

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Kyrgyz Republic	Project Title:	COVID-19 Active Response and Expenditure Support Program
Lending/Financing Modality:	Countercyclical Support Facility	Department/Division:	Central and West Asia Department/Public Management, Finance, and Trade 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 National Development Strategy of the Kyrgyz Republic for 2018–2040 (NDS 2040) aims at ensuring decent living conditions for the people through consistent economic growth, creating and maintaining productive jobs, developing the regions evenly, strengthening the country’s competitiveness and export potential, and improving the quality of the country’s innovative and productive potential.<sup>a</sup> The NDS 2040 sets priority sectors for development of equipment and small machines production, agricultural processing and food production, the clothing industry, building materials industry to ensure macroeconomic stability, increase the export potential, and create jobs. In 2020, the spread of coronavirus disease (COVID-19) and the dramatic fall in oil prices have interrupted economic growth. The government has taken drastic measures to prevent the outbreak, including the closure of borders with People’s Republic of China where 36% of imports of goods originate. This is likely to imply a notable hit to domestic activity. Consequently, the International Monetary Fund estimates economic growth to fall sharply to 0.4% in 2020 (from an earlier forecast of 4.4%) and an external financing gap of 5.0% of gross domestic product (GDP) (around \$400 million) while acknowledging that growth could decline even further if the outbreak worsens and border closures are prolonged.<sup>b</sup> In response to this economic downturn, the government plans to temporarily loosen macroeconomic and financial policies to absorb the shock and support an economic recovery in the second half of the year. The proposed Program is highly relevant in this context and expected to be followed by policy-based loans in 2020 and 2021 to help the government (i) strengthen fiscal resilience and social protection resilience, and (ii) transform the economy into a diversified and dynamic economy that supports faster and inclusive growth. The country partnership strategy 2018–2022 of the Asian Development Bank (ADB)<sup>c</sup> for Kyrgyz Republic supports growth and economic diversification, improve access to public and social services, and leverage regional cooperation.

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

**1. Key issues.** Poverty and inequality are falling, but vulnerability remains high. In 2018, 22.8% of the population lived below the national poverty line, with 68% of the poor living in rural areas and 60% residing in Jalal-Abad, Osh, and Batken regions in the south around Fergana valley. However, acute poverty is low at 1.4% (2016). Most of the poor live in households headed by men with incomplete general secondary education qualifications. The Gini coefficient fell from 0.314 in 2008 to 0.273 in 2017. However, the density of the population near the national poverty line is high, reflecting high vulnerability. Unemployment is higher and labor participation is lower among the urban poor than the rural poor. The prevalence of low-paying, insecure jobs renders many urban workers poor. Despite social sector investments, the country is ranked 122<sup>nd</sup> among 189 nations in human development indicators in the category of medium human development in 2019. The economy is dominated by small economic entities—mostly farmers and small enterprises that operate in the informal sector. The private sector remains weak and has made limited progress in expanding and producing higher value-added products and services because of (i) the difficult, uncertain business environment that discourages entrepreneurs from expanding; (ii) an increasing shortage of qualified human capital; and (iii) expensive financing. The Kyrgyz economy is also vulnerable to external shocks because of its dependence on (i) the Kumtor gold mine, which accounts for about 10% of GDP and 20% of government revenue; and (ii) remittances of labor migrants, which account for about 30% of GDP. The high level of poverty and the deepening of income inequality increase political and social instability in the society, which negatively affects the dynamics of economic growth. In addition, about half of the Kyrgyz Republic domestic workforce are in services, 29% are in agriculture, and about 21% are in industry and construction. In 2018, total employment in retail and consumer services was 374,000 (of which 40% were women), in construction, 247,000. Although these two sectors account for 26% of total employment in the country, most of these workers are employed informally. In 2018, the estimated number of informally employed workers in manufacturing (mostly garment production) was 219,000 (about 44% women). Similarly, the sector of hotels and restaurants employed 143,000 (49% of them women and 89% employed informally). The total employment in these sectors is close to 1 million people (41% of total employment). These are the employees and workers that are usually the first to be laid off as business slows.

