk Production

Silk is made of proteins secreted in a fluid state by a silkworm. These silkworms feed on selected food plants and spin cocoons as a protective shell for their next life cycle stage. The life cycle of a silkworm spans about 50 days. It starts with an egg stage of about 10 days followed by a larval (silkworm) stage of about 25 to 30 days to end with a pupa stage of about 10 days. Humans intervene in this life cycle at the pupa stage in order to obtain the silk from the protective cocoon surrounding the pupa. This life cycle is presented below.

This complete cycle can be replicated in villages but, these days, a division of labour has been introduced which reduces the incidence of disease, raises productivity and improves the overall quality of the final product. There are variations on this process but the essential elements are as follows: silk eggs are produced in a controlled environment by professionals and laid out on flat sheets of paper in batches 18-22,000 eggs each; they are stored like this for some time; 3-4 days before the hatching is desired the eggs are dipped in a solution of H₂SO₄ or HCL for 2-3 minutes to remove the waxy coating on their shells; the eggs are then brought to villagers, just as they are hatching; the eggs are then reared by villagers in sheds which are protected from other animals and the elements; the eggs are fed, over a period of about 28 days, with mulberry leaves (between 5-700 Kg. per 20,000 eggs) until the cocoons have been formed; the cocoons are then processed and the strands are reeled (sometimes in the village and sometimes in a more mechanised environment); this thread is then further processed (degummed) and spun to the desired count (typically 20-22 or 40-44 denier). Depending on the quality of the finished product, the yarn is then used for warp (if it is stronger) or weft in weaving silk products.

A silken strand from a single cocoon is too fine to use alone, so individual filaments of 6 to 20 cocoons are unravelled at the same time. The count of reeled yarn is based on the "denier", a unit of
Target groups
There are two main target groups for this project, firstly, the primary producers of the silk cocoons and secondly, the intermediaries that are essential to support the primary producers. The first target group, or farmers, are typically located in rural areas and should have access to some land (1/3 to 1 hectare). Silk rearing is normally a family business suited to the multi-income life style of a rural farmer. The aim of this project would be to expand current land under mulberry by about 300 hectares in 4 years, giving employment to a further 900 families and supplying the market with an additional 25-30 tons of silk yarn. The estimated additional income for a family with a 2 to 6 rai holding (1/3 to 1 hectare) would be about $600 to $1,800 per annum, depending on the number of production cycles chosen. The major inputs (besides the land) that would be needed for a farmer, entering into this sector in a modern way, would be: 3,500-4,000 mulberry saplings (typically Buriram 60) per 2 rai plot of land; fencing to protect this mulberry garden (sometimes barbed wire is used, some may use jatropha), a rearing shed of at least 20m.sq. per sheet of 20,000 eggs, and the husbandry training needed to reduce the risk of disease and to increase quality and productivity. In some cases these inputs are supplemented by basic reeling equipment.

**Est. Inputs and Outputs for a 2 Rai plot (1/3 hectare) of Mulberry, using Hybrid Eggs**

<table>
<thead>
<tr>
<th></th>
<th>Inputs</th>
<th>Est. Cost (Kip)</th>
<th>Outputs</th>
<th>Income</th>
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<tbody>
<tr>
<td><strong>Fixed Costs</strong></td>
<td>3500 mulberry saplings @ 800kip</td>
<td>2,800,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rearing shed</td>
<td>1,700,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fencing</td>
<td>1,700,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>6,200,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Variable Costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Labour</td>
<td></td>
<td>42 Kg. of cocoons per cycle @20,000 Kip</td>
<td>840,000</td>
</tr>
<tr>
<td></td>
<td>Eggs are supplied by the buyer</td>
<td></td>
<td>Assuming 6, 28-day cycles</td>
<td>5,040,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>Labour</td>
<td></td>
<td></td>
<td>5,040,000</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td></td>
<td>$590</td>
</tr>
</tbody>
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From the above estimates it is clear that, for the farmer, one of the main constraints is the availability of land. Fortunately mulberry grows well on relatively marginal land so expanding the 2 rai plot to 4 rai should not present much of a problem for most farmers. In such cases the fixed costs would increase somewhat but the income would double, yielding almost $1,200 per farmer. To assist farmers measurement of a strand of silk 1D = 1gram weight which measures 9,000 meters of filament. A “D” of 20-22 yarn is comprised of filaments from 8 cocoons each the size of human hair.

*These areas in Laos include: Hua Pan, Xiengkwan, Luang Pabang Bolikhamsai, Khamkeut, Samneua, Sekong, Attapeu Luang Namtha and Vientiane
to enter into this business the intermediaries, namely NPOs\textsuperscript{10} or lead firms, will typically either share the costs of these inputs or combine shared costs with loans that are repaid by the farmers in the form of cocoons or yarn. The inputs provided on a grant or soft loan basis are usually barbed wire for fencing, saplings and critical inputs for the rearing sheds. Most eggs are supplied either from the NPO or the lead firm.

