



COVID-19 in the Kyrgyz Republic: Socioeconomic and Vulnerability Impact Assessment and Policy Response

August 2020

Foreword

There can be little doubt that the COVID-19 pandemic represents one of the greatest governance challenges of our time: not only for the alarming global infection rate and death toll, but also for the economic and social devastation that is being felt in countries throughout the world.

National governments, development partners, aid agencies, and nongovernment organizations alike are grappling with the conundrum of how to balance containment of the contagion with the socioeconomic impacts resulting from crisis measures such as lockdowns and social distancing.

As a small, landlocked country with relatively high poverty rates and a dependency on remittances from labor migrants working in neighboring countries, the Kyrgyz Republic is facing an urgent and confronting set of challenges.

With substantial losses in major economic sectors—tourism, trade and consumer services, and construction—the country's gross domestic product for 2020 is anticipated to contract by as much as 10%.

Many of its revenue sources are either temporarily suspended or are at risk of collapsing entirely, creating an external financing gap of \$500 million and requiring support from the International Monetary Fund, the Asian Development Bank, and other multilateral and bilateral partners.

Under worst-case modelling, the Kyrgyz Republic's unemployment rate could reach 21% by the end of 2020—and this in a country where over 20% of the population were already living in poverty (according to the national definition) in 2019.

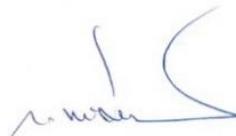
The Government of the Kyrgyz Republic has taken important steps to quell the turmoil of the COVID-19 crisis, but much more remains to be done. It should consider further policy options to shore up the country's health system, extend social protection coverage, foster growth driven by sustainable micro enterprises, and support returned migrants (as well as those abroad wishing to come home).

As a priority, the government should also move to expand the coverage of the nation's social protection system, and encourage a shift to investments in digitalization and the green economy as part of the pandemic recovery.

This socioeconomic impact assessment is designed to guide policymakers in the equitable allocation of COVID-19 recovery funding. It is hoped the report's many perspectives and recommendations will help the Kyrgyz Republic achieve a swift return to economic prosperity and social stability.



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This assessment is the result of close cooperation between the United Nations Development System, under the technical leadership of the United Nations Development Programme (UNDP), and the Asian Development Bank (ADB). It has been developed to support the Government of the Kyrgyz Republic's efforts to respond to the COVID-19 pandemic. The assessment work was performed under the guidance of Louise Chamberlain, UNDP Resident Representative in the Kyrgyz Republic, and Candice McDeigan, Country Director, ADB Kyrgyz Republic Resident Mission.

The assessment also benefits from survey results on the socioeconomic impact of the pandemic developed by the Economic Policy Research Institute of the Kyrgyz Republic's Ministry of Economy.

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We hope that the study and its recommendations will be useful for the Government of the Kyrgyz Republic in developing strategies, programs and policy measures aimed at overcoming the consequences of the crisis and supporting recovery after the COVID-19 pandemic, as well as for implementing the priorities of cooperation with international development partners.

Abbreviations

ADB	Asian Development Bank
EAEU	Eurasian Economic Union
GDP	gross domestic product
GRP	gross regional product
ICT	information and communication technology
IMF	International Monetary Fund
IOM	International Organization for Migration
MBPFC	Monthly Benefit for Poor Families with Children
MSMEs	micro, small, and medium-sized enterprises
NBKR	National Bank of the Kyrgyz Republic
PPE	personal protective equipment
PRC	People's Republic of China
SDG	Sustainable Development Goal
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
WFP	World Food Programme

Unless otherwise indicated, "\$" refers to United States dollars.

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1 Executive Summary

The first cases of COVID-19 in the Kyrgyz Republic were detected on 18 March 2020. The entire country was placed on an emergency footing on 22 March, with some very strict lockdown episodes in Bishkek, Osh, and some other parts of the country during March–May 2020. Like many other countries, the Kyrgyz Republic then imposed border restrictions with neighboring countries and suspended all international and domestic flights.

While vital to public health, these measures have significantly impacted the country's economic stability and social fabric. Moreover, despite their severity, these measures could not prevent the deepening of the crisis, with subsequent surges in COVID-19 infections and deaths. In addition to overwhelming the Kyrgyz Republic's pandemic response systems, COVID-19 has reduced the health system's abilities to respond to other urgent medical needs, and many other public services have been negatively affected. The high number of medical workers and other public officials affected has added to the challenges.

In the face of the economic shocks, private expenditure on nonfood items and services has plummeted, as a 15% decline in the volume of retail trade was recorded during the first half of 2020. Sharp declines in domestic demand drove the 5.3% reduction in gross domestic product (GDP) reported for January–June.

Receipts from the export of tourism and travel services, which represented 5.6% of GDP in 2018, have been forecast to almost disappear in 2020—with revenue falls of 90% predicted.

The Kyrgyz Republic is also reliant on remittances from labor migrants, and these revenue inflows were down 25% year-on-year for January–May 2020. Continued downward trends, estimated at 20%–25% over the course of 2020 and beyond, mean that the decrease in remittances might amount to 4%–5% of GDP.

Considering the combined effects of these trends, the report team for this assessment have estimated that the Kyrgyz Republic's GDP will fall by 10% in 2020 (a 5.3% decline was reported for January–June).

The most-affected sectors of the economy will be tourism, trade and consumer services, and construction—each of which can expect contractions in gross value added of 20% or more.

Assuming only conservative growth in labor supply, it is estimated that the Kyrgyz Republic's unemployment rate will rise to 13.6% in 2020. However, if there is a worst-case increase of 500,000 in labor supply, the unemployment rate could jump to 21%.

The geographic regions most affected by the pandemic are Bishkek and Osh cities, some parts of Issyk-Kul oblast (resort areas), Karasuu rayon in Osh oblast, and Chui oblast

(home to many garment manufacturers). The southern oblasts of Batken, Jalal-Abad, and Osh are expected to suffer the greatest shocks of falling remittances and returning migrants.

Following the launch of an initial health care contingency plan and some quick-response economic measures, the Government of the Kyrgyz Republic approved a fiscal stimulus package of 21 measures to address the impacts of the pandemic. To adjust to external shocks, the government has also allowed the dollar–som exchange rate to float, which resulted in considerable som depreciation.

The Anti-Crisis Fund has been established to subsidize Kyrgyz enterprises, particularly export-oriented firms. This fund is aimed at ensuring that all fiscal activities of the pandemic response are well coordinated.

The government has also worked with multilateral and bilateral development partners to mobilize resources that will fill an external financing gap estimated at \$500 million. The International Monetary Fund has approved budget support of \$241.8 million to help the government meet its urgent balance-of-payment needs, while other support has been promised and/or partially provided by the Asian Development Bank, the World Bank, the United Nations system, and bilateral donors.

The economic and social burdens of the COVID-19 crisis are, however, being disproportionately borne by the poor and vulnerable communities of the Kyrgyz Republic. One social group which is adversely affected by this crisis are workers in the informal economy, particularly those in urban areas.

As part of the Economic Policy Research Institute’s survey in May–June, 52% of all poor households reported either some or significant deterioration of their financial situation. The proportion of those adversely affected was especially high among households with a female breadwinner (65%), those living in Bishkek or Osh cities (65%), and those who are not recipients of social welfare benefits (58%).

Access to food is at risk due to falling incomes and rising food prices. In the most recent World Food Programme survey, 93% of respondents indicated concerns about high food costs (particularly alarming since the poor spend upwards of two-thirds of their income on food). The survey also reported declines in the consumption of nutritious foods in 2020.

There is much evidence pointing to rising gender-based violence and other behaviors affecting social cohesion in the Kyrgyz Republic. During January–March, the number of reported domestic violence cases rose by 65% compared to the same period in 2019.

Among the many policy recommendations proposed by the report team for consideration by the government, some key options include:

(i) increased investment in health services to ensure a “dual track” approach whereby critical health services, especially for vulnerable communities, are not sacrificed to the

battle against COVID-19, and the health system is strengthened to cope with the sustained nature of this crisis;

(ii) a productive asset support facility for micro, small, and medium-sized enterprises, to help stabilize and prepare businesses for recovery beyond the pandemic;

(iii) gender-appropriate humanitarian assistance for labor migrants “stranded” in destination countries, and other social services in cities and municipalities where returning migrants are concentrated;

(iv) upscaling of social assistance, in order to better address the needs of uncovered workers in the informal sector, with major welfare benefits set at Som1,000 per recipient per month, and extending payment of these benefits for 6 months to 500,000 new recipients; and

(v) job creation and labor market measures to increase employment opportunities, including the expansion of cash-for-work schemes and associated services;

(vi) capitalizing on opportunities for “building back better” through the alignment of the Anti-Crisis Fund with green economy priorities, including water-efficient agriculture, modernized solid waste management, green and inclusive city planning, and sustainable ecotourism.

Five policy notes on the health response, the informal economy and employment, social protection and food security, migration and remittances, and links to longer-term sustainable development have been prepared as part of this assessment (Appendix 1). They provide a focus on integrated measures in response to the COVID-19 development crisis, and can help decision-makers set longer-term recovery policies that aim to reduce structural poverty and inequality, with the aim of attaining the Sustainable Development Goals and leaving no one behind.

2 Introduction

1. **Background.** This Socioeconomic Impact Assessment (the assessment) of the disruption caused by the coronavirus disease (COVID-19) in the Kyrgyz Republic is a joint analytical product prepared by the United Nations Development Programme (UNDP), the Asian Development Bank (ADB), and the Economic Policy Research Institute in the Ministry of Economy of the Government of the Kyrgyz Republic.¹ The assessment is expected to contribute to evidence-based decision-making by the government to reduce the adverse socioeconomic effects of COVID-19.

2. The global crisis sparked by the COVID-19 virus is unprecedented. The clear first-order priorities in the Kyrgyz Republic, as in other countries, have been preventing loss of life, treating the infected, and minimizing the contagion. Over time, however, as the socioeconomic costs of lockdowns, social distancing, and other public health measures taken globally and domestically have become more acute, responding to the pandemic's socioeconomic consequences has become more urgent.

3. As in other countries, the Government of the Kyrgyz Republic will encounter a number of uncertainties regarding the health consequences of relaxing public health restrictions. The safe reopening of the country's economy may hinge on the availability of a COVID-19 vaccine or cure, as well as on epidemiological trends and policy responses in neighboring countries (especially given the Kyrgyz Republic's close links with its neighbors especially through channels such as trade and movement of migrant labor). In light of this, the assessment focuses primarily on socioeconomic effects and response measures that reflect the so-called "new normal" resulting from COVID-19. It also seeks to identify challenges and, where possible, to build on opportunities that have resulted from the pandemic—for example, reductions in greenhouse gas emissions associated with reduced road traffic and industry, as well as other reduced burdens on the country's natural capital.

4. Following the detection of three COVID-19 cases in the Kyrgyz Republic on 18 March 2020, the government declared an Emergency Situation throughout the country. This was followed by State of Emergency declarations on 25 March in Bishkek, Osh City, Nookat and Karasuu districts in the Osh oblast, and Suzak district in the Jalal-Abad oblast, each covering the period to 15 April 2020. On 15 April 2020, the state of emergency was extended to the town of Naryn and At-Bashi district in the Naryn oblast. As of mid-July 2020, the COVID-19 infection rates have risen drastically, overwhelming local medical services in several localities including the major cities.

5. The Kyrgyz Republic and its neighbors also instituted measures to prevent further spreading of the coronavirus across the region. Having closed its border with the People's Republic of China (PRC) in January 2020 (well before the first reported infection in mid-March)², the Kyrgyz Republic imposed border restrictions with Kazakhstan, Tajikistan, and Uzbekistan. It also suspended all international and domestic flights. While necessary from a public health perspective, these measures significantly disrupted trade and mobility, and

¹ The joint assessment report has been prepared in close consultations with different agencies of the United Nations Country Team in the Kyrgyz Republic and other multilateral and bilateral development partners. Consultations were also undertaken with select civil society organizations and research institutes.

² The PRC is the Kyrgyz Republic's largest trading partner, accounting for 35% of the country's imports in 2019. Therefore, closure of the PRC border not only reduced tax revenues for the Government of the Kyrgyz Republic, but also affected the country's domestic production base.

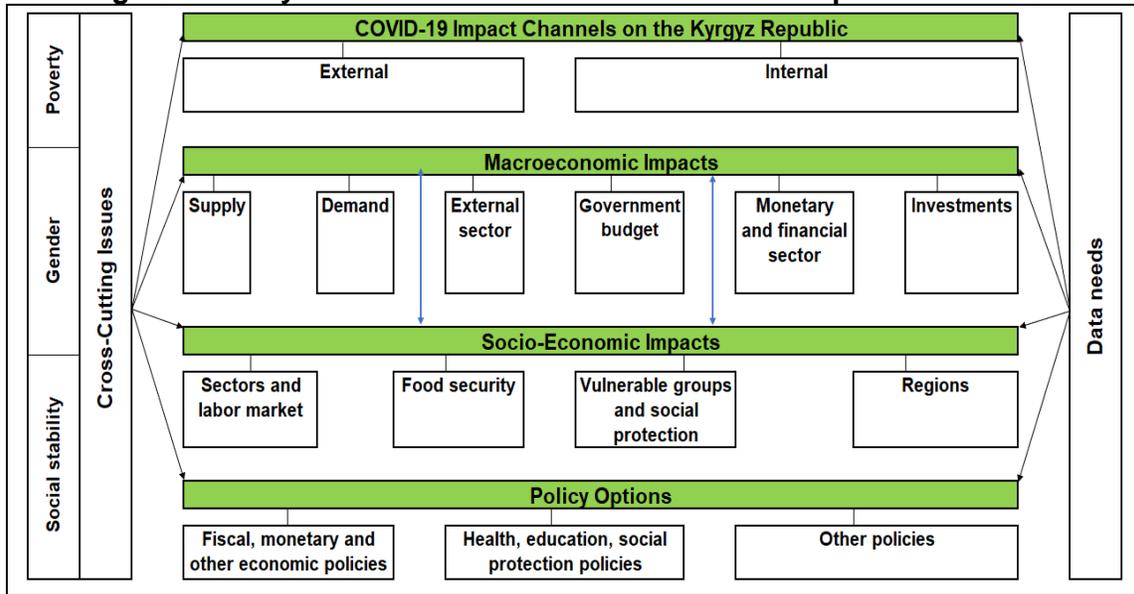
have resulted in an external financing gap estimated at \$500 million (section 3.4). Furthermore, a number of additional external impacts arising from the COVID-19 shock (as set out in Figure 1) have triggered economic consequences and adverse social outcomes, many of which are mutually reinforcing.

6. In order to close the anticipated \$500 million external financing gap, the Government of the Kyrgyz Republic has requested additional funding from bilateral and multilateral development partners, and has sought debt restructuring where possible. The Executive Board of the International Monetary Fund (IMF) approved budget support of \$241.8 million under the Rapid Financing Instrument and Rapid Credit Facility (the first IMF emergency loan under these facilities) to help the government meet its urgent balance-of-payment needs stemming from the COVID-19 outbreak. In addition to IMF funding, support has been promised and already partially provided by ADB (\$120 million), the World Bank, bilateral donors, and the United Nations (UN) system.

7. The Government of the Kyrgyz Republic has also introduced a series of domestic stimulus measures to address the negative socioeconomic effects of the pandemic across the country. Following the launch of an initial health care contingency plan and some quick-response economic measures, the government then approved a larger and more comprehensive fiscal stimulus package of 21 measures.

8. **Purpose of the assessment.** The assessment advances three outcomes for the Kyrgyz Republic. First, it analyzes the impact of the macroeconomic disruption caused by COVID-19 in terms of the losses to public sector revenues, remittances inflows, export revenues, and tourism receipts, among others. Second, it describes how the shocks at the macroeconomic level are affecting the country's population, including informal segments and labor markets, and covering the regions, the cities of Bishkek and Osh, and rural areas. The assessment highlights the disproportionate burden of negative impacts being borne by sections of the population that were socioeconomically vulnerable prior to COVID-19, as well as by emerging groups that have become vulnerable during COVID-19 due to unemployment, escalating food prices, and restricted access to goods and services. Third, the assessment is used to develop policy notes that make recommendations to inform government efforts in mitigating negative socioeconomic impacts of the pandemic and supporting economic recovery (Appendix 1).

9. **Analytical framework.** The assessment is underpinned by an analytical framework, which addresses the impacts of the COVID-19 pandemic, beyond identifying it as a health crisis that has deepened health inequities and taken a toll on weak health and social care systems. The analytical framework consists of four interlinked components: (i) pandemic impact channels, both external and internal to the Kyrgyz Republic; (ii) the pandemic's effects on the country's macroeconomic fundamentals; (iii) the ways in which macroeconomic shocks have affected people in urban and rural areas of the Kyrgyz Republic, especially vulnerable groups, as well as the socioeconomic impacts on labor markets, poverty, and food security; and (iv) the adequacy of government policies and measures put in place. The framework considers gender dimensions, poverty, and social stability as cross-cutting priorities, with evidence in each component forming the basis for policy recommendations.

Figure 1: Analytical Framework for Socioeconomic Impact Assessment

Source: Asian Development Bank & United Nations Development Programme Socioeconomic Assessment Team

10. The COVID-19 pandemic impact channels affecting the Kyrgyz Republic have both external and internal triggers. External triggers include border closures, export restrictions and bans, reduced demand for Kyrgyzstani migrant labor in the Russian Federation and Kazakhstan, low international oil prices, high international gold prices, food prices and availability, and the spread of international financial market volatility. All of these external triggers have the capacity to affect the exchange rate and domestic prices in the Kyrgyz Republic. Internal triggers include the direct effects of the pandemic on individuals and the country's health and welfare systems. The COVID-19 pandemic has both revealed and magnified the insecurity so many people live with day to day. For example, it has shown how the impact of socioeconomic shocks, such as income lost when people are sick or have to look after sick relatives, is exacerbated in the absence of adequate social protection coverage. Such scenarios may tip people into poverty or deepen existing poverty. These consequences are borne disproportionately by women and others with few economic resources, further impairing their ability to resume economic activity post lockdown—and thereby limiting the Kyrgyz Republic's longer-term growth prospects. Other internal triggers include the government's necessary and essential state of emergency and its associated limitations on economic activity and mobility. The state of emergency has increased market uncertainty and commercial risk aversion, and has had social effects such as lack of contact with extended family and the challenges of transitioning to working from home (which has been less extensive in the Kyrgyz Republic than in wealthier countries, partly because of gaps in broadband infrastructure and a technology ecosystem that is still developing, and partly because the country has few large economic sectors capable of functioning remotely).

11. The macroeconomic impacts arising from the combined effects of the external and internal triggers are wide-ranging. Plummeting private expenditure on nonfood items and services, reduced government consumption due to falling budget revenues (tax receipts were down 20% from January 2020 to May 2020, compared to the same period of 2019), and the effects of export and import shocks are reducing aggregate demand in the Kyrgyz

Republic (fiscal stimulus notwithstanding). Meanwhile, the forced closure of many businesses as a result of lockdowns, as well as disruption in the supply of raw materials and intermediate goods due to border closures (especially with the PRC), have reduced aggregate supply. Despite increased revenue from gold exports, declines in remittance inflows, falls in exports (and reexports) of other goods and services, and reductions in capital inflows are putting downward pressures on the exchange rate. Higher inflation and increases in nonperforming loans³ are key areas of concern in the financial sector, warranting sustained monitoring. The combined effects of these trends are expected to reduce the Kyrgyz Republic's gross domestic product (GDP) by 10% in 2020 (a 4.8% decline in GDP was reported for January–May), and significant downside risks accompany this projection. The unfolding socioeconomic crisis is imperiling prospects for Sustainable Development Goal (SDG) achievement—particularly as concerns Goals 1 (poverty eradication), 2 (food security), 3 (health), 4 (lifelong learning), 5 (gender equality), 8 (decent work), 10 (inequalities), and sustainable cities (11).

12. This assessment examines the socioeconomic impacts of these developments on the people of the Kyrgyz Republic by analyzing data and evidence in six areas: (i) economic sector and labor market disruptions, as a result of both the state of emergency and economic slowdown; (ii) differentiated regional effects in terms of northern versus southern regions, urban versus rural areas, and the cities of Bishkek and Osh versus secondary towns; (iii) elevated health system risks and reduced access to health services; (iv) implications for food security and poverty effects on existing and newly vulnerable sections of the population; (v) the impact of fiscal and monetary stimuli, either by providing liquidity, encouraging credit creation by the financial sector, or directly funding households and businesses; and (vi) the challenges faced by existing social protection instruments in seeking to limit the negative socioeconomic effects of the pandemic. This assessment also has a cross-cutting focus on gender issues, with particular emphasis on women employed in the informal sector, and their reduced access to care and other services.

13. The policy recommendations proposed by the assessment are based on the evidence presented, analytical findings, assessment of ongoing government measures, and good practices from international experience that may be applicable to the Kyrgyz Republic. Five policy notes on the health response, the informal economy⁴ and employment, social protection and food security, migration and remittances, and links to longer-term sustainable development imperatives have been prepared as part of this assessment. These policy notes are designed to serve as a quick reference guide for the government. The timeline for implementing policy recommendations is aligned with government planning and programming cycles: i.e., short-term up to the end of 2020, medium-term up to 2022; and long-term up to 2040. An effective response to the pandemic and an early return to economic growth are key to the Kyrgyz Republic's aspirations to realize the 2030 Agenda for Sustainable Development and the SDGs.

³ A May 2020 Agency for Technical Cooperation and Development (ACTED)/UNDP assessment of the pandemic's impact on micro, small, and medium-sized enterprises (MSMEs) in the Kyrgyz Republic found that two thirds were unable to service their loans.

⁴ In this report, the National Statistical Committee's definition of informality is used. According to this definition, an enterprise is informal if it is not registered as a legal entity. This is not only a mechanical rule; usually this implies that such enterprises (mostly registered as individual entrepreneurs) use lump sum (patent) or other simplified tax regimes. They are allowed to either avoid reporting their economic performance indicators (turnover, employment, etc.), or have some very light reporting requirements. The Government and society therefore know little about their activities, and their contribution to tax receipts is minimal. However, it is important to stress that this mode of operation is legal, and these people are usually covered by the health and pension insurance systems. So, under this definition, "informal" does not mean "illegal".

14. The SDGs are reflected in the country's National Development Strategy (2018–2040) and the “Unity, Trust, Creation” (2018–2022) Program of the Government of the Kyrgyz Republic. As explained in the Kyrgyz Republic's Voluntary National Review on progress towards sustainable development, presented at the UN High Level Political Forum in July 2020, the government is seeking to ensure decent living standards by accelerating progress towards SDG achievement. In keeping with these principles, the government has pledged to “leave no one behind” and to place a special emphasis on the most vulnerable communities in the country.

