

INITIAL POVERTY AND SOCIAL ANALYSIS

Country: Kyrgyz Republic Project Title: Second Investment Climate Improvement Program

Lending/Financing Modality: Programmatic Approach Department: Central and West Asia Department
 Division: Public Management, Financial Sector, and Trade Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The reforms proposed under the Second Investment Climate Improvement Program are articulated in the National Sustainable Development Strategy (NSDS), 2013–2017. The NSDS is based on a vision of the Kyrgyz Republic as a country with robust economic growth and an attractive environment for business. One of the key focus areas is creating an attractive environment for domestic and foreign investors by improving product markets, financial and nonfinancial factor markets, and infrastructure. Another focus area is human development and poverty reduction including expanding and improving the range and quality of employment services, the quality of workforce, and the right to work for vulnerable groups such as young people, women, and persons with disabilities. The program is aligned with government priorities; it is included in the country partnership strategy, 2013–2017 and contributes to one of its expected outcomes by building an appropriate environment to develop and improve private sector performance.

B. Poverty Targeting

☒ General Intervention ☐ Individual or Household (TI-H) ☐ Geographic (TI-G) ☐ Non-Income MDGs (TI-M1, M2, etc.)

The program will support reforms to help the Kyrgyz Republic (i) widen and deepen the range of financial services and products available to businesses and retail customers including microfinance deposit and lending services; (ii) increase private sector participation in developing infrastructure and services, including social services such as health; (iii) increase domestic and foreign investment and competitiveness in global markets; and (iv) develop labor market skills linked to industry demand. Interventions in all these areas are expected to individually and collectively improve the business climate, improve infrastructure and services, and generate employment opportunities to benefit increasing numbers of households, including low-income households.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries.

During 2006–2009, a period of strong growth, absolute poverty fell from 39.9% to 31.7% and extreme poverty declined from 9.1% to 3.1%. The main contributing factor was the strong growth in remittances (from 11.0% of gross domestic product [GDP] in 2005 to 18.0% in 2009), which fueled an increase in private consumption. During 2010–2012, poverty increased to 38.0% and extreme poverty increased to 4.4% due to the economic challenges from the global economic crisis and domestic political unrest. Rural poverty dominates; 40.4% of the rural population is poor, compared with 30.7% of the urban population. The poverty projection for 2014 is 28% of the population.

Potential program beneficiaries are current and future entrepreneurs, including women's micro, small, and medium-sized enterprises (MSMEs), (i.e., owned or run by women, or with women comprising a majority of the employees), potential investors, and the general population—through better and greater access to finance and financial services, better infrastructure services, and an improved legal and regulatory environment. The reforms are expected to provide indirect benefits as well as an improved business climate attracting businesses to the formal sector in rural and urban areas, and increasing formal jobs.

2. Impact channels and expected systemic changes.

The impact channels will be through business creation and employment generation; access to finance and financial services; improved infrastructure; better linkages between industry, MSMEs, and small and medium-sized enterprises (SMEs); and skills development. The expected systemic changes are for business regulation, risk averseness of banks to SMEs, financial intermediation, and electronic and mobile payments.

3. Focus of (and resources allocated in) the PPTA or due diligence.

The social, poverty, and gender specialist included in the TA will review the poverty, social, and gender dimensions of the reforms proposed, and assess how program benefits may be maximized for those who most need them. These are expected to have an indirect medium- and long-term impact on poverty reduction, mainly through an increase in employment opportunities. More direct, short-term links to poverty reduction to be assessed include increased availability of financial services (savings, credit, and payment services) in locations outside Bishkek and by excluded groups (women, lower income).

4. Specific analysis for policy-based lending. The transmission channels will be through the creation of an enabling environment for the formal private sector to play a greater role in the economy. The short-term direct impacts will be in the form of better access to finance businesses and retail customers, and better systems and process to facilitate

their operation. The long-term direct impacts will be in the form of employment creation. The indirect impacts will be in the form of an increased tax base for the government to mobilize resources for investment and growth.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector or subsector that are likely to be relevant to this project or program? Gaining a livelihood is increasingly difficult for women. Formal employment opportunities are few and largely limited to certain sectors (i.e., health, education, services). As a result, informal sector jobs and entrepreneurial activities are a particularly important option for women. Access to finance for entrepreneurship, trading, and other informal work is difficult. Girls and women also frequently lack the skills, networks, financial acumen, and knowledge and experience required to set up businesses or find employment in the formal sector.