The secondary target group of this project will be the intermediaries. These are the support businesses and organizations needed to provide knowhow and markets to the farmers so that their production levels are high and of adequate quality. The main categories of intermediaries for this project are: “lead firms”\textsuperscript{11}, who use a form of contract farming to support farmers with fixed and variable inputs, husbandry advice and the market for their finished products, at least four of these lead firms are already in existence, and are currently operating on a small scale\textsuperscript{12}; a second set of intermediaries are the NPOs who provide some extension advice and inputs and make an offer to farmers which is similar to the lead firms, and thirdly, the egg producers and suppliers. The 4-6 existing lead firms wish to “scale up” their outreach but they will need some form of public support to speed up this process. These firms, many with the cooperation of Non Profit Organizations have already trained small batches of farmers and have pilot tested extension systems that have proven to be effective. These systems include: selection of quality eggs, the dissemination of disease mitigation practices, teaching techniques for higher productivity rates in rearing, collection and quality control systems, on-site trouble shooting, and a focus on improved cocoon processing. Based on the experience of other countries this type of system will become the dominant form of production in the future. It is more efficient and yields a higher net income for the farmer. The core constraints of these “lead firms”, to scaling up, are limitations of trained personnel and larger numbers of farmers that are willing and able to become more involved in this type of production system. When questioned these lead firms speak of the following constraints to expansion: “competition for labour from other crops such as rubber and cassava”, “inadequate support from local authorities”, “flooding of mulberry gardens”, “regular and cost effective supply of eggs”, “NGOs distorting the market prices”, “exposure to more modern and best practices”, and finally “access to finance”.

These lead firms prefer to operate in different parts of the country\textsuperscript{13} and also with different development strategies. Some encourage the production of the traditional varieties of silk worms while others favour hybrids imported from Thailand. This project will not try to influence these decisions as they are based on the markets to which these firms are catering. Rather the project will try, in each case, to ease the constraints these firms are facing. This package of assistance will be tailor-made depending on the needs of the lead firm, while at the same time systemic issues like continuous and reliable egg supply issues will be addressed collectively.

\textsuperscript{10} The most important Non Profit Organizations operating in the silk sector in Laos are PADDETC Lao and SFE.

\textsuperscript{11} Lead firms are typically incorporated into private sector development value chain projects as they often supply critical productivity-enhancing services to the target group as a part of their core transactions with the target group. The use of lead firms is sometimes called Public Private Partnerships or Inclusive Development.

\textsuperscript{12} These four companies are Mai Savanh Lao, Phakaned Handicraft, Lao Sericulture and Lao Swiss Silk Co. but it is expected that there could be additional firms (for instance Ockpoptok) that may be willing to take on this function of intermediaries.

\textsuperscript{13} For example Lao Sericulture works mainly in Xienkwan and Hua Pan, while Pakaned focuses on Bolikhamsai and Khamketand Mai Savanh Lao is concentrates on Sekong and Atapue and Lao Swiss Silk will start in Vientiane Province.
Another important set of intermediaries are the NPOs. In particular there are 2 NPOs that are known for their significant work in this field of sericulture promotion; Paddetc Lao and SFE. Paddetc Lao is one of the older non profit organisations in Laos and they have been working over the past 3 years with 370 families in Nakon Luang, Vientiane Bolikhamxai and Khammouane. Their project will run until 2011 and they plan to extend their operations to include Xaibuathong, Nangbok and Pakading. They have established an egg production facility in Thatieng in the south. They are supported by the EU and KCF (Hong Kong). They are well integrated into the value chain of Pakaned Handicrafts and sell most of their cocoons to them. The second important Non Profit Organization in this sector is SFE, a French/Swiss organization that has been operating in Luang Namtha and Sekong since 2004. They promote hybrid eggs from Thailand (Chul Mai Thai). They provide training for 150 families who must have a minimum of 2 rai each to participate in their scheme. They provide loans and grants to villagers on the condition that they sell their cocoons or yarn to them. They usually support 6 cycles per annum. Their funding comes from a variety of French and Swiss sources. The main contribution of the Non Profit Organizations is that they partly finance the start-up costs for villagers. They prefer not to stay in one location for too long but rather try to move into other areas and introduce silk production to others. They are, however, concerned with the sustainability of their projects because, even after their projects have ended, villagers constantly need contacts from outside, in the form of either egg supply, technical advice on disease and markets. In this respect the integration of the past projects of the NPOs into the value chains of the lead firms seems to be a win-win solution. In fact, this is the case with some of the villagers of Paddect Lao with Pakaned Handicraft and SFE with the value chain of Mai Savanh Lao. The project will work with lead firms and will try to facilitate their interaction with selected Non Profit Organizations to optimize the inputs of both parties in a way that is mutually beneficial and sustainable.

A third set of intermediaries are involved in egg production. There are four actors in this market; Chul Mai Thai, Jim Thompson, The Hat Sai Fong Centre in Vientiane and a facility of Paddect Lao in Thateng. There are several varieties of silk worms but the ones mentioned below make up the vast majority of production in Laos.

