

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

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

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY
<p>A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy</p> <p>The Government of Kyrgyz Republic's National Sustainable Development Strategy (NSDS) 2013–2017^a envisions stable economic growth through economic diversification and reduced dependence on external assistance. It aims to enable greater domestic and foreign investment to increase domestic productive capabilities, create jobs and improve the employability of citizens. The proposed program is in line with the country partnership strategy (CPS), 2013–2017 for the Kyrgyz Republic, which identifies private sector development as a priority sector to contribute to poverty reduction.^b The CPS also identifies gender equity as a priority theme, and aims to support the government's implementation of its National Strategy on Achieving Gender Equality and its accompanying National Action Plan on Gender Equality.^c</p>
<p>B. Results from the Poverty and Social Analysis during PPTA or Due Diligence</p> <p>1. Key Issues. The percentage of the population living below the poverty line decreased marginally in 2013 to 37% from 38% in 2012, but is still high.^d Annual gross domestic product (GDP) growth has averaged 4.5% over 2008–2013, with uneven geographic distribution of economic opportunities. Despite slow employment growth the unemployment rate has been steady at about 8% during 2000–2013. However, underemployment and hidden unemployment is widespread. An estimated 20% of the labor force works abroad, mostly in Russia and Kazakhstan. Workers' remittances, which accounted for 25% of GDP in 2014, have played a significant role in poverty reduction, especially in rural areas. With the economic slowdown in Russia, remittances are estimated to have declined by about 5%, to \$1.8 billion during the last quarter of 2014, and are projected to fall by about 15% in 2015.</p> <p>2. Beneficiaries. The potential beneficiaries of the program are the general population, particularly entrepreneurs including women and small and medium-sized enterprises (SMEs). SMEs will benefit from improved access to finance. Wider access to financial services, including through mobile financial services (MFS), will benefit SMEs, including female entrepreneurs, as well as retail consumers. Businesses will also directly benefit from the reduced frequency of tax filing and from e-procurement in government. Benefits will flow to these constituencies from improved infrastructure and public services that are likely to result from the effective use of private sector participation, including public–private partnerships (PPPs), for economic and social projects. An increase in the number of enterprises producing products included in the General System of Preferences (GSP) Plus will benefit both the new entrepreneurs and their workers.^e Benefits from the program are expected to trickle down to workers employed by these enterprises, where women constitute 34% of the total. Future entrepreneurs, including female entrepreneurs, who use the improved financial services will benefit.</p> <p>3. Impact channels. An enhanced business and investment climate, due to anticipated improvements such as better business regulations, easier access to finance, greater use of electronic and mobile payments, and expanded infrastructure and public services, is expected to result in an increase in the number of enterprises and consequently more diversified economic opportunities. This will have a positive impact even on those in the informal sector.</p> <p>4. Other social and poverty issues. The high maternal mortality rate is off-track from the Millennium Development Goal target of 75% reduction by 2015. The national health reform program, Den Sooluk (2012–2016), is expected to alleviate this problem. Much-needed private sector finance and expertise could come from well-structured PPP health projects. The government has also developed the Strategy for the Development of Social Protection which, when synergized with the Strategy on Achieving Gender Equality, could contribute to poverty alleviation and reduction of inequality.^f Recipients of monthly benefits for poor families with children and monthly social benefits may participate in micro credit programs and benefit from entrepreneurship training. Mainstreaming of electronic payments will reduce corruption and increase transparency of benefit transfers.</p> <p>5. Design features. The program includes policy actions that support (i) improved access to finance and financial services, including through MFS, and extension of financial inclusion to the otherwise unbanked, such as the rural population, the poor, women, and those in the informal sector; (ii) the establishment of a risk-sharing facility for SMEs owned by women seeking credit; (iii) better physical infrastructure and public services through soundly structured PPP projects, including potential health and district heating projects that directly benefit the poor, women, and children; and (iv) expansion and diversification of investment and trade, including supporting more SMEs to take advantage of the GSP Plus privilege, as well as enabling internships to students at growth-oriented companies.</p>
<p>C. Poverty Impact Analysis for Policy-Based Lending</p> <p>1. Impact channels of the policy reform(s). SMEs will benefit from (a) increased access to long-term and more diversified sources of and products in finance; (b) the introduction of MFS, which will foster business transition to the formal economy; (c) diversification of exports and export destinations, as well as investments and investors; (d) better infrastructure through effective utilization of private sector technical expertise and finance, including PPPs;</p>

and (e) increased transparency and efficiency of doing business through e-procurement reforms in government and tax administration reforms. The general population will also benefit from these channels.