An ADB-funded study in 2012 found that most women entrepreneurs bear a considerable burden of time and financial costs associated with corruption, incompetence, and hostility on the part of the relevant authorities (particularly tax authorities). Consequently, in attempting to improve the business environment, the emphasis has been on minimizing direct contact between entrepreneurs and officials, through the introduction of a "single-window" approach and the use of internet technologies. From the point of view of women entrepreneurs, tensions in relations with tax officers arise due to (i) imperfections in the legislative and regulatory framework, (ii) frequent and unnecessary inspections, and (iii) unstable and unpredictable politics of business regulation. All this creates opportunities for preconditions for corrupt actions. Dissatisfaction with the imperfect legislative and regulatory framework and frequent changes was expressed even by tax officials.

Women have particularly been impacted by obstructive and rent-seeking behavior, and express strong enthusiasm for reform of the business climate. They highlight the need for social protection and social insurance (including pensions), especially for women working in informal "shadow business"; broader and easier access to finance; training especially in nontraditional sectors to overcome horizontal segregation in the labor market; and awareness raising about the challenges and risks confronting the development of women entrepreneurs.

The majority of women in waged employment are concentrated in agriculture (which has the lowest wages) and in other areas where the average salary is below the national average, such as education and health care.

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

☒ Yes ☐ No Please explain.

The program actions will enable women to have equal access to opportunities as men by providing better access to finance and financial services, better infrastructure services, and enabling participation in the design and implementation of development and/or infrastructure projects. Toolkits and guidelines prepared for developing public-private partnership projects will require the inclusion of gender safeguards and creation of opportunities for women to be involved in different phases of project development and implementation.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

☐ Yes ☒ No Please explain

No, the program components are designed to empower women and promote gender equity.

4. Indicate the intended gender mainstreaming category:

☐ GEN (gender equity) ☒ EGM (effective gender mainstreaming)
SGE (some gender elements) ☐ NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

Main stakeholders include those engaged in business at all levels, including MSMEs and SMEs, and those in the informal and private sectors. The primary beneficiaries are current and future entrepreneurs and investors who are expected to benefit from an improved policy and regulatory environment and have better investment opportunities to provide additional employment. Given that women's businesses comprise a large percentage of MSMEs, these groups will be regularly consulted through focus group discussions; during processing missions; and by the social, poverty, and gender specialist included in the project preparatory TA.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable, and excluded groups? What issues in the project design require participation of the poor and excluded?

The TA will consult with women and disadvantaged groups from a range of socioeconomic backgrounds to establish their priority concerns and discuss how they may be most effectively addressed within the framework of the proposed program. The TA will then identify modalities for consultation with women's groups during the program itself.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the program design?

The project preparatory TA will identify the key organizations (i.e., women's business groups, microfinance groups, women's community groups, youth groups) and will seek their views on program design.

☐ Information generation and sharing ☐ Consultation ☒ Collaboration ☒ Partnership

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? ☐ Yes ☒ No

No specific issues are anticipated during project design for which participation of the poor and excluded is important. However, to maximize benefits for the poor and excluded, the project preparatory TA will identify the key issues for those groups and how their participation can be ensured.

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category ☐ A ☐ B ☒ C ☐ FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? ☐ Yes ☒ No

2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?

☐ Resettlement plan ☐ Resettlement framework ☐ Social impact matrix
☐ Environmental and social management system arrangement ☒ None

B. Indigenous Peoples Category ☐ A ☐ B ☒ C ☐ FI

1. Does the proposed program have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? ☐ Yes ☒ No

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? ☐ Yes ☒ No

3. Will the project require broad community support of affected indigenous communities? ☐ Yes ☒ No

4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?

☐ Indigenous peoples plan ☐ Indigenous peoples planning framework ☐ Social Impact matrix
☐ Environmental and social management system arrangement ☒ None

V. OTHER SOCIAL ISSUES AND RISKS

1. What other social issues and risks should be considered in the program design?

☒ Creating decent jobs and employment ☐ Adhering to core labor standards ☐ Labor retrenchment
☐ Spread of communicable diseases, including HIV/AIDS ☐ Increase in human trafficking ☒ Affordability
☐ Increase in unplanned migration ☐ Increase in vulnerability to natural disasters ☐ Creating political instability
☐ Creating internal social conflicts ☐ Others, please specify _____

2. How are these additional social issues and risks going to be addressed in the program design?

The reforms are expected to provide indirect benefits to the working population, both employed and unemployed, as investment opportunities translate into job creation. These impacts will be assessed under the project preparatory TA. The structural reforms are expected to reduce the costs of regulatory compliance and increase access to finance and financial services; direct and indirect impacts will be assessed during program design.

VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified?

☒ Yes ☐ No

2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analyses, and participation plan during the PPTA or due diligence?

The project preparatory TA budget includes a 3-month input by a Social, Poverty, and Gender Specialist, who will specifically address these issues, conduct appropriate analysis, and plan beneficiary participation.