15. **Key assumptions.** As of mid-2020, some major countries are implementing a gradual, phased reopening of their economies. Most notable among these are the PRC, several European countries, and the Kyrgyz Republic's main economic partners—the Russian Federation and Kazakhstan. Their ability to reopen while controlling infection and reinfection rates will be key factors in determining whether countries such as the Kyrgyz Republic will be able to recover in full within a reasonable timeframe. This assessment assumes that COVID-19 dynamics in the Kyrgyz Republic will correspond to patterns seen in other countries that are now seeking to reopen. Despite the very recent spike in infection rates in the country, the Government of the Kyrgyz Republic has made it very clear that a return to lockdowns is the very last option for consideration, because the country does not seem to be able to afford such measures from an economic perspective. However, even in the absence of formal lockdowns, people across the Kyrgyz Republic, especially the residents of big cities, have been seen to significantly reduce their economic and social activities in light of the pandemic. These behavioral changes introduce important downside risks to the economic forecasts and projections underpinning this assessment, particularly in light of the absence of a COVID-19 vaccine or cure and the gaps in the Kyrgyz Republic's public health and welfare systems. Strengthening capacity in the country's health and social protection systems is strongly recommended in order to improve resilience, mitigate the spread of the contagion and avoid further lockdowns. More robust investment in health can also protect the Kyrgyz Republic's human capital and strengthen prospects for a strong post-pandemic economic recovery.

3 Macroeconomic Effects

3.1 External and Internal Channels of COVID-19 Disruption

16. **External channels.** There are four main external channels by which the pandemic is disrupting socioeconomic life: (i) border closures, (ii) trade measures, (iii) international market prices, and (iv) pandemic effects in other countries. All land borders have been closed between the Kyrgyz Republic and its neighboring countries.⁵ The border with the PRC was closed in January 2020 due to Chinese New Year celebrations and remained closed after the outbreak of the pandemic. This stopped most imports from the PRC, which are a major source of consumer goods, provide vital inputs for the Kyrgyz garment industry and reexport businesses, and contribute significantly to Kyrgyz Republic tax receipts. On 15 April 2020, one of two border-crossing points—Irkeshtam—was reopened for freight traffic only. This crossing point allows access from the PRC to the southern part of the Kyrgyz Republic, then on to other parts of the country. The borders with other neighbors

⁵ The key border-crossing points for freight cargo (primarily agricultural products, food, and consumer goods, as well as transit cargo) that the Kyrgyz Republic shares with Kazakhstan are Ak-Tilek and Chon-Kapka; with Uzbekistan are Dostuk, Dustlik, and Kyzyl Kiya; and with Tajikistan are Kyzylbel, Guliston, Kairagach, and Madaniyat. Air cargo is being transported without restrictions through the checkpoint in Manas-Airport.

(Kazakhstan, Tajikistan, Uzbekistan) were closed for passenger traffic in the second half of March. Freight traffic through selected border-crossing points has remained open. International and domestic passenger air flights were indefinitely suspended by both the Kyrgyz Republic and international transit points at the end of March. Thus, the movement of people (including as many as one million migrant workers) across the borders of the Kyrgyz Republic had, with a very few exceptions, effectively ceased by the beginning of April. Subsequent increases in cross-border mobility and connectivity have generally been sporadic and inconsistent.

17. In terms of trade measures, the Government of the Kyrgyz Republic on 22 March 2020 introduced a 6-month ban on the exporting of wheat, flour, and some other foods as well as disinfection materials (this was more of a preventive measure as usually the country imports, not exports, these goods). Next, on 31 March 2020, the Eurasian Economic Commission introduced a temporary ban (until 30 June 2020) on the export outside the Eurasian Economic Union (EAEU) of selected grains and vegetables (this measure does not appear to have practical implications for the Kyrgyz Republic as the country generally does not export these products outside the EAEU). More important was the Government of Kazakhstan's ban on exports of wheat grain and flour, which was introduced at the end of March 2020. While this was phased out on 1 June 2020 (section 3.1), this ban contributed to food price increases during the first half of the year. However temporary, these measures highlight the fact that an eventual return to open borders may not automatically lead to pre-pandemic levels of trade, transport, and tourism.

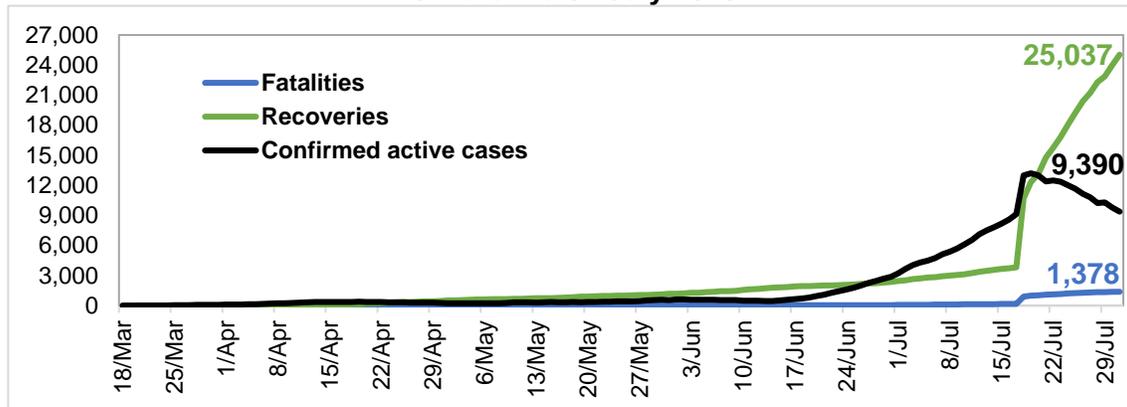
18. International market prices for three commodities are crucial for the Kyrgyz Republic's balance of payments: (i) gold, the country's main export commodity; (ii) food, a key import and export; and (iii) oil, which drives economic growth in the Russian Federation and Kazakhstan, the Kyrgyz Republic's two key trading and migration partners. Gold prices in May 2020 were above \$1,700 per troy ounce, which was a 34% increase compared to May 2019. Thanks to these higher prices, the country's export revenues for the first 4 months of 2020 were 3% higher than 2019 levels. According to the Food and Agriculture Organization of the United Nations Food Price Index, food prices in May 2020 were down 1.9% from the level of April 2020 and were 6.5% lower than in May 2019. Oil prices fell dramatically in March 2020, reaching \$15–\$35 a barrel, at least partially due to falling demand caused by lockdowns in response to the global pandemic.

19. According to the most recent IMF projections, GDP is expected to fall in 2020 by 6.6% in the Russian Federation and by 2.5% in Kazakhstan. The service and construction sectors of these economies, where most Kyrgyzstani migrants work, are expected to experience shocks of even greater magnitude. Initial balance-of-payments data point to a 25% decline in remittance inflows for the Kyrgyz Republic during the first 5 months of 2020. Due to these trends, exchange rates with the Russian ruble and the Kazakh tenge sharply depreciated during the first months of 2020, putting downward pressures on the Kyrgyz som.

20. **Internal channels.** These channels include the direct health effects of COVID-19 as well as the government's national lockdown and associated measures. The first infection was registered in the Kyrgyz Republic on 18 March 2020, with total confirmed cases at 35,805 on 31 July 2020 (Figure 2). A high percentage of confirmed cases were among health workers, highlighting the gravity of the pandemic's threat to the country's health system. A worrisome spike in the country's confirmed active cases was apparent from mid-June, with the number of active cases increasing by almost 600% in around 2

weeks. Very similar upward trends were also reported in neighboring Kazakhstan and Uzbekistan. On 18 July, the Government of the Kyrgyz Republic decided to combine all confirmed cases, recoveries, and fatalities from (i) test-confirmed COVID-19 and (ii) the so-called “community-acquired pneumonia” with no, or a negative, COVID-19 test result. Around 70% of total confirmed cases as on 31 July 2020 were classified as recoveries, with infected individuals discharged from treatment facilities.

Figure 2: COVID-19 Epidemiological Trends in the Kyrgyz Republic, 18 March to 31 July 2020



Note the structural break on 18 July when the Government of Kyrgyz Republic decided to combine all confirmed cases, recoveries, and fatalities from (i) test-confirmed COVID-19 and (ii) the so called "community-acquired pneumonia" with no or a negative COVID-19 test.

Source: Government of the Kyrgyz Republic, Ministry of Health.

21. An emergency situation was declared for the entirety of the Kyrgyz Republic on 22 March 2020. Two days later, a state of emergency was introduced in the cities of Bishkek, Jalal-Abad, and Osh, as well as in the Karasuu, Nookat, and Suzak rayons.⁶ It was then introduced in Naryn town and At-Bashy rayon. Altogether, the state of emergency directly affected 2.6 million people or 40% of the country's total population.⁷ The state of emergency entailed strict limitations on the movement of people and requirements to abide by social distancing rules. This has resulted in the temporary closure of many micro, small, and medium-sized enterprises (MSMEs), along with some larger commercial organizations. Social and hospitality establishments and events in the educational, recreational, and cultural sectors have been either closed or have transferred to remote working modes. The easing of most restrictions after the termination of the state of emergency on 11 May 2020, and the associated activation of economic and social life, could be a contributing factor in the mid-June spike in COVID-19 infection and death rates.

3.2 Economic Crisis

⁶ The emergency situation and state of emergency are two different regimes under Kyrgyz Republic law. They are designed to cope with shocks of any nature, including medical or biological ones. Both regimes allow for actions such as quarantine, vehicle checks, epidemiological activities, etc. In addition, the state of emergency implies temporary limitation of some citizen rights and freedoms, transition of power to military administration, introduction of curfews, etc.

⁷ Official data as of 1 January 2020; accounting for unregistered internal migrants in Bishkek and Osh, actual numbers of residents in these areas might be 10%–20% higher.

22. While the Kyrgyz Republic's average annual GDP growth rate for 2000–2019 was 4.4%, this growth has been volatile, ranging from –0.5% in 2010 to 10.9% in 2013. These wild fluctuations have been due to numerous political, economic, and other shocks. Key drivers of growth in recent years have included private consumption ($\geq 100\%$ GDP) and investments in fixed capital ($>30\%$ GDP), with much of fixed investment taking the form of construction spending financed mostly by remittances and external borrowing. The most recent IMF forecast for 2020 predicts a 12% decline in GDP, while ADB's latest estimate of GDP decline is 5%.⁸ This impact assessment takes a GDP reduction of 10% as its baseline scenario. Such a decline would have major unfavorable implications for the Kyrgyz Republic's prospects for achieving a number of SDGs, including Goals 1 (poverty eradication), 2 (food security), 8 (decent employment), and 10 (shared prosperity).

23. The negative GDP estimate is based on the major shocks affecting aggregate supply and aggregate demand in the Kyrgyz Republic. It is possible to identify the following **supply shocks**:

- (i) temporary border closures with the PRC, which made imports of PRC machinery, inputs, and consumer goods either impossible or more expensive;
- (ii) closure of all borders for movement of people, which prevented the arrival of foreign workers⁹ and international tourists (these borders might remain closed for many months—even if opened from the Kyrgyz Republic side, they may remain closed by the neighboring country);
- (iii) Kyrgyzstani migrant workers, who returned home for the winter, unable to return to their jobs in the Russian Federation, Kazakhstan, and elsewhere;
- (iv) the som's depreciation, which both raises the costs of imports and increases financial risks and debt servicing costs, thereby limiting the financial sector's ability to supply new credits; and
- (v) lockdowns in Bishkek, Osh, and other parts of the country, which have stopped or hampered economic activity in urban areas, as well as social distancing measures, enhanced hygiene requirements, and limits to the number of people working in parallel or customers served simultaneously etc., which are to remain in place for many months ahead and reduce productivity and sales in many enterprises and markets (including those in Dordoi and Karasuu).

24. The following **demand shocks** are negatively affecting the Kyrgyz economy:

- (i) sharp falls in remittance inflows (down 25% during the first 5 months of 2020), which could significantly reduce household spending on residential construction as well as many high-end consumer goods and services;
- (ii) steep falls in the incomes of many households during the lockdown period and afterwards, which are expected to reduce domestic demand in general;
- (iii) shortfalls in government revenues, reducing public spending on goods and services; and
- (iv) reductions in demand for Kyrgyzstani tourism services due to border closures and reductions in international commercial air travel, as well as falls in disposable income affecting the middle classes in Kazakhstan, the Russian Federation, and Uzbekistan, the countries from which the Kyrgyz Republic attracts the most foreign

⁸ Asian Development Bank. 2020. Asian Development Outlook Supplement. June 2020. Manila.

⁹ Including management and/or engineering personnel of foreign companies operating in Kyrgyzstan; the issue has recently been resolved, in principle (section 4.1).

tourists (foreign demand for the country's merchandise exports is also likely to decline).

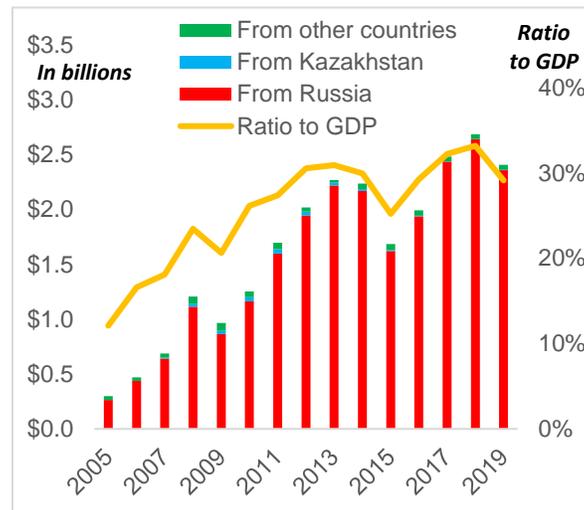
25. This baseline forecast assumes significant economic recovery in the Kyrgyz Republic's trading partners and the successful relaxation of the national lockdown during the second half of the year (i.e., without a second spike in COVID-19 infections). However, the forecast also faces several downside risks with serious socioeconomic implications.

26. The Government of the Kyrgyz Republic's current policy response to the ongoing and expected economic decline consists mainly of a fiscal stimulus package to support export-oriented enterprises and MSMEs through the Anti-Crisis Fund along with some temporary taxation and debt-service relief measures (section 5.1). Measures to boost domestic demand and increase social protection spending have not received particular emphasis thus far.

3.3 Trade, Remittances, and Other International Flows

27. As a small, open economy, the Kyrgyz Republic depends heavily on international trade. In 2018, the exporting and importing of goods and services constituted 32% and 67% of GDP, respectively, with trade turnover close to the national GDP.¹⁰ The country's massive trade deficit (35% of GDP) is mostly financed by remittance inflows, which hovered around 30% of GDP during 2012–2019 (Figure 3). Other important international financing flows include foreign aid and foreign direct investment (Figure 4).

Figure 3: Remittance Inflows into the Kyrgyz Republic

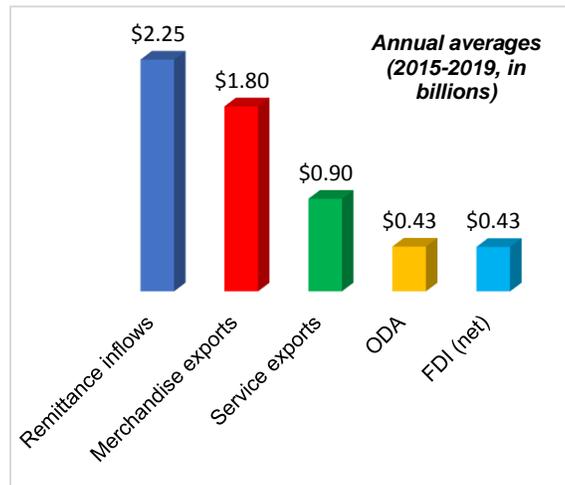


\$ = United States dollars, GDP = gross domestic product

Source: United Nations Development Programme calculations based on data from the National Bank of Kyrgyz Republic, the World Bank, and the United Nations Department of Economic and Social Affairs.

¹⁰ National Statistical Committee of the Kyrgyz Republic.

Figure 4: Remittances and Other Financing Inflows into the Kyrgyz Republic
(\$ billion)



\$ = United States dollars, FDI = foreign direct investment, ODA = official development assistance
Source: United Nations Development Programme calculations based on data from the National Bank of Kyrgyz Republic, the World Bank, and the United Nations Department of Economic and Social Affairs.

28. The COVID-19 pandemic is expected to produce major disruptions in the Kyrgyz Republic's balance of payments. While exports of goods are not expected to diminish greatly,¹¹ receipts from the export of tourism and travel services, which represented 5.6% of GDP in 2018 according to the National Bank of the Kyrgyz Republic (NBKR), could almost disappear in 2020 (with revenue falls of 90% predicted) due to border closures and the challenges facing tourism globally. While borders may remain closed for some time, the expected general decline in the incomes of the middle classes in neighboring countries and globally is also likely to be a key factor. Remittance inflows are expected to fall dramatically due to the reduction in the number of Kyrgyz migrants working abroad and the decline in their incomes (and therefore in their remitting capacity), especially for those employed in the Russian Federation and Kazakhstan. During previous economic crises of similar magnitude (2008–2009 and 2014–2015), total remittances fell by 20%–25% in United States (US) dollar terms. Assuming a similar impact on remittances in 2020,¹² the anticipated decrease in remittances might amount to 4%–5% of GDP (a potentially conservative estimate).¹³

29. The plunge in international oil prices resulted in the depreciation of the Russian ruble and the Kazakh tenge. This triggered a major depreciation of the Kyrgyz som against the US dollar, as the official exchange rate dived from \$1 = Som69.85 on 11 March 2020 to \$1 = Som84.9 just 3 weeks later. By early May, it appeared to have stabilized at just

¹¹ Rising gold prices and the commencement of gold production at the country's second largest gold mine, Jerui, might positively affect the Kyrgyz exports. However, 2020 gold production (in physical units) is expected to be somewhat lower than in 2019. Therefore, on balance, no major gold export revenue change should be expected.

¹² This assumption (which is based on a projected 10% decline in real GDP, an annual average exchange rate of \$1 = Som80 and annual growth in the GDP deflator of 9%) is consistent with the 2020 decline of remittances in the region of Europe and Central Asia by 28% as forecasted by the World Bank (World Bank. 2020. *Covid-19 Crisis Through A Migration Lens, Migration and Development Brief 32*. Washington D.C.).

¹³ World Bank simulations indicate that a 30% reduction in remittances corresponds to a 2.5 percentage point increase in the national poverty rate, with two thirds of this increase in rural areas.

below \$1 = Som80 (note that this impact assessment is based on an assumed annual average exchange rate of \$1 = Som80 for 2020). The lockdown in the PRC and border closures caused Kyrgyz Republic imports (in dollar terms) to decline by 30% in the first 4 months of 2020 (this impact assessment is based on a projected 10% reduction in total imports of goods and services in 2020).

30. Significant increases in concessional lending from international financial institutions and grants from donors, as well as possible debt relief from the PRC, are expected to reach \$500 million (about 7% of GDP) in 2020. While official development assistance inflows are more significant for the Kyrgyz Republic than for most neighboring countries, their volume dropped from 12% to 5% of GDP from 2015 to 2018, so even significant increases in development assistance (if they were to materialize) might do little more than return the Kyrgyz Republic to its 2015 position. These inflows are, however, projected to balance the country's external payments in 2020. The above estimates are consistent with the increase in the current account deficit by 7.5% of GDP in 2020, as forecast in the April 2020 IMF *Regional Economic Outlook*. Should these anticipated inflows be smaller than expected, the projected GDP decline in 2020 could be over 10%.

31. The government has responded to these shocks by: (i) allowing the dollar–som exchange rate to float in order to cushion the financial system's adjustment (section 3.5); (ii) working with multilateral and bilateral development partners to mobilize additional financial resources to support the economy (section 3.4); (iii) negotiating the soonest opening of the border with the PRC (with the Irkeshtam border crossing already functioning for freight); and (iv) planning to concentrate COVID-19 enterprise support on export-oriented firms. While this may buttress the Kyrgyz Republic's balance of payments, the capital-intensive nature of the country's export basket implies that such support is unlikely to have an impact in generating employment and may do little to reduce socioeconomic vulnerability.

32. In parallel to export promotion, which is favored by all stakeholders, the idea of supporting import substitution is sometimes circulated in policy discussions. In the context of the COVID-19 crisis, this concept does not seem productive for several reasons. The goal of all policy response measures is to preserve living standards in the Kyrgyz Republic. This means facilitating the supply of higher quality, environmentally friendly, cheaper imported products onto the domestic market. For the Kyrgyz Republic, import substitution might practicably result in lower quality products (e.g., bread without Kazakh wheat is known to have lower nutritional properties), more harmful emissions from lower quality gasoline and diesel fuel, and, considering the country's relatively small economy, the establishment or consolidation of monopolies and/or oligopolies within many product markets, leading to associated price hikes. Imports are also an important source of government revenue, so substitution of imports by low-taxed domestic production might become a further economic blow. Moreover, the 30% decline in imports recorded during January–April 2020 points to significant import compression. Further reductions in imports could have implications both for import-dependent production as well as living standards.

3.4 Fiscal Situation

33. The budget system of the Kyrgyz Republic includes the budget of the central government (republican budget), the budgets of cities, towns, and rural municipalities or

aiyl aimaks (local budgets), and several extra-budgetary funds.¹⁴ According to IMF estimates, general government revenue and expenditure were at 34.0% and 34.1% of GDP, respectively, in 2019.¹⁵ More than 90% of government revenues typically come from domestic sources such as taxes, social contributions, and nontax revenue. In 2019, foreign grants stood at 2.2% of GDP. Part of government expenditure is financed by foreign concessional loans, which were also at 2.2% of GDP in 2019. In 2019, foreign aid in different forms financed about 13% of general government expenditure.

34. Data for January–May 2020 indicate that the COVID-19 pandemic has already aggravated the fiscal situation in the Kyrgyz Republic. According to the Ministry of Finance, in comparison to the same period of 2019, state budget revenues¹⁶ fell by Som12.7 billion (reaching 79% of the 2019 level). Almost 50% of all revenue losses are associated with just two tax streams: value-added tax on imports from non-EAEU countries and taxes on international trade. Both these tax streams include imports from the PRC as a key component of their tax base. As mentioned earlier, imports from the PRC fell dramatically in early 2020, as did the tax receipts on these imports. At the same time, state budget expenditures increased by Som2.6 billion for reasons unrelated to COVID-19. This included increased spending on salaries in the education sector and capital investments under the country’s Public Investment Program. Thus, in January–May 2020, the state budget balance deteriorated by Som15.3 billion compared to the same period of 2019.

35. Throughout the remainder of 2020, COVID-19 impacts on the Kyrgyz Republic’s fiscal situation should reflect the scale of the general economic decline, the decline in taxable imports (which generated 42% of total state budget revenues in 2019), and increased spending on health care (including on containment of COVID-19 outbreaks). Increased spending on enterprise support, including tax incentives, is another factor. Inflows of foreign assistance, mostly in the form of grants, concessional loans, and possible postponed debt service, may also be significant. The government’s expectations regarding the budget situation through to the end of 2020 are summarized in Table 1.