**Native varieties (polyvoltine, yellow cocoon)**
Polyvoltine silkworms are varieties that farmers have traditionally produced, based on egg stocks that they maintain themselves. Native silkworms produce small, yellow cocoons. The filament length of these cocoons is about 250-350 meters, and they can only be reeled by hand.

**Foreign Thai hybrids (bivoltine, white cocoon)**
Foreign hybrid varieties are bred from foreign bivoltine parents. They produce larger cocoons, which are suitable for factory reeling. Bivoltine cocoons are usually white, with the exception of some of the newer breeds. Bivoltine varieties produce cocoons with a filament length ranging from 600 to 1500 meters, and are reeled mainly by machine. These are the eggs supplied by Chun Mai Thai and Jim Thompson from Thailand.

Chul Thai Silk Co., Ltd. (CTS) is the largest Thai company in the Bivoltine silk yarn sector and other silk related businesses. It was founded in 1968 and was facilitated by national policies at that time, which encouraged domestic silk yarn reeling as a substitute for yarn imports. It also created a joint venture with two Japanese companies. During its first 15 years the company experienced continuous difficulties but eventually was able to find suitable technologies and commercial solutions. In 1987, the Dutch Government through the Netherlands Development Finance Company (FMC) donated a grant for approximately $80,000 to finance the establishing a non-profit organisation called Chul Thai Silk Foundation, which became a Sericulture Training Centre for farmers. To date, the company estimates that over 7,000 farmers have been trained by the foundation. The courses cover both mulberry and silk cocoon production and the farmers trained by the foundation become Chul Thai
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Silk contract farmers. Estimates provided by the company indicate that its contract farmers earn a combined income of over 7 million annually. The prices of a “box” of eggs (2 sheets of 22-24,000 eggs) supplied by Chul Thai is ThB 500 plus ThB 3,000 transport (for any quantity) to Nongkhai.

The Thai Silk Co., Ltd. (Jim Thompson) James Harrison Wilson Thompson, a US born citizen, established the Thai Silk Co., Ltd. in 1948. Jim Thompson made a major contribution to the Thai silk sub-sector, introducing distinctive quality, colours and designs, and establishing a reputation for Thai silk in the international markets. The business grew over the million-dollar mark in the 1960s and had a further rapid expansion in the 1980s. Currently the company ownership comprises 51% Thai nationals with the remaining 49% owned by foreigners. The company is a successful case of vertical integration in silk production. It supplies silkworm eggs (bivoltine), purchases yarn from smallholders for processing (degumming and dyeing), and undertakes weaving, fabric designs and printing and tailoring in its factories. All products are marketed through specialized silk retail stores owned by the company under the brand name of Jim Thompson. The price of eggs from Jim Thompson is 1 sheet of 18-20,000 eggs for ThB 200 plus ThB 200 transport per sheet by bus. to Nongkhai.

Hat Sai Fong facility in Vientiane was established 30 years ago with support from the Columbo Plan and with assistance from Japan. It currently provides eggs, mulberry seedlings and training. They have the best knowhow and equipment in the country for egg production but the demand from the private sector is relatively low. Last year they sold 300 boxes (18-25,000 eggs per box) to some of the “lead firms” mentioned above. They also sold 90,000 mulberry seedlings, a large portion of which were also sold to lead firms. They can produce both varieties of eggs although the price varies (polyvoltine @ 25,000 Kip/box and bivoltine @ 50,000 Kip/box). This government owned facility operates well below its capacity and could provide significant inputs for the silk sector in Laos if it were run on a more commercial basis.

Paddetc Lao is a Non Profit Organization and has been described above. It has a facility in Thatieng that is involved in egg production, mainly for supply to the 370 families involved in its projects in the south. Most of the production is polyvoltine. They prefer to deal with this type of silk as it is more disease resistant. Even though the yield is lower at about 350 meters per cocoon, it can be reeled in the villages, thereby creating some additional value added in the rural areas. A further objective in the promotion of this variety is that villagers should eventually be able to rear this variety more easily on their own.

It will not be the intention of this project to invest heavily in the expansion of egg production, however if there are ways to sustainably improve the access of producers to more reliable and lower priced eggs, such as the commercialization of domestic facilities, small interventions could be considered and facilitated.

The key elements of this component will be: (see more details in Section 4)

- Training for 900 farmers
- Grants and loans from lead firms to farmers for saplings, fencing and rearing sheds
- The establishment of Young Silk Worm Stations of lead firms

The major outcomes of this component will be:

- 900 additional families entering into commercial silk production.
- An average additional annual income per family of $700
- 25 to 30 additional tons of silk yarn produced

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14 Value chain Analysis for Thai Home textiles, Silk Sub-sector, EU Thailand Thai Home textiles Project, EU, November 2007
15 1 $US is equivalent to 35.8 ThB or 8,539 Kip
**Component 2: The Lao Handicraft Festival**

This festival has been held for many years and is organized like a trade fair and has many side activities that add value to participants or to the Lao Handicraft Association (LHA). It happens towards the end of the year and in 2008 there were almost 250 exhibitors occupying booths of either 3 X 3 m² or 6 X 6 m². The main exhibitors are from the 130 members of the LHA plus selected villagers and other outstanding craft producers sponsored by the LHA. The LHA festival organizers sponsor the travel, food and accommodation for many of the exhibitors, especially those coming from rural areas. The festival is an opportunity to showcase the rich variety of Lao handicrafts to a wide range of potential customers including: US, European and Japanese buyers; tourists visiting at that time; the personnel of embassies and local expatriates; Lao businesses and the public at large.

