

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Kyrgyzstan	Project Title:	Senior Loan Facility for Bai Tushum Bank
Lending/Financing Modality:	Financial Intermediary	Department/ Division:	Private Sector Operations Department Private Sector Financial Institution Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Poverty targeting: general intervention

A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy

The proposed project is a \$10 million senior loan to Bai Tushum Bank (BTB) for on-lending to micro, small and medium-sized enterprises (MSMEs). The project will contribute to expanding access to affordable finance across the country, and is aligned with the Asian Development Bank (ADB) country partnership strategy (CPS) for the Kyrgyz Republic (2013–2017) and the ADB country operations business plan (2014–2016), both of which adopt inclusive growth as a strategy for poverty reduction, and promote private sector development as a driver of change.^a It is also aligned with the Kyrgyz Republic National Sustainable Development Strategy (2013–2017),^b which has a main economic priority of creating an enabling environment for private sector activity, and thereby attracting investment and driving growth. The CPS and country operations business plan support lending to financial institutions because of the high development impact associated with helping underserved people and creating economic opportunities for them.

B. Results from the Poverty and Social Analysis during PPTA or Due Diligence

1. Key poverty and social issues. The Kyrgyz Republic's economy is dominated by small economic entities, most of which are farmers, individual entrepreneurs, and small enterprises that typically operate in the informal sector (footnote a). This translates to about 1,600 large, 800 medium-sized, and 11,200 small enterprises, with almost 363,701 registered small businesses.^c The proposed investment will target MSMEs in both urban and rural areas and provide access to external funds, enabling individual MSMEs to expand and possibly create economic opportunities for the poor. Other constraints to private sector development identified in the CPS are a harsh business environment, and difficulties in building human capital and enhancing skills; these are expected to be addressed by the government with support from other multilateral and bilateral agencies.

2. Beneficiaries. BTB was established in 2000 as a local microfinance institution and it is the first institution of its kind in the Kyrgyz Republic to obtain a banking license. It has 32,000 clients and provides a diverse range of financial services to entrepreneurs, MSME borrowers and small corporations. Its MSME segment comprises almost 40.1% of its portfolio. The project will support BTB's operations, enabling it to (i) provide longer tenor funds for on-lending to MSMEs; (ii) increase the number of its MSME loan accounts; and (iii) increase its lending activities to MSMEs, and offer new products to its borrowers. The growth triggered by the additional financing for MSMEs will (i) create jobs; (ii) generate income for underserved people in rural and underserved areas; and (iii) foster economic growth and social stability, and contribute to a dynamic private sector.

3. Impact channels. The CPS states that most of the Kyrgyz Republic's urban poor are unemployed, and its rural poor are underemployed. The project will target MSMEs in both urban and rural areas and will contribute to the creation of economic opportunities for the poor. Providing finance to MSMEs will strengthen their role as an important source of employment. Emphasizing lending based on MSME cash flows, expanding into more remote parts of the country, and providing MSMEs with term finance will help stimulate and diversify the economy.

4. Other social and poverty issues. NA

5. Design features. The investment will (i) provide \$10 million for MSME lending, (ii) increase loan tenors from 24 to 30 months, and (iii) provide financing for the launch two new financial products.

II. PARTICIPATION AND EMPOWERING THE POOR

1. Participatory approaches and project activities. Project activities will be limited to on-lending to MSMEs; corresponding activities are included in the design and monitoring framework. To provide MSMEs and borrowers guidance to manage their financial resources efficiently, BTB has an extensive outreach program through its branches and staff. These approaches enable BTB to continuously strengthen its mission of achieving of financial inclusion for its MSME borrowers.

2. Civil society organizations. Not applicable. NA

3. The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA):

☐ Information gathering and sharing - N ☐ Consultation- N ☐ Collaboration- N ☐ Partnership – N

4. Participation plan.

☐ Yes. ☒ No.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: Effective Gender Mainstreaming

A. Key issues. The Kyrgyz Republic is ranked 94th out of 128 countries in the most recent Women's Economic Opportunity Index (2012),^d below such countries as Viet Nam, Indonesia, and Thailand. The women's employment rate fell a staggering 34.5% between 1991 and 2010 (from 81.6% to 47.1%), primarily because of the massive loss of formal sector jobs by women when state farms and cooperatives were dismantled as state assets were privatized. Women subsequently moved into the lower-paying informal sector, including subsistence farming, trades and cottage industry handicrafts. The overall current female labor force participation rate in the Kyrgyz Republic is 56%, compared to 80% for men, while the share of women employed in the non-agriculture sector remains low at 43%.^e The gender wage gap (female to male ratio) is 0.54.^f There is a significant gender gap with regard to account ownership and the use of savings and credit products. More than 70% of micro-loan borrowers are women, suggesting challenges in accessing larger amounts of credit. Only 12% of landowners are women, which restricts the ability of women to provide non-personal collateral to obtain credit, making them less attractive to most banks as borrowers. Women's MSMEs lack capacity, experience, and information to increase their use of financial services, especially rural MSMEs.^g In combination these factors have substantial implications for women's economic empowerment.

The project will build upon the gains made in the ADB Japan Fund for Poverty Reduction KGZ Women's Entrepreneurship Development Project,^h which aims to build the capacity of female micro-entrepreneurs in rural areas, and will assist MSMEs run by women to become sustainable small businesses with access to finance. This project will provide credit and other support.