Table 1: Key Parameters of the Supplementary Republican Budget for 2020
(Som billion)

	2019 Actual	2020 Original	2020 Revised
Total revenue	148.5	163.7	135.3
Tax collections	105.9	127.9	94.6
Income taxes	11.9	11.1	8.1
VAT on domestic production	12.1	16.4	12.3
VAT on imports	38.8	51.0	36.8
Excises on imports	8.7	12.0	7.7
Taxes on international trade	22.0	22.7	18.2

¹⁴ These funds include the Social Fund, the Issyk-Kul Development Fund, the Nature Development Fund, and the Social Partnership Fund for Regional Development. The Social Fund manages resources of four separate funds: the Pension Fund, the State Accumulative Pension Fund, the Fund for Compulsory Medical Insurance, and the Worker’s Rehabilitation Fund. The other three funds are capitalized by contributions made by Kumtor Gold Company. In 2019, this contribution amounted to \$75.5 million or 0.9% of the Kyrgyz Republic’s GDP.

¹⁵ Consolidates the republican budget, local budgets, and the Social Fund.

¹⁶ Consolidates the republican and local budgets, i.e. general government budget without the Social Fund, which has a separate reporting system.

	2019 Actual	2020 Original	2020 Revised
Others (Kumtor tax, sales tax, domestic excises)	12.5	14.7	13.8
Official transfers	13.5	9.7	12.8
Nontax revenue	29.1	26.1	25.7
Total expenditure	149.3	171.7	163.0
Compensation of employees	47.7	59.3	58.8
Purchase of goods and services	19.4	24.0	21.1
Transfers to extra-budgetary fund, local budgets	34.7	36.1	36.5
Social benefits	9.9	9.9	10.2
Capital investments	26.5	29.6	23.7
Other expenditure	11.0	12.7	12.8
Deficit	-0.9	-8.0	-27.7
On-lending to SOEs	3.2	5.3	20.5
Overall budget balance (deficit less on-lending)	-4.1	-13.3	-48.2
External financing	2.9	4.8	38.5
New loans	13.1	16.7	51.6
Repayment	-10.1	-11.8	-13.1
For reference:			
Nominal GDP	590.0	667.1	583.2
Health expenditure financed from the republican budget (including transfer to the Fund for Compulsory Medical Insurance)	14.3	15.6	18.1

GDP = gross domestic product, SOE = state-owned enterprise, VAT = value-added tax

Note: On-lending to SOEs includes capitalization of the Anti-Crisis Fund.

Source: Law on Introduction of Changes in the Law of the Kyrgyz Republic "On the Republican Budget of the KR for 2020 and forecast for 2021-2022" (No. 60 from 8 June 2020). Government of the Kyrgyz Republic.

36. The nominal tax base for both domestic revenue sources (nominal GDP) and for the taxation of imports (in som terms) is not expected to change much for 2020 (in comparison to 2019), as the expected real GDP decline of 10% is projected to be largely offset by increased inflation (section 3.5). Furthermore, the economic sectors most affected by the pandemic (trade and consumer services, construction, and tourism) are known to account for disproportionately small shares of total tax receipts, so revenue losses from these sectors would be relatively insignificant. Similarly, the fiscal impact of reduced imports (in US dollar terms) would be compensated by the som's depreciation.¹⁷ However, in the event of a larger than projected decline in nominal GDP for 2020, the fiscal shortfall induced by the recession could be greater than anticipated.

37. The scenario of no major change to nominal GDP compared to 2019 implies a 2020 revenue fallout (compared to the approved budget) equivalent to 3.7% of GDP. It is worth noting that this estimated internal revenue fallout is somewhat lower than, but not dramatically different from, the IMF's projections made in March 2020 (4.7% of GDP). It is also only slightly below the government's current estimates of revenue losses of Som28.4 billion (4.9% of GDP) as shown in Table 1.¹⁸ Fortunately, the expected inflow of additional

¹⁷ This assumption critically depends on opening of the border with the PRC, which has partially materialized.

¹⁸ IMF. 2020. Kyrgyz Republic: Request for Purchase Under the Rapid Financing Instrument and Disbursement Under the Rapid Credit Facility-Press Release; Staff Report; Informational Annex; and Debt Sustainability Analysis. Washington D.C.

concessional lending and foreign grants (equivalent to 7% of GDP) should be sufficient to fully compensate for internal revenue losses.

38. On the expenditure side, financing pressures have led the government to reduce spending on nonprotected expenditures by 10% in 2020 (protected expenditure includes public sector salaries and social benefits, which constituted 57% of state budget expenditures in 2019). A 10% cut in nonprotected state budget expenditure is expected to save 1.2% of GDP for spending on health and other higher-priority needs. In addition to ameliorating the socioeconomic (and human) costs of the pandemic, increased health spending is needed to prevent (or cope with) the surge in infections that followed the end of the state of emergency in May. As follows from Table 1, the republican budget's health spending is planned to increase by Som3.7 billion (0.6% of GDP) compared with 2019, and by Som2.5 billion (0.4% of GDP) compared with the original 2020 republican budget.

39. Foreign aid inflows and the repositioning of budget expenditures could provide \$150–\$230 million (2%–3% of GDP) of additional general government budget resources for spending on anti-crisis measures. Additionally, the government has about \$75 million in extra-budgetary funds and more than \$200 million in the Russian Kyrgyz Development Fund (although the latter funds are not budget resources *per se*). Altogether, this provides \$300–\$400 million, which would be sufficient both to capitalize the Anti-Crisis Fund with Som14 billion (about \$170 million), and to leave Som10–Som18 billion (2%–3% of GDP) for other forms of support to the population in 2020.

40. The Government of the Kyrgyz Republic has taken the country's fiscal situation very seriously and is now undertaking many measures in its economic response package. These consist of mobilizing foreign aid, including negotiations with the governments of the PRC and other donor countries on possible restructuring of debt repayments (based on the decision by G20 countries to provide lower-income economies with relief on debt service due in 2020). The government is going to provide some tax relief to small and medium-sized enterprises as well as larger commercial organizations. Relief measures are also in place on property taxes for taxpayers suffering from COVID-19 related *force majeure*, although this needs to be further assessed since these taxpayers usually belong to more economically advantaged segments of the population.¹⁹

41. The Anti-Crisis Fund has been established to subsidize enterprises in the Kyrgyz Republic, with its areas of coverage expected to reproduce those already existing in the country's Financing Agriculture program. The fund is very important to ensure that all fiscal activities of the pandemic response are well coordinated. All resources available to the government (excluding more than \$200 million Russian-Kyrgyz Development Fund, some of which is invested abroad) should be either fully consolidated in the general government budget, or closely coordinated with the budget activities (when working with the Russian-Kyrgyz Development Fund—particularly as concerns MSME support). The Anti-Crisis Fund should also ensure that full budget transparency is maintained, with revenue and expenditure details accessible to citizens and development partners. Some of the tax relief plans might need to be critically reviewed, given the acute need for resources and the traditionally low effectiveness and efficiency of tax exemptions. Wherever possible, investments financed under this fund should be aligned with longer-term sustainable development priorities, especially those concerning digitalization, decent work, and

¹⁹ For more on this, see "[Newly appointed PM outlines 11 top government priorities](#)", *Kabar* (18 June 2020).

sustainable natural resource management (For more on this, see the policy note on Sustainable Future in Appendix 1).

3.5 Monetary and Financial Sector

42. Prior to the COVID-19 crisis, monetary and financial systems in the Kyrgyz Republic were developing quickly. In 2016–2019, broad money (aggregate M2x) grew at an annual average rate of 12.6%. At the end of 2019, the monetization ratio (broad money–GDP) had reached 39%; loans of commercial banks, microfinance institutions, and other credit institutions had reached 29% of GDP; and banking deposits were at 26% of GDP. All these values were historical highs for the country. The drop in average annual consumer price inflation rates to under 2% during 2016–2019 (with the exchange rate serving as a nominal anchor) undoubtedly supported this progress. While maintaining this stable exchange rate required net foreign exchange sales by the National Bank of the Kyrgyz Republic (NBKR), the central bank's reserves nonetheless provided 4 to 5 months of import coverage during 2015–2019 (3 months is generally considered adequate).

43. However, sharp declines in remittance inflows and exports other than gold, which are projected for 2020, will intensify pressure on the exchange rate and inflation, as well as tighten money-lending and credit conditions. After running at or below 2% for most of 2018–2019, annual inflation rates have jumped in 2020 (even before, and especially on the back of, the depreciating exchange rate). Consumer prices in June 2020 were 5.8% above the levels of year earlier, while food prices had risen 10.7% during this time (highlighting food security concerns). Market monitoring by the World Food Programme (WFP) found that wheat flour prices in April 2020 were 20% above February 2020 levels. The foreign exchange market's stabilization in May, the anticipated relaxation of lockdown conditions both within the Kyrgyz Republic and abroad, and expectations of increased donor assistance are expected to keep average consumer price inflation at 10% in 2020. However, should foreign assistance inflows fail to meet expectations or proposed relaxations in lockdown conditions not materialize, steeper declines in the exchange rate and sharper tightening in money and credit conditions could deepen recessionary tendencies in 2020 and beyond.

44. The NBKR responded to these rising inflationary pressures by raising the discount rate (from 4.25% to 5%) in late February, and also moving its overnight deposit rate for commercial banks from 2% to 2.75% in early March. Combined with the announcement of new IMF financing arrangements, these rate hikes helped stabilize the foreign exchange market. On the other hand, the NBKR is also moving to soften prudential requirements for banks and nonbanking financial institutions, and to support the restructuring of their MSME loan portfolios, to avoid borrower defaults on commercial bank loans. While these moves may help limit the impact of the COVID-19 crisis on MSMEs, they may also raise the risks of a more general banking and financial crisis, with potentially strong negative implications for the economy as a whole. To facilitate social distancing, the NBKR has also eliminated some fees for using banking cards, encouraging less frequent visits to bank offices.

45. So far, the NBKR has concentrated on handling inflation as its statutory requirements suggest. However, higher interest rates to support the exchange rate are difficult to reconcile with calls for infusions of fresh liquidity to provide cheap credit for enterprises. As ever, it is better to use fiscal tools for fiscal purposes, leaving the NBKR to the role of monetary regulator and relieving it from any quasi-fiscal activities. That said,

as the IMF suggested in its March 2020 report, in case of insufficient liquidity endangering stability of the Kyrgyz Republic's financial system, "the NBKR should stand ready to provide liquidity to the financial system if needed, while ensuring that transparent information is available on eligible collateral."²⁰

4 Socioeconomic Impacts

4.1 Effects on Economic Sectors and Labor Markets

46. The Kyrgyz Republic's key economic sectors include trade and consumer services (18% of GDP), manufacturing (14% of GDP), agriculture (12% of GDP), and construction (10% of GDP) as outlined in Appendix 3, Figure A3.1. Government services such as administration, education, health, and culture are also significant. While virtually all sectors contributed to the 4.8% decline in GDP reported for January–May 2020 (relative to the same period in 2019), shocks to construction and the services sector have been particularly significant.

47. **Agriculture.** While COVID-19 has affected production in agriculture less than in other sectors, WFP monitoring indicates that movement restrictions made it difficult for almost one-quarter (23%) of surveyed farmers to start the planting season on time. The proportion of farmers reporting difficulties in accessing irrigated water is reported by the WFP to have risen to 25% in 2020 (up from 14% in 2018). In addition to drought conditions, lockdown-related reductions in irrigation services may have contributed to this rise. According to Ministry of Agriculture reports, late frosts in April (especially in southern areas) may have affected some crops (notably fruits and vegetables) significantly. Nonetheless, work in the fields is reportedly ongoing as planned, even in the rural lockdown areas. Imported inputs—diesel fuel for agricultural machinery from the Russian Federation; fertilizers and potato seeds from Uzbekistan, etc.—continue to be supplied despite higher import prices and border closures. However, it is to be noted that most seeds are locally produced.

48. Meanwhile, lockdowns in Bishkek and Osh have affected farm sales (especially for livestock) as some markets have been closed or have become more difficult (and even impossible) to access. Agricultural producers who counted on revenue from these sales have had to turn to the financial sector for loans to fund the operational costs of spring works. Loans are reported to be readily accessible but expensive, raising concerns about possible repayment burdens for farm households and increases in nonperforming bank loans. Some subsectors producing higher-end products (such as fisheries) have been seriously affected, but their shares in gross agricultural output are small (fisheries represented <0.1% of output in 2018). Furthermore, the reduction in the number of border-crossing points on the Kyrgyz-Kazakh border, combined with tighter controls on the border by the Kazakh authorities, resulted in long delays for trucks carrying Kyrgyz export produce, including some agricultural products, and caused a crisis in bilateral relations. This was resolved through the reopening of some crossing points.

49. There has been a minor reorientation of agriculture in the Kyrgyz Republic toward self-sufficiency, driven by food security concerns raised by the government and farmers. For example, the area sown to wheat is reported by the National Statistical Committee of

²⁰ International Monetary Fund (IMF). *Request for Purchase Under Rapid Financing Instrument and Disbursement Under the Rapid Credit Facility*. Washington D.C.

the Kyrgyz Republic to have increased by 7,900 hectares or 3.3% in comparison to 2019. Wheat has partially substituted for cash crops such as oil seeds (–24.7% compared to 2019), cotton (–10.9%), sugar beet (–41.6%).²¹ During 2009–2019, the area sown to wheat fell by 40%, and wheat was replaced by barley, corn, and other crops for animal feed. The pandemic-induced return of labor migrants to rural areas may increase the agricultural labor force and somewhat boost agricultural production, even though survey data from the International Organization for Migration (IOM) indicate that most labor migrants would prefer to go abroad rather than work at home. While the ongoing shift toward less productive staple foods, such as wheat, may result in efficiency losses, it is expected that gross agricultural output in 2020—which was basically flat during the first 4 months of the year—might increase by 5% in comparison to 2019. Disruptions in supply chains could threaten this projected growth and deepen recessionary tendencies.

50. **Industry.** About 40% of total industrial output in the Kyrgyz Republic—which dropped nearly 3% during the first 4 months of 2020—is provided by one enterprise only: the Kumtor Gold Company. Profitability at this enterprise has not been affected by COVID-19. Although the 2020 production plans announced by the company imply a 7%–13% reduction in gold output compared to 2019, a decline in the enterprise’s revenue and tax payments should not be expected, taking into account the hike in gold prices observed in 2020. Moreover, a second large gold mine, Jerui, is set to start gold production in 2020. However, production at some other mining enterprises was postponed due to border closures, which prevented skilled foreign workers (such as the staff of PRC mining companies) from returning to the Kyrgyz Republic. This effectively resulted in the temporary stoppage of work in such enterprises.²² To address this, the government allowed foreign specialists to return to the country from 17 April 2020.

51. The Kyrgyz manufacturing sector is dominated by garment production, which is responsible for 10% of total employment in the country, but accounts for only 0.5% of GDP, 3% of industrial output, and 7% of merchandise exports as per data from the National Statistical Committee.²³ As of the end of April 2020, many garment factories had lost access to essential imported inputs from the PRC (e.g., fabric, machinery, etc.), and this contributed to a reported 13% drop in textile production, cloth, boots and leather goods during January–May. The competitive position of garment manufacturers in key export markets (such as the Russian Federation and other Central Asian countries) is also subject to changing market conditions. The appreciation of the yuan against the som will drive up the costs of imported inputs, making Kyrgyzstani garments more expensive. At the same time, expected declines in personal incomes in the Russian Federation and other key export markets will depress demand for garments in general. Despite this, falling incomes could result in budget-conscious consumers turning to Kyrgyzstani garments, which are expected to remain cheaper than competing products sourced from Belarus, Turkey, etc.

52. Other industrial subsectors, such as food processing, electricity production, water supply, etc., have been only marginally affected by the pandemic. Importantly,

²¹ This change might be partly due to the farmers’ own strategies and partly due to incentives provided by the government to increase the country’s self-sufficiency in staple crops (see statement of the Minister of Agriculture. <https://www.tazabek.kg/news:1614713/?from=kgnews&place=maincats>).

²² The government reported on 30 March 2020 that three gold mines were idle due to lack of foreign personnel.

²³ Most likely, this value includes genuine Kyrgyz production and reexported PRC garments.

manufacturing value chains are short in the Kyrgyz Republic²⁴, with few input providers and links in a processing chain. This makes the production process a little less vulnerable than in other countries. During the state of emergency, there were temporary issues with the movement of people, transportation of raw materials, and output in lockdown areas. Accounting for all these diverse factors, one could expect that total industrial output and gross value added might decrease by some 2%. Encouragingly, preliminary National Statistical Committee data point to a 0.1% increase in industrial production during January–June 2020 due to increased gold production. However, since the PRC and Europe experienced dramatic declines in industrial production during their lockdowns, the actual drop in the Kyrgyz Republic’s annual industrial output could be well above 2%, adding further downside risks to the projected 10% GDP decline in GDP.

53. **Construction.** The Kyrgyz Republic construction sector has key four components: (i) residential construction predominantly financed by households (38% of total investment into buildings and structures in 2018);²⁵ (ii) infrastructure financed by the government budget, including loans made within the framework of the Public Investment Program (20% of total 2018 investment);²⁶ (iii) foreign direct investment into production projects (11%); and (iv) domestic private industrial and civil construction (31%).

54. Sharp declines in government revenues and an emphasis on supporting service delivery and public sector incomes are expected to result in a 15% reduction in capital investments in 2020. Domestic and foreign private enterprises involved in investment activities are mostly large entities and are less vulnerable to COVID-19 related financing cuts. On the other hand, investments in residential construction are mostly financed by remittances and household savings, and reductions in both could reduce residential construction spending by as much as 50%. Taking all of this into account, the expected decline in construction output and value added in 2020 is forecast at 22%—a 14.8% decline in the volume of fixed investment was reported for January–June as per data from the National Statistical Committee.

55. **Services.** The Kyrgyz Republic’s trade and consumer services sector has been more affected than any other by the COVID-19 pandemic. It is concentrated in Bishkek, Osh, and Karasuu, where lockdowns paralyzed nonfood retail and wholesale trade as well as consumer services such as car and home repairs, hairdressing salons, dry cleaning, and others. A large proportion of this sector gains its revenue via the Dordoi and Karasuu markets, which were closed for some weeks due to the lockdown. The activities of these markets, especially Dordoi, have been hit hard by border closures, substantially undermining their reexport hub position in Central Asia. These borders are not expected to open soon, preventing visitors from Kazakhstan and Uzbekistan from attending the markets, and restricting supplies arriving through the Torugart border-crossing point on the Kyrgyz-PRC border.

56. The reexport function of Dordoi and the Kyrgyz Republic’s reexport businesses in general were being questioned even before the onset of the COVID-19 crisis. Over the past 3 years, Kazakhstan has made major efforts to prevent PRC goods—which may not

²⁴ Except for metallurgy and the garment industry, other manufacturing is based on local inputs and its produce is intended predominantly for the domestic market.

²⁵ The share of mortgage loans to the total value of commercial bank loans to the nonfinancial sector was only 10.5% in 2019.

²⁶ The Public Investment Program includes all projects financed by concessional loans and grants provided by multilateral institutions and bilateral development partners.

be consistent with the EAEU's rules of origin—from entering its territory through the Kyrgyz Republic. The lockdown-induced suspension of commercial activities at Dordoï, Karasuu, and other large markets (and the possible need to operate these bazaars according to social distancing procedures thereafter) may hasten the demise of the country's reexporting industry. The projected 20% decline in the trade sector's gross value added in 2020 may therefore turn out to be underestimated.

57. Hotels and restaurants are also expected to experience a major and lasting downturn. This hospitality sector has two components: (i) those serving domestic consumers (75% of its gross value added), and (ii) those targeting tourists, including facilities concentrated around the Issyk-Kul lake (25% of gross value added). The border closures, the suspension of international flights, and the expected decline in incomes of the middle classes in the Kyrgyz Republic, Kazakhstan, the Russian Federation, and Uzbekistan could produce a major fall in demand for the Kyrgyz Republic's tourism services. Social distancing and patron spacing requirements would also adversely affect this sector's capacity to generate revenue. The hospitality sector's output and gross value added may therefore fall by 20% in 2020.

58. The transport sector could be affected in a similar way, especially its passenger segment. Civil aviation, a relatively small and weak subsector, may collapse altogether. Railway transport usually serves the importing of oil products and industrial intermediate goods like wood, steel, etc., as well as some domestic and export flows. With a decline in imports, especially of construction materials, the freight turnover of railways is expected to fall significantly. Road transport, which is the busiest transportation mode in the country, may lose some of its freight and passenger turnover due to border closures and the reduction in imports, but its domestic flows are not expected to change significantly. In short, a 10% decline in the transport sector's gross value added is projected in 2020 (although larger declines in some transport activities were reported for January–June).

59. The information and communication technology (ICT) sector stands almost alone in gaining from the COVID-19 crisis. The lockdown and longer-term social distancing measures have increased demand for all kinds of digitalization and telecommunications goods and services, while production capacity in the sector does not seem to have been affected in any negative way. It is therefore expected that this sector might enjoy a 10% growth rate in 2020. The challenge for the sector lies in meeting increased demand without required investments and improved service quality, especially since many ICT specialists have left the country.

60. Expenditures on government-funded services (administration, education, health, and culture) are not expected to change significantly in 2020.²⁷ While health care would, of course, increase its operations by several percentage points, threats to health care workers, falling demand for other medical services, and capacity constraints in the health sector will limit this growth. Salary increases for teachers are expected to increase the value-added reported in the education sector.²⁸ While other public service activities might

²⁷ Cultural institutions (both government-funded and private) have nonetheless been deeply affected by the pandemic. Cancelled concerts, postponed festivals, delayed album launches, suspended film production and closed cinemas and museums have had a devastating impact on the livelihoods of artists and creative workers. Many work independently or in MSMEs, which have been hit particularly hard.

²⁸ This apparent stability masks the critical longer-term risks to the KR's human capital posed by school dropouts (especially among most vulnerable and low-income families), as well as by declines in spending on private education.

decline slightly due to budget cuts for so-called “nonessential” activities, total expenditure on government-funded services is not expected change.

61. The strengthening of the health system that is required to effectively respond to the pandemic centers around significant improvements in ICT capacities. Better health information systems and expanded telehealth platforms are needed for public health authorities to detect and better manage new cases, deaths, excess mortality, geographic distribution of new cases, and other aspects of the contagion. Such information systems are also needed for better coordination between the health, social care, and social protection networks, and to accelerate the introduction and expansion of e-health (electronic prescriptions) and telemedicine, which can improve access to health care in remote areas.

62. While some other service sectors are very vulnerable to the impact of the coronavirus, (e.g., real estate), others are affected only a little (e.g., professional, scientific, and technical activities). Some may even be able to increase operations slightly. The cumulative change in these smaller service sectors is therefore expected to be 0%. However, in the event of higher inflation or deeper reductions in public-sector or private-sector spending, these service sector activities could easily contract in 2020.

63. An analysis of the labor market in the Kyrgyz Republic for 2018 (the most recent year for which data are available) is presented in Appendix 3, Table A3.1. Among other things, this analysis points to the vulnerability of women in the labor market: their labor force participation and employment rates are much lower, while their unemployment rate is higher than for men. Despite the Kyrgyz Republic’s sound economic growth prior to 2020, the percentages of inactive and unemployed women (compared to the total number of women aged 15 years and older) grew from 50% to 57% during 2006–2018, compared to a constant 29% ratio for men during the same period. Joblessness in secondary towns, rural areas, and isolated mountainous regions is of particular concern, and is a major factor behind the country’s migration outflows.