**2. Beneficiaries.** The proposed program will help the government’s immediate efforts to mitigate the significant negative economic and social impact of the COVID-19 pandemic. It will do so by helping to finance the government’s supplementary 2020 national budget, which will fund (i) a pro-poor countercyclical package to safeguard productive sectors and small and medium-sized enterprises (SME) from the economic downturn, while providing social protection for the poor and vulnerable, and (ii) additional expenditure to cover government’s COVID-19 detection, containment and treatment costs. Ultimate beneficiaries of the program are the people of Kyrgyz Republic but especially the poor and vulnerable. The Ministry of Social Protection and Labor has identified around 1.8 million people (around 30% of the population) who will need direct social protection support during the economic downturn, including around 1 million

people that have either lost their jobs or are likely to lose their jobs as a result of the economic downturn. This includes recipients of the state social assistance (over 50% of whom are women), people with disabilities, children who have lost their breadwinner, pensioners whose pension is lower than the cost of basic food basket (65% of pensioners are women)<sup>d</sup>; as well as those households where the breadwinners suffered loss of income in industries gravely affected by the pandemic, such as the garments, tourism, and agriculture industries – sectors with significant number of women workers. Entrepreneurs and farmers, specifically SMEs, are also direct potential beneficiaries. Medical workers - doctors, nurses and community health workers of whom over 80% are women, women are also the majority of health facility service-staff – such as cleaners, laundry, catering and as such they are more likely to be exposed to the virus.

**3. Impact channels.** The program will provide budget support that allows the government to implement its COVID-19 Countercyclical and Health Response Plan, which will target support for (i) the population and food security, (ii) business entities, (iii) state budget stability and (iv) health sector response. This will have positive impacts, including on those in the informal sector, and over time for the poor and vulnerable, and rural residents.

**4. Other social and poverty issues.** Informality is rising fast, accounting for 71.8% of total employment in 2014, up from 60.2% in 2002. The rate is higher among men than among women and higher in rural areas than in urban areas. Limited access to jobs is a common factor in lagging regions, especially in remote ones. Lagging regions' share in overall employment plunged from 53.1% in 2000 to 29.3% in 2018. To cope, residents have moved to informal jobs elsewhere in the country or emigrated to take low-skilled jobs. More than 663,000 migrant workers are now estimated to be in the Russian Federation and another 150,000 in Kazakhstan. Workers' remittances, which equaled 12.7% of GDP in 2005, averaged 30% in 2011–2016 and have stabilized at about 22%. Excluding remittances, poverty rates remain high, especially in the southern regions. Youth may experience increased joblessness depending on the actual duration of the crisis, the elderly may incur greater health-care costs and experience higher health risks, formal sector workers may have limited employment protection as well as unemployment and health insurance, and those in the informal sector may not be covered by social protection programs at all. Reforms addressed through the program will help to address short-term and medium- to long-term challenges, that is, the government's response plans will help support social protection and food security for the population especially the poor and vulnerable, and the government efforts to improve the health system and build capacity and continue vital structural reforms to diversify the economy.

**5. Design features.** The program is part of an integrated package of support to the government, which will help government's immediate efforts to mitigate the significant negative economic and social impact of the COVID-19 pandemic. It will do so by helping to finance the government's supplementary 2020 national budget, which will fund (i) a pro-poor countercyclical package to safeguard productive sectors and SMEs from the economic downturn, while providing social protection for the poor and vulnerable, and (ii) additional expenditure to cover Government's COVID-19 detection, containment and treatment costs.

### C. Poverty Impact Analysis for Policy-Based Lending

**1. Impact channels of the policy reform(s).** The Program will help support social services and protection measures particularly for the poor and vulnerable, under the COVID-19 Countercyclical and Health Response Plan, which is designed to mitigate the significant negative economic, fiscal and health sector impacts of the COVID-19 pandemic. The impact channels include: improved access to vital social assistance for vulnerable households, government incentives and measures to support business and workers helping them stay in employment, and enhanced government fiscal capacity to undertake necessary expenditures to address the health impacts of COVID-19.

**2. Impacts of policy reform(s) on vulnerable groups.** The program will help moderate the impact of the COVID-19 pandemic on vulnerable groups.

**3. Systemic changes expected from policy reform(s).** The proposed program is expected to be followed by policy-based loans in 2020 and 2021 to help the government (i) strengthen fiscal resilience and social protection resilience, and (ii) transform the economy into a diversified and dynamic economy that supports inclusive growth.

