



# Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 19-Jun-2020 | Report No: PIDA29325



**BASIC INFORMATION**

**A. Basic Project Data**

Country Kyrgyz Republic	Project ID P174072	Project Name Social Protection Emergency Response and Delivery Systems	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 15-Jun-2020	Estimated Board Date 30-Jul-2020	Practice Area (Lead) Social Protection & Jobs
Financing Instrument Investment Project Financing	Borrower(s) The Government of the Kyrgyz Republic	Implementing Agency Ministry of Labor and Social Development	

Proposed Development Objective(s)

The project objectives are to mitigate the effect of, and contribute to the recovery from, economic impacts of the COVID19 pandemic on the poor and vulnerable, and to strengthen the country’s social protection system.

Components

Emergency Assistance to Households’ Income  
Recovery Support - Productive Inclusion  
Delivery Systems for Social Assistance and Social Insurance  
Contingent Early Response Component (CERC)

The processing of this project is applying the policy requirements exceptions for situations of urgent need of assistance or capacity constraints that are outlined in OP 10.00, paragraph 12.

Yes

**PROJECT FINANCING DATA (US\$, Millions)**

**SUMMARY**

<b>Total Project Cost</b>	50.00
<b>Total Financing</b>	50.00
<b>of which IBRD/IDA</b>	50.00
<b>Financing Gap</b>	0.00

**DETAILS**



**World Bank Group Financing**

International Development Association (IDA)	50.00
IDA Credit	25.00
IDA Grant	25.00

Environmental and Social Risk Classification

Moderate

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

**B. Introduction and Context**

Country Context

**Despite strong economic growth, the Kyrgyz Republic is one of the poorest countries in Europe and Central Asia.** With a gross national income per capita of US\$1,220 in 2018, the country has experienced strong but volatile economic growth, averaging 4 percent per year since 2010 (ranging from 0.5 percent in 2010 to 10.9 percent in 2013). With a population of about 6.2 million (over 60 percent living in rural area), 64 percent of which is within the working age of 15-64 years old and less than 40 percent (2.4 million) is employed; it is estimated that over 15 percent of the population is working abroad. Despite progress in reducing poverty, more than 1.2 million people in the country are still living below the national poverty line (22 percent), and when estimated through international measures (\$3.20 per person per day), poverty reduction has stalled since late 2000s.

**Economic growth has been largely driven by gold extraction and workers’ remittances from abroad and has not translated proportionally into labor force growth.** Growth in recent years resulted in only modest improvements in welfare among the bottom 40 percent coupled with falling incomes for the upper 60 percent. Furthermore, jobs have not been created in the formal sector, and most of the employment took place in the informal sector, estimated to be around 50 percent of the Gross Domestic Product (GDP) and 60 percent of the total employment. The poverty gap at international measures (\$3.20 per capita) has also stalled since before 2010. Economic growth and poverty reduction are below the country’s potential, due to a business environment inconducive to private investment and job creation, weak public institutions and services, and constrained human capital that lacks essential skills required for a more productive and dynamic economy.

**The COVID-19 crisis threatens to undo the gains in poverty reduction achieved over the past few years and a high proportion of the population faces high risks of falling back into poverty.** The COVID-19 crisis is likely to have adverse effects on labor income and remittances which are major factors contributing to



poverty reduction. This, combined with the expected fall in the purchasing power of a substantial proportion of the population due to inflation, leaves large segments of the population highly exposed to the economic consequences of the pandemic. Preliminary analysis shows that the impact of the crisis on incomes and employment may generate an increase in poverty headcount of up to 11 percentage points or close to 600,000 people.

**The Government of the Kyrgyz Republic (GoK) has introduced measures to combat the crisis and mitigate its impacts, but additional support is required.** The Government has introduced social assistance interventions to support the poor and segments of the population more exposed to the economic impact of the crisis. Beyond immediate health-related measures, the Government has taken several measures such as automatically extending the period of social assistance benefits for households whose term was expiring during the quarantine period as well as waiving reporting requirements; provision of food kits to supplement cash transfers to low income families with children, as well as with children and adults with disabilities; and additional measures to support large cities such as Bishkek and Osh to ensure adequate supply of food and medical goods for low income families. However, given the expected poverty impact of the crisis, additional measures are needed to adequately protect the poor and vulnerable. There is also a need for this support to extend beyond emergency response and aid households during the phase of economic recovery by providing pathways to graduate out of social assistance.

