

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Kazakhstan	Project Title:	COVID-19 Active Response and Expenditure Support Program
Lending/Financing Modality:	Countercyclical Support Program – CPRO Window	Department/ Division:	Central and West Asia Department/ Public Management, Financial Sector & Trade Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY
<p>Poverty targeting: General Intervention</p> <p>A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy</p> <p>Kazakhstan has developed a long-term plan, outlined in the Strategic Development Plan 2025 and Kazakhstan Strategy 2050, to join the 30 most developed countries by 2050. Gross domestic product (GDP) per capita is expected to reach \$18,500 by 2025 and \$33,270 by 2050. To reach its goal of inclusive and sustainable growth, Kazakhstan is diversifying its economic base away from extractive industries towards non-oil private sector-led industries and services, underpinned by small and medium-sized enterprises; promotion of productive employment and value addition within the country. The Asian Development Bank (ADB) Kazakhstan country partnership strategy (CPS) for 2017–2021 is closely aligned with the goals of the above-mentioned national strategies. CPS supports three key areas for diversification and industrial development: (i) reducing dependence on commodities exports and support diversification of economy through private sector promotion and improving access to finance; (ii) modernizing infrastructure and utilities, while seeking innovative and flexible solutions to narrow investment and viability gaps; and (iii) lessen the country's vulnerability to climate change. Governance and institutional reforms, private sector development, regional cooperation, knowledge exchange, climate change and environmental sustainability, and gender equity are the main drivers of the CPS.</p> <p>In 2019, real GDP grew by 3.9% backed up by increased oil and gas investments and larger government and household expenses supported by wage increases and expansion in consumer lending. The poverty rate (\$5.5 a day in public-private partnership terms) was reduced to 6.6% (8.6% and 7.4% in 2017 and 2018).^a Nevertheless, this progress remains fragile and is now put under significant stress by joint effect of two external shocks:</p> <ol style="list-style-type: none"> 1. The COVID-19 related lockdown and consequent closure of the many 'non-essential' businesses. The micro, small and medium enterprise (MSME) sector was hit hard as its turnover reduced by 72%. MSMEs play a very important role in job generation with 3.2 million employed in this sector (37% of total workforce in 2018). The mostly affected-sector of economy is the services, where women represent 65% of the workforce and most of them are employed informally. As per the survey by the Atameken National Chamber of Entrepreneurship,^b 54% of MSMEs are considering workforce reductions, meaning that informally employed women are mostly likely to be laid off first with no payments stipulated by the labor code. 2. The drop in oil price, major export item, from \$51 per barrel (Brent brand) to \$18 per barrel during 01 January–21 April 2020. Kazakhstan's economy is highly dependent on the oil sector, which accounts for about 20% of gross domestic product, 50% of revenues, and 76% of exports. Oil price reduction implies significant reduction in oil exports revenues and consequent growth in fiscal deficit. <p>As wages conditions deteriorate, unemployment rises, and if social assistance is strained by fiscal deficit, poverty levels could rise up again to 11–13%, levels last observed in 2008–2009.</p> <p>The government countercyclical plan includes the following measures: (i) Immediate COVID-19 Healthcare Sector Response (new medical equipment, medicine, hospitals upgrade) for total \$384; (ii) Direct Measures to mitigate the disruptions on Businesses and Income levels. This includes 3-month deferral for tax and credit payments to businesses, increase in social benefits for total \$450 million, 3-month deferral for utility payments to private individuals, etc.; and (iii) Countercyclical Fiscal and Quasi-Fiscal Response for total \$13.3 billion to recover the economy. This includes soft loans to businesses, non-stop support to infrastructure projects, compensation for exchange rate losses, further increase in social benefits, etc. The proposed Program will support the government plan to mitigate the sudden and significant negative impacts of the above-mentioned shock and promote faster recovery of the economy.</p> <p>B. Results from the Poverty and Social Analysis during PPTA or Due Diligence</p> <p>1. Key poverty and social issues. Between 2000 and 2019, Kazakhstan has made substantial progress in reducing poverty and building a sizeable middle class. As the economy grew by an average of 7% during 2001–2016, the national poverty rate dropped from 46.7% in 2001 to 6.6% in 2019. Since 2011, Kazakhstan has consistently recorded low unemployment rates (below 5%) with over a quarter of the employed being self-employed. Participation of the working age population in the labor force is 71.1% with the highest female labor force participation rate in Central Asia. However, the gender wage gap continues to be a concern, with women earning only a fraction of men's earnings. Access to and the quality of health care is also considerably poorer in rural areas than in urban centers. The ongoing recession, if not timely addressed, may increase poverty level to 11–13% (see preceding section for details).</p> <p>Unless countered, the sequence of shocks that have hit Kazakhstan can also significantly impact poverty and social vulnerability levels, and gender risks are also recognizable at this point. In order to summarize the several vulnerability dimensions of the current situation, it is important to disaggregating them by each of the three issues now at play:</p>