## II. PARTICIPATION AND EMPOWERING THE POOR

**1. Participatory approaches and project activities.** The main stakeholder of the program will be the government agencies and development partners concerned. They were consulted during the preparation of the program to identify adverse impacts of COVID-19 pandemic and harmonized ADB's assistance with government needs and with the development partners.

**2. Civil society organizations.** There is no CSO engagement anticipated.

**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    Consultation    Collaboration    Partnership

**4.** Participation plan  Yes  No. Given the scope of the program, no participation plan has been developed.

## III. GENDER AND DEVELOPMENT

Gender mainstreaming category: effective gender mainstreaming

### A. Key issues

The unemployment rate was 9.0% for women and 6.5% for men. Women's average wages were 75% of men's wages. Despite the adoption of mandatory quotas in the Election Code in 2007 and 2011, women's political representation in the national Parliament was 19.2% in 2017, below the mandated 30% threshold. About 25% of women aged 15–49 have experienced physical violence from their partners. The COVID-19 pandemic is widely predicted to exacerbate

existing financial inequality between men and women in the Kyrgyz Republic. Women are more likely to hold precarious or vulnerable jobs, which are often the first to be lost during financial shocks. Women's participation in the labor market is often in the form of temporary employment or informal contract would not be rescued by social safety nets as access to safety nets frequently depends upon a formal participation in the labor force. The service sector, which is predominantly a sector of women participation, is being hit hard by the restrictions imposed to manage the spread of the coronavirus. According to the Kyrgyz Government, the potential number of workers who can be temporarily released due to the introduction of the state of emergency is preliminary estimated at 700,000 people in industry, construction and services sectors (where women make around 25%); at 190,000 people of those employed in the informal economy (where women make up 47%)<sup>e</sup>; and up to 150,000-200,000 people may return (of whom at least 45% are female migrants), which will accordingly affect the overall unemployment rate. As a result, in total in the economy the estimate of the number of temporarily released labor resources is estimated at 1,050 thousand people. The proposed initiatives will help mitigate price and income shocks, especially to the vulnerable population—women, children and youth, older persons, people with disabilities, migrants, and ethnic groups—and lagging regions. Women are expected to be disproportionately impacted by the lockdown measures. 83% of health and social sector workers are women (doctors, nurses and community health workers), they are also the majority of health facility service-staff – such as cleaners, laundry, catering and as such they are more likely to be exposed to the virus, especially taking into account the shortage of personal protective gear. On 3 April 2020 the Government has adopted an Order #194 "On Approval of the Regulation on the Procedure for Spending Funds Received for Measures to Prevent and Combat Epidemics" which serves a base for compensatory payments to medical workers engaged and working in the hearth areas.

**B. Key actions.**  Gender action plan  Other actions or measures

No action or measure

The program focuses on strengthening the COVID-19 response and includes targeted measures to meet the requirements for effective gender mainstreaming. Support will be provided through (i) targeted program addressing food insecurity issues of vulnerable households with food packages delivered to 311,000 vulnerable households, of which at least 35% are female headed; (ii) support to women-led and dominated SMEs through deferral of tax debts and social deductions, and loans and interest restructuring support with at least 30% of the beneficiaries being women owned/led enterprises; (iii) budget support to the Ministry of health for reproductive, and maternal and child health programs and compensation paid to healthcare staff; and (iv) Provision of necessary gender sensitive facilities and equipment for infection prevention and control, that includes properly fitting personal protective equipment, face shields and masks, diapers and menstrual hygiene kits, as necessary and in adequate number for health workers (83% of whom are women) in 32 hospitals designated for COVID 19 response. Program beneficiary data will be disaggregated by sex, and other relevant sociodemographic indicators. A Gender Monitoring Matrix has been prepared (see Linked Document 8).