2. Impacts of policy reform(s) on vulnerable groups. An improved business climate will help existing enterprises grow and innovate, and new enterprises to be created. This will produce more and increasingly diversified jobs, including for the poor and rural families. Improved public infrastructure and services, such as in health, district heating, street lighting, and public transport can also directly benefit the poor and vulnerable.

3. Systemic changes expected from policy reform(s). Reforms will make doing business more efficient and effective through the institutionalization of innovative electronic and mobile payments systems; institutional support for better access to finance and services; and developing market-responsive skills and professional competencies. These are expected to benefit directly the poor, rural households, and women, who have been marginalized from the formal business sector. Public investment planning in key sectors, including health, will also be improved.

II. PARTICIPATION AND EMPOWERING THE POOR

1. Participatory approaches and project activities. Consultations were held with ministries and agencies, including the Investment Promotion Agency and the Trade Policy and Regulation Department under the Ministry of Economy, the Ministry of Finance, the National Bank of Kyrgyz Republic (NBKR), the Ministry of Transport and Communications, the Center for Judicial Representation and the Agency for Vocational Education, civil society representatives, and representatives of the business community, among others.

2. Civil society organizations. Consultations on overall constraints on business were held with civil society representatives during a stakeholder roundtable conducted in Bishkek. Consultations with specific organizations may be undertaken in the development of lending products and identification and design of specific PPP projects.

3. Civil society organization participation. 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. A project-level participation plan will not be prepared under the program.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: Effective Gender Mainstreaming

A. Key issues. National statistics for 2013 indicate that women constitute 28% of management of small firms and 31% of medium-sized firms. Agricultural enterprises headed by women constitute 16.5% of all such enterprises. A majority of rural enterprises are not registered. More enterprises managed and owned by men are also without official registration, which would account for the relatively high proportion of female owned and run enterprises in the official statistics. Informal interviews with entrepreneurs reveal that the cost of doing business goes up with formal registration, without providing any added benefits. Female entrepreneurs also have limited access to finance, especially commercial loans, compared to male entrepreneurs. Surveys reveal that women comprise 72% of borrowers from microfinance organizations, while men comprise 80% of borrowers of large and medium-sized loans from banks. Results from the previous project, the Investment Climate Improvement Program (ICIP), showed increased leasing transactions to 632 in 2013, up from an average of 172 per year during 2008–2012. Data reported by the NBKR showed that 33% of loans outstanding as of June 2014 were taken by women. Women entrepreneurs have limited access to physical assets (for collateral) and technical resources; limited access to formal (and informal) business networks; as well as limited involvement in key policy, trade, and investment bodies. The first ICIP was able to increase the number of female entrepreneurs to 87,125 in 2013, from 64,290 in 2011. The cost of doing business for entrepreneurs, including women, is high because of (i) imperfections in the legislative and regulatory framework for tax, (ii) frequent and unnecessary tax inspections, and (iii) unstable and unpredictable politics of business regulation. The first ICIP began addressing this issue with the simplification of tax filing procedures and the installation of “no-contact” windows in an open space to dissuade rent-seeking behavior, which benefitted women entrepreneurs. Women workers constituted 34% of all SME employees in 2013. The first ICIP was able to train 14,434 students in modern competency-based training; however, how many of them are females cannot be ascertained as the Agency for Vocational Education (AVE) did not collect sex-disaggregated data. This, however, will be addressed with the creation of the monitoring information system at the AVE, through the ADB-funded Second Vocational Education and Skills Development Project. Benefits to SMEs from improved access to finance could allow SMEs to expand and hire more skilled workers as their businesses expand. With the provision of business development training, and expanded markets, informal entrepreneurs could be encouraged to formalize their businesses to avail themselves of these services and opportunities.