<p>i. The COVID-19 outbreak could bring a hike in hospitalization and medication costs that can overwhelm the budgets of the poor and most vulnerable, if infected. It also puts workers in health most at risk of coming into contact with infected cases (more than 70% of health workers are women).</p> <p>ii. The strict social lockdown measures and other non-pharmaceutical interventions of the government are crucial to slowing-down the medical emergency. But these measures pose significant risks to the livelihoods and income-generation in very specific activities where women have a high degree of participation. Women account for more than 65% of the labor force in some of the most affected sectors by the current lockdowns. Some hard-hit activities in the informal labor market also includes a significant share of women. These could imply a potentially disproportionate impact on women.</p> <p>iii. The overall recessionary conditions that can ensue in Kazakhstan now could bring up poverty levels in its population, based on standard growth-poverty elasticities. Without a countercyclical fiscal effort, both the oil-related sectors and the non-oil economy could contract by 4–6% in 2020, bringing up poverty risks. Women could also be disproportionately affected by a deep recessionary scenario, given existing gender disparities in wage levels and unemployment rates, and an already disadvantaged access to formal finance in normal times.</p> <p>2. Beneficiaries. The proposed program allows the government to maintain social programs and may provide for an increased number of participants in social transfer programs if needed. Employment Road Program, Enbek and Aul Besygi state programs are expected to create 380,00 new jobs through different investment projects, which will be supported by the concessional loans in local currency at 6% for capital expenditures and 8% for working capital.</p> <p>3. Impact channels. The program provides budget support that allows the government to continue and extend employment creation programs, reducing the economic cost of increasing unemployment while supporting domestic aggregate demand.</p> <p>4. Other social and poverty issues. As above.</p> <p>5. Design features. The proposed loan for countercyclical support will support government programs aimed at generating employment, sustaining social expenditures, and promoting inclusive private sector development. It is expected to increase employment by 380,000 new jobs.</p>
<p align="center">II. PARTICIPATION AND EMPOWERING THE POOR</p> <p>1. Participatory approaches and project activities. Consultations were held with relevant ministries. The consultations helped better relate the program design to the local context; harmonize assistance with other development partners; and reflect a broad range of information and perspectives. Consultations added value to program design and targeting, increased ownership and sustainability, and offered potential benefits to poverty reduction and to sustained pro-poor economic growth.</p> <p>2. Civil society organizations. The program does not anticipate the participation of civil society organizations in program implementation.</p> <p>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):</p> <p><input type="checkbox"/> Information gathering and sharing <input type="checkbox"/> Consultation <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership NA</p> <p>4. Participation plan <input type="checkbox"/> Yes. <input checked="" type="checkbox"/> No.</p> <p>A project-level participation plan will not be prepared under the program to strengthen participation of civil society. The executing agency of the program is the Ministry of Finance, with whom the project team will consult with during program implementation. Information generation and sharing will be disclosed in accordance with ADB's 2011 Public Communications Policy.</p>
<p align="center">III. GENDER AND DEVELOPMENT</p> <p>Gender mainstreaming category: Effective Gender Mainstreaming</p> <p>Key issues. Kazakhstan ranked 60th out of 149 countries in the World Economic Forum's 2018 Global Gender Gap Index,^c with a score of 0.712, well above neighboring countries. However, important gender gaps remain. There is gender inequality in access to employment opportunities and wages. For instance, estimated earned income for male is by 68% larger compared to the same indicator for women. Labor force participation among male is by 12% higher compared to female. Another critical issue is the limited access to finance for women. Women are disadvantaged in access to finance (businesses with female managers face a 77% rejection rate compared to 17% for businesses with male managers). Women also face higher collateral requirements (260% LTV) than men (170% LTV).</p> <p>The gender gap is expected to widen if women are disproportionately affected by ongoing recession, or if government efforts don't aim at mitigating such risks: (a) Women are 2/3 of the hired staff of MSMEs. Since the lockdown, the turnover of MSMEs reduced by 72%. As women account for 65% of labor force in some of the most effected sectors (e.g. hospitality, wholesale and retail trade. Significant share of women works in the informal labor market. (b) As per the survey by the Atameken National Chamber of Entrepreneurship,^d 54% of MSMEs are considering workforce reductions, and informally-employed women are mostly likely to be laid off first with no payments stipulated by law.</p> <p>B. Key actions.:</p> <p><input type="checkbox"/> Gender action plan <input checked="" type="checkbox"/> Other actions or measures: Gender Monitoring Matrix <input type="checkbox"/> No action or measure</p> <p>The proposed Program will ensure that health workers who are directly handling COVID 19 cases, at least 60% women) will be provided with proper fitting personal protective equipment and menstrual hygiene kits, as needed, and receive salary bonuses. Women entrepreneurs as well as women workers will be provided with tax and other financial</p>

