

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

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

<p>I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY</p> <p>A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy</p> <p>The Government of the Kyrgyz Republic has committed to improving governance at the national and local levels and to reducing corruption as a basis for the country’s economic and social development. The National Strategy for Sustainable Development (NSSD) 2013–2017 calls for governance reform in the public sector, and the creation of an enabling environment for the private sector to become the key driver of economic growth.^a This is consistent with the ADB country partnership strategy 2013–2017,^b which aims to increase ADB’s private sector operations, improve the investment climate, and expand access to affordable finance across the country. The NSSD 2013–2017 and ADB’s Strategy 2020 both highlight private sector development and good governance as drivers of change.^c The program’s gender actions, such as targets for increasing lending to SMEs owned or managed by women, are consistent with the objectives defined in the National Strategy for Achieving Gender Equality until 2020, and the National Action Plan on Gender Equality 2015–2017.^d</p> <p>B. Results from the Poverty and Social Analysis during PPTA or Due Diligence</p> <p>1. Key Issues. In 2015, 32.1% of the population (i.e., over one million people) lived below the poverty threshold; most (67%) were rural residents. The 2015 rural poverty level of 33.6% was a 1% increase from 2014, while the 29.3% urban poverty level in 2015 represented a 2.4% increase.^e Unemployment is higher and labor participation lower among the urban poor as compared with the rural poor.^f The prevalence of low-paying, insecure jobs, renders many urban workers poor. 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) tight, expensive financing.^g The Kyrgyz economy is also vulnerable to external shocks due to its dependence (i) on the Kumtor gold mine, which accounts for about 10% of gross domestic product (GDP); and (ii) remittances of labor migrants, which account for about 30% of GDP (2011–2015). 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.</p> <p>2. Beneficiaries. The ultimate beneficiaries of the program are members of the general population, who will benefit from higher economic growth spurred by an active private sector. Direct potential beneficiaries are the entrepreneurs, specifically small and medium-sized enterprises (SMEs). SMEs, including those owned by female entrepreneurs, will benefit from improved access to financing and financial services, including mobile and electronic channels, as will retail consumers. Export opportunities under the Generalised System of Preferences Plus (GSP+) and the Eurasian Economic Union will create new and help existing enterprises expand and diversify, creating more and higher value-added jobs for workers, where women comprise 34% of the total.</p> <p>3. Impact channels. An improved business and investment climate due to anticipated improvements—such as improved business regulations, easier access to finance, greater use of electronic and mobile payments, and better infrastructure and public services—are expected to lead to an increase in the number of formalized enterprises and consequently to increased and more diversified economic opportunities. This will have positive impacts, including on those in the informal sector, and over time for the poor and vulnerable, and rural residents.</p> <p>4. Other social and poverty issues. Kyrgyzstan did not achieve the Millennium Development Goal 5 targets. In 2015, there were about 76 deaths among mothers per 100,000 live births, significantly higher than in neighboring Tajikistan (32) and Uzbekistan (36).^h One priority of the National Health Reform Program “Den Sooluk” (extended until 2018) is to protect the health of mothers and children, and it will help address this problem.</p> <p>5. Design features. Subprogram 3 builds on the achievements of subprograms 1 and 2. Policy actions include: (i) enabling online (non-cash) citizen payments for public services; (ii) operationalizing the State Guarantee Fund and approving its medium-term strategy (2017–2022) to enable SMEs to access appropriate financial services necessary for them to expand and become part of global value chains; (iii) approving at least two public–private partnership (PPP) programs, with project briefs prepared for at least two priority projects under each program; (iv) allocating budget funds to enable implementation of PPP projects, including managing the fiscal risk exposure of PPPs by the Ministry of Finance; (v) initiating feasibility studies for at least five projects and signing at least one contract for PPP project implementation; (vi) approving the Food Safety Law; (vii) approving guidance tools for apparel and agriculture sectors and disseminating the tools to exporters; (viii) modernizing and operationalizing at least three laboratories focusing on value-added and high-value food products, and certifying at least 30 officials from relevant state bodies in hazard analysis and critical control points; (ix) ratifying the Trade Facilitation Agreement and operationalizing the</p>

