

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Kyrgyz Republic	Project Title:	Investment Climate Improvement Program, Subprogram 3
Lending/Financing Modality:	Policy-Based Grant	Department/ Division:	Central and West Asia Department Public Management, Financial Sector, and Trade Division

### I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

**Targeting classification:** general intervention

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

The National Sustainable Development Strategy 2013–2017, approved in January 2013, is based on a vision of Kyrgyz Republic as a country with robust economic growth and high attractiveness for investors. The strategy foresees measures required to reinforce the rule of the law and combat corruption. In the economy the major focus of the public authorities will be to create an attractive environment for domestic and foreign investors.

Subprogram 3 of the Investment Climate Improvement Program is fully aligned with the government's priorities and will contribute to a better business and investment climate that supports sustainable economic growth and employment creation. Subprogram 3 was designed to ensure that policy reforms increase economic opportunities across all regions of the country, and not only in the main urban areas. Several structural reforms under subprogram 3 were implemented to benefit less-developed regions, where poverty incidence is higher. The subprogram contributes to one of the expected outcomes of the ADB country partnership strategy 2013–2017 by building an appropriate environment to develop and improve private sector performance.<sup>a</sup> The subprogram is included in the country operations business plan for 2014–2016.<sup>b</sup>

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

**1. Key poverty and social issues.** Poverty declined significantly in response to economic growth from 2000 to 2009. During 2006–2009, absolute poverty fell from 39.9% to 31.7% and extreme poverty declined from 9.1% to 3.1%.<sup>c</sup> The Gini coefficient for consumption fell from 32.3 in 2006 to 24.5 in 2009, showing better balance of resources between households. The main factor contributing to the reduction in poverty was the strong growth in remittances (from 11.0% of GDP in 2005 to 18.0% of GDP in 2009), which fueled an increase in private consumption. During 2010–2012, poverty increased to 38.0% and extreme poverty to 4.4% as a result of economic challenges stemming from domestic political and civil unrest. Rural poverty (40.4%) exceeds urban poverty (30.7%). Lack of education is an important factor explaining who remains in poverty, with the headcount poverty rate two times higher for illiterate household heads than for those with technical professional degrees.<sup>d</sup> Variations in poverty levels are correlated with GDP per capita, which grew and peaked in 2008 at \$959.4, before declining because of the global financial crisis and the political events of 2010.

**2. Beneficiaries.** Subprogram 3 supports overall economic growth through increased investments and employment creation. The primary beneficiaries are current and future entrepreneurs and investors who are expected to benefit from an improved legal and regulatory environment and have better investment opportunities. Women and rural entrepreneurs have been specifically targeted in subprogram 3. The reforms are expected to provide indirect benefits to the working population, both employed and unemployed, as investment opportunities result in the creation of jobs and increased wages. Reduced regulatory costs are expected to attract businesses to the formal sector and increase formal sector jobs. Reforms will directly benefit vocational school students and clients of financial services.

**3. Impact channels.** Policy reforms are expected to have an indirect medium- and long-term impact on poverty, mainly through increased employment opportunities. Reduction of regulatory compliance costs, increased access to finance, and promotion of PPPs are expected to attract increasing investment in the medium term; this is expected to support sustainable economic growth and employment creation. Enhancement of workers' skills is expected to have more direct benefits on poverty if the poor continue to enroll in vocational schools.

**4. Other social and poverty issues.** Young people account for 50% of those who are officially unemployed. The unemployment rate is higher for women (9.5%) than for men (7.7%), and higher in urban (at 10.4%) than rural areas (7.5%), although underemployment is significantly higher in rural areas. In 2007–2009, most new jobs (76.2%) were created in the informal sector. The expansion of informal employment has increased the vulnerability of these workers to economic shocks, as they do not have state-backed social protection.

**5. Design features.** Investment and employment opportunities are concentrated in urban areas. Subprogram 3 includes measures targeted at the regions outside Bishkek where poverty is higher, including reforms that support expansion of microfinance, establishment of one-stop shops with no-contact windows in tax offices outside main cities to increase integrity, and a public information campaign to raise awareness of taxpayers in all regions on how to comply with tax requirements. Microfinance organization operations in rural and urban areas are expected to expand due to policy reforms. This will increase the number of low-income households that benefit from an improved business climate and better access to financial services.