64. There is a strong gender divide in the Kyrgyz Republic’s employment structure by sector. Women are concentrated in relatively low-paying government service roles (accounting for 32% of all employed women, compared to 18% of total employment) and in the garment industry (17% of employed women versus 9% of total employment). Meanwhile, women are less frequently employed in the better-paying construction jobs (1% of all employed women) and other industrial roles (3%)—percentages that are much lower than the respective shares in total employment.²⁹

65. Taking these gender-based employment and wage differentials into account, the UNDP’s Human Development Report office estimates that women in the Kyrgyz Republic earned on average 51% less than men in 2018 (compared to a global average of 44%). Other industry and formal service sector jobs are concentrated in urban areas, while agricultural employment dominates in rural areas. Employment in other sectors is split about evenly between urban and rural areas. The structure of employment by economic sector and geographic region is provided in Appendix 3, Figure A3.3.

²⁹ A draft analysis from UN Women released in May 2020 notes that “The share of women among the employed population is highest in such types of economic activity as: operations with real estate (93.2%); healthcare and social services (84.1%); education (78.7%); hotels and restaurants (59.4%). In addition, men predominate from the total number of employed as employers (66.9%), and among unpaid family workers, by contrast, the majority are women (71%).”

66. Many people from the Kyrgyz Republic move abroad as labor migrants, either for seasonal or permanent work. Over 90% of them go to the Russian Federation, but there are also Kyrgyzstani labor migrants in Kazakhstan, Turkey, and other countries with which the Kyrgyz Republic has visa-free travel regimes as well as strong language, cultural, and historical ties.

67. Due to pervasive informality, the exact number of Kyrgyzstani labor migrants is not known. Based on labor-force survey data, the National Statistical Committee in 2018 estimated the number of those working abroad at 263,000. However, in the same year, the Ministry of Interior of the Russian Federation reported the registration of 877,000 citizens of the Kyrgyz Republic, of which 77% claimed “work” as the reason for arrival. In 2019, the total number of registered entrants rose to 1,055,000. Moreover, a significant number of labor migrants from the Kyrgyz Republic have obtained Russian citizenship,³⁰ and as such are not classified as migrants by Russian authorities. These figures imply that some 800,000 to 1,000,000 Kyrgyz Republic citizens (up to 40% of the labor force) are working outside the country. With 30% of the country’s employed people working at home or engaged in self-employment, 40% of the labor force migrating, and 18% working in low-paying public sector jobs, decent employment remains a challenge.

68. The key sectors in which Kyrgyzstani migrants work are (i) urban services such as retail, hotels and restaurants, taxi services, etc. (56% of migrant employment); (ii) construction (24%); (iii) industry (16%); and (iv) agriculture (4%). Many of those employed in construction and agriculture are seasonal workers, while workers in other sectors are more likely to stay permanently in their destination countries.³¹ Hence, the proportion of seasonal workers in the total number of the Kyrgyzstani labor migrants could be about 20%. These seasonal migrants seem to originate mostly from rural areas: urban people in the Kyrgyz Republic generally have better command of Russian and/or other languages, and are equipped to work in the nonseasonal sectors.

69. In April 2020, the official average wage in the Kyrgyz Republic was Som17,700 per month (equivalent to \$224 per month). This value is estimated for wages and salaries of workers in the formal sector only. Labor income in the informal sector, which accounts for the incomes of farmers and others self-employed, is roughly similar. According to 2018 household survey data, the average share of labor income (including income from household plots) in total household income was 80%, with social protection contributing another 16%—the remaining 4% was provided by income from property, etc. Current official COVID-19 infection and mortality rates imply that direct impact of the coronavirus on the labor market is insignificant. More dramatic impacts on labor supply and demand are being felt from the effects of border closures, falling remittances, and lockdown and post-lockdown measures in major cities and some rural areas.

70. **Labor supply.** The major labor supply effects in the Kyrgyz Republic relate to labor migration and are mainly three-fold: (i) border closures, (ii) returning migrants, and (iii) falling remittances (NBKR data indicate that these were 28% down in the first 4 months of 2020, compared to the same period of 2019). In response to the pandemic, some migrants returned home from their destination countries. As of 23 April 2020, the reported number of Kyrgyzstani citizens who returned to the country from abroad since the start of the

³⁰ Having dual citizenship is legally possible in both countries.

³¹ Perhaps three quarters of those employed in construction and agriculture are seasonal workers—the estimate is based on anecdotal evidence.

pandemic was 6,700—only some of these were labor migrants; others included tourists, university students, etc.

71. Another group contributing to labor supply is the cohort of seasonal migrants who returned home from the Russian Federation, Kazakhstan, and other countries for the winter season, before the pandemic took hold, and who could not return to their jobs abroad in the spring because of border closures in March. According to the Russian Federation's Ministry of Interior, the number of Kyrgyzstani migrants who arrived to work in their country during January–March 2020 was 93,000 (compared to 97,000 in the same quarter of 2019). Many more seasonal migrants planned to return to the Russian Federation and Kazakhstan for construction and agricultural work in April.³² If half of all seasonal migrants (who represent 20% of the total labor migrant population of up to 1,000,000 people) could not return to their destination countries because of lockdowns, it is possible that as many as 100,000 workers have been forced to remain inside the Kyrgyz Republic (until borders reopen). While IOM survey data indicate that many of these migrants are prioritizing an early return to work abroad, at least some can be expected to serve as contributing laborers on their household farms, or to look for work in urban areas. The presence of large numbers of young, unemployed men in urban areas could pose risks to socioeconomic stability.

72. The fall in remittances from migrants who remained in destination countries but are now earning less or are unemployed could also force previously inactive job seekers (e.g., housewives and students) to start looking for work.³³ In 2018, the number of economically inactive people of working age (15–64 years) was around 1,440,000.³⁴ Even if only 10% of these people entered the job market, labor supply would increase by 140,000 to 150,000.

73. Therefore, combining labor migrants unable to return to work abroad and increased domestic labor participation due to falling remittances, labor market supply might increase by 220,000 to 250,000 workers (9%–10% of current employment capacity). In the worst-case scenario, the increase in labor supply may be as high as 500,000 people (more than 20% of current employment capacity). These figures place a premium on rapid employment programming that is consistent with social distancing principles and can therefore be rolled out during the pandemic's lockdown phase.

74. **Labor demand.** Changes in labor demand have been triggered by lockdown and post-lockdown measures, border closures, and declining commercial and household spending, both within the Kyrgyz Republic and abroad. Assuming no major changes in short-term labor productivity in nonagricultural sectors, declines in labor demand should be proportional to the falls in these sectors' gross value added. This could spell particular challenges for those employed in the service sector (outside of government services).

75. Substantial anecdotal evidence indicates that, for the last several years, many remittance-receiving households stopped cultivating their land. This has been due to insufficient agricultural labor being available to these households as well as the relatively low incomes earned from agricultural activities compared with remittances. Some households have even chosen to rent out their plots to more productive agricultural

³² Data on arrivals to Russia in April–June 2020 will be available in July 2020 only.

³³ Including on their own farms.

³⁴ This number includes the labor emigrants.

entrepreneurs. This trend is supported by falling macro-level estimates of agricultural employment—from 727,000 in 2014 to 483,000 in 2018 (a reduction of one-third in just 4 years). Over the same period, agricultural output grew by 15%. This means that productivity in the sector increased due to better allocation of land, wiser investments, and, importantly, better accounting for actual employment in the sector. However, these productivity gains and agricultural employment numbers may start heading in the opposite direction. Agricultural employment could potentially return to its peak level of 2014—considered to be an indicator of maximum labor absorption capacity in the sector. While this could have negative implications for agricultural labor productivity and per-capita rural incomes, it could help with social protection cushioning against the worst of the pandemic.

76. **Expected labor market outcomes.** Assuming some output growth in agriculture (5%) due to labor inflows into the sector; faster growth in ICT (10%); and no change in government services, finance, professional services, gold production, and other industry, it is expected that the decline in output and/or gross value added in other sectors (trade and consumer services, construction, hotels and restaurants, transport, etc.) will be around 21%. This estimate is based on the assumption of a 10% contraction in GDP in 2020 and on the 2019 sector shares of GDP.

77. Assuming that there will be only conservative growth in labor supply growth (10% on 2018 levels), that this growth in labor supply will be largely absorbed by agriculture³⁵, and that there will be no productivity changes in nonagricultural sectors (implying a contraction in labor demand of 221,000 people), it can be estimated that the unemployment rate might rise to 13.6% in 2020 (compared to 6.2% in 2018). This projection seems quite robust with respect to moderate changes in the assumptions made in this impact assessment. However, if the worst-case scenario of a 500,000 increase in labor supply were to materialize, the unemployment rate could jump to 21%. Such scenarios have devastating implications for the Kyrgyz Republic's prospects for achieving SDGs 8 (decent work) and 10 (shared prosperity).

78. These estimates for employment and unemployment could be further disaggregated.³⁶ The share of agriculture in total employment would only increase by 10 percentage points with respective declines in the share of nonagricultural sectors. Using the data on the sectoral structure of employment by gender, it is possible to estimate unemployment rates by gender as of the end of 2020. These estimates stand at 11.8% for women (an increase by 4.9 percentage points compared to 2018) and 14.7% for men (an increase of 9.0 percentage points). Therefore, due to the concentration of women in sectors less affected by the pandemic (i.e., government services), women's employment prospects may suffer less from the crisis than will the employment prospects of men.

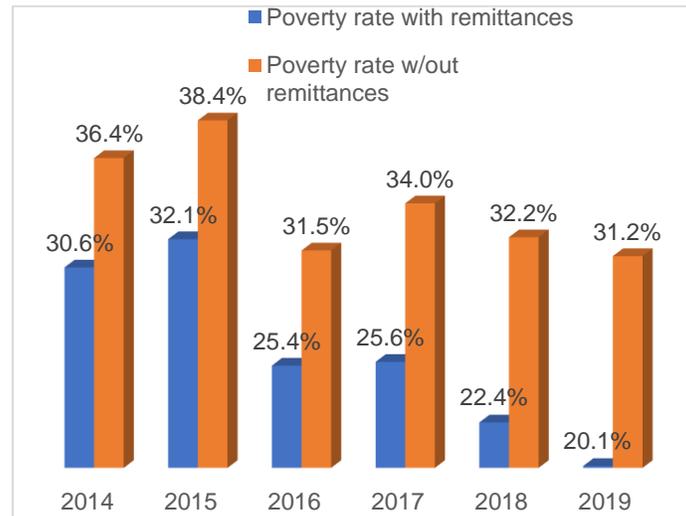
79. In addition to being the Kyrgyz Republic's largest source of external revenue, remittances help reduce poverty in the country, especially in the rural areas that most labor migrants leave to find work. The 11.1 percentage-point reduction in the national poverty rate attributed to remittances in 2019 (Figure 5) translates to 715,000 people being raised out of poverty in that year. Migration and remittances can, however, also bring substantial socioeconomic costs. Many citizens working abroad do so irregularly, without full social or legal protection; some fall victim to trafficking and other forms of abuse. While children

³⁵ Importantly, employment in the sense used in official statistics of Kyrgyzstan includes partial employment. Low-productivity partial agricultural employment is a major driver of rural poverty.

³⁶ The estimates below are for the conservative scenario only.

and other family members may benefit from remittances sent by laborers abroad, they also suffer the consequences of absentee parents or spouses and separated families. Migration outflows may also represent economic losses (e.g., “brain drain”) for the Kyrgyz Republic, if these workers could have remained at home and generated value-added for the country’s economy.

Figure 5: Remittance Inflows and Poverty Rates in the Kyrgyz Republic

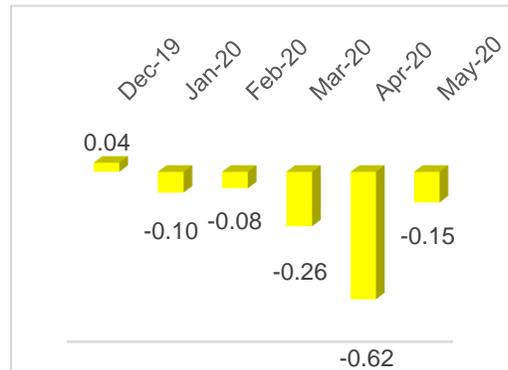


Sources: National Bank of the Kyrgyz Republic; and National Statistical Committee of the Kyrgyz Republic.

80. The government has responded to the extensive but largely informal integration of the Kyrgyzstani and Russian labor markets by adopting a more strategic approach to the country’s migration management challenges. This could eventually bode well for leveraging the country’s migration and remittance flows for broader development purposes, while also minimizing the attendant social costs.

81. In the short term, however, the Kyrgyz Republic is on course to experience sharp declines in remittance inflows and significant numbers of returning migrants in 2020, as the COVID-19 induced recession in Kazakhstan, the Russian Federation, Turkey, and other destination countries takes hold. This is apparent in NBKR remittances data, which show remittance inflows collapsing during January–April 2020 (Figure 6). In more recent months, growing numbers of Kyrgyzstani labor migrants have been returning home from the Russian Federation—some of whom were infected with the virus, and many of whom reside in living conditions (e.g., close quarters) susceptible to contagion. As the official COVID-19 rates in the Russian Federation and Turkey have been above those reported in the Kyrgyz Republic, returning migrants could become a catalyst for transmitting a second wave of the pandemic.

Figure 6: Year-on-Year Trends in Remittance Inflows into the Kyrgyz Republic (%)



Sources: National Bank of the Kyrgyz Republic; and National Statistical Committee of the Kyrgyz Republic

82. The closure of Russia's borders with other EAEU countries and the sudden halt to international travel are obstacles with which the country's migrants and policymakers have not previously had to contend. In addition to possibly deepening and lengthening the recessions in Russia and other labor migration countries, the unfolding "new normal" may include harder borders and increased animosity toward migrants in destination countries. If the sharp declines in remittances noted during the first quarter of 2020 set the tone for the rest of the year (and beyond), slower economic growth, higher levels of poverty and vulnerability, and other unfavorable socioeconomic outcomes seem likely. Without the safety valve of labor migration and the windfall of the remittances they produce, the Kyrgyz Republic's sustainable development prospects and political economy could undergo significant changes.

83. On the other hand, WFP and IOM survey data regarding the future plans of Kyrgyzstani migrants in the Russian Federation indicate that the majority of those labor migrants who are the main breadwinners for their households are not planning to return home any time soon. Many are instead sending their family members, particularly women and children, back to the Kyrgyz Republic via government-arranged charter flights. Moreover, while the circumstances associated with the pandemic may cause them to reduce remittances sent home, there are few indications that Kyrgyzstani migrants are changing their intentions. IOM survey results indicate that (as has been the case in the past) migrants coming home from the Russian Federation and elsewhere are seeking other possible labor destinations, or are considering sending other family members to work abroad in order to make up for lost household income. Many vulnerable households in the Kyrgyz Republic, it seems, continue to see labor migration as their best, and possibly only, strategy for improving their livelihoods in general and for coping with the economic fallout from COVID-19 in particular. Such attitudes can increase the risks of contagion, both at home and abroad.

84. In light of this, the Government of Kyrgyz Republic has in recent years adopted a more strategic approach to the country's migration management challenges. This includes (i) investing in training courses for migrant workers prior to departure (focusing on improving Russian language skills and knowledge of migrants' rights and responsibilities in the Russian Federation), (ii) establishing country consulates in Russian cities (other than Moscow) where workers from the Kyrgyz Republic are concentrated, and (iii) strengthening outreach to employers and Kyrgyzstani diasporas abroad. The Kyrgyz

Republic's accession to the EAEU in 2015 represented an important step in improving the legal position of its migrants in Kazakhstan and the Russian Federation. In the longer term, these measures could support the return to the country of Kyrgyzstani specialists and the skills they have acquired abroad (e.g., "brain gain").

85. However, policymakers in Bishkek would seem to have few good short-term options for dealing with the unfolding declines in demand for migrant labor and the falls in remittances now taking hold. In 2009 and 2015, the cyclical reductions in these flows, which were driven by falling oil prices in the Russian Federation, were short-lived. This tended to limit both the numbers of returning migrants and the duration of their stays in the Kyrgyz Republic. Despite this, some accounts from the political unrest of April–June 2010, which caused the president to flee the country and led to hundreds of deaths in the country's southern regions, highlight the roles played by returned migrants who were unable to find gainful employment at home. The political implications of the recession induced by the pandemic could therefore be serious, particularly in the run-up to the elections scheduled for October.

86. A short-term but critical policy issue for the government is the status of its migrant workers who may be isolated (or otherwise plan to remain) in the Russian Federation and other destination countries. It must also consider what might happen to the returning labor migrants, who may be infected with COVID-19, and for whom suitable employment in the Kyrgyz Republic cannot be easily arranged.

87. Labor market policies in a narrow sense have never been used significantly in the Kyrgyz Republic. In 2019, these measures included public works and retraining, which covered 25,600 people (about 1% of the labor force), while the government employment service helped with the employment of 27,000 people. There is also a very small unemployment benefit program (section 4.5). Labor migration policy mostly focuses on the legal protection of migrants in destination countries. On paper, workers from the Kyrgyz Republic enjoy the same legal status in EAEU destination countries as the citizens of these countries. This makes them better protected legally and socially compared to migrants from Tajikistan, Ukraine, Uzbekistan, and other countries.

88. The Government of the Kyrgyz Republic has responded to the economic shocks caused by COVID-19 through two major packages of policy measures (section 5.1). Specific labor market actions included in the second package are designed to involve the unemployed in seasonal agricultural and other temporary works, and to provide free retraining programs with some stipend for the unemployed.

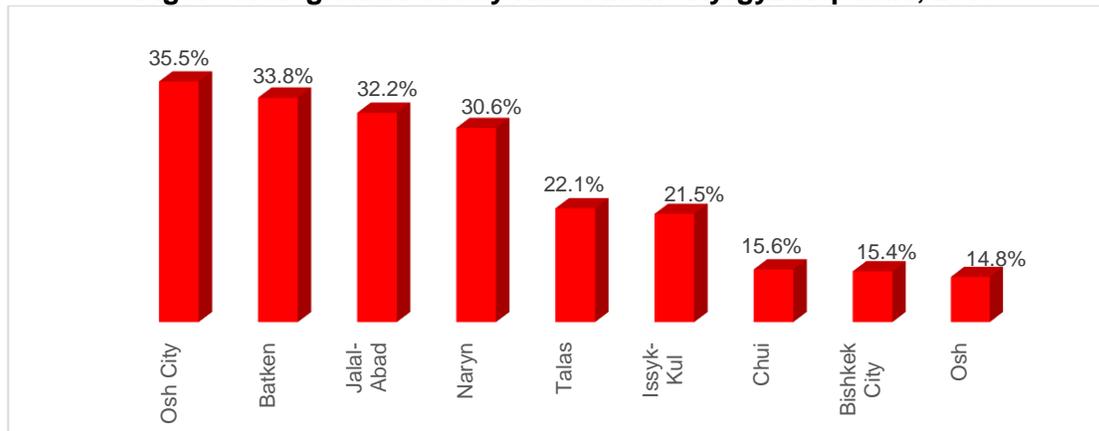
4.2 Regional Disparities (Geographic Aspects, Constraints, and Barriers)

89. Geography is a key determinant of socioeconomic disparities in the Kyrgyz Republic. From an administrative point of view, the Kyrgyz Republic consists of seven oblasts (provinces) and two cities, namely Bishkek and Osh. There are two macroregions in the country: the North (Bishkek city and Chui, Issyk-Kul, Naryn, and Talas oblasts) and the South (Osh city and Batken, Jalal-Abad, and Osh oblasts). Based on official numbers, the country is split between its two big cities (21% of total population), secondary towns (13%), and rural areas (66%). In practice, however, the shares of secondary towns and rural areas in the total population are smaller than officially reported because many people registered in these areas have actually migrated to Bishkek and, to a lesser extent, Osh.

Many people from secondary towns and rural areas have also become labor migrants working abroad.

90. The geographic regions of the Kyrgyz Republic (urban and rural) are highly uneven in terms of their socioeconomic development. Bishkek, the country's capital, concentrates 40% of the country's GDP (Appendix 3, Figure A3.5). The gap in gross regional product (GRP) per capita between the richest region (Bishkek city) and the poorest region (Osh oblast) is as high as 6.3 times (Appendix 3, Figure A3.6). In all seven oblasts (excluding Bishkek), the key economic activity is agriculture, followed by trade and consumer services, government services, and construction (Appendix 3, Figure A3.7). Most industrial activities are concentrated in Bishkek, as well as in the Chui, Issyk-Kul,³⁷ and Jalal-Abad oblasts. The transport, ICT, and hospitality (hotels and restaurants) sectors are concentrated in Bishkek, with some activities in Osh city as well as Chui and Issyk-Kul oblasts. These disparities are reflected in the regional poverty data, which tend to show high poverty rates in the South macroregion and lower rates in the North (Figure 7).

Figure 7: Regional Poverty Rates in the Kyrgyz Republic, 2018



Sources: National Statistical Committee of the Kyrgyz Republic; and Asian Development Bank & United Nations Development Programme Socioeconomic Assessment Team.

91. Reliance on external labor migration and remittances is another major cause of regional differentiation, as most labor migrants come from the southern part of the country. Available data on the frequency and amounts of remittances confirm this (Appendix 3, Figure A3.8). Although large remittances can be attributed to Bishkek, this may be erroneous because many people prefer to conduct commercial transactions in the city, regardless of their place of residence.

92. A state of emergency has been introduced in only some parts of the Kyrgyz Republic, namely Bishkek and Osh cities, Jalal-Abad and Naryn secondary towns, and selected rayons of Jalal-Abad, Naryn, and Osh oblasts. In these areas, most service sector activities (except for food retail and telecommunications) have been almost paralyzed, although large industrial enterprises and farms have continued with business as usual. In parts of the country without a state of emergency but with the emergency

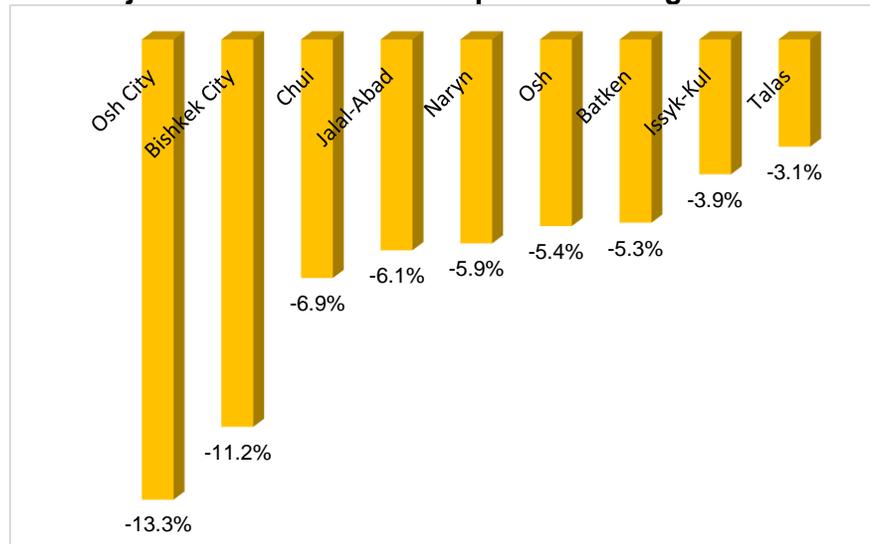
³⁷ The GRP distribution in Issyk-Kul oblast is skewed because: (i) It hosts the Kumtor gold mine and this mine's output is included in the industrial activities of this oblast; and (ii) Many Issyk-Kul resorts are registered as legal entities in Bishkek, so are statistically counted as activities in the city. In practice, Issyk-Kul oblast is much less an industrial area and more a tourism destination than what is suggested by statistical data.

regime in place, economic activity was also somewhat affected. There were impediments to the movement of people between different settlements, with many residents unable to access their workplaces in Bishkek and Osh.