B. Key actions.	
-----------------	--

☒ Gender action plan ☐ Other actions or measures ☐ No action or measure

The Gender Action Plan (GAP) will ensure that gender-inclusive designs are included in the main project outputs, and that the project will be eligible to be categorized as effective gender mainstreaming. Key gender design elements include ensuring that women's MSMEs receive the following benefits: 20% of the total loan amount; 30% of new loan accounts between 2015 and 2020; a client- (BTB) sponsored Network of Women's Entrepreneurs to facilitate knowledge exchange, raise voices as an advocacy group and provide mentoring and confidence building to women; at least one new financial product is launched by 2018 that is tailored for women and gender inclusive (e.g., specialized financial literacy training for female borrowers; at least 30% of all Business Development Skills training targets women; at least 50% of women's MSMEs applying for loans of up to Som150,000 are able to provide collateral in the form of two personal guarantees rather than real estate; and data disaggregated by gender is collected. Regarding lessons from the project, at least five high-quality stories will be produced each year on successful women entrepreneurs who are project beneficiaries; these will be disseminated via the website, radio, TV, and in BTB publications, covering the specific challenges MSME owners face as women entrepreneurs, and how these were overcome.

IV. ADDRESSING SOCIAL SAFEGUARD ISSUES

A. Involuntary Resettlement Safeguard Category: ☐ A ☐ B ☐ C ☒ FI

A. Involuntary Resettlement Safeguard Category: ☐ A ☐ B ☐ C ☒ FI

1. Key impacts. The investment activities will not involve involuntary resettlement leading to physical or economic displacement.

2. Strategy to address the impacts. MSME lending using ADB funds will not involve any involuntary resettlement impacts. BTB's environment and social management system (ESMS) will include a screening mechanism for all investments to identify involuntary resettlement impacts. Sub-loans found to have involuntary resettlement impacts will be excluded from ADB financing.

3. Plan or other Actions.

☒ Environmental and social management system arrangement

B. Indigenous Peoples Safeguard Category: ☐ A ☐ B ☐ C ☒ FI

B. Indigenous Peoples Safeguard Category: ☐ A ☐ B ☐ C ☒ FI

1. Key impacts. Is broad community support triggered? ☐ Yes ☒ No
2. Strategy to address the impacts. MSME lending using ADB funds will not entail any impacts on indigenous peoples. BTB's ESMS will include a screening mechanism for all investments to assess impacts on indigenous peoples. Sub-loans found to have indigenous peoples impacts will be excluded from ADB financing.
3. Plan or other actions.
☒ Environmental and social management system arrangement

V. ADDRESSING OTHER SOCIAL RISKS

A. Risks in the Labor Market

1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L).

☐ L unemployment ☐ L underemployment ☐ L retrenchment ☐ L core labor standards

The increased lending to MSMEs will help create employment opportunities

2. Labor market impact. BTB screens all its potential borrowers for use of child or forced labor as part of the preliminary environmental and social assessment form. During the loan period, BTB will monitor its borrowers' compliance with national labor laws and core labor standards.

B. Affordability Not applicable.

C. Communicable Diseases and Other Social Risks

1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):

☐ Communicable diseases NA ☐ Human trafficking NA

☐ Others (please specify) _____

2. Risks to people in project area. NA

VI. MONITORING AND EVALUATION

1. Targets and indicators. The project will provide \$10 million to BTB for on-lending to MSMEs.

2. Required human resources. BTB has assigned staff for implementing and monitoring environment and social requirements. They will ensure effective implementation of the ESMS provisions, including reporting to ADB that the screening process was used to screen all applications for involuntary resettlement and indigenous peoples impacts, with those projects with identified impacts excluded from ADB financing.

3. Information in project administration memorandum: Not applicable

4. Monitoring tools. BTB will be required to submit annual reports and an extended annual review report

^a ADB. 2013. *Country Partnership Strategy: Kyrgyz Republic, 2013–2017*. Manila; ADB. 2013. *Country Operations Business Plan: Kyrgyz Republic, 2014–2016*. Manila.

^b National Council for Sustainable Development of the Kyrgyz Republic. 2013. *Kyrgyz Republic National Sustainable Development Strategy (2013–2017)*. Bishkek.

^c World Bank Data accessed 17 March 2015. <http://data.worldbank.org/indicator/SL.TLF.CACT.MA.ZS/countries>

^d Economist Intelligence Unit. 2012. *Women's Economic Opportunity 2012: A global index and ranking*. New York.

^e ADB. 2014. *Key Indicators for Asia and the Pacific 2014*. Manila; D. Podolskaya. 2014. Kyrgyz government proposes small and medium-sized enterprises to provide report on taxes quarterly. Bishkek – 24.kg news agency. 16 October. <http://www.eng.24.kg/community/172717-news24.html>.

^f World Economic Forum. 2014. *Global Gender Gap Report 2013*. www3.weforum.org/docs/GGGR13/KyrgyzRepublic.pdf (Accessed 17 March 2015)

^g Women's MSMEs will be defined as follows (based in part on other ADB projects): (i) at least 50% of enterprise ownership is controlled by women, or (ii) at least 60% of senior managers are women, or (iii) at least 50% of the employees of the enterprise are women.

^h ADB. 2013. *Proposed Grant Assistance to Kyrgyz Republic for Women's Entrepreneurship Development Project*. Manila.

Source: ADB. 2013. *Country Partnership Strategy: Kyrgyz Republic, 2013–2017*. Manila.