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

Policy reforms under subprogram 3 are expected to have an indirect medium- and long-term impact on poverty reduction, mainly through increased employment opportunities. More direct, short-term links to poverty reduction include (i) increased credit provision by microfinance organizations that typically target agriculture in rural areas, where the majority of the poor live; and (ii) development of financial leasing that increases access to finance by creditworthy individuals who lack assets to offer as collateral, as is typical of the poor, and especially women. Improvements in the vocational education system are expected to enhance worker skills and increase employment opportunities and incomes, which can also directly contribute to poverty reduction (vocational school students come primarily from lower income families). Subprogram 3 is expected to have no negative impacts on vulnerable groups.

### II. PARTICIPATION AND EMPOWERING THE POOR

1. Summarize the participatory approaches and the proposed project activities that strengthen inclusiveness and empowerment of the poor and vulnerable in project implementation.

ADB missions fielded in January and May 2013 discussed the program of reforms with business associations, private businesses, and development partners. Open roundtables were held on 29 May 2013 and 10 February 2014. An ADB mission visited Osh City on 30 May 2013 to better understand the business environment in the southern part of the country and regional constraints to private investment. About 160 people attended an ADB-sponsored PPP forum to discuss the reforms needed to improve the enabling environment for PPPs in light of international experience.

2. If civil society has a specific role in the project, summarize the actions taken to ensure their participation.

Civil society organizations (mainly non-profit microfinance organization associations, research experts, and professional networks, including strong representation of women) were frequently consulted on the subprogram's structure and on the expected impact of structural reforms.

3. Explain how the project ensures adequate participation of civil society organizations in project implementation.

Meetings were held with non-profit microfinance organization associations, research experts, and professional networks to discuss reforms under subprogram 3. Open roundtables were held by the ADB Resident Mission on 29 May 2013 and 10 February 2014.

4. What forms of civil society organization participation is envisaged during project implementation?

☒ Information gathering and sharing (L) ☒ Consultation (L) ☐ Collaboration (L) ☐ Partnership

5. Will a project level participation plan be prepared to strengthen participation of civil society as interest holders for affected persons particularly the poor and vulnerable?

☐ Yes. ☒ No. Implementation of policy reforms has already been completed.

### III. GENDER AND DEVELOPMENT

**Gender mainstreaming category:** effective gender mainstreaming

**A. Key issues.** Stereotypes regarding the role of women restrict their ability and confidence to engage in entrepreneurship. Expectations that women will combine household duties with employment limit their choices to informal or part-time work. The deterioration of social services, such as child care, is further pressuring women to work in flexible jobs. Women lag behind men in access to assets, professional experience, information networks, and opportunities to build skills, all of which are vital for building businesses. Domestic responsibilities also make it harder for women to meet bureaucratic and taxation requirements. Skills training is hampered by conventional expectations of appropriate livelihoods for women and men, and by the lack of women in influential positions (e.g. on skills development councils) to modernize vocational training and reach out to more women and girls. Statistics show that men are almost three times more likely to engage in full-time entrepreneurial activities than women, or to identify themselves as "self-employed".<sup>8</sup> Rural businesses headed by female entrepreneurs typically produce garments and textiles, embroidery, souvenirs made of felt and silk, and canned fruit and vegetables. During 2007–2011 women accounted for 75.2% of borrowers of microfinance organization; 86.6% of these women borrowed less than Som50,000 (\$1,075 equivalent). However micro-credits can be expensive and can require collateral.

**B. Key actions.** Subprogram 3 includes policy actions designed to address obstacles faced particularly by women entrepreneurs and to promote a level playing field between male and female entrepreneurs. The program will monitor the changes in the number of female entrepreneurs, the number of female entrepreneurs filing tax declarations electronically, and the number of women enrolling in modern competency-based training for promising occupations.

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

(i) Expansion of options for electronic payment of patents disproportionately benefits women, as 70% of female entrepreneurs work under the patent system.<sup>1</sup> (ii) Improved credit products for women: microfinance organizations will be able to offer additional services, which will disproportionately benefit women. The expansion of leasing will benefit women, because they frequently cannot offer the collateral required to obtain bank credit. Pilot workshops were held in Bishkek and Osh to raise awareness of more than 50 women entrepreneurs on availability and benefits of leasing products for their business development. (iii) Strong participation of women (currently close to 50%) in decision