93. Beyond the direct effects of the lockdowns, geographic regions differ by the extent to which they are subject to the economic shocks associated with the COVID-19 pandemic. The regions where the most-affected sectors (tourism, trade, and transport) are concentrated include Bishkek and Osh cities, some parts of Issyk-Kul oblast (resort areas), Karasuu rayon in Osh oblast, and Chui oblast where a large part of the garment industry is located. Southern oblasts (Batken, Jalal-Abad, and Osh) are expected to suffer the greatest shocks of falling remittances and returning migrants.

94. Projected declines in GRP for 2020 are shown in Figure 8. These estimates are based on the scale of sectoral shocks and the regional distribution of each sector's activities. In terms of income declines, the most-affected regions are projected to be Bishkek and Osh cities, where informal settlements and service sector activities are concentrated.

Figure 8: Projected Declines in Per-Capita Gross Regional Product, 2020



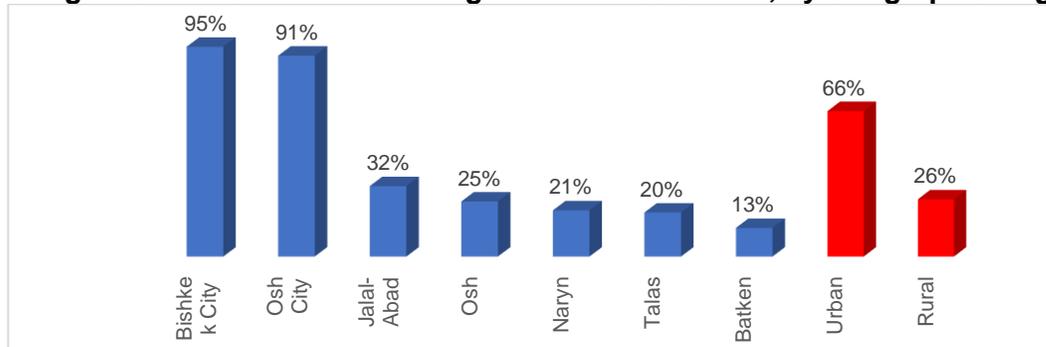
Sources: National Statistical Committee of the Kyrgyz Republic; and Asian Development Bank & United Nations Development Programme Socioeconomic Assessment Team.

95. Conversely, middle-class households in Bishkek and Osh cities also enjoy the country's best ICT and health infrastructure, and have the best prospects for adapting to the pandemic's socioeconomic challenges. WFP survey data on households receiving food parcels and other in-kind support in April 2020 suggest that relief efforts can more easily reach vulnerable households in urban areas compared to rural areas (Figure 9). The fact that only 13% of vulnerable households in Batken oblast reported receiving external assistance underscores the extent to which rural households may be cut off from support. At the same time, evidence on targeting suggests that it is adequate (Figure 10).

96. The higher poverty rates and traditional reliance on remittances evident in southern regions suggest that even small declines in household incomes could result in significant increases in poverty and vulnerability. Osh city's position as a locality with both a high poverty rate prior to the pandemic and a large projected hit on GRP suggests a particular

vulnerability for southern Kyrgyzstan's leading city. The April–June 2010 political unrest that was centered in Osh, and which was precipitated by large declines in remittances, highlights the importance of ensuring that socioeconomic shocks do not translate into political instability.

Figure 9: Households Receiving External Assistance, by Geographic Region

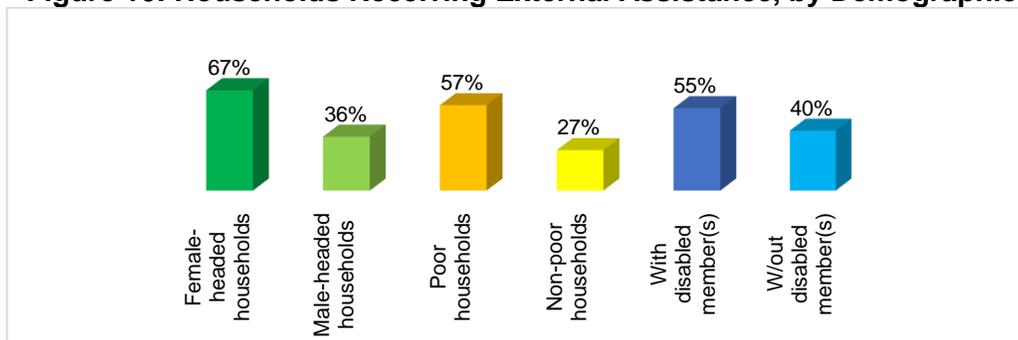


Note: Data from April 2020. Survey respondents were drawn from (i) World Food Programme project beneficiaries; (ii) randomly selected residents residing in proximity to project beneficiaries; and (iii) government poverty transfer beneficiaries (in Bishkek and Osh).

Source: United Nations World Food Programme.

97. Taking into account the expected shocks by sector and geographic region, and assuming that labor supply growth would mostly occur in southern oblasts where more labor migrants are likely to return, unemployment rates can be estimated by region. The highest rates are expected in Osh city (15.5%), Chui oblast (15.3%), Bishkek (14.8%), and Batken oblast (14.7%). In other parts of the country, unemployment is also going to increase but perhaps less dramatically, with the lowest rate of 6.9% in Talas oblast (compared to just 2.3% in 2018). This unemployment change is consistent with the GRP dynamics.

Figure 10: Households Receiving External Assistance, by Demographics



Note: Data from April 2020. Survey respondents were drawn from (i) World Food Programme project beneficiaries; (ii) randomly selected residents residing in proximity to project beneficiaries; and (iii) government poverty transfer beneficiaries (in Bishkek and Osh).

Source: United Nations World Food Programme.

98. While the first and second government response packages did not have explicit regional dimensions, it is understood that those engaged in informal services in urban areas are expected to suffer the most in this crisis. For example, the government has prioritized distribution of humanitarian aid in the form of food packages in those parts of Bishkek and Osh where many informal service workers reside. In recent years, regional development policies have been focused on secondary towns, where urban informal

employment tends to be particularly concentrated. As a continuation of that policy, the government would like to use the resources of the Anti-Crisis Fund to support development of export-oriented enterprises outside Bishkek. The effectiveness of such efforts hinge on rapid and sustained progress in opening borders and relaxing lockdowns, both at home and abroad.

99. Regional vulnerabilities, risks, and threats highlight the importance of early efforts to build community-level resilience to pandemic-related socioeconomic shocks. Stronger cooperation between central and local authorities, commercial entities, community-based organizations, and development partners working at the local level is essential to helping communities prepare for, and respond to, these shocks. The government should ensure that at least a portion of the fiscal resources devoted to pandemic recovery can support building this cooperation and community resilience.

4.3 Stimulating the Economy

100. The majority of businesses in the most-affected sectors of the economy are MSMEs operating informally. The official estimate of informal employment as a percentage of total employment in each of these sectors is around 90% (Appendix 3, Figure A3.4). Less-affected sectors consist of large, formal enterprises such as telecommunications companies, internet service providers, banks and microfinance institutions, manufacturing and mining enterprises, universities, schools, hospitals, and outpatient health facilities. Because informal MSMEs are generally very flexible and can easily downsize their operations and employment levels, workers in these enterprises are expected to bear the brunt of the crisis.

101. While employment in the informal sector is a critical financial option for many vulnerable households, it does not mean that this large section of the workforce is operating illegally. Many self-employed people, individual entrepreneurs and workers, and microenterprises that are not registered as legal identities operate formally under the so-called “patent” regime (which can correspond to annual turnover of \$100,000–\$110,000, depending on the dollar–som exchange rate). The purchase of a patent entitles its holder to more favorable tax treatment compared to other MSMEs, as well as exemption from a number of bureaucratic inspections. The number of individuals and microenterprises operating on the basis of patents grew by 37% from 2014 to 2017, and nearly 24% of GDP was generated by patent holders in 2017.³⁸

102. While the country’s patent holders have formal pension rights, they and their employees may still be exposed to unsafe working conditions (particular concerns have been expressed about conditions in the garment industry). They also tend to have irregular incomes or work long hours. More generally, data on informality in the country suggest the presence of a dual labor market, whereby those in the informal sector have different opportunities and rights than those in the formal sector. Like other informal sector workers, patent holders are often subject to more precarious conditions and are more exposed to economic shocks.

³⁸ Brookings. July 2019. What’s Holding Back the Kyrgyz Republic Private Sector? <https://www.brookings.edu/blog/future-development/2019/07/25/whats-holding-back-the-kyrgyz-republic-private-sector/>

103. This would indicate that large numbers of patent holders are likely to be affected by the COVID-19 crisis. According to data from the National Statistical Committee, in 2018 total employment in retail and consumer services was 374,000 people (40% women) and 247,000 people were employed in construction. Just two markets, Dordoi and Karasuu (both closed until 1 June 2020), employed 54,000 and 16,000 people, respectively, (according to ADB's Country Partnership Study). In 2018, the estimated number of people informally employed in manufacturing (mostly garment production) was 219,000 (44% women). Similarly, the hospitality sector (a proxy for tourism) employed 143,000 (49% women and 89% informal). The combined employment in these sectors is close to 1 million people or 41%–42% of total employment in the Kyrgyz Republic. There also seems to be a large overlap between these people and the internal migrants working informally in Bishkek and Osh (para 124).

104. The socioeconomic survey conducted in April–June 2020 by the Economic Policy Research Institute under the Ministry of Economy of the Kyrgyz Republic and its partners covered, among other groups, small-scale entrepreneurs, self-employed people, and workers operating in the informal sector (Appendix 4). Of the entrepreneurs, 80% are patent holders, another 7% use the simplified taxation system based on a single tax regime, and 3% reported a lack of any form of tax registration, while 32% reported that they have hired workers. Alarming, 59% of all surveyed entrepreneurs lost all of their income in April–May 2020, and 31% reported a decline in their incomes (with a median decline value of 50%). Worse still, all income was lost by 69% of businesspeople offering services (except trades); by 51% of people working in trades; and by 48% of those in production (mostly manufacturing). The entrepreneurs attributed their losses to the effects of lockdowns, such as business closure (58%) or having fewer customers due to difficulties with accessing their sales points (38%). Among enterprises who had hired workers, 84% either fired or sent all or some of these employees on unpaid leave.

105. Only 19% of all entrepreneurs surveyed (and 15% of women entrepreneurs) retained full solvency, while 36% reported difficulties in servicing their loans, 24% found it difficult to pay taxes, and 20% experienced limitations in paying rent or municipal services bills. Meanwhile, 62% of female and 55% of male entrepreneurs said that their income during April–May was not sufficient to cover all costs of their households. To cover these gaps, 20% used available savings and 14% borrowed from relatives or friends. People, however, remain cautiously optimistic, with 43% expecting some improvement in their financial situation in June–August 2020, and only 31% expecting further deterioration. Only around 25% of all respondents in this group were aware of the government's anti-crisis measures, and only 6% planned to benefit from the soft loans to be distributed via the Anti-Crisis Fund. Some 40% of respondents were attracted to interest-free loans, while others expected to receive some tax and administrative cost relief.

106. Among surveyed workers, 51% were either self-employed (these people simply identify as workers rather than entrepreneurs) or worked for family businesses, 21% worked for a private company or individual, and 28% considered themselves to be unemployed. Similar to the entrepreneurs, 80% of workers reported a partial or full loss of income, with 67% of women and 58% of men facing difficulties in covering their household costs. To cope with the situation, 36% relied on their own or other family members' income, 14% used family savings, 15% borrowed from relatives or friends, 6% sold some assets (livestock, etc.), and 4% borrowed from a bank or other financial institution. The workers had roughly the same degree of optimism as the entrepreneurs regarding the immediate future (40% with positive expectations and 32% with negative expectations). In the

workers group, 10% of respondents reported some negative change in their employment status (partial or full loss of job and wage). Only 5% applied for any kind of support, and 3% received food aid. Other workers either felt they did not need any external support, were not expecting a positive outcome from such applications, or were not sure where and how to apply. In terms of reskilling or redeployment, 13% expressed interest in public works opportunities and 4% said they would like to participate in some training program.

107. Despite widespread informality and the uneven regional distribution of entrepreneurial activities, the government's response has prioritized support to formal enterprises, often via tax relief. For many MSMEs, however, tax relief is redundant because, given the lack of activity and collapse in demand during the state of emergency period, their tax liabilities would be near zero anyway (except for some taxes unrelated to profit or turnover, such as land and property taxes). The government estimated its tax relief measures to cost Som8 billion (\$100 million) in 2020.

108. The government has accessed significant financial resources (Som40 billion or \$500 million) for enterprise support using foreign aid and other sources.³⁹ Enterprise support through concessional lending is an obvious crisis-response measure and has been utilized by virtually all governments around the world. However, such measures have a medium-term focus, rather than a short-term impact, because the mobilization of resources and the development of concrete support schemes takes time. As such, these measures are unlikely to provide rapid and significant support to hard-pressed families. This underscores the need for the more robust use of social protection instruments to directly support vulnerable household incomes.

109. The government's Financing Entrepreneurship Entities program, approved by decree No. 315 dated 9 June 2020, focuses on the following business sectors: food, garments and textiles, production rubber and plastic articles, pharmaceutical production, automobile cargo transport, and tourism. The program is going to be financed from the Anti-Crisis Fund, to be capitalized by republican budget resources and supplemented by additional resources provided by the NBKR as needed. It is expected that most loan products distributed in 2020 (for capital investments, working capital, or refinancing of previous loans) would cover at least 1,290 enterprises employing 8,700 workers. An additional 20,000 entrepreneurial entities (enterprises and individual entrepreneurs) employing 40,000 workers should get access to collateral-free loans. The scale of the program is to triple in 2021. All these loans bear subsidized interest rates (6%–10% per annum⁴⁰ for 3–5 years, with 12-months grace period or microcredits at 14% per annum). In total, the program should cover almost 50,000 workers or just above 2% of total employment in the country. The focus of the government's main response program is apparently on capital-intensive enterprises, mostly in manufacturing and, to a much lesser extent, in services.

110. When implementing these support measures, it is very important to sustain the good fiscal management practices that are already in place in the Kyrgyz Republic. These include the separation of fiscal and nonfiscal activities as well as the avoidance of quasi-

³⁹ Sources include Som14 billion from international finance institutions, Som4.3 billion in savings on foreign debt service, Som4.2 billion from Kumtor, and the balance from sources such as the Russian-Kyrgyz Development Fund and the Eurasian Fund for Stabilization and Development.

⁴⁰ Even if the enterprise cannot confirm use of the loan resources for the agreed purposes, and as such must pay a higher interest rate (with additional 10%–15% interest per annum), the subsidized loan still has better or similar terms to a regular loan at any commercial bank.

fiscal activities by government corporations. All fiscal activities should ideally be consolidated in the government budget. Similarly, it is essential that all tax relief measures eventually undergo parliamentary scrutiny.

111. Finally, as some other measures (e.g., capital amnesties) have been tried in the past with modest results, it is unclear why these measures should bring better results now.

4.4 Food Security

112. Food security has four key dimensions: availability, access, stability, and utilization. On all dimensions, the situation in the Kyrgyz Republic has generally been stable or improving over the past decade. The average dietary energy supply adequacy (a measure of availability) increased from 113% of the country-specific average dietary energy requirement in 2006–2008 to 120% in 2016–2018. The prevalence of undernourishment (a measure of access) hovered at around 7% of the population during 2010–2018. The percentage of arable land equipped for irrigation (a measure of stability) has held firm at the 80% level. The percentage of children under 5 years of age who are stunted (a measure of utilization) fell from 18.1% in 2006 to 12.0% in 2018. Conversely, however, National Statistical Committee data indicate that the share of underweight children (below 7 years of age) rose from 7.1% in 2016 to 7.9% in 2018—notwithstanding the growth in GDP and personal consumption reported during this period. The increase was largely the result of a higher proportion of underweight girls, which rose from 7.6% in 2016 to 9.6% in 2018.

113. The Kyrgyz Republic's legislation identifies the following products as key for food security: bread, potatoes, vegetables and melons, fruits and berries, sugar and sweets, vegetable oil, meat and products from meat, fish and products from fish, milk and dairy products, and eggs. Many of these products, or critical inputs for their production, need to be imported into the country. They include high-gluten wheat, sugar, fish, and poultry. Slow growth in domestic food production—apparent in the agriculture sector's falling share of GDP, from 23% in 2008 to 12% in 2019—may therefore have serious implications for the country's food security—especially when major trading partners, such as Kazakhstan and the Russian Federation, introduce limitations on food exports.

114. In 2019, the government adopted the Food Security and Nutrition Program for 2019–2023, focusing on all four key dimensions of food security. This program was instrumental in framing the government's policy response to COVID-19 in relation to food security.⁴¹

115. While domestic production of food does not seem to be affected in any significant way by the COVID-19 crisis, imports of food were impeded by the border closures and associated trade measures of neighboring countries. Kazakhstan's restrictions on wheat exports (lifted from 1 June 2020) created issues for the Kyrgyz Republic, which imports from Kazakhstan high-gluten wheat and durum (grains that are difficult to produce domestically due to climatic conditions).

116. The replacement of Kazakhstan's export ban with export quotas partially alleviated the food supply situation. Kazakhstan's export quota for the Kyrgyz Republic in April was

⁴¹ ADB. 2020. Sector Assessment (Summary): Agriculture, Natural Resources, and Rural Development (internal). Manila.

22,000 tons of flour and 30,000 tons of grain. The government also negotiated the possibility to import wheat from the Russian Federation if needed. Thanks in part to these measures, a June 2020 survey by the WFP found that a majority of households assessed food availability in their nearest market as “sufficient”. Some other less critical imports, such as fish feed and spawn, are still awaiting border reopenings and the resumption of international flights.

117. Access to food is, however, at risk due to falling incomes and rising food prices. Some 93% of respondents in the most recent WFP survey indicated concerns about high or rising food prices, which is particularly alarming since the poor spend upwards of two-thirds of their income on food. Among three staple food products most affected by price rises, the most mentioned were flour (64% of all respondents), potatoes (35%), and vegetable oil (29%). Growing debt-servicing difficulties are also expected both for small farmers and food insecure households. Recent simulations by the World Bank indicate that a 5% increase in consumer prices can increase the national poverty level by 3.6 percentage points. WFP survey data also point to declines in the consumption of protein- and hemoglobin-rich foods in 2020 (relative to levels prior to the pandemic). Of all respondents, 37% reported some deterioration in their nutrition, with reduced consumption of meat and dairy products, eating less frequently, and/or switching to cheaper (less nutritious) products—this proportion was 43% in Bishkek and Osh. If such food consumption patterns persist in the longer term, they could pose risks to health and nutrition, especially for women and children.

118. The government policy response in the area of food security includes:

- (i) providing food aid to vulnerable groups of the population—hundreds of thousands of people have received packages with basic food products (flour, vegetable oil, sugar);
- (ii) providing financial support to enterprises of significance to national food security;
- (iii) encouraging farmers to grow more wheat, in order to achieve higher self-sufficiency in wheat production; and
- (iv) including the following into the list of products for which state regulation of retail prices is possible: tea, fish, eggs, buckwheat, vegetables, and apples.

119. At the same time, encouraging national food self-sufficiency may constrain competition and raise food prices, thereby further reducing access to food. Household self-sufficiency (i.e., growing food for own consumption) may result in poorer diversity in diets and potential issues with adequate nutrition.

4.5 Poverty, Vulnerability, and Social Protection

120. Until the COVID-19 crisis, the Kyrgyz Republic had demonstrated good progress in poverty reduction, as the general poverty rate (by national definition) fell from 31.7% of total population in 2008–2009 to 20.1% in 2019.⁴² The extreme poverty rate (according to the national extreme poverty line) fell from 6.1% in 2008 to 0.5% in 2019. Internationally comparable data from 2018 indicate that 15.5% of the country’s population were living below the \$3.20/day (at purchasing power parity) threshold recommended by the World Bank for international poverty comparisons across lower middle-income countries.

⁴² According to the national poverty line, equivalent to 3.9 international dollars per person per day (at purchasing power parity).

121. Perhaps more significantly for the Kyrgyz Republic's economic well-being, over 90% of the country's population in 2018 continued to live below the \$10/day (at purchasing power parity) level, increasingly seen as the threshold for entry into the global middle-class. A large section of the population is therefore either poor or vulnerable to poverty, and at risk of a minor income shock that could push them into destitution. Moreover, the impacts of the COVID-19 pandemic have swelled the numbers of those who are either self-employed or in precarious employment, and without access to meaningful support in times of crisis through the national social protection system.

122. While the impacts of the crisis are too recent to be picked up in official poverty data, 82% of respondent households in the WFP's May 2020 survey reported the use of negative coping strategies, such as asset sales or depletion, to cope with reduced economic capacity (compared to 58% of respondent households in 2019). Moreover, recent World Bank-UNICEF projections indicate that the impacts of the pandemic could cause the national poverty rate to increase by 10.5 percentage points from 2018 levels, with the number of poor children rising from 570,000 to 810,000. This could have devastating implications for the Kyrgyz Republic's prospects for achieving SDGs 1 (poverty eradication), 2 (food security), and 4 (lifelong learning).

123. The following social groups are traditionally considered vulnerable in the Kyrgyz Republic, and are covered to varying extents by the social protection system:⁴³

- (i) **The elderly.** Those people who are eligible for contributory old-age pensions. The standard pensionable age in the Kyrgyz Republic is 58 for women and 63 for men. Virtually all eligible people receive pensions. At the end of 2018, there were 511,000 recipients of old-age pensions (8% of the total population), of whom 70% were women. About 65,000 people received survivor's pensions in 2018.
- (ii) **Poor households with children.** Statistical data show that poverty in the country is positively correlated with the numbers of children in the household. The poverty rate among children aged 0–17 years was 28.3% in 2018, i.e., significantly higher than among the total population. For this reason, the country's main noncontributory social protection program focuses on households with children. In 2019, 309,000 children up to 16 years of age (13.5% of all children this age) received the means-tested Monthly Benefit for Poor Families with Children (MBPFC).⁴⁴ The average amount of this benefit in 2019 was Som871 (\$12.50) per child per month. Due to the design features of this benefit, more than 90% of its recipients are rural residents. Taking into account its relatively small reach (only 4%–5% of those living under the national poverty line receive the MBPFC) and modest coverage (less than 20% of rural children and less than 5% of urban children are covered), the MBPFC in many cases does not help lift recipients out of poverty (although it does help to mitigate their situation).