Organization for the festival begins 8 months before it starts. Various committees are established to plan for public relations and advertising. Foreign journalists are then informed of critical dates. Contests are planned, guest exhibitors are invited and seminars designed to accompany the exhibition. The whole event costs about $55,000 and has a potential revenue, from booth rental, of about the same amount of money. An LHA survey of exhibitors shows positive sales, per 3 X 3 m² booth, of about $4,000 per booth, pointing to a turnover volume of close to $1 million for the 5 day exhibition.

This is a major annual activity of the LHA and it consumes a great deal of management resources especially in the months leading up to the opening of the festival. The objective of this component of the project is to institutionalise the organization of this festival so that it becomes commercially sustainable while still being conducted and organised in a professional way. The key inputs for this component will be for additional technical assistance from commercial trade fair promoters to simplify the organization of this event while still retaining its character. In addition to this, “seed funds” will be provided to the LHA as fixed cost investments so that a separate profit and loss account can be established for this event. The aim of this component is to provide a modest grant of $5-7,000 in the first year to the LHA, building this up to between $7-10,000 in positive revenues for the LHA on an annual basis, while attempting to scale up the festival with an increase in estimated total sales by exhibitors of 20% per annum. It is anticipated that this increased volume will also attract more external buyers as the overall quality of the exhibition increases over the years. The key elements of this component will be:

- Technical assistance in the commercialisation of the event
- Seed money to be invested in this commercialisation strategy
- LHA personnel to plan and manage the events on a regular basis

The major outcomes of this component will be:

- 3 supported Lao Handicraft Festivals
- With 235-250 handicraft exhibitors with sales of $1,200,000 per annum
- A permanently functioning team of event managers in LHA capable of commercially operating the festival on an annual basis
- An operating profit of between $5-10,000 per annum derived from this festival

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This figure is composed of the existing families being served by lead firms plus the addition of the 900 families stimulated by this project.
Component 3: Design Support
The handicraft sector is one of the most difficult sectors to promote because its production is typically based in locations that are far removed from its destination markets and although there is a great deal of creativity involved in the production cycle, this creativity is often misplaced in relation to the needs of end consumers. New products are required for each season. The handicraft product is often made from low or no-cost materials and its marketability relies on balancing its costs with its aesthetic appeal, its functional utility and its novelty value. The skill that is needed to get this equation right is called “design”. The professionals who make a living out of making and selling designs are called designers. Many of those involved in handicraft production in Laos frequently point to the scarcity of commercial designers available to keep up with the changing demands of the market and the need to create new designs and new products. The aim of this component of the project is to support the capacity of a critical number of professionals to enter into the design market as a full time career.

The design of a product, even from the same materials, can change the value equation dramatically; consequently it is a critical element of value addition in the handicraft sector. The design process is well understood and can be taught in an adult education format that involves both class room and applied training situations. Currently there are no permanently functioning design training centres in Laos and while it is not the intention of this project to remedy this situation, the project will attempt to stimulate an expansion of designs available to local handicraft producers at a price they can afford. This will be achieved by organizing a pragmatic handicraft design course, for 20-25 local handicraft designers, which extends over a period of 12 months. It will be divided into 4 parts of approximately one week each, ending with the production of a large number of designs specifically aimed at handicraft producers and exporters.

The key elements of this component will be:
- Selection of a top line international designer familiar with the global handicraft sector who also has teaching experience.
- Selection of 25 design professionals interested in upgrading their skills and commercializing them for the handicraft sector.
- Designing an upgrading course broken into 4 modules: introduction to design theory; design production; using computer aided design techniques; product development.
- Each module would involve both class room work as well as teaching in commercial operations that simulate business conditions and constraints.
- The training would be aimed to coincide with the opening of the Lao Handicraft Festival at which time the designers would exhibit the full range of their new products.

The major outcomes of this component would be:
- 20-25 commercial designers with upgraded skills in handicraft design, 80% of whom earn their primary income from design.
- 40-50 design ranges for at least 20 handicraft companies.
- A 10% sales increase in the products of those handicraft firms using these design ranges.

Component 4: Management Systems for the Project
The project will be directed by a Steering Committee involving senior level participation from the Ministry of Industry and Commerce’s Department of Production and Trade Promotion and the Lao Handicraft Association. The final composition of this committee will be decided only after the project’s funding has been approved under the Trade Development Facility.
The project will be owned by the Department of Production and Trade Promotion and implemented by the Lao Handicraft Association.