making on skills development councils will allow women's views to be taken into account when making decisions on skills development. Implementation of a marketing plan to increase enrollment of women in technology-based, non-traditional vocational education training programs started under the subprogram (2013 baseline is 124).	
<b>IV. ADDRESSING SOCIAL SAFEGUARD ISSUES</b>	
<b>A. Involuntary Resettlement</b>	<b>Safeguard Category:</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
1. Key impacts. No impacts. Activities include country-wide policy reforms, but no civil works requiring resettlement.	
2. Strategy to address the impacts. Not applicable.	
3. Plan or other Actions. <input checked="" type="checkbox"/> No action	
<b>B. Indigenous Peoples</b>	<b>Safeguard Category:</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
1. Key impacts. The proposed program includes country-wide policy reforms to improve investment climate and employment opportunities. The reforms are not expected to have adverse impacts on minority ethnic groups.	
Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
2. Strategy to address the impacts. Not applicable.	
3. Plan or other actions. <input checked="" type="checkbox"/> No action	
<b>V. ADDRESSING OTHER SOCIAL RISKS</b>	
<b>A. Risks in the Labor Market</b>	
1. Relevance of the project for the country's or region's or sector's labor market.	
<input checked="" type="checkbox"/> unemployment (M) <input checked="" type="checkbox"/> underemployment (M) <input type="checkbox"/> retrenchment <input type="checkbox"/> core labor standards	
Unemployment and underemployment in the Kyrgyz Republic remain high, even though a significant share of the increasing number of labor market participants has been emigrating to the Russian Federation and Kazakhstan. In 2010, the official unemployment rate rose to 8.6% as the political turbulence disrupted economic activity, particularly construction, agriculture, and trade. It decreased slightly in 2011 and 2012, reaching 8.4%.	
2. Labor market impact. The reforms are expected to provide indirect benefits to the working population, both employed and unemployed, as investment opportunities translate into job creation. Under subprogram 3, AVE began a marketing campaign to increase female enrollment in technology-based and nontraditional vocational education training programs, which can lead to higher-valued occupations. The AVE has also been implementing competency-based training for 18 occupations in more than 30 schools with ADB support.	
<b>B. Affordability</b>	
The structural reforms are expected to reduce the costs of regulatory compliance and of microfinance services.	
<b>C. Communicable Diseases and Other Social Risks</b>	
Indicate the respective risks, if any, and rate the impact as high (H), medium (M), low (L), or not applicable (NA):	
<input type="checkbox"/> Communicable diseases <input type="checkbox"/> Human trafficking <input type="checkbox"/> Others (please specify) _____	
There is no project site and thus no direct risk of communicable diseases or other social risks.	
<b>VI. MONITORING AND EVALUATION</b>	
1. Targets and indicators: Unemployment rates (by gender) will be monitored based on data from the National Statistics Committee.	
2. Required human resources: Monitoring and evaluation have been conducted by ADB staff. A gender expert engaged under TA for Promoting Gender-Inclusive Growth in Central and West Asia and located in the Kyrgyz Republic Resident Mission will continue monitoring gender-related matters. <sup>9</sup>	
3. Information in PAM: Not applicable.	
4. Monitoring tools: The design and monitoring framework will be used to monitor the program's outcome and impact.	
<sup>a</sup> ADB. 2013. <i>Kyrgyz Republic: Country Partnership Strategy, 2013–2017</i> . Manila.	
<sup>b</sup> ADB. 2013. <i>Country Operations Business Plan: Kyrgyz Republic, 2014–2016</i> . Manila.	
<sup>c</sup> Authorities calculate the minimum subsistence level on a quarterly basis and define it as the minimum cost of a representative consumer basket per person necessary for subsistence (currently about \$46 per month for absolute poverty and about \$27 for extreme poverty).	
<sup>d</sup> World Bank. 2011. <i>The Kyrgyz Republic: Profile and Dynamics of Poverty and Inequality, 2009</i> . Washington, DC.	
<sup>e</sup> The World Bank Group. 2011. <i>Running a Business in the Kyrgyz Republic</i> . Washington, DC: World Bank.	
<sup>f</sup> The tax patent regime is targeted at individual entrepreneurs and applies to 132 types of business activities. Individual entrepreneurs pay a fixed amount (called a tax patent) for a pre-determined period.	
<sup>g</sup> ADB. 2012. <i>Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Kyrgyz Republic for the Second Vocational Education and Skills Development Project</i> . Manila.	
ADB = Asian Development Bank; AVE = Agency for Vocational Education; GDP = gross domestic product, PPP = public-private partnerships, TA = technical assistance.	
Source: Asian Development Bank.	