incentives. Poor households, including all their female members, will be provided with social payments and assistance.

IV. ADDRESSING SOCIAL SAFEGUARD ISSUES

A. Involuntary Resettlement

Safeguard Category: ☐ A ☐ B ☒ C ☐ FI

1. Key impacts. The program does stipulate involuntary resettlement.

2. Strategy to address the impacts. No actions required

3. Plan or other Actions.

☐ Resettlement plan

☐ Resettlement framework

☐ Environmental and social management system arrangement

☐ No action

☐ Combined resettlement and indigenous peoples plan

☐ Combined resettlement framework and indigenous peoples planning framework

☒ Social impact matrix

B. Indigenous Peoples

Safeguard Category: ☐ A ☐ B ☒ C ☐ FI

1. Key impacts. Not relevant

Is broad community support triggered? ☐ Yes

☒ No

2. Strategy to address the impacts. No actions required

3. Plan or other actions.

☐ Indigenous peoples plan

☐ Indigenous peoples planning framework

☐ Environmental and social management system arrangement

☐ Social impact matrix

☒ No action

☐ Combined resettlement plan and indigenous peoples plan

☐ Combined resettlement framework and indigenous peoples planning framework

☐ Indigenous peoples plan elements integrated in project with a summary

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).

☒ unemployment ☒ underemployment ☒ retrenchment ☐ core labor standards

The program will be highly relevant to the labor market development.

2. Labor market impact. Relevance of the program for the country's labor market is high, as employment creation programs will be supported through the budget. Citizens will benefit from income-generating opportunities through the government's implementation of the long-term development strategy, Kazakhstan 2050; the Employment Roadmap 2020; Enbek and Aul Besygi programs. Kazakhstan is a member of the International Labour Organization and adopted a comprehensive Labour Code in May 2007. It is expected that the government will ensure that core labor standards and applicable laws and regulations of the government, including workplace occupational safety norms, are complied with during program implementation.

B. Affordability

Affordability issues are not expected to be significant as the countercyclical support facility supports activities aimed at job generation and maintaining social expenditures.

C. Communicable Disease and Other Social Risks

1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):

☐ Communicable diseases ☐ Human trafficking

☐ Others (please specify) _____

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

VI. MONITORING AND EVALUATION

1. **Targets and indicators.** Performance targets that address poverty reduction and inclusive social development include e.g. employment to increase by 380,000 new jobs. Please refer to the Design and Monitoring Framework.

2. **Required human resources.** Regular review missions will monitor the poverty and social impact of the program.

3. **Information in the project administration manual.** Not applicable.

4. **Monitoring tools.** Regular review missions will assess implementation of program measures, and evaluate performance against targets in the design and monitoring framework (and Gender Monitoring Matrix [GMM] – list of linked documents). The government will report quarterly on progress and targets,¹ including sex-disaggregated data collection.

^a World Bank Group. 2019. [Country Partnership Framework for the Republic of Kazakhstan, 2020-2025](#).

^b The Wall Street Journal. [Re-shoe on masks: How the company's ingenuity manifests itself in crisis](#).

^c World Economic Forum. 2018. [The Global Gender Gap Report 2018](#).

^d The Wall Street Journal. [Most of the business in Kazakhstan has declared a deterioration in the financial situation](#).

Source: Asian Development Bank.

¹ To the extent possible, monitoring and reporting will include sex-disaggregated data collection on beneficiaries of all programs, and not only the data collection that is necessary to measure achievements against the GMM..