#### Sectoral and Institutional Context

**The COVID-19 crisis is likely to cause a prolonged economic slowdown, and the social protection system of the Kyrgyz Republic will play a critical role in assisting the poor and vulnerable.** The economic consequences of the downturn caused by the COVID-19 crisis will be felt most severely by the poor and vulnerable households. The expected high rate of job loss will significantly increase the prevalence and depth of poverty. In the Kyrgyz Republic these effects are likely to be exacerbated by high rates of informality (60 percent of total employment), self-employment (35 percent of total employment), and limited coverage of social insurance. Further, the decline in remittances, (which are equivalent to 30 percent of GDP and mostly received by poor households), combined with higher inflation will erode households' purchasing power. In addition, domestic businesses reliant on the supply of external raw materials will face supply constraints resulting in lower output and incomes. Given such circumstances, the social protection system has a crucial role to play both in providing emergency support to vulnerable households as well as assisting households and businesses during the period of economic recovery.

**Social Protection is an essential sphere of public policy in Kyrgyzstan and in the past few years, the GoK has undertaken serious reforms in the sector.** Social protection is a key component of the human development and poverty alleviation pillar of the Sustainable Development Program 2013-2017. Further, the implementation of the Strategy for Social Protection Development (SSPD) 2012-2014,<sup>1</sup> focused on increasing financing and improving administration of certain programs as well as strengthening cooperation across line ministries, state agencies and local administrations involved in implementation. Several programs, including the monthly child grant for poor families are undergoing important reforms. Building on the results of the SSPD, the GoK developed the Program of Developing the System of Social Protection in Kyrgyzstan 2015-2017 to further strengthen social protection systems in the country. There are also plans to create a National Model of Social Protection and a Long-Term Concept of Social

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<sup>1</sup> Resolution No. 755 of the Kyrgyz Republic Government issued on December 13, 2011.



Protection Development Plan until the Year 2030 which would incorporate international best practices.

**Existing programs in the country encompass the three pillars of the Social Protection system—Social Assistance, Labor Markets, and Social Insurance, and the institutional setup is well-suited to ensure effective service delivery.** The priority target groups for SP include: children and families in difficult life circumstances, people with disabilities, the elderly and the unemployed. The main pillars of Social Protection include: (i) Social Assistance programs and social care services, dominated by the *Uy-bulogo komok* (or UBK)—a monthly child grant for poor families; (ii) Labor Market programs such as public works, vocational training, and unemployment assistance; and (iii) Social Insurance programs including contributory pensions to workers, the self-employed, and farmers. The Ministry of Labor and Social Development (MLSD) oversees the implementation of both social assistance as well as labor market programs and is therefore well-suited to ensure efficient service delivery and support graduation of social assistance beneficiaries into the labor market, while the Social Fund is responsible for the implementation of social insurance programs.

### C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The project objectives are to mitigate the effect of, and contribute to the recovery from, economic impacts of the COVID19 pandemic on the poor and vulnerable, and to strengthen the country's social protection system.

#### Key Results

##### PDO Level Indicators

- Number of eligible households provided with additional monthly benefits during the emergency period
- Number of eligible individuals provided with temporary unemployment benefits
- Number of pension beneficiaries receiving regular payments
- Number of beneficiaries awarded financial support for productive inclusion
- Number of Social Fund branch offices where new business processes and new MIS have been rolled out
- Number of MLSD district offices where new business processes have been rolled out

### D. Project Description

**The project will achieve its development objective on the basis of three components intended to:** (i) mitigate the immediate emergency caused by the COVID-19 pandemic and affecting the income of households, (ii) support the recovery stage by providing households with income generation opportunities until economic growth and labor demand accelerate again, and (iii) promote structural interventions to strengthen the social protection delivery systems to better support the intended population in a timely manner. Overall, the proposed project will support the Government to develop a social protection system



with the capacity to more efficiently and effectively cope with future crises impacting the income of poor and vulnerable households.

### **Component 1: Emergency Assistance to Households' Income (\$39 million)**

**This Component has the objective of providing comprehensive short-term support to households and individuals whose incomes are particularly affected by the negative economic impacts caused by the COVID-19 pandemic, as well as ensuring that those relying on social insurance benefits receive their payments on time.** To achieve this objective, this component will use the country's existing social protection delivery system to: (i) smooth consumption of existing and new eligible beneficiaries of social assistance programs, (ii) provide temporary support to newly unemployed individuals, and (iii) ensure that eligible individuals regularly receive their social insurance benefits, especially pensions.