#### IV. ADDRESSING SOCIAL SAFEGUARD ISSUES

##### A. Involuntary Resettlement

**Safeguard Category:**  A  B  C  FI

1. Key impacts. Not applicable.
2. Strategy to address the impacts. Not applicable.
3. Plan or other Actions.

- |   |  |
|---|--|
| <input type="checkbox"/> Resettlement plan                                      | <input type="checkbox"/> Combined resettlement and indigenous peoples plan                         |
| <input type="checkbox"/> Resettlement framework                                 | <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework |
| <input type="checkbox"/> Environmental and social management system arrangement | <input type="checkbox"/> Social impact matrix  |
|   | <input checked="" type="checkbox"/> No action  |

##### B. Indigenous Peoples

**Safeguard Category:**  A  B  C  FI

1. Key impacts. Not applicable. Is broad community support triggered?  Yes  No
2. Strategy to address the impacts. Not applicable.
3. Plan or other actions.

- |   |  |
|---|--|
| <input type="checkbox"/> Indigenous peoples plan                                | <input type="checkbox"/> Combined resettlement plan and indigenous peoples plan                    |
| <input type="checkbox"/> Indigenous peoples planning framework                  | <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework |
| <input type="checkbox"/> Environmental and social management system arrangement | <input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary     |
| <input type="checkbox"/> Social impact matrix                                   |  |
| <input checked="" type="checkbox"/> No action                                   |  |

#### 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.  unemployment  underemployment  retrenchment  core labor standards
2. Labor market impact. The Program will have a positive impact on the country's labor market, as it generates employment through budget support or other reform measures to promote private sector jobs. It will also help improve the social protection system and improve occupational safety of health workers and reduce exposure to Coronavirus.

**B. Affordability**

The program is not expected to exclude people because of price mechanisms—the use of innovative mechanisms to improve access to finance and financial services are expected to improve financial inclusion and public services for all sectors of society.

**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):

NA Communicable diseases       NA Human trafficking       NA Others (please specify) \_\_\_\_\_

2. Risks to people in project area. Not applicable.

**VI. MONITORING AND EVALUATION**

1. **Targets and indicators.** Targets and monitorable indicators on poverty reduction and inclusive social development includes: food packages totaling \$11.4 million delivered to at least 311,000 vulnerable families, at least 52% of whom are women, Government defers tax debts and social deductions of enterprises that suffered losses from the pandemic, especially benefitting SMEs at least 30% of which are women-owned and Government provides 32 hospitals designated for COVID-19 surveillance and treatment with the necessary gender sensitive facilities, services and equipment for infection prevention and control, including proper sized PPE and gender responsive individual packages 6 specifically benefitting 29,502 health workers 83% of whom are women.

2. **Required human resources.** Staff resources in the resident mission (a national social and gender specialist) will continue to monitor the poverty and social impact of the program.

3. **Monitoring tools.** Overall program monitoring tools (reflected in the policy matrix and the design and monitoring framework Gender Action Plan) will also be used to monitor progress in the achievement of poverty, gender, and social targets.

<sup>a</sup> Government of the Kyrgyz Republic. 2018. [National Development Strategy of the Kyrgyz Republic for 2018–2040](#). Bishkek.

<sup>b</sup> ADB forecasts growth to slow to 4.0%. However, this is based on a best-case scenario in which the pandemic is contained within the next 6 months. Both sets of projections (International Monetary Fund and ADB) anticipate the economy to rebound strongly in 2021 in line with expectations of recovery in the region.

<sup>c</sup> ADB. 2018. [Country Partnership Strategy. Kyrgyz Republic 2018–2022—Supporting Sustainable Growth, Inclusion, and Regional Cooperation](#). Manila.

<sup>d</sup> Women and Men of the Kyrgyz Republic. National Statistics Committee. 2019. Page 80.

<sup>e</sup> Ajwad, M.I., and S.B. Gonzales (2018) “Jobs in the Kyrgyz Republic” World Bank, Washington, DC (accessed on 10 April: [http://documents.worldbank.org/curated/en/862661530280246809/pdf/127799-WP-P161291-PUBLICR-Jobs.pdf?fbclid=IwAR3nXYGXRpW0Ccxn3\\_a0Hn9CqowJTfoefLsov-OJk-m52j2\\_-hSzG1rfxUA](http://documents.worldbank.org/curated/en/862661530280246809/pdf/127799-WP-P161291-PUBLICR-Jobs.pdf?fbclid=IwAR3nXYGXRpW0Ccxn3_a0Hn9CqowJTfoefLsov-OJk-m52j2_-hSzG1rfxUA)).

Source: Asian Development Bank.