B. Key actions.

☐ Gender action plan ☒ Other actions or measures: Gender actions are in the policy matrix ☐ No action or measure

The policy matrix includes gender actions such as (a) designing a risk-sharing facility for SMEs owned and managed by women; (b) extending financial inclusion to the unbanked through e-money and remote delivery of financial services; (c) providing technical support services to women entrepreneurs to cope with the expected surge in export demand under the GSP Plus status; (d) ensuring that 25% of the staff of the Investment Promotion Agency (IPA) and in the PPP units are women, as well as conducting gender training to all staff; (e) ensuring that social and gender elements are an integral part of the evaluation of PPP projects, as well as prioritizing social and gender-responsive projects; and (f) collaborating on developing a skills training program that promotes women's entry into

courses and occupations that are male dominated, through awareness raising and internship quotas, among others.	
IV. ADDRESSING SOCIAL SAFEGUARD ISSUES	
A. Involuntary Resettlement Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI 1. Key impacts. Given the nature of activities, the program is not expected to involve involuntary resettlement. 2. Strategy to address the impacts. NA 3. Plan or other actions <div style="display: flex; justify-content: space-between;"> <div> <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> No action </div> <div> <input type="checkbox"/> Combined resettlement and indigenous peoples plan <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework <input type="checkbox"/> Social impact matrix </div> </div>	
B. Indigenous Peoples Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI 1. Key impacts. Program activities will not affect indigenous peoples communities. Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No 2. Strategy to address the impacts. NA 3. Plan or other actions. <div style="display: flex; justify-content: space-between;"> <div> <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> 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 </div> <div> <input type="checkbox"/> Combined resettlement plan and indigenous peoples plan <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework <input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary </div> </div>	
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). <input checked="" type="checkbox"/> H <input type="checkbox"/> M <input type="checkbox"/> L <input type="checkbox"/> NA <input checked="" type="checkbox"/> Unemployment <input checked="" type="checkbox"/> Underemployment <input type="checkbox"/> Retrenchment <input type="checkbox"/> Core labor standards 2. Labor market impact. No negative impact is envisaged. People are expected to benefit from income-generating opportunities resulting from new businesses, and growth and innovation in existing ones. Improved access to business development services and expansion of labor skills matching business demand will also benefit people.	
B. Affordability The program is not expected to result in any exclusion of people because of price mechanisms. On the contrary, innovative mechanisms to improve access to finance and financial services, and better planning and execution of infrastructure projects, are expected to improve financial inclusion and public services for all sections 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): <input checked="" type="checkbox"/> NA Communicable diseases <input checked="" type="checkbox"/> NA Human trafficking <input checked="" type="checkbox"/> NA Others (please specify) _____ 2. Risks to people in project area. NA	
VI. MONITORING AND EVALUATION	
1. Targets and indicators. Targets and monitorable indicators include (i) bank lending to women increased by 15%, (ii) innovative financing products developed for SMEs, including SMEs owned and run by women, (iii) PPP projects include social and gender assessments, (iv) at least 25% of staff in the IPA and the PPP units are women; (v) skills training program developed to promote women's entry into male-dominated occupations and apprenticeships (at least 40% female) supported at domestic or export-oriented companies; and (vi) technical support provided to women entrepreneurs. Accountability for these targets is with the ministries of economy and of finance, and NBKR. 2. Required human resources. One national social/gender specialist will be hired to monitor progress. 3. Information in the project administration manual. NA. 4. Monitoring tools. The same monitoring tools for the technical dimensions of the program will be used to monitor progress towards the achievement of poverty, gender, and social targets, which are mainly in the policy matrix and the project design and monitoring framework (DMF). Regular review missions will assess compliance with loan covenants, evaluate performance against targets in the DMF, and progress against actions in the policy matrix.	

^a Government of the Kyrgyz Republic. 2013. *National Sustainable Development Strategy, 2013–2017*. Bishkek.

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

^c Government of the Kyrgyz Republic. 2012. *National Strategy on Achieving Gender Equality by 2020*. Bishkek.

^d This forecast to reduce to 32.8% in 2014. IMF. 2014. *Poverty Reduction Strategy Paper*. Washington, D.C.

^e This is a European Union trade privilege which grants zero or preferential tariffs for over 7,000 products to certain countries, including the Kyrgyz Republic, which ratify and implement international conventions related to human and labor rights, environment, and good governance.

^f Kyrgyz Republic. 2012. *Strategy for the Development of Social Protection in the Kyrgyz Republic*. Bishkek.