#### *1.1: Emergency cash assistance to poor and vulnerable households (US\$12 million)*

**This subcomponent aims to support Government's efforts to assist poor populations whose income has decreased as a result of the COVID-19 crisis.** To ensure a swift recovery from the economic downturn, there is a need to assist not only those who were already poor before the crisis, but also to assist the transient (new) poor (i.e., those who fall below the poverty line because of the crisis). As most of the new poor will not be eligible to claim unemployment insurance (since their employment status may not be easily verified), the most effective way to assist them during the crisis is through temporary social assistance benefits supplemented with a top-up to compensate for lower purchasing power. Therefore, this subcomponent will support Government efforts to expand coverage of the UBK program to assist newly eligible households as a result of pandemic whose income has fallen below the GMI, as well as to provide a temporary top-up benefit for current and new beneficiaries of the country's UBK program.

#### *1.2: Temporary allowance for unemployed individuals (US\$3 million)*

**The objective of this sub-component is supporting individuals and households who have been laid off—temporarily or permanently—because of the lockdown and decreased demand for products or services of employing firms, or social distancing restrictions.** Job losses are expected to be substantial, especially, in high-risk sectors which are most vulnerable to the economic effects of the crisis. A large proportion of those who have lost their jobs will not be eligible to receive benefits under the UBK program, which may result in significant increases in poverty levels. If these individuals did fall into poverty, it may be more difficult and expensive to help them recover and re-enter the labor market. The ultimate objective of this component, therefore, is to provide temporary support for newly unemployed individuals to smooth consumption and prevent them falling into poverty, and therefore requiring social assistance.

#### *1.3. Ensuring uninterrupted payments of social insurance benefits (US\$24 million)*

**The objective of this subcomponent is to support Government in making regular social insurance payments, particularly pensions.** One of the most striking consequences of the COVID-19 pandemic is slowdown of economic activity and the spike in unemployment, as explained above. This crisis is resulting in a significant reduction of contributions from formal workers to the Social Fund, creating significant fiscal pressure on the Social Fund budget and correspondingly the central budget, which supports any deficit of the Social Fund. This may temporarily jeopardize the ability of the Social Fund to execute all of its obligations to beneficiaries, including planned annual indexation of pension benefits. This situation may be further exacerbated by the approval of a deferral in regular pension contributions by firms and



businesses to the Social Fund, as currently proposed by the Government. A large proportion of the population relies on monthly pensions to maintain their welfare, and potential delays in such transfers may cause these people to either fall into poverty or take costly coping strategies to smooth consumption.

### **Component 2: Recovery Support -Productive Inclusion (US\$7.5 million)**

**Following the short-term relief efforts financed under the project, this component has the medium-term objective of contributing to the recovery from economic impacts caused by the pandemic by supporting a productive inclusion intervention for poor and jobless individuals.** This productive inclusion intervention is part of the government's strategy to promote graduation from social assistance programs into permanent sustainable livelihoods by funding design and implementation of individual business plans. The proposed productive inclusion strategy will support beneficiaries through a combination of training, financial support, and technical assistance upon approval of sound business plans to increase the probability of business survival. This initiative will be implemented in phases, in terms of the number of beneficiaries, and geographic areas of intervention. The operational manual will define the detailed scope of the first phase based on the availability of funds for this component. The proposed project will support the implementation of the first phase as well as comprehensive assessments to inform the Government's decision about scaling-up the program beyond the scope of this project.

### **Component 3: Delivery Systems for Social Assistance and Social Insurance (\$3.5 million)**

**This component has a longer-term objective of improving the efficiency and effectiveness of the delivery systems in social assistance and social insurance.** The end result would be a social protection system that would (i) timely, safely, and transparently transfer cash allowances to the appropriate target group, (ii) improve monitoring of implementation and results of the social protection system, and (iii) support clients of the Social Fund with improved member services, including robust and clear record-keeping systems, and planning for the possibility of future layoffs or the need for temporary leave, through proper insurance mechanisms. Overall, strengthening social protection delivery systems will better prepare the Government of the Kyrgyz Republic to manage future economic slowdowns or other shocks that may negatively impact the incomes of poor and vulnerable households.

#### *3.1: Strengthening service delivery systems of social assistance (US\$1 million)*

**Building on initial measures to ensure effective support during the mitigation and recovery phases of the COVID-19 pandemic crisis, this subcomponent has the objective of strengthening the social assistance delivery system to improve support for the poor and vulnerable.** To achieve these objectives, this subcomponent will support the development and, when appropriate, piloting of certain activities and instruments to improve the social assistance delivery systems.