This Steering Committee will be supported by a Project Management team (Project Manager and Deputy), partly financed by the Trade Development Facility and partly financed by another international donor. The project management would operate from the premises of the LHA who will also provide communications and office support for the management.

The key elements of the management systems will include:
- Terms of reference for the Steering Committee
- Guidelines on the extent and limitations of the project management
- Progress reporting frequency and content (impact assessments)
- Accounting and operating procedures

The major outputs of this component will be:
- Regular progress reports
- Regular financial statements
- Impact assessment reports following the guidelines of the Donor Committee for Enterprise Development.

Lessons Learnt in the Project Design

Several individuals and organizations were consulted in the preparation of this proposal (see Annex 1 for a list of these). This is not the first project that has been involved in the primary production of silk. There are, however, several lessons that have been learnt over the past 6-10 years that are worth mentioning in connection with this project.

- Value chain management: The two most successful companies in the production of silk yarn in Thailand (Chul Thai and Jim Thompson) have adopted a pragmatic approach to silk production that divides the supply or value chain in a way where some activities are performed at the village level while others that require more technology are performed at more central locations. While this may result in a lower portion of the total value added being contributed by the villagers, it increases the total volume produced at the village level and consequently significantly raises villager incomes. This is the style of production system that is being advocated for the bulk of the silk production in this project.
- These value chains are principally managed by companies that increasingly called “lead firms”. Lead firms enter into informal contractual arrangements that make the supply chain operate efficiently. The lead firm performs several critical functions: knowhow in mulberry cultivation; knowhow in silk worm rearing; grants to villagers for essential materials; credit for some of the more costly inputs for the farmers and finally a reliable market for the silk produced. The farmers, for their part, guarantee a large and predictable volume of silk cocoons at a price that is determined by prevailing market conditions. Both parties rely on each other for their profits.
- The introduction of hybrid varieties: In recent years more private firms and NPOs have been attracted to hybrid silk varieties, supplied principally by two firms in Thailand (Chul Thai and Jim Thompson). The reason for this attraction has been that silk produced with these hybrids provides the potential for higher valued products. There are, of course, “tradeoffs” for this higher quality such as reliance on this supply

The Donor Committee for Enterprise Development has recently piloted impact assessment standard that are widely gaining recognition see: www.Enterprise-Development.org
and lower resistance of the silk worms to disease, but the experience from Thailand also suggests that these varieties are now well adapted to the climate of North East Thailand and many parts of Laos.

- The emergence of NPOs: Over the past 6 years there have been more projects, implemented by donors and NPOs in this sector that have given rise to a great deal of experience. Some of these projects have included the LEAPPS project of USAID in Huapan and Xiengkwin; the LHA/UNIFEM project in Baan Paktihep; SFE in Luangnantha and Sekong; and Paddecc Lao in Nakon Luang, Bolikhamsai and Kammouane. These projects have all helped to introduce many villagers to silk rearing and in the process have acquired considerable social and technical skills required for scaling up and outreach.
- Stronger relationships between NPOs and the private sector: For some years this relationship appeared to be "adversarial", but as the sector grows it is becoming clearer that "survival" is stimulating cooperation; one partner financing development while the other focuses on sustainability and growth. This is evidenced in the existing connections between Paddecc Lao and Pakaned. This cooperation points to the potential for the project to use this relationship to stimulate greater industry expansion.

3. Implementation

Implementation Partners
There are several set of partners involved in this project. The core ownership of the project will be with the Ministry of Industry and Commerce’s Department of Production and Trade Promotion, while implementation responsibility will be accorded to the Lao Handicraft Association. The LHA will provide the core office space for the project management and will open a project bank account to handle financial disbursements.

A project Steering Committee (mainly composed of representatives from the DPTP and LHA) would be established to handle key policies and major budget allocations; it would also assess quarterly progress reports from the project management. The scope of project management would include: establishing annual targets and budgets, implementation strategies, operational decisions and financial accountability. Project management would report on a regular (quarterly is suggested) basis to the project’s Steering Committee.

In the preparation of this proposal an international voluntary agency was approached to assess their willingness to make a contribution to the project’s management. They have tentatively agreed to provide a long term foreign expert (of any nationality) on a 50-50 financing basis.

Monitoring and Evaluation Framework
A table of key performance indicators is presented below to show both the key outputs and at the same time the impact that these outputs should generate. While there may be some variation in the project implementation in relation to the project outputs, the impact indicators are considered to be binding for this project.