⁴³ In this report, social protection is understood to include noncontributory social assistance programs and contributory social insurance programs. For a systematic review of the Kyrgyz Republic's social protection system, see *Social Protection System Review of Kyrgyzstan*, OECD Development Pathways, 2018.

⁴⁴ The nominal recipients of this benefit are children, but the benefit is managed by parents (usually mothers). The title of the benefit used in this report is called Uiy-Bologo Komok (UBK).

- (iii) **Women.** In light of the large gender gaps in employment, wages, and income, as well as the rise in domestic violence⁴⁵ and the increase in domestic care responsibilities during the lockdown,⁴⁶ women are in need of expanded consideration under the social protection system.
- (iv) **People with special needs.** As of 2018, there were 119,000 people with disabilities receiving pensions in the Kyrgyz Republic. In addition, 68,000 people receive the Monthly Social Benefit, as they are ineligible for pensions or have been disabled since childhood.
- (v) **The unemployed.** Only 71,000 people (50% women) are officially registered as unemployed. Of these many thousands, only slightly more than a hundred people receive the nominal unemployment benefit, which is just Som300 (less than \$4) per month. as per data from the Ministry of Labor and Social Development.
- (vi) **Others.** There is a means-tested housing allowance in Bishkek to help about 7,000 poor households pay for utility services. There are 11 residential institutions for the elderly and adults with disabilities, which host 2,000 people; 5 institutions for 400 children with disabilities; and a social assistance program for elderly care at home.

124. **Vulnerable groups not explicitly covered by the social protection system.** These groups include urban informal workers (many of whom are only partially employed or unemployed) and their household members. Many of these people are internal migrants from rural areas and secondary towns, who are looking for jobs in Bishkek and Osh. Due to the informality of their activities, it is difficult to estimate their total numbers. However, applying the 2019 urban poverty rate (14.7%) to the estimated urban population in that year (2.21 million people), and assuming that most of these poor people reside in informal worker households, there are an estimated 325,000 people (5.2% of the total population) living in these households.

125. The pandemic is affecting the welfare of vulnerable groups in the following ways: (i) lost income and/or loss of work or jobs (both at home and abroad) due to lockdowns and border closures; (ii) higher consumer and food prices (associated annual inflation rates were running at nearly 9% and 16%, respectively, in April 2020); (iii) reduced access to quality health care and other essential social services, for which out-of-pocket payments are associated; and (iv) reduced resilience to future shocks (e.g., by reducing savings or other assets). Low levels of device ownership and broadband internet access, which preclude online or remote working methods, exacerbate the impact of these factors.

126. The urban poor are particularly vulnerable to the effects of the pandemic because they have little if any access to social protection. Many have lost much or all of their incomes (and savings) during the lockdown, and their urban location precludes engagement in subsistence agriculture. These people are therefore most vulnerable to rising food prices and lost informal-sector employment opportunities. The rural poor, by

⁴⁵ A draft (May 2020) UN Women survey finds that the number of domestic violence incidents reported during the first quarter of 2020 was nearly two-thirds higher than the number of such incidents reported during the first quarter of 2019—2319 incidents in 2020 versus 1404 in 2019.

⁴⁶ The draft (May 2020) UN Women survey also finds that, since the onset of the lockdowns, women are spending nearly three-quarters of their nonworking time on child and elderly care and cooking. Men are spending roughly similar amounts of nonworking time on cleaning and/or other forms of housework, management of household finances, and shopping.

contrast, are more affected by reductions in remittances and reduced access to the health and other social services that may not be locally available.

127. As part of the survey of vulnerable groups that was administered by the Economic Policy Research Institute, evidence was provided supporting the above statements (Appendix 4). Of all poor households, 52% reported some or significant deterioration of their financial situation during the pandemic. The proportion of adversely affected people was especially high among households with a female breadwinner (65%), those living in Bishkek or Osh city (65%), and those who are not recipients of the MBPFC⁴⁷ (58%). Of all poor respondents, 44% reported an increase in spending on food and 34% reported an increase in spending on medicines. These spending increases were mostly due to inflation. Almost two-thirds of the surveyed poor households reported receiving some aid from the central or local government. Almost all respondents (96%) observe hygienic rules more carefully than before. Among poor households, 51% would prefer the continuation of the lockdown and accompanied by economic decline, rather than lifting of all limitations and potentially higher infection rates. They would like to see government efforts concentrate on job creation (23%), providing financial and food aid to vulnerable households (17%), and preventing the spread of the pandemic through social distancing, lockdowns, awareness campaigns, etc. (13%).

128. The survey of pensioners and people with special needs provided very similar results, with 43% of pensioners and 68% of households of people with special needs reporting deterioration of their financial situation. These groups were also suffering from food inflation, especially price rises for flour, vegetable oil, potatoes, vegetables, fruits, and meat. As a result, 44% of pensioners and 65% of people with special needs had to switch to cheaper and less nutritious foods. Of all respondents, 56% of pensioners and 64% of people with special needs received some aid during the crisis, mostly from the government, but also from Red Crescent and other sources. Virtually all respondents with chronic diseases reported deterioration of access to specialized health care, either due to higher costs, limitations to physical access, or a focus by health care facilities on patients with COVID-19. In terms of the social restrictions, 35% of pensioners and 54% of people with special needs appreciated the lockdown and associated measures as being necessary and timely, with only around 5% being negative about the measures undertaken by the government to combat the pandemic.

129. The pandemic-related loss of jobs has strongly afflicted many people in both urban and rural areas, who were not previously poor or vulnerable. On 17–18 April 2020, the country's two main online news agencies, www.24.kg and www.akipress.org, published poll results indicating that more than half of their readers had lost their entire labor income.⁴⁸

130. According to Kyrgyz Republic law, the government must pay all public-sector salaries, social benefits, and pensions regardless of the budget situation and other expenditure cuts. In this sense, the incomes of employees of government-funded organizations (education, health, administration etc.), pensioners, and benefit recipients are secured, although inflation is reducing their purchasing power. The elderly, people

⁴⁷ This means that, even though the benefit's monetary size is rather small, it still matters for the welfare of receiving households.

⁴⁸ While these polls should not be considered as representative, they seem to provide a snapshot of the socioeconomic situation, especially in Bishkek and Osh.

with disabilities who are living in institutions, and prisoners also constitute smaller but very vulnerable groups. Even prior to the onset of the pandemic, service standards in these institutions were not high, and residents (and staff) now face the fear of COVID-19 outbreaks in their facilities. Regular government funding for these institutions is therefore of critical importance.

131. Children, young people, and their mothers are likewise a vulnerable population group. Most kindergartens and all schools and universities were closed or switched to distance-learning mode during the lockdown, and these institutions are not expected to reopen any time soon. This dramatically reduces working mothers' income-generation prospects, further exacerbating gender-based vulnerability and adding to income and other gender gaps. The quality and continuity of education is also under threat. Schools transitioned to distance-learning regimes via television and other broadcast channels for the last quarter of the school year. As the education system (especially in public schools) was not ready for this change, and data bandwidth constraints limit household access to fast internet, sharp declines in education quality have been noted. Worse still, children in remote and/or poor households may have no access at all to remote education or lower-quality distance learning. The continuation of these trends could have dramatic implications for the Kyrgyz Republic's prospects for achieving SDGs 4 (lifelong learning) and 5 (gender equality).

132. Much evidence points to rising gender-based violence and other strains on social cohesion in the Kyrgyz Republic (e.g., not allowing people from other locations to enter a particular village). The alarming growth in gender-based violence in 2020 warrants further attention. During January–March, the number of reported domestic violence cases rose by 65% compared to the same period in 2019.⁴⁹ While the frequency and intensity of these problems may decline in the post-lockdown period, the country's social fabric may remain under longer-term pressure due to the lasting economic and social shocks of the pandemic. This underscores the importance of investing in social services and related governance structures.

133. The government's social protection response has been limited. The only measure in the first government policy response package⁵⁰ directly addressing vulnerable households is the provision of food aid to vulnerable people (as per lists available from the Ministry of Labor and Social Development).⁵¹ As such, the government has made only modest use of standard social assistance instruments.

134. In theory, countries with well-developed social protection systems should be able to quickly respond to socioeconomic shocks by expanding these systems horizontally (i.e., extending coverage) and vertically (i.e., increasing the value or duration of benefits). It should also be possible to “piggyback” on existing systems to deliver separate emergency responses. Moreover, when social protection instruments can be shown to reduce poverty

⁴⁹ UNDP. June 2020. Forum of Women MPs Champions Gender-Sensitive Response to COVID-19. [Forum of Women MPs champions gender-sensitive response to COVID-19](https://www.un.org/development/desa/en/news/population/2020-report-women-empowerment-and-leadership.html). For more on the complex factors that perpetuate gender-based violence, go to <https://eurasianet.org/kyrgyzstan-shocking-case-of-domestic-violence-sparks-demand-if-little-hope-for-change>.

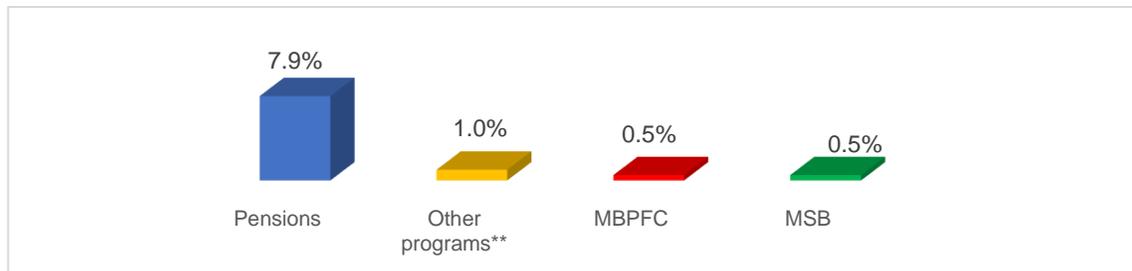
⁵⁰ Government of the Kyrgyz Republic. 2020. Order of the Prime-Minister of the Kyrgyz Republic. No. 186. 30 March 2020.

⁵¹ Retail price control measures and replenishment of mandatory food reserves are discussed in section 3.4 on food security.

and vulnerability, donor governments and institutions sometimes provide additional funding to supplement domestic finance in these crisis situations.

135. Compared to many other lower middle-income countries, the Kyrgyz Republic has relatively advanced social protection systems. Social protection expenditures in 2018 absorbed 10% of GDP and constituted more than 25% of total general government expenditure. However, most of this (8% of GDP) went to old-age, disability, and survivors' pensions (Figure 11). Moreover, high levels of informality within the country as well as migration abroad have reduced employer and employee contributions to the Pension Fund, requiring ever-increasing transfers from the state budget in order to ensure pension payments. Pension contributions account for only 57% of the Social Fund revenues and, in 2015, old-age pensions accounted for 53% of transfers from budget to the Social Fund.

Figure 11: Gross Domestic Product Devoted to Social Protection Instruments, 2018



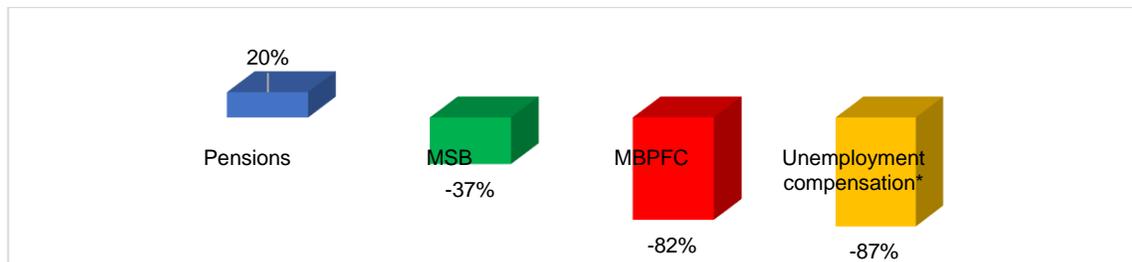
MBPFC = Monthly Benefit for Poor Families with Children, MSB = Monthly Social Benefit

** Includes unemployment compensation and housing allowances paid to 7,000 households in Bishkek.

Source: United Nations Development Programme calculations based on National Statistical Committee data.

136. By contrast, spending on social assistance absorbs only about 1% of GDP. Since household poverty levels in the Kyrgyz Republic have been positively correlated with the number of children living in those households, the MBPFC is targeted at poor households with children. Along with the Monthly Social Benefit, the coverage and adequacy of these benefits leave something to be desired.⁵² As benefit levels are well below the subsistence minimum (Figure 12), their poverty-reducing effects are insignificant.

Figure 12: Gaps in Monthly Social Protection Benefits versus the Subsistence Minimum, 2018



MBPFC = Monthly Benefit for Poor Families with Children, MSB = Monthly Social Benefit.

Note: the -82% gap for the MBPFC means that the average benefit payment was only 18% of the national subsistence minimum in 2018.

Source: Organisation for Economic Cooperation and Development (OECD). 2018. OECD Development Pathways. *Social Protection System Review of Kyrgyzstan*. Paris.

⁵² For a recent assessment of the Kyrgyz Republic's Social Protection system, see *Social Protection System Review of Kyrgyzstan*, OECD Development Pathways, 2018.

137. Social protection coverage for the working-age population is likewise low and expenditure on labor market programs is very limited. It is estimated that only 25% of the unemployed register with public employment services and, in 2015, just 5% of the unemployed received unemployment compensation benefits, which are state-funded rather than contributory. Low benefit levels mean that there is little incentive for the unemployed to register. Moreover, those who have an arable plot of land totaling more than 0.05 ha are classified as employed, irrespective of whether or not they use the plot, and this classification makes them ineligible for unemployment benefits.⁵³ In practice, many of the unemployed withdraw from the labor force—especially women, as evidenced by their low labor-force participation rates—engage in self-employment or informal work in trade or agriculture, or join the country's many labor migrants heading abroad.

138. Crisis relief to companies, in order to protect jobs and production capacity, has instead been prioritized. Additional direct household support to mitigate the pandemic's socioeconomic impact has largely been limited to the distribution of food packages worth Som800 (\$10) each to some 225,000 vulnerable households. This distribution has been managed by the local authorities, sometimes bypassing existing social protection instruments. The first crisis response package, launched in March 2020, did not envision or consider increases to the coverage or adequacy of the MBPFC, the Monthly Social Benefit, or unemployment compensation coverage. Horizontal or vertical expansion of these (or other) benefits is apparently not anticipated.

139. This is unfortunate, as efforts to combat the crisis by temporarily increasing the coverage and adequacy of social benefits—particularly the MBPFC and unemployment assistance—could yield important results. These programs are, or could be, targeted at such vulnerable groups as urban and rural workers in the informal sector. Increased cash transfers channeled through the social protection system could also help with economic stabilization by boosting demand for cheaper, domestically produced foodstuffs and other products in the short run, thereby supporting the MSMEs and farmers who supply such goods. In addition to supplementing the ongoing distribution of food, such cash transfers would make possible the expansion of assistance (beyond food and humanitarian aid) to vulnerable population groups, possibly building on WFP targeting mechanisms to identify the most vulnerable households.

140. If both the MBPFC and monthly unemployment benefits were set at Som1,000 per recipient per month, and if these benefits were to be paid out for 6 months for around 500,000 new recipients, the added cost to the government's 2020 budget would be Som3.35 billion (0.6% of GDP). Such an amount should be possible to find in the budget, especially with the expanded international donor support that is mooted to be forthcoming. An investment of just 0.6% of GDP might prove vital to maintaining the country's human capital and social stability.

141. While a lack of financing might be a major barrier to the expansion and strengthening of the social protection system, it is not the only barrier. Lack of political will, outdated views on the roles of social protection, and lack of prioritization, have for some time limited long-term investments in the Kyrgyz Republic's social protection system. Significant numbers of potentially eligible recipients have been excluded from key social

⁵³ These people do, however, have the right to be registered as job seekers and to take part in professional training and retraining programs, receive job search support, and take part in public works. For more, go to <http://cbd.minjust.gov.kg/act/view/ru-ru/111258>.

assistance programs, which has inhibited the country's capacity to build resilience and underpin socioeconomic and political stability in times of crisis. The impacts of the current pandemic illustrate the importance of such long-term preparation, as well as highlighting how difficult it can be to fill gaps quickly when urgent and critical responses are required.

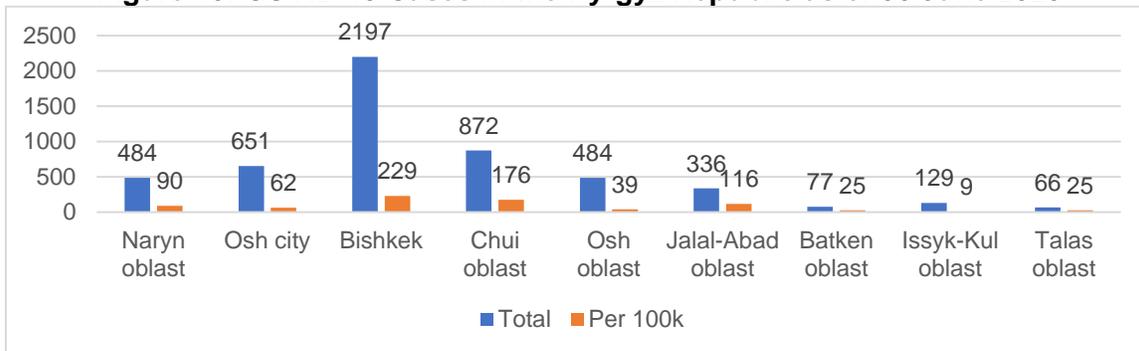
142. In addition to the need for larger financial outlays, expanding social protection coverage and adequacy would require immediate work on simplifying and digitalizing application and delivery mechanisms. It would also call for a greater tolerance for inclusion errors (people mistakenly allowed benefits) and a smaller tolerance for exclusion errors (people mistakenly refused benefits)—concerns about weakening incentives for people to participate in the labor market hardly seem in order during lockdowns. The digitalization of the Kyrgyz Republic's social protection systems has begun, through the creation of the Tunduk registry system, while online transfer payments can be accommodated through the banking system as well as mobile payment devices.

143. Once social distancing requirements are eased, social protection programs could be combined with cash-for-work or training schemes, labor-intensive public works, and other measures that can help vulnerable workers rebuild their livelihoods. This could be accompanied by a review of the draft national social protection strategy, with an eye toward closer alignment with employment, migration management, and other policies. Such measures also warrant the exploration of new financing options to fund old and new social protection programs. In addition to donor top-offs, reductions in fossil fuel subsidies and efforts to reduce illicit financial outflows (which could otherwise go to the state budget) can be used to increase fiscal space for expanded social protection.

144. In the recovery stage, more emphasis should be placed on cash-for-work schemes and self-selecting participation in labor-intensive and climate-smart public works, pooling funding for these from international donors and local authorities (public works are currently financed only by local authorities). In parallel, access to online training and skills upgrading courses can be developed to help match job-seeker skills with work opportunities. Through cooperation between the public employment services and local technical colleges, there may be options for using the Ministry of Labor and Social Development's *sotszakaz* social contracting modality for involving nongovernment organizations in the provision of online training and/or advisory services. The UN system is well placed to help national partners step up investments into environmentally sustainable, low-carbon activities.

4.6 Health System Risks and Socioeconomic Risks

145. The COVID-19 outbreak in the Kyrgyz Republic is marked by clusters of cases (Figure 13). Efforts at early identification and containment through isolation and contact tracing of COVID-19 cases are anchored in the country's National Contingency Plan, which was prepared by the Ministry of Health with support from the World Health Organization and other development partners. The National Contingency Plan is a risk-based outbreak control approach with a set of differentiated actions dictated by the existing on-the-ground conditions. It was approved by Parliament on 18 March 2020 and has an outlay of \$15.67 million for the first year. Its five focus areas are (i) surveillance (ii) infection prevention and control, (iii) case management, (iv) risk communication and community engagement, and (v) coordination between the different implementing agencies in the health system.

Figure 13: COVID-19 Cases in the Kyrgyz Republic as of 30 June 2020

k = 1,000

Source. Government of the Kyrgyz Republic, Ministry of Health.

146. The health system's capacity to combat COVID-19 rests with the 24 hospitals that have been selected for observation of suspected patients and the 2 hospitals in Bishkek and Osh dedicated to treatment of confirmed patients. Testing is being conducted for those arriving from abroad and the contacts of infected people are being traced according to case definition. From 5 February to 12 May 2020, some 71,349 tests were conducted, with many people being tested more than once.

147. Although the National Contingency Plan is flexible and aligned with the prevailing transmission scenarios, existing capacity is limited in terms of the number of beds in the observation and treatment centers. There are gaps in preparedness in such areas as coordination (including planning scenarios), safety (including for hospital staff), and communication (including outreach to local communities), as well as in clinical, nursing, and other support services. Targeted technical support is being provided to overcome these limitations.

148. The early introduction of lockdowns and other measures initially resulted in low reported infection and death rates, although the pandemic's dynamics in the country since mid-June have seen exponential growth in both infections and fatalities. However, international experience demonstrates both that staying in lockdown mode can exacerbate the socioeconomic and political dimensions of the crisis, and that premature relaxation of lockdown measures can dramatically worsen epidemiological trends.

149. As of 29 June 2020, 783 Kyrgyz Republic health workers had been diagnosed with COVID-19 (15% of all confirmed cases in the country to this date). This very high proportion raises questions about the supply of personal protective equipment (PPE) for health professionals and highlights the need for additional training of health workers on infection prevention and control. Part of the aid received by the government might need to be channeled towards establishing sufficient domestic stores and/or production of affordable yet high-quality PPE.

150. The socioeconomic survey conducted by the Kyrgyz Republic's Economic Policy Research Institute provides further evidence on the challenges faced by the country's health care system (Appendix 4). As part of this study, 79% of surveyed health workers reported shortages of equipment. Their key challenges were issues with transport and communications (cited by 28% of health workers), insufficient knowledge of COVID-19 (cited by 18%), lack of PPE (15%), and shortages of medicines and necessary materials (15%). These workers considered issues with PPE—shortages (32%), inappropriate use

(26%), and low quality (14%) along with the lack of knowledge about the disease (14%) to be the main reasons behind the high infection rates of health personnel. The respondents noted a trend toward remote treatment of both COVID-19 and usual patients: phone consultations (cited by 27% of respondents), video consultations (cited by 12%), home visits with costs covered by the inviting organization or individual (17%), and a switch from inpatient to outpatient treatment (5%).

151. While health workers are concerned about the risks of contracting the coronavirus in the workplace (45% of all respondents), they also consider the risks of getting infected in regular life to be high (43% cited shops, public transport, etc. as high-risk areas). Of all respondents, 17% reported instances when some health workers refused to work with patients because of a high perceived risk of being infected.

152. The health workers' suggestions for better organizing patient treatment seem to be consistent with what is already being undertaken by health facilities: installing sanitizers (26%), segregating patients by the degree of risk (25%), establishing separate hospital and clinic entrances for COVID-19 and non-COVID-19 patients (22%), and observing social distancing (20%).