<p>National Trade Facilitation Committee; (x) making the Investor Grievance Mechanism an efficient out-of-court investor dispute settlement mechanism and resolving at least two investor-related grievance cases; (xi) ensuring a regular sovereign credit rating review by at least one international rating agency; (xii) developing market-oriented training modules in at least three skills from the textile, agriculture and food processing, and manufacturing sectors, and training at least 100 students; (xiii) allocating adequate funds to ensure continued use and maintenance of the e-procurement system; and (xiv) reducing tax and administrative burdens to increase formalization of small businesses.</p>
<p>C. Poverty Impact Analysis for Policy-Based Lending</p> <p>1. <i>Impact channels of the policy reform(s).</i> SMEs will benefit from (i) increased access to long-term and cheaper finance; (ii) the introduction of mobile financial services and e-payment systems, which will foster the transition of businesses to the formal economy; (iii) diversification of exports, export destinations, investments, and investors (which will help SMEs become part of global value chains and create more higher-quality jobs); (iv) better economic and social infrastructure through effective use of private sector technical expertise and finance, including through PPPs; (v) government e-procurement reforms, which will increase transparency; and (vi) reduced tax compliance burdens.</p> <p>2. <i>Impacts of policy reform(s) on vulnerable groups.</i> An improved climate for private sector development will help growth and innovation of existing and generation of new enterprises, with additional and diversified jobs, including for poor rural residents and those in the informal sector. Improved public infrastructure and services, (e.g., for health, district heating, street lighting, and public transport) will also directly benefit the poor and vulnerable.</p> <p>3. <i>Systemic changes expected from policy reform(s).</i> Reforms, particularly relating to reduced tax and administrative burdens, will encourage business formalization and the use of innovative electronic and mobile payments systems, increase SME access to finance, and develop market-responsive competencies and professions. Policy reforms will further enhance SME capacity to compete in the export market under the GSP+ as well as the Eurasian Economic Union. Public investment planning in key sectors, including health, will also be improved. These reforms are expected to directly benefit the poor, the rural population, and women.</p>
<p style="text-align: center;">II. PARTICIPATION AND EMPOWERING THE POOR</p>
<p>1. <i>Participatory approaches and project activities.</i> Consultations were held with relevant 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; the Ministry of Transport and Communications; the Center for Judicial Representation; the Agency for Vocational Education; and representatives of the business community.</p> <p>2. <i>Civil society organizations.</i> Consultations with specific community-based and civil society organizations may take place in the development of lending products, and identification and design of specific PPP projects.</p> <p>3. <i>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).</i> <input checked="" type="checkbox"/> Information gathering and sharing <input checked="" type="checkbox"/> Consultation <input type="checkbox"/> Collaboration <input checked="" type="checkbox"/> Partnership</p> <p>4. <i>Participation plan.</i> <input type="checkbox"/> Yes. <input checked="" type="checkbox"/> No. A project-level participation plan will not be prepared under the program.</p>
<p style="text-align: center;">III. GENDER AND DEVELOPMENT</p> <p>Gender mainstreaming category: Effective Gender Mainstreaming</p>
<p>A. Key issues. The male labor force participation rate (77%) exceeds that for females (49%) (footnote h). In 2013 women constituted 28% of managers of small firms, and 31% of managers of medium-sized firms; 16.5% of agricultural enterprises were headed by women. Most rural enterprises are not registered, as entrepreneurs do not see additional benefits from formalization. Female entrepreneurs have less access to financing, especially commercial loans, than male entrepreneurs. The first Investment Climate Improvement Program helped address the limited access of women entrepreneurs to business networks, the high cost of doing business, as well as women's limited participation in market-based skills training. Subprograms 1 and 2 of the second program resulted in the (i) establishment of an enabling legal environment for the more widespread adoption of e-payments and mobile financial services; (ii) establishment of the Guarantee Fund for export-oriented SMEs, including those owned and/or managed by women; (iii) an increased number of full-time PPP staff in key agencies to 24 (43% women); (iv) staffing of the Investment promotion Agency with 30% women (11 of 38 staff); and (v) a streamlined institutional setup to enable the Investment Promotion Agency and the Agency for Vocational Education to focus on the development of market-relevant skills, including TVET programs to enable women to enter nontraditional occupations.</p>
<p>B. Key actions. <input type="checkbox"/> Gender action plan <input checked="" type="checkbox"/> Other actions or measures: Gender actions are in the Policy Matrix <input type="checkbox"/> No action or measure</p> <p>The policy matrix includes gender actions such as (i) piloting and expansion of the Internet Payment Gateway system to enable online noncash payments of public services, and training of female specialists in five agencies; (ii) implementing the State Credit Guarantee Fund (CGF) to catalyze greater bank lending in priority sectors, including to enterprises owned and managed by women; (iii) initiating feasibility studies for at least five projects, with two social sector projects directly benefitting women as household managers and caregivers; (iv) approving</p>

and piloting guidance tools for apparel and agriculture sectors (which traditionally employ female workers); and (v) training at least 30 officials (including 20% women) from relevant state bodies and certifying them in hazard analysis and critical control points, 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. NA	
2. Strategy to address the impacts. NA	
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: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
1. Key impacts. NAls 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.	
<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. <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 on the labor market is envisaged. More people are expected to benefit from income-generating opportunities through the creation of new and the growth of existing businesses. It is also expected that the government will ensure that core government labor standards and applicable laws and regulations, including workplace occupational safety norms, are complied with during program implementation.	
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, and better planning and execution of infrastructure projects, 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):	
<input checked="" type="checkbox"/> Communicable diseases <input checked="" type="checkbox"/> Human trafficking <input checked="" type="checkbox"/> Others (please specify) _____	
2. Risks to people in project area. NA	
VI. MONITORING AND EVALUATION	
1. <i>Targets and indicators.</i> Targets and monitorable indicators on poverty reduction and inclusive social development include: (i) bank lending catalyzed by the State Guarantee Fund; (ii) operationalization of the Internet Payment Gateway to incentivize noncash payment; (iii) development of bankable PPP projects, including those in the health and other social sectors; (iv) access to financial services for SMEs owned and/or managed by women; and (v) training of at least 100 students (45% women) in using market-oriented training modules.	
2. <i>Required human resources.</i> The program will continue to engage one national social and gender specialist to monitor the poverty and social impact of the project.	
3. <i>Monitoring tools.</i> Overall program monitoring tools (reflected in the policy matrix and the design and monitoring framework) will also be used to monitor progress in the achievement of poverty, gender, and social targets.	

^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. A new National Development Strategy 2018-2022 is under preparation.

^c ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

^d Government of the Kyrgyz Republic. 2012. *National Strategy on Achieving Gender Equality by 2020*. Bishkek; Government of the Kyrgyz Republic. *National Action Plan on Gender Equality 2015–2017*. Bishkek

^e National Statistical Committee of the Kyrgyz Republic. 2011. *Women and Men of the Kyrgyz Republic: Compendium of Gender Disaggregated Statistics, 2011–2015*. Bishkek City.

^f Footnote b, Poverty Analysis (Summary).

^g Footnote b, Private Sector Assessment (Summary).

^h United Nations Development Programme. 2016. *Human Development Report 2016*. New York.

Source: Asian Development Bank.