<table>
<thead>
<tr>
<th>Component 1</th>
<th>Outputs</th>
<th>Impact</th>
<th>Source of Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 900 families trained in silk production</td>
<td>• Approx. 180,000 Kgs. of additional silk cocoons produced each year</td>
<td>Impact assessment studies</td>
</tr>
</tbody>
</table>
### Component 2 Outputs Impact Source of Data

**Enterprise:**
- 250 stalls provided to handicraft producers and traders
- Total volume of sales by exhibitors reaches approximately $1.2 million by year 3 of the project.
  - LHA survey

**Intermediary (sustainability focus):**
- 250 staffs sold to handicraft producers and traders every year
- LHA generates a small profit ($5,000-10,000) from the Annual Handicraft Festival by 2012
  - LHA accounts

- Capacity of LHA management to organize festival is developed
- LHA conducts handicraft festival on an annual basis with only private donations and sponsorship
  - LHA accounts

### Component 3 Outputs Impact Source of Data

**Enterprise:**
- 25 designers trained
- 80% of those trained earn their primary income from design revenues
- Annual sales of participating companies increases on average by 10% from beginning to end of intervention
  - LHA survey

- 40-50 design ranges introduced
- 20% LHA members start paying for design services.
  - Survey of designers

**Intermediary (sustainability focus):**
- LHA holds an annual design competition
- A 10% increase in the number of designers selling their services to members of the LHA
  - LHA survey

### Risks and Mitigating Strategies

The following risks have been identified:

- **The availability of critical inputs at the right time:** The project will attempt to double silk production in Laos in the next 4 years; this will put a strain on inputs like mulberry saplings, trained personnel and management systems, the consequence of which could be delays in implementation and potential loss of interest from the target group and intermediaries.
  - **Mitigating steps:** The management will need to carefully construct a plan (PERT/CPM) that includes the inputs and contributions of villagers, lead firms, NPOs and other project partners to ensure that activities are properly sequenced and implemented on time.

- **Conflicts of interest among project intermediaries:** The project will be dealing with several private firms and agencies, each of whom has their own interests; for instance, lead firms may overlap in their geographic coverage, NPOs may want better prices for their farmers than the lead firms are willing to provide. Such conflicts have the potential to escalate and become destructive.
Sustainable Silk and Handicraft Production

- **Mitigating steps:** It would be unrealistic to assume that there will be no “tension” in the project implementation and indeed some of this can be productive, for example competition can lead to creative solutions being found. Several strategies however will be taken to ensure that this energy is productively channelled: lead firms will be encouraged to choose “expansion villages” where the other lead firms are not operating; NPOs will be encouraged to make written agreements with lead firms on cost sharing and marketing of finished products as a way to clarify the roles of each partner.

- **Availability of labour at the village level:** There is increasing competition for both land and labour in many of the areas which are suitable for silk production. This competition has been identified specifically for two crops, rubber and cassava.
  - **Mitigating steps:** The prices of rubber have fallen recently, contributing to the increasing lack of interest in this once-attractive crop. In addition to this a farmer has to wait 5 years for income from this crop. So, competition from this crop is likely to decline in the midterm. Cassava is an easier crop and requires little attention; it grows in poor soils and can be harvested almost all year round. Its value however is based primarily on its starch content which declines between harvesting and processing. So, if a processor is not nearby the revenue from this crop will be less than the cultivation of mulberry. The project however will prepare public relations materials on the strengths and weaknesses of each of these crops in relation to silk as a way to explain which alternative is the best in each village. This will be done in cooperation with the appropriate local and village authorities.

Ownership and Sustainability
As previously mentioned the project would be owned by the DPTP and implemented by the Lao Handicraft Association. It would be temporary in nature with the aim of stimulating development processes that become sustainable. In the silk production component the sustainability strategy is to involve the lead firms so that they are “incentivised” to provide villagers in their value chain with the kind of inputs and knowhow so that they can continue to improve their productivity and expand their production. This sustainability strategy is well documented in publications like “Making Markets Work for the Poor”\(^\text{18}\). The core idea is to stimulate a process that has market based incentives to increase the value added for the poor while involving other private sector actors that support this process.

\(^{18}\) [http://www.deza.admin.ch/resources](http://www.deza.admin.ch/resources) provides a full explanation of this approach
In the component related to the promotion of the Lao Handicraft Festival, an event already owned by the Lao Handicraft Association, the sustainability strategy is to build this event into a commercial money maker for the association so that it can not only hold these exhibitions in Vientiane but could also consider doing these on a smaller scale, but also commercially at the provincial level. Trade fairs are typically the first services of any association that start to make money for the association, so this is not overly ambitious.

In the component for the promotion of design, sustainability is foreseen in the ability of the graduating designers to sustainably and continuously serve the handicraft sector with commercially viable designs. The objective here will not be to establish a design academy or design centre, this has been tried in the past and has failed because the market is not strong enough yet to support such a supply.

4. Detailed Activity Costs

Contributors:
In addition to the project management contributions from the LHA and the international voluntary organisation, the core contributors to this project are the Trade Development Facility, the lead firms and the farmers. The NPOs will also make some non-financial contributions to the process.