153. In specifying measures for the government to undertake within the health system, the surveyed health workers suggested expanding the material base of the health infrastructure (77% of all respondents), improving financing (71%), providing updated information and training on the treatment of patients with COVID-19 (69%), establishing mobile COVID-19 brigades (65%), regularly replenishing the stock of medicines (58%), and providing psychological support to health workers (46%).

154. The COVID-19 response agenda has sidelined other regular activities in the Kyrgyz Republic's health system. Patients' access to general and specialized care has been reduced due to lockdowns, there are barriers to moving between settlements, and the health system has been forced to reorient itself to fight the pandemic. At some point, the treatment of people with COVID-19 will need to be regularized and other critically important activities—e.g., providing vaccinations for children, delivering child and maternal (including reproductive health) services, funding essential drug procurement—must be fully resumed. This, of course, implies the need to augment the health system's human and other resources.

155. It is essential to strengthen the dual track of health service delivery during the pandemic, i.e., to better balance COVID-19 response with the recovery and/or reinstatement of regular health service delivery. Otherwise, gains in better treatment of COVID-19 patients could be offset by reductions in access to care for other serious health maladies. This could have serious implications for the Kyrgyz Republic's prospects for achieving SDG 3 (long healthy lives).

156. Under the first track, health systems must remain ready to provide the full range of services needed to prevent, diagnose, isolate, and treat COVID-19 patients. As restrictive measures are gradually eased, scaling up public health measures is essential to disrupt chains of transmission through identifying, isolating, and testing of cases, and to trace and quarantine contacts. This requires significant rapid expansion of surge capacity for hospitals and public health clinics, improved laboratory services, enhanced mental health programs, better training and protection for frontline staff, and faster medical responses to increased domestic violence. The health system must remain prepared for potential

upsurges in COVID-19 cases, especially when lockdowns are relaxed, and this requires creating flexibility and elasticity in the use of acute and intensive care facilities.

157. Under the second track, health systems need to address accumulated demand for other services (including those concerning reproductive health) that may have been crowded out to provide COVID-19 care during the outbreak. Reports of low uptake of health care services due to disrupted service offerings, difficulties of taking advantage of new service delivery platforms, and fear of infection are increasing.

158. Following a detailed evaluation of the response to the pandemic by epidemiological and health services, the government may need to develop a detailed action plan to counter a possible second wave of COVID-19 in the fall and winter period from September 2020 to March 2021 (and for subsequent waves, if needed). This plan should explicitly address the feasibility of introducing further widescale lockdowns, considering their very high social and economic costs. Alternative scenarios should forecast the effects of different levels of investment to increase the capacity of the health system, namely in testing, contact tracing, and isolating of COVID-19 positive patients. There are success stories from middle-income countries, such as Viet Nam, where temperature screening and testing, targeted lockdowns, and constant communication have been identified as successful measures to avoid general lockdowns.

159. Beyond the lockdown regime, rules around social distancing need to be carefully analyzed, documented, and communicated to the population through a coordinated and well-funded advocacy campaign. In particular, such a campaign should provide clear guidance on practical ways of conducting everyday activities (shopping, socializing, education, etc.) and mass events (weddings, funerals, etc.) in the face of persistent infection threat. Clear legislation needs to be developed, adopted, and communicated to public to implement social distancing measures, especially in relation to the rights of sanitary and/or epidemiological service personnel and other enforcement agencies, as well as possible sanctions for noncompliance with the measures.

160. The health system itself needs to adjust to the new realities of mandatory social distancing. Work may need to start immediately on the introduction of some elements of e-health (e.g., remote consultations and/or prescription issuance for chronic patients, etc.), particularly in urban areas with high internet connectivity. This work should then be scaled up to cover remote parts of the country, which will dramatically improve general access to quality health services. The COVID-19 crisis offers political opportunities to increase ICT capacity for the health system. Increased and improved ICT infrastructure will be key in detecting early cases of the next pandemic wave, which will in turn allow authorities to identify, trace, and isolate confirmed cases. Such measures have the potential to pave the way for more targeted lockdowns or eliminate the need for them altogether. Of course, any expansion of ICT within the health system should be done in accordance with basic human rights and data privacy principles.⁵⁴

⁵⁴ For more on COVID-19 and its human rights dimensions, go to <https://www.ohchr.org/EN/NewsEvents/Pages/COVID-19.aspx>.

5 Policy Responses, Recommendations, and Future Opportunities

5.1 Policy Measures Implemented and Measures Pending

161. The stated goals of the government's pandemic response measures are to protect public health, ensure timely recovery of the economy, protect household welfare, and hasten the resumption of normal social life. However, the actual policy response, as articulated in the stimulus packages elaborated in March and May, has focused primarily on augmenting enterprise liquidity rather than on social protection for households. These measures are briefly summarized in Table 2.

Table 2: Policy Response of the Government of to the COVID-19 Crisis

Policy Area	Key Measures	Timeframe
Fiscal policy	Budget cuts for nonpriority items	Immediate to short-term
	Foreign aid mobilization including attraction of new grants, concessional loans, and debt service relief	Immediate to short-term
	Tax and rent relief measures for MSMEs	Immediate to short-term
	Tax exemptions and debt relief for medium-sized and large enterprises meeting certain criteria (confirmed damage from lockdown, contribution to food security etc.)	Short- to medium-term
	Capitalization of enterprise support programs	Short- to medium-term
	Increased spending on health sector	Immediate to medium-term
Investment policy	Deployment of enterprise support program (mostly concessional lending) using existing (RKDF) and new anti-crisis fund facilities	Short- to medium-term
	Reorientation of some PIP projects to support anti-pandemic measures	Immediate to medium-term
Monetary and financial policy	Return from <i>de facto</i> fixed to managed floating exchange rate	Immediate
	Change in the NBKR policy rates to cope with inflation risks	Immediate to medium-term
	Softening of financial sector regulation to support restructuring of the loans to the nonfinancial sector	Immediate to short-term
	Stand-by regime for providing necessary liquidity to the financial sector if needed	Immediate to medium-term
Trade and regional integration	Coordination of cross-border trade within the EAEU	Immediate to medium-term
	Negotiations with the PRC and other neighbors on opening borders for freight transport	Immediate to short-term
Regulatory policies	Reduction in the number and frequency of enterprise checks by government agencies	Immediate
	Expansion of the list of key food and nonfood products with regulated prices	Immediate

Policy Area	Key Measures	Timeframe
Food security policy	Retail and wholesale price controls for key food items, replenishing emergency stocks of wheat	Immediate to short-term
Social protection policy	Provision of food aid to vulnerable households	Immediate to short-term

EAEU = Eurasian Economic Union, MSMEs = micro, small, and medium-sized enterprises, NBKR = National Bank of the Kyrgyz Republic, PIP = Public Investment Program, PRC = People's Republic of China, RKDF = Russian-Kyrgyz Development Fund

Note: immediate = by 30 June 2020, short-term = by the end of 2020, medium-term = into 2021 or even 2022.

Source: Compiled by the Asian Development Bank & United Nations Development Programme Socioeconomic Assessment Team on the basis of policy announcements by the Government of the Kyrgyz Republic.

162. Some of the government's pandemic response measures have already been officially enacted; others are still in the planning stages, with different degrees of readiness. Many of these measures require careful financial, economic, social, and legal analysis and scrutiny. For many measures, the necessary financial, human, and material resources have yet to be mobilized and their implementation can therefore not be expected until late in 2020 or early in 2021.

5.2 Economic Repositioning for Recovery and Beyond

163. The enterprises supported under the government's response to the pandemic are expected to not only boost the Kyrgyz economy by restoring production, but also to bring about a new quality of economic growth. According to the available information, the government favors enterprises involved in export orientation, import substitution, contribution to food security, production of medical equipment and PPE, and digitalization. It is also prioritizing projects outside of major urban centers. The government has estimated the total cost of this stimulus package to be as much as Som40 billion (about \$500 million).

164. In discussing the potential to reposition the Kyrgyz Republic's economy while responding to the COVID-19 crisis, the following principles should be applied:

- (i) Job creation and/or retention by an enterprise might be added as a major justification for financial support. This means that anti-crisis programs should be aimed at labor-intensive rather than capital-intensive projects.
- (ii) Export promotion requires not only enterprise support with cheap credits, but also advancing trade facilitation efforts, which are overdue with respect to the Kyrgyz Republic's commitments to the World Trade Organization.
- (iii) The agenda of business environment improvement should be reprioritized as a cost-effective set of measures to alleviate the hardships of MSMEs and increase inflows of foreign direct investment into the country.
- (iv) The emphasis on formalization (e.g., mandatory use of online cash registers, etc.) as a precondition for receiving government support could be expanded to require companies to have standard labor contracts with employees, meet job safety requirements (especially in workplaces where female workers predominate, such as the garment industry), and comply with domestic and export markets' technical

- regulations and sanitary and phytosanitary measures. This should ideally include incentives to invest in the workforce through skills training or upgrading
- (v) Competitiveness, economic diversification, and reductions in resource intensities and carbon footprints should be longer-term themes of the economic recovery. From this perspective, export orientation is preferable over import substitution.
 - (vi) Competitiveness and diversification also require investments in human capital, so support to the education system (secondary, vocational, and professional), the retention of skilled labor, migration management, and significant investments in ICT and digitalization need to be integrated into the economic recovery package.
 - (vii) As some key sectors (e.g., high-value agriculture, agro-processing, and tourism) require clean water, air, and robust biodiversity, natural ecosystem and conservation concerns need to be more strongly reflected in the anti-crisis package. This could be a good moment to refocus on renewable energy and energy efficiency investments, which would help modernize the Kyrgyz Republic's energy sector. Budgetary concerns could be addressed by reducing fossil fuel subsidies and illicit financial flows, as well as by improving revenue administration, especially with regards to taxation of imports.
 - (viii) Efforts in the area of digitalization should include regulatory support for the expansion of financial services and advancement of the e-governance agenda.
 - (ix) Measures to improve the legal and credit infrastructure for MSMEs should continue. Leasing and factoring, private equity, venture capital, and the development of the agricultural insurance system are particularly important in this context.

5.3 Enhancing Socioeconomic Resilience

165. Along with arresting and reversing the recession, the government may wish to consider measures aimed at directly supporting vulnerable groups and households, in terms of income and foodstuff support as well as access to essential social services. These measures might focus on:

- (i) Immediate and longer-term strengthening of the health system and its capacity to cope both with pandemic-related emergency challenges and other urgent tasks.
- (ii) Developing the capacity of the education system (especially primary and secondary schools, but also vocational education and training institutions) to operate in remote-learning modes, to reduce exclusion from education and the numbers of children and young people at risk of being left behind.
- (iii) More closely aligning regional development with the COVID-19 response. "Heat maps" superimposing worrisome epidemiological trends on regions or areas with high levels of socioeconomic vulnerability could be developed. In these areas, the environmental dimension and workers' rights issues need to be explicitly addressed.
- (iv) While investing in regional development is a clear priority, most of the at-risk population groups live in Bishkek and Osh cities, so their needs must be addressed through an urban agenda.
- (v) Short-term support to youth and other vulnerable population groups should be extended beyond food or humanitarian aid and focus on the possible expansion of social protection and active labor market policies. Increased social protection payments can be expected to boost demand for more affordable domestically produced food and other products, thereby helping poor households and the MSMEs and farmers that supply such goods.

- (vi) As food inflation has the greatest impact on the poorest parts of the population, appropriate (say, 10%) indexation of social benefits (excluding old-age pensions above a certain threshold) may need to be implemented in the adjusted budget for 2020.
- (vii) As traditional social protection programs effectively exclude most urban informal workers, the eligibility criteria of these programs, particularly the MBPFC and unemployment benefits, might need to be temporarily relaxed (with no or very light means-testing).
- (viii) Possible errors allowing people who are not impoverished to access social protection coverage should be tolerated (the monetary amount of these benefits might not be worth the effort for the better-off sections of society). By rough estimates, setting both the MBPFC and unemployment benefits at Som1,000 per month per recipient, and assuming payment of these benefits for 6 months to 500,000 new recipients (i.e., children in needy urban families, rural households not covered by the MBPFC, and some unemployed workers in urban areas) would cost Som3.35 billion (0.6% of GDP) in 2020. This amount should be possible to find in the budget, especially with expanded donor support.

5.4 Policy Recommendations

166. The following recommendations are made based on the understanding that the Kyrgyz Republic is expected to receive substantial financial support from international donors, attracting crisis funding to the value of around \$500 million. Combined with domestically available resources, these funds should be sufficient to address key challenges related to the pandemic. All actions outlined by the assessment team are expected to fit into this financial envelope. However, it is necessary to acknowledge the challenge of mobilizing foreign aid of this scale in the immediate future, so the resources currently available should be spent strategically. A review of state budget expenditure—with a focus on reducing fossil fuel subsidies and other unsustainable spending priorities can support more strategic spending and create the fiscal space needed to deliver on key social policies and strategies.

167. The spending priorities are to be articulated within government programs, however, the priorities are intended to concentrate on (i) fighting the pandemic and saving people's lives and health; (ii) protecting those most affected by the crisis including through job creation, expanded social protection, and strengthening the education system, etc.; and (iii) investing in the long-term development and repositioning of the Kyrgyz Republic's economy (green infrastructure, digitalization, international competitiveness, etc.).

168. The following general recommendations are therefore proposed to underpin policy briefings to the Government of the Kyrgyz Republic.

- 1) Prioritize immediate investment in the health care system, to strengthen its ability to test for COVID-19 infections, to care for those who have fallen ill, and to trace and quarantine contacts of those infected. Such investments are needed both to better address the implications of the pandemic and to prevent significant damage to the integrity of the public health system.

- 2) Supplement enterprise support programs financed through the Anti-Crisis Fund with conditionalities to boost formalization of MSMEs, and undertake parallel measures to raise the external and internal competitiveness of Kyrgyz Republic enterprises by:
 - (i) supporting technological upgrades and compliance with technical and labor standards, especially for female workers; and
 - (ii) implementing trade facilitation measures to support exporters and enterprises.

- 3) Earmark resources under the Anti-Crisis Fund to be channeled for MSMEs (including through a possible MSME Productive Asset Support Facility), to help stabilize and prepare businesses for recovery beyond the COVID-19 pandemic by:
 - (i) providing support to MSMEs that meet certain business and labor rights requirements and are part of government programs supporting employment-generation and environmentally sustainable activities (including green and resilient infrastructure, ecotourism, water supply, and waste management); and
 - (ii) Supporting digitalization and formalization of MSME commercial operations, to boost competitiveness and social-distancing needs with local information technology companies.

- 4) Focus on job creation and retention as a key criterion for enterprise support programs by:
 - (i) supporting export orientation, enterprise formalization, job creation and wage or income generation (particularly for the new vulnerable groups);
 - (ii) paying special attention to work programs for both peri-urban informal settlements in large cities and remote rural or mountainous areas; and
 - (iii) adopting mechanisms that will help self-employed women to restart their businesses, with access to credit and financial services.

- 5) Promote digitalization to improve access to digital finance, e-governance, and e-health, to reduce or eliminate the digital gender and urban-rural divide; and strengthen remote learning capacity in the education system by:
 - (i) supporting companies' efforts to transition to online business models that build on the ongoing efforts of the Kyrgyz Hi-Tech Park;⁵⁵
 - (ii) providing training and guidance for teachers and parents on remote education, improve health information systems, and raise access to government services; and
 - (iii) accelerating the digitalization of health information and social protection systems.

- 6) Increase immediate and short-term support to vulnerable groups by expanding existing social protection programs, particularly the MBPFC and unemployment benefits, by:
 - (i) amending the eligibility criteria and administration infrastructure of the benefit schemes in order to improve take-up rates by informal urban and disadvantaged rural households; and
 - (ii) increasing government budget funding for social protection by Som3.35 billion, (0.6% of GDP) using a part of funds already provided or promised by international donors.

⁵⁵ The Kyrgyz Republic's High Technology Park has repositioned its research program to support the development of COVID-19 information hubs and digital apps including for enterprises. Many technology experts have contributed their time and skills through *pro bono* forums to help major national and international organizations, as well as thousands of local enterprises, to move their businesses online.

- 7) Strengthen food security and food sector competitiveness by increasing support for the production of staple foods by:
 - (i) supporting value addition in agriculture, including livestock breeding to stimulate job creation, especially for labor migrants returning to rural areas; and
 - (ii) refraining from any measures that might reduce competition on domestic markets.

- 8) Provide alternative short-term and medium-term coping options targeting present and potential migrant populations (beyond providing accurate, gender-appropriate information about the risks of, and individual responses to, the pandemic) by:
 - (i) expanding cash-for-work schemes in cities and municipalities in which returning migrants are concentrated (beyond the 20,000 workers already targeted);
 - (ii) strengthening English-language education courses for migrants, to help them to diversify their destination countries in the longer-term; and
 - (iii) introducing or strengthening mobility tracking systems that are consistent with human rights standards among migrants who have contracted COVID-19, in order to monitor the secondary impacts of the pandemic.

- 9) Closely align health aspects of regional development with the COVID-19 response. Raise the quality of monitoring socioeconomic and demographic data such as age, sex, education, income level, occupation, place of residence, engagement in the informal economy, and data on returning migrants by:
 - (i) producing periodic “heat maps” that superimpose worrisome epidemiological trends on geographic regions with high socioeconomic vulnerability;
 - (ii) undertaking active monitoring and reporting of epidemiological trends, including anonymized clinical data, case fatality ratios, data on high-risk groups to global laboratory or epidemiology systems; and
 - (iii) providing continuous training to health professionals and equipping rapid-response teams for early investigation into COVID-19 cases and clusters.

- 10) Ensure full transparency of all support measures, both on-budget and off-budget, on the management of the COVID-19 response by:
 - (i) consolidating all relevant COVID-19 response resources into the general government budget, and coordinating budget-financed activities with those supported by the Russian-Kyrgyz Development Fund;
 - (ii) minimizing tax relief in favor of direct government expenditures, which generally have higher income or expenditure multipliers; and
 - (iii) improving tax administration of imports by taxation and customs authorities.

- 11) Prioritize actions to improve gender outcomes of the overall COVID-19 response by:
 - (i) adopting measures to ensure continuous availability and access to sexual and gender-based violence services, and undertaking advocacy and public messaging by government and other policymakers; and
 - (ii) incorporating sex- and age-disaggregated data collection and analysis into all levels of the government’s response to the pandemic.

- 12) Identify specific policy areas through criteria-based assessments and develop timebound action plans concerning longer-term “building back better”⁵⁶ approaches to infrastructure investments by:
- (i) exploring areas such as water-efficient agriculture (climate-smart and resilient irrigation);
 - (ii) modernization of urban solid waste management, particularly in terms of recycling infrastructure; and
 - (iii) green and inclusive⁵⁷ city planning (spatial planning to respond to gender-differentiated needs, nature-based solutions for urban planning, energy efficiency in residential areas, extension of public transport systems, etc).
- 13) Advocate sustained engagement by international organizations and bilateral donors through financing, implementation support, and surveillance activities by:
- (i) assisting the government to make incremental changes through increased grant and concessional lending activities for specific areas such as:
 - a) expanding social protection programs, such as the MBPFC and unemployment benefits, to reach a greater number of vulnerable households;
 - b) earmarking resources to be channeled from the Anti-Crisis Fund to support MSMEs; and
 - c) exploring possibilities for sovereign debt restructuring or reductions, through instruments to manage debt.
 - (ii) ensuring appropriate scrutiny of, and providing critical feedback on, the use of aid and assistance of financial resources;
 - (iii) providing technical assistance support for the implementation of the government’s response programs; and
 - (iv) ensuring that the Kyrgyz Republic is integrated into all relevant international programs fighting the pandemic, including provision of appropriate testing methodologies, necessary materials, training programs, and COVID-19 treatment protocols.

⁵⁶ “Building back better” is about adopting holistic approaches to improving physical, social, environmental, governance, and economic infrastructure, in order to accelerate progress towards sustainable development and to build resilience to socioeconomic, health, climate, and seismic shocks.

⁵⁷ For more on inclusive urban design for women, go to <https://streets.mn/2020/05/22/how-can-cities-be-designed-for-women/>

Appendix 1: Detailed Policy Notes on the Recommendations of the Report

A1.1 Health Systems

What's the challenge?

COVID-19 poses development risks in three areas: (i) direct health effects due to the disease itself; (ii) indirect health effects due to the inability of health systems to maintain essential health services; and (iii) socioeconomic effects in the form of rising unemployment, increased levels of poverty, and other adverse determinants of health outcomes. Current evidence suggests that the pandemic is most likely to feature recurring epidemic waves interspersed with periods of low-level transmission.¹ The challenge for health systems in such circumstances is to offer an effective “dual track” response, under which critical health services in other areas are not sacrificed to the battle against COVID-19. In addition to providing the full range of services needed to prevent, diagnose, isolate, and treat COVID-19 patients, accumulated demand must also be addressed for other health services that may have been crowded out during COVID-19 outbreak peaks.²

Achieving this “dual track” capacity requires scaling up public health measures to disrupt chains of COVID-19 transmission. This is done through identifying, isolating, and testing cases, as well as tracing and quarantining the contacts of positive patients. The effective implementation of such activities requires rapid expansion of surge capacity for public health and laboratory services, and of training and protection for frontline health care staff (two-thirds of whom are women). It also requires creating “elasticity” in the use of acute and intensive care facilities. In so doing, health systems must be able to manage the consequences of disrupted service offerings, difficulties in rolling out digital (and other new) service delivery platforms, public fears of contracting the virus at health facilities, and impacts of the socioeconomic crisis. In addition to preventing broader national health outbreaks and other complications, effective COVID-19 responses must deal with the equity implications for poor and/or vulnerable people, who will have to endure often inadequate access to quality health services.

What does the evidence say?

An effective health response to the pandemic in the Kyrgyz Republic faces challenges in four key areas: (i) health system underfunding—apparent in the decline of government health expenditures from an already small 10% of government expenditures in 2013 to just 6% in 2017,³ as well as in chronic shortages of skilled health personnel and inadequate training (especially in rural and remote mountainous areas); (ii) insufficient primary health service delivery capacity, which has both led to and been aggravated by disproportionate numbers of COVID-19 infections among health care workers; (iii) gaps in public health system governance, particularly concerning coordination between primary and public health care services, as well as between various government ministries, social partners, and other stakeholders; and (iv) inadequate health information systems—the

¹ World Health Organization (WHO). 2020. [Considerations in Adjusting Public Health and Social Measures in the Context of COVID-19](https://apps.who.int/iris/bitstream/handle/10665/331773/WHO-2019-nCoV-Adjusting_PH_measures-2020.1-eng.pdf). https://apps.who.int/iris/bitstream/handle/10665/331773/WHO-2019-nCoV-Adjusting_PH_measures-2020.1-eng.pdf.

² WHO. 2020. [Strengthening and Adjusting Public Health Measures throughout the COVID-19 Transition Phases](http://www.euro.who.int/__data/assets/pdf_file/0018/440037/Strength-AdjustingMeasuresCOVID19-transition-phases.pdf?ua=1). http://www.euro.who.int/__data/assets/pdf_file/0018/440037/Strength-AdjustingMeasuresCOVID19-transition-phases.pdf?ua=1.