#### *3.2: Social Insurance Administration (US\$1.5 million)*

**The proposed subcomponent has the objective of improving effective administration of the social insurance system, including client services.** Implementation of the proposed subcomponent will benefit from a comprehensive administrative assessment of the systems of the Social Fund currently conducted by the World Bank. There have been no major investments in the main software and systems of the Fund for over two decades. This subcomponent will also carry out an analysis of business processes to provide recommendations on potential improvements in the system required to increase its efficiency and in the software applications of the Social Fund.



3.3. Project management (US\$1.0 million)

**Activities under this subcomponent will provide support to the implementation and monitoring of the project.** A Project Implementation Unit (PIU) will be set up under the MLSL to provide overall administration of the project (including procurement and financial management), as well as regular monitoring and evaluation, reporting on implementation, and communication activities.

**Component 4. Contingent Early Response Component (CERC) (US\$0)**

**The objective of this component is to support the Government’s emergency response and reconstruction in the event of an eligible emergency.** An eligible emergency is an event that has caused, or is likely to imminently cause, a major adverse economic and/or social impact associated with natural or man-made crises or disasters. At the request of the Government, the World Bank will reallocate uncommitted funds from other components into this component. The mechanism for declaration of emergency would be in accordance with current legislation in the Kyrgyz Republic.

**Project beneficiaries**

**The proposed project will support poor and vulnerable populations in the country.** In the short-term, the project will provide assistance through cash benefits and unemployment support. Social assistance benefits to poor and vulnerable families will support approximately 230,000 additional beneficiaries (for a total of about 200,000 households); this support may include a significant proportion of families which are not typically covered by social assistance support but may need it because of the crisis. The unemployment allowance will support about 38,000 individuals who have been (permanently or temporarily) laid off because of the COVID-19 crisis and have been making regular contributions to the Social Fund. The support to the Social Fund will ensure that eligible beneficiaries will receive their social insurance and pensions benefits on time. Currently, approximately 650,000 individuals receive regular payments from the Social Fund. In the medium-term, the proposed project will contribute to support about 20,000 families through the implementation of the productive inclusion program. Finally, in the long-term, improving delivery systems in social assistance and social insurance will contribute to Government efforts to better support those households under social assistance as well as formal workers and the unemployed.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

**Environmental Risk is rated Low and Social, Moderate.** Project is aimed chiefly at providing: (i) Emergency cash assistance to poor and vulnerable households whose income has been affected by the economic impact of the COVID-19 crisis; (ii) Temporary allowance for poor unemployed groups, to support poor individuals and households who have been laid off because of the lockdown, low demand in the



firms they work for, or the physical distance restrictions; (iii) assistance to sustainable income generating activities (IGA); and (iv) contributions to social insurance. While the activities per-se are not risk-ridden, its implementation, especially activities (i), (ii) and (iii), will need to be crafted such as to ensure that errors of exclusion and inclusion are minimum. This would require making explicit: eligibility criteria for participation, updating the national registry, firming up of the extent of assistance a particular household can expect and the duration thereof; and delivery methods as well as transparency and accountability mechanisms. In addition, in respect of activity (ii) related to IGA as the service delivery will be through financial intermediaries (FIs), not only care should be taken in drafting appropriately the eligibility criteria for, selecting a FI, but also, they need to be sensitized to meet with the project objectives. Further, it is critical to ensure that the project has an effective outreach program so that all the stakeholders and prospective beneficiaries are fully aware of the project's stipulations. All these can be addressed as a part of the project designing. Hence risk is rated Moderate. The environmental risk is low since there will be no civil work or construction financed by the project. The main environmental risk is Occupational Health and Safety (OHS) issues particularly related to COVID-19 including appropriate preventive and protective measures such as handwashing stations and personal protective equipment (PPE) for the PIU personnel and benefitting social protection agencies or organizations.

## E. Implementation

### Institutional and Implementation Arrangements

**The implementing agencies for the proposed project will be the MLSD and the Social Fund.** The MLSD is the central agency responsible for the implementation of social assistance and labor programs in the Kyrgyz Republic. Therefore, both the implementation of the UBK, the registration of unemployed individuals and the productive inclusion initiative are under its domain; as such the implementation of components 1.1, 1.2, 2 and 3.1 will be under the MLSD. The Social Fund is responsible for the administration of social insurance programs and benefits in the country and will be responsible for implementing components 1.3 and 3.2. The MLSD has implemented other World Bank-financed projects in the past and has been assessed by World Bank fiduciary specialists as having the capacity to manage the proposed Project with the support of a PIU.

### CONTACT POINT

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#### Borrower/Client/Recipient



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**APPROVAL**

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