Component 1:
The critical inputs (in $US) for the silk production, based on 900 families with a minimum of 1/3 hectare or 2 rai per family, are as follows:

Fixed or Development Costs:
- At the farm level:
  - Saplings @ ~ 3,500 per hectare or $33
  - Fencing @ ~ $190 for a 2 rai plot
  - Rearing shed @ ~$300
  - Labour for land clearing and fencing $200
  - Training of farmers up to 3 cycles (~9 months) ~$2-300
- At the lead firm level
  - Young silk worm station @~ 150 per producer family made up of
    1 Buildings
    2 Staff training
    3 Transport

Recurrent costs
- Advisory services to farmers ~$300 per annum
- 500 Kgs. of mulberry leaves per sheet of 20,000 eggs for 28 days

Distribution of contributions:
- Farmers: The main contributions that will come from the farmers are in the form of their labour: land clearing for the mulberry garden, construction labour of the rearing shed, labour for the fencing, and of course cultivating the mulberry plantation and looking after the silk worms.
- Lead firms: The contributions from the lead firm will be in the form of a 50% grant to the farmer for saplings, fencing and rearing sheds. The other 50% will be on loan to
the farmers, repaid in silk. The lead firm would also assume all of the variable costs of advisory services, egg supply, and marketing (Young Silk Worm Stations).

- The TDF: The core contribution of the TDF will be to contract the NPOs to identify and train 900 new families or as many families as can manage 300 hectares. For this they would receive a grant of $300 per family or $900 per hectare under sustainable mulberry plantation. The award of these contracts to the NPOs would only be granted once they have a written agreement with any lead firm for the loan/grant component. The TDF would also make a small contribution to the development costs of the lead firms.

Component 2:
The main contributions to this component from the TDF will be in the form technical assistance related to commercial event management and a seed capital fund of $50,000 to ensure that the event can be conducted on a commercial basis. The main contributions from the LHA will be in the form of substantial personnel contributions for the event management, communications, public relations etc.

Component 3:
The main contributions from the TDF will be in the form of short term expert designers and some logistic costs, while the contributions of the LHA and the local participants will be their time and a contribution to the logistic costs.

Component 4:
In this component the costs will be split between the TDF and the international voluntary organisation (SNV) and the Lao Handicraft Association. A more detailed breakdown of all of these costs can be seen in Annex 2

<table>
<thead>
<tr>
<th>Contributor</th>
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</thead>
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<tr>
<td>Trade Development Facility</td>
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<td>4-6 Lead Firms</td>
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<tr>
<td>International Voluntary Organisation</td>
<td>200,000</td>
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</tr>
<tr>
<td>Lao Handicraft Association</td>
<td>79,800</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,008,600</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

5. Operational Management

Procurement
The critical procurement contracts under this project would be: the 4-5 contracts to the NPOs for the farmer training; the small grants to the 4-6 lead firms; 1 technical assistance contract for a short-term consultant (STC) for the Lao Handicraft Festival, a subsidy grant to the LHA based on the recommendations of the STC mentioned above; 50% of the costs for the project manager, this would be concluded between the project and the international voluntary agency making the other 50% contribution to project management costs; a project car and motorbike; a contract with a deputy project manager; capacity building measures and small operating grants.

Disbursements would be called for by the Steering Committee and signed by the DPTP. The funds would be transferred from the NIU directly to the LHA and further disbursements would be made by the management of the project and accountable to the Steering Committee of the project.
Financial Management
There would be two main cost control centres, the NIU and the LHA. The NIU would keep a record of TDF expenditure and also take note of the counterpart contributions from the other parties (as documented in semi annual progress reports). The outgoings by the NIU for expenses would consist of: contracts for NPOs, foreign consultants; contracts for the project manager and the deputy manager of the project; contracts for local consultants to conduct studies, surveys, translations etc.; contributions to the capacity building of project stakeholders; office, equipment procurement. etc.

The key financial activities of the LHA would be in the form of disbursements for farmer training, grants to lead firms, travel expenses and minor expenses. A separate bank account would be established for these purposes. An audited statement of accounts would be prepared on an annual basis of the Project Management and would form part of the annual report submitted by LHA and DPTP to the NIU.

Key Terms of Reference

Post Title: Project Manager:
Duration: 4 years
Duty Station: Vientiane

Duties: Responsible for the general management of the project and reporting to the project’s Steering Committee made of key stakeholders. These responsibilities would include:
- Identifying key strategic issues related to performance of the project. This would include: developing a detailed 4 year plan of all inputs and anticipated outputs to ensure that the project achieves all of its targeted impacts.
- Preparation of an annual Plan of Operations that would include: key output targets, detailed annual inputs from all parties to the project.
- The facilitation of key agreements between the NPOs and the lead firms to ensure that these are workable and will achieve the desired results.
- The preparation of key terms of reference for external experts to be brought in to build the capacity of LHA and other project personnel and for conducting impact assessments.
- The management of disbursements, in collaboration with NIU, in connection with these above mentioned contracts.
- The preparation of annual and ad hoc reports for the Project and for LHA in connection with the TDF project.
- Representation of the Project at all major functions in which the Project needs to project a positive image to project stakeholders and clients.
- The supervision of all project staff and any short term staff that may be hired either to perform specific contracts related to training or in relation to impact assessment.

Qualifications:
- At least 10 years of working experience at a managerial level in rural or agri-business development.
- Exposure to value chain development or the “Making Market Work for the Poor” approach would be an asset.
- Past experience with the silk sector or with work in Laos would be a significant asset.
Sustainable Silk and Handicraft Production

Duration: 4 years
Duty Station: Vientiane

Duties: The Deputy Manager would report directly to the Project Manager and would be responsible to the day-to-day operations of the project. Specifically this would include:

- Negotiating with lead firms and NPOs to generate appropriate agreements, going over these on a clause by clause basis to ensure that core project objectives are being met.
- Overseeing the technical assistance components related to the Lao Handicraft Festival and Design. This will require direct participation in the missions of the STEs used to ensure that targets are being met. If there are any deviations to this the Deputy will suggest alternative strategies for target fulfilment.
- Identifying and supervising impact assessment studies that need to be carried out on a regular basis. Key studies will be required for assessing farmer income at the beginning of the project as well as the number of farmers involved in the silk sector. The aim of these studies is to measure significant changes in farm level performance that is attributable to the Project.
- The management of the Project’s administration, this will include: the supervision of the Project’s cashier; the supervision of the cash account, approving cash procurements.

Qualifications:

- At least 5 years experience of middle level management experience either in a private company, public service or an international NPO.
- Secondary education certificate
- Managerial and leadership potential
- Fluency in Lao and English language
## Annex 1 List of Key Institutions and Persons Consulted

<table>
<thead>
<tr>
<th>Institution</th>
<th>Persons Met</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Industry and Commerce, DPTP</td>
<td>Khampanh Sengthongkham</td>
<td>Deputy Director General</td>
</tr>
<tr>
<td></td>
<td>Sysangkhom Khotnhotha</td>
<td>Deputy Chief</td>
</tr>
<tr>
<td>Lao Handicraft Association</td>
<td>Rassanikone Nanong</td>
<td>President</td>
</tr>
<tr>
<td>UNIFEM Vientiane</td>
<td>Kamala Phandanouvong</td>
<td>National Project Coordinator</td>
</tr>
<tr>
<td>Ag and Forestry Tech. Service Centre</td>
<td>Vilaysak Souphanthong</td>
<td>Chief of Centre</td>
</tr>
<tr>
<td>(Vientiane)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ag and Forestry Tech. Service Centre</td>
<td>Silivanh Boulavong</td>
<td>Chief Sericulture Centre</td>
</tr>
<tr>
<td>(Vientiane)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Camacrafts</td>
<td>Kommaly Chanthavong</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td>Nuliem Chanthavong</td>
<td>Director</td>
</tr>
<tr>
<td>Phothong Saisnith</td>
<td>Pakaned Handicrafts</td>
<td>Director</td>
</tr>
<tr>
<td>Philippe Schmidt</td>
<td>Mai Savanh Lao</td>
<td>Managing Director</td>
</tr>
<tr>
<td>Lukas Blazer</td>
<td>Lao Swiss Silk Company</td>
<td>Director</td>
</tr>
<tr>
<td>Hansana Sisane</td>
<td>Lao Textile Museum</td>
<td>President</td>
</tr>
<tr>
<td>Fredrich Huissoud</td>
<td>SFE</td>
<td>Administrative Director</td>
</tr>
<tr>
<td>Khimpone Lovan</td>
<td></td>
<td>Executive Assistant</td>
</tr>
<tr>
<td>Eelco Baan</td>
<td>SNV Netherlands Development Organisation</td>
<td>Network Leader</td>
</tr>
<tr>
<td>Nancy Jiracek</td>
<td>World Education Consortium</td>
<td>Director</td>
</tr>
<tr>
<td>Martin Dunn</td>
<td></td>
<td>Former Director</td>
</tr>
<tr>
<td>NN</td>
<td>Padect Lao</td>
<td>Director of Sericulture</td>
</tr>
<tr>
<td>Stephanie Kuttner</td>
<td>Wold Bank</td>
<td>Consultant on Gender Issues</td>
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Annex 2: Sustainable Silk and Handicraft Production Budget Forecast

<table>
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<tr>
<th>Contributions</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
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<td></td>
<td>TDF</td>
<td>LHA</td>
<td>SNV</td>
<td>LFs</td>
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<td>Component 1 (Silk Production)</td>
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<tr>
<td>Farmer Training @300/family</td>
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<td>90,000</td>
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<td>Grant/loans for saplings, fencing,</td>
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<td>rearing sheds @ $550/family</td>
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<td>Young Silk Worm Stations @$150/family</td>
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<td>Grant to lead firms @$150 per family</td>
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<td>4 mission of STEs @$10,000</td>
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<td>Totals</td>
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<td>70,000</td>
<td>277,200</td>
</tr>
<tr>
<td>% Distribution of Contributions</td>
<td>TDF</td>
<td>54.7</td>
<td>1,098,800</td>
<td>LHA</td>
<td>4.0</td>
</tr>
</tbody>
</table>

TDF = Trade Development Facility  
LHA = Lao Handicraft Association  
SNV = Netherland Voluntary Service  
LF = Lead Firms