³ WHO. [Global Expenditures Database](https://apps.who.int/nha/database). <https://apps.who.int/nha/database> (accessed 20 May 2020).

health data landscape remains highly fragmented, with no overall health data strategy, governance, or standards. Timely investment in further digitalization is essential for the prevention of a second COVID-19 wave.

Policy Options

Key short-term actions include: (i) ensuring public sector provision of ongoing essential health services (including reproductive health); (ii) intensifying health services outreach to, and treatment for, disadvantaged regions and socially excluded individuals; (iii) promoting paid sick leave to enable health workers with symptoms to stay at home; and (iv) strengthening cross-sectoral (“One Health”) responses to the pandemic across key health determinants (e.g., water and sanitation, housing). For example, one of the key problems identified during the recent rapid gender analysis prepared by the Asian Development Bank was limited or low-quality access to water supply and sanitation in medical institutions located in the rural areas, which are critical during any pandemic.

In the longer term, the health sector and health equity considerations have prominent roles to play in recovery plans. In addition to addressing the pandemic, “dual track” investments in the health workforce, reinforcing outbreak preparedness, and improving disadvantaged communities’ access to quality health services can create decent jobs. Investments in these areas have been shown to have fiscal multipliers with larger benefits to disadvantaged regions and communities.⁴

Key investments (from the last quarter of 2020 through to the first quarter of 2022) in the following areas should be prioritized:

- **Public health and primary health care services;** to further reduce and prevent transmission,⁵ with particular emphasis on:
 - reducing or abolishing financial contribution (e.g., co-payments) and administrative barriers (e.g., requirements concerning proof of residence, legal identification, etc.) to quality health services;
 - ensuring that standard operating procedures are activated at *all* health facilities, including measures for assessing and isolating infected individuals, preventing and controlling infection, protecting staff, and initiating notification systems; and
 - building surge capacity for testing, tracing, and isolating the infected, via:
 - investing in mobile solutions and digitalization;
 - increasing the hours of part-time staff and paying overtime to full-time staff who are working long hours;
 - recognizing that, because women also provide the bulk of household care for children, elderly and the infirm, they may need to be prioritized in responding to these aspects of the pandemic;

⁴ A. Reeves, S. Basu, M. McKee, et al. 2013. Globalization and Health. [Does Investment in the Health Sector Promote or Inhibit Economic Growth?](https://doi.org/10.1186/1744-8603-9-43) <https://doi.org/10.1186/1744-8603-9-43>.

⁵ WHO. 2020. [How to Budget for COVID-19 Response?](https://www.who.int/teams/health-financing/covid-19) <https://www.who.int/teams/health-financing/covid-19>.

- mobilizing military and nongovernmental (e.g., Red Cross and Red Crescent, private sector agencies) health workforce capacity, as well as civil servants from nonhealth sectors to handle generic managerial tasks;
 - engaging retired health personnel and medical trainees (for appropriately supervised roles);
 - intensifying public health and preventive measures with rural health committees; and
 - where appropriate, outsourcing select functions to nongovernment organization and volunteers to work at community level.
- **Laboratory testing, epidemiological analysis, and surveillance mechanisms;** to better monitor socioeconomic and demographic particulars such as age, sex, education, income level, occupation, place of residence, engagement in the informal economy, and details of returning migrants;
 - **Stronger COVID-19 outreach to government agencies and the general public;** to better support the elderly, people living with disabilities, children living in institutions, returning migrants, etc.; to increase awareness of social distancing and critical hygiene practices, particularly in regard to weddings, funerals, and other large public gatherings (taking literacy levels, cultural, ethnic, and linguistic factors into consideration);
 - **Establishing and maintaining a mobile national pool of resources** (ventilators, personal protective equipment, staff) and protocols for rapid deployment;
 - **Strengthening health information systems,** with an emphasis on:
 - mapping essential service lists against resource requirements and available budgets;
 - mapping public and private pharmacies and suppliers, identifying regional and spatial disparities (including informal peri-urban settlements); and
 - strengthening inventory and procurement management;
 - **Strengthening epidemiological surveillance,** with a focus on:
 - assessing gaps in active case-finding and event-based surveillance systems, with an eye towards galvanizing active case tracking and event-based surveillance for influenza-like illnesses and severe acute respiratory infections;
 - undertaking case-based reporting to the World Health Organization within 24 hours under International Health Regulation (2005);
 - active monitoring and reporting of epidemiological trends (including anonymized clinical data, case fatality ratios, data on high-risk groups) to global laboratory or epidemiology systems; and

- training and equipping rapid-response teams for early investigation into COVID-19 cases and clusters.

A1.2 Labor Market Informality⁶

What's the challenge?

Informality (in terms of self-employment and micro enterprises) in the Kyrgyz Republic is particularly prevalent in sectors that are most vulnerable to the socioeconomic impacts of the COVID-19 pandemic. Such sectors and industries include garment production, tourism, trade and consumer services, and construction, which together account for more than half the country's gross domestic product and employment. In responding to the pandemic, the longer term challenge is to combine social assistance with stronger support in job seeking, reskilling, and access to public work and other active labor market programs, in line with social distancing requirements. These goals are in addition to adapting the Kyrgyz Republic's social protection systems to better meet the needs of those in the informal sector—many of whom are excluded from such systems, as well as from protection of labor rights.

What does the evidence say?

National data indicate that 71% of the workforce (1.69 million workers) in 2018 were employed in the informal sector, of whom about 40% were women. It is estimated that the informal sector accounted for 61% of female and 77% of male employment across the country. While informality was particularly pronounced in rural areas (accounting for 76% of total rural employment), it was also strongly present in urban areas (62% of total urban employment).⁷ Women in the informal sector are often engaged in more vulnerable work (e.g., as caregivers, as street and market vendors, and in agriculture)—sectors in which earnings are below national averages. In addition to economic activities conducted outside the realms of the legal system, these figures include many legally operating business and individuals such as own-account workers, the self-employed, and some 400,000 individual proprietorships and micro enterprises operating under various “patent” or “single tax” regimes.

Under prevailing legislation in the Kyrgyz Republic, patent holders, as well as small and medium-sized enterprises (SMEs), may employ workers without labor contracts, who may therefore be particularly vulnerable to exclusion from social and labor protection. Those employed informally in manufacturing (mostly in garment production and food processing) was estimated in 2018 at 219,000 people, of whom 44% were women. Similarly, informal employment in the hotel and restaurant sector was estimated at 127,000 people, of whom 49% were women. Taking these gender-based employment and wage differentials into account, the United Nations Development Programme's Human Development Report estimates that women in the Kyrgyz Republic in 2018 on average earned 51% less than men, compared to a global average of 44% less.

These workers experience substantial difficulties in exercising their freedom of association and the rights to organize and bargaining collectively, further complicating

⁶ Inputs from the International Labour Organization are gratefully acknowledged.

⁷ Asian Development Bank, 2019. [Kyrgyz Republic Country Gender Assessment](#). Manila.

efforts at formalization and improving access to state services. Furthermore, employers offering formal employment seem increasingly interested in encouraging their employees to register as patent holders, in order to reduce costs. As in other countries, Kyrgyz Republic workers who recategorize themselves as “service providers” may lose labor and social protection rights afforded to employees (e.g., unemployment benefits, sick leave, maternity leave, pension contributions, workplace injury compensation, etc.).

Due to gaps in the Kyrgyz Republic’s social protection system, many workers must choose to be engaged in the informal sector because they cannot afford to be unemployed. With the average unemployment compensation benefit in 2019 only covering about 13% of the national subsistence minimum, only around 25% of the unemployed bothered to register as such. Of this 25%, only 60% received active or passive labor market support (most were offered participation in public works).

So, while the country’s informal sector may not be totally invisible (i.e., patent holders are registered and pay taxes), those employed informally by patent holders and SMEs seem to be particularly vulnerable. Moreover, despite the fact that the “patent economy” accounted for an estimated 24% of gross domestic product in 2017,⁸ most patent holders and SMEs are not eligible for the tax relief and other enterprise support measures that have been introduced in response to the economic impacts of controlling COVID-19. Many of those in the informal sector therefore remain acutely vulnerable to the pandemic’s socioeconomic devastation.

Policy Options

- In line with the International Labour Organization’s [*Transition from the Informal to the Formal Economy Recommendation, 2015 \(No. 204\)*](#), policy responses to the COVID-19 crisis in the Kyrgyz Republic should contribute to formalization. In light of the impact of the pandemic, policy responses are particularly needed in order to: (i) improve access to social protection; and (ii) increase the longer-term productive capacity and competitiveness of micro, small, and medium-sized enterprises (MSMEs); while (iii) ensuring respect for fundamental principles and rights at work. Special attention should be paid to:
 - observing more effective occupational safety and health policies, and efficient and effective labor inspections; and
 - expanding investments by the Ministry of Labour and Social Development and the Public Employment Service to help job seekers improve their skills and better prepare for existing and possible future market demands, with targeted support programs for youth, women, and other vulnerable groups.
- The Government of the Kyrgyz Republic’s controversial draft trade union act, which is pending a repeated second hearing in the Parliament, should be withdrawn as it is in serious conflict with ratified and fundamental labor conventions. Its passage could further worsen informal-sector workers’

⁸ Brookings Institute. 2019. [What’s Holding Back the Kyrgyz Republic Private Sector?](https://www.brookings.edu/blog/future-development/2019/07/25/whats-holding-back-the-kyrgyz-republic-private-sector/)
<https://www.brookings.edu/blog/future-development/2019/07/25/whats-holding-back-the-kyrgyz-republic-private-sector/>

prospects to realize freedoms of association and to have the right to organize trade unions and bargain collectively.

- Loopholes in the Kyrgyz Republic's law on professional activities (patent law) need to be closed to prevent the patent system from further weakening the country's industrial relations system and eroding workers' access to labor and social rights.
- State labor inspection should be strengthened to fundamentally improve its capacity to monitor compliance with labor laws and standards, particularly in regard to labor rights and occupational health and safety.
- A portion of the resources being allocated under the Anti-Crisis Fund should be channeled through a productive asset support facility for MSMEs, to help stabilize and prepare small businesses for recovery beyond the COVID-19 pandemic. This facility could provide direct support to MSMEs that meet certain business and labor rights requirements, and are part of government programs supporting employment-generating and environmentally sustainable activities. It could also support the digitalization of the operations of MSMEs, to boost competitiveness and align with social distancing requirements (with the engagement of local technology companies).

Policies to reduce informality and address its implications should be gender-sensitive, as women's disproportionate engagement in the care economy, domestic work, and other precarious activities is a major driver of gender inequality in the Kyrgyz Republic.⁹ To support women who are operating micro enterprises in the informal economy, policies and programming should supplement efforts to improve the commercial environment with increased support for mentorship and training to develop business skills.

A1.3 Migration and Remittances

What's the challenge?

The Kyrgyz Republic is a world leader in attracting remittance inflows (relative to its gross domestic product), and significant shares of the country's labor force work abroad (mostly in the Russian Federation). In addition to supporting the balance of payments, remittances help reduce poverty in the Kyrgyz Republic, especially in the rural areas from which most labor migrants originate. Data from the National Bank of the Kyrgyz Republic indicate that remittance inflows into the country fell sharply during the first quarter of 2020, with the recession projected for the Russian Federation suggesting that outward migration and remittances will further decline over the course of the year.

These declines reflect, in large part, border closures in the Russian Federation (and in neighbouring Kazakhstan, where Kyrgyzstani migrants also work) that are the result of COVID-19 containment strategies. The falls can also be attributed to restrictions on international travel and general declines in the demand for migrant labor. Questions

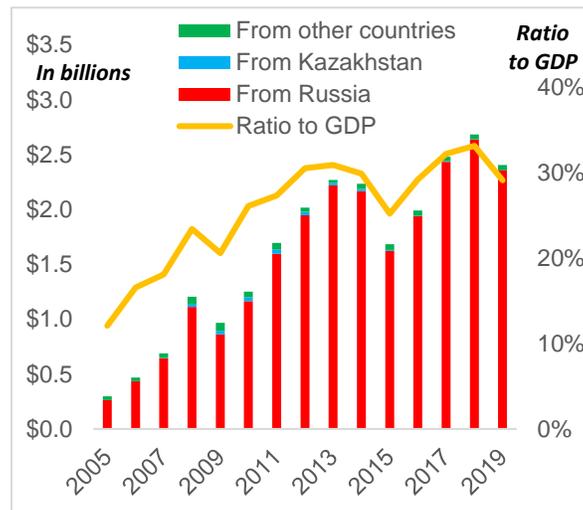
⁹ International Labour Organization. 2018. [Empowering Women Working in the Informal Economy](https://www.ilo.org/wcmsp5/groups/public/---dgreports/---cabinet/documents/publication/wcms_618166.pdf).
https://www.ilo.org/wcmsp5/groups/public/---dgreports/---cabinet/documents/publication/wcms_618166.pdf

have been raised about the status of Kyrgyzstani migrants who may be unable to return home from the Russian Federation and other destination countries, as well as about what might happen to returning migrants (some of whom are likely infected with the coronavirus) for whom suitable employment cannot be found. In the longer term, the prospects of labor migration and remittance flows returning to pre-COVID-19 levels may be closely linked to progress in combatting the virus, and could have profound implications for the Kyrgyz Republic's wider development prospects.

What does the evidence say?

Over the past 15 years, the Kyrgyz Republic has seen its annual inflows from remittances increase from below \$500 million to around \$2.5 billion (Figure 1), with these inflows outstripping even merchandise exports in terms of external revenues (Figure 2). The Russian Federation is far and away the largest destination country for Kyrgyzstani labor migrants, and the largest source of the Kyrgyz Republic's remittance inflows.

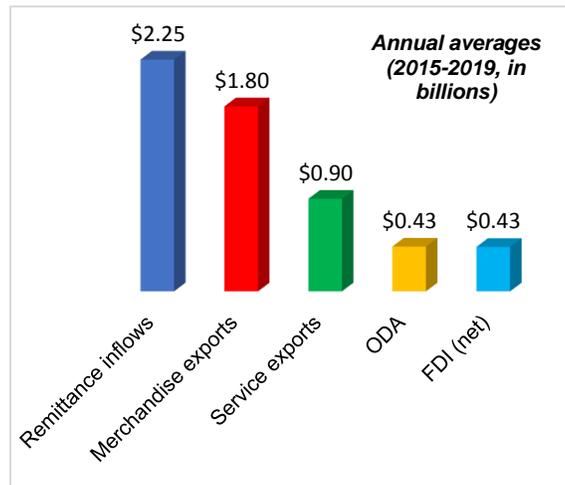
Figure A1.1: Remittance Inflows into the Kyrgyz Republic



\$ = United States dollars, GDP = gross domestic product

Source: United Nations Development Programme calculations based on data from the National Bank of Kyrgyz Republic, the World Bank, and the United Nations Department of Economic and Social Affairs.

Figure A1.2: Remittances and Other Financing Inflows into the Kyrgyz Republic
(\$ billion)

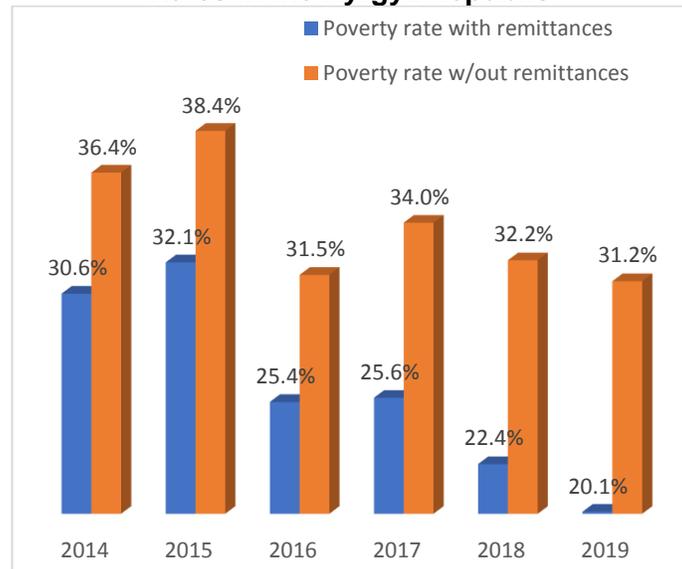


\$ = United States dollars, FDI = foreign direct investment, ODA = official development assistance
Source: United Nations Development Programme calculations based on data from the National Bank of Kyrgyz Republic, the World Bank, and the United Nations Department of Economic and Social Affairs.

Due to pervasive informality, the exact number of Kyrgyz Republic citizens working abroad is not known. While the National Statistical Committee of the Kyrgyz Republic in 2018 estimated the number of those working abroad at 263,000 (40% of whom were women), the Russian Federation's Ministry of Interior registered 877,000 incoming Kyrgyz Republic citizens in that same year, of which 77% claimed "work" as the reason for their arrival (and this figure went up to 1,055,000 in 2019). Moreover, significant numbers of Kyrgyzstani labor migrants have obtained Russian citizenship, and as such are not classified as migrants by the Russian authorities. These factors suggest that upwards of 1,000,000 Kyrgyz Republic citizens (around 40% of the country's labor force) regularly work abroad (albeit an estimated 30% work on a seasonal basis, particularly in agriculture and construction). While the external migrants are young adult males (75.6% are between the ages of 18 and 35 years), the majority of migrants moving within the Kyrgyz Republic are women, mainly from remote areas to cities.

As the country's largest source of external financing, remittances play a key role in boosting household incomes and raising people out of poverty. The 11.1 percentage-point reduction in the national poverty rate attributed to remittances in 2019 (Figure 3) translates to around 715,000 people being lifted out of poverty in that year.

Figure A1.3: Remittance Inflows and Poverty Rates in the Kyrgyz Republic



Sources: National Bank of the Kyrgyz Republic; and National Statistical Committee of the Kyrgyz Republic.

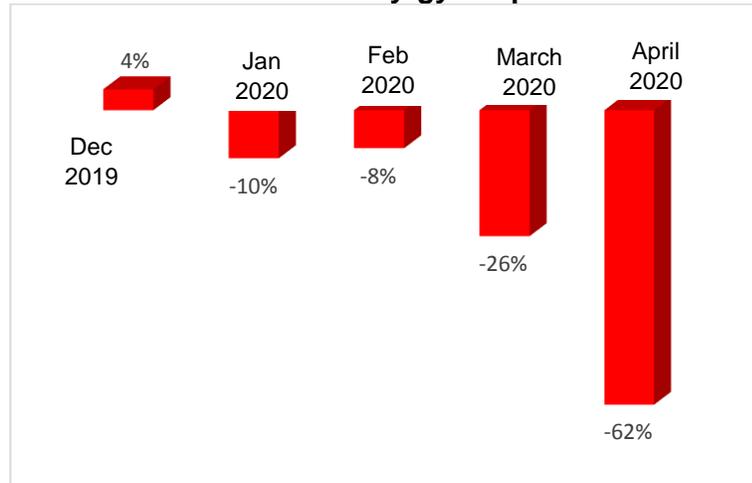
However, labor migration can also have large socioeconomic costs. Many Kyrgyz Republic citizens working abroad do so irregularly, without full social or legal protection, with some falling victim to trafficking and other forms of abuse. While children and other family members may benefit from remittances sent by laborers working in other countries, they also suffer the consequences of absentee parents or spouses and separated families. Migration outflows may also represent economic losses (i.e., “brain drain”) for the Kyrgyz Republic, particularly where these workers could have remained at home and generated value added for the domestic economy.

The Government of the Kyrgyz Republic has responded to the extensive integration of the Kyrgyzstani and Russian labor markets by adopting a more strategic approach to the country’s migration management challenges. For example, reducing the economic dependence and vulnerability of women by creating a more balanced labor market has remained a priority of the country’s national gender strategy.¹⁰ This could bode well for leveraging the country’s remittance inflows for broader development purposes, while also minimizing the social costs associated with labor migration.

In the short term, however, the Kyrgyz Republic is on course to experience sharp declines in remittance inflows in 2020. This is apparent in remittances data from the National Bank of the Kyrgyz Republic, which show inflows during January–April 2020 down 62% on the same period a year earlier (Figure 4). Continued downward trends, estimated at 20%–25% over the course of 2020 and possibly beyond, seem likely. Media reports also point to growing numbers of Kyrgyzstani migrants returning home from the Russian Federation, heightening concerns of possible COVID-19 transmission.

¹⁰ Asian Development Bank. 2019. [Kyrgyz Republic Country Gender Assessment](#). *Manila*.

Figure A1.4: Year-on-Year Trends in Remittance Inflows into the Kyrgyz Republic



Sources: National Bank of the Kyrgyz Republic; and National Statistical Committee of the Kyrgyz Republic.

The coronavirus-induced closure of the Russia Federation's borders with other countries in the Eurasian Economic Union and the sudden suspension in international travel are obstacles with which Kyrgyz Republic migrants and policymakers have not previously had to contend. In addition to possibly deepening and lengthening the recessions in the Russian Federation and other destination countries, the "new normal" may include harder borders and more animosity towards migrants in these countries.

If the sharp declines in remittances noted for 2020 are to materialize, or even worse results are tabled, then slower economic growth, increases in poverty (of up to 10 percentage points) and community vulnerability, and other unfavourable socioeconomic outcomes seem highly likely. Without the safety valve of labor migration and the windfall of the remittances they produce, the Kyrgyz Republic's sustainable development prospects and political economy could undergo significant changes.

Policy Options

The Kyrgyz Republic's 2015 accession to the Eurasian Economic Union represented an important step in improving the legal position of its migrants in the Russian Federation and Kazakhstan. The national government has in recent years increased investments in pre-departure training courses for migrant workers (focusing *inter alia* on improving Russian-language skills and the knowledge of migrants on their rights and responsibilities while working in the Russian Federation). The government has also established consulates in Russian cities besides Moscow, where Kyrgyzstani workers are concentrated, and is strengthening outreach to employers and Kyrgyzstani diasporas abroad. In the longer term, these measures could support the return of specialists and the skills they have acquired abroad (i.e., "brain gain").

However, policymakers in Bishkek would seem to have few good short-term options in dealing with the unfolding declines in the demand for migrant labor and associated remittances. In addition to scaling up social protection support for poor and vulnerable households, key short-term policy issues include addressing the status of

migrants still in destination countries and catering to the medical and economic needs of returning migrants.

The Government of the Kyrgyz Republic may wish to consider the following steps to address these challenges:

- providing gender-appropriate humanitarian assistance (through consulates) — including housing, food and nonfood items, and better access to health services and personal protective equipment—to migrants (workers, students) “stranded” in destination countries;
- to the extent permitted by lockdowns, quarantine, and social distancing arrangements, expanding on ongoing cash-for-work schemes in the Kyrgyz Republic cities and municipalities in which returning migrants are concentrated (beyond the 20,000 workers already targeted by these schemes);
- expanding on existing outreach to migrant and diaspora communities in destination countries to provide migrants with accurate, gender-appropriate information about the risks of, and individual responses to, the pandemic (e.g., concerning social distancing);
- strengthening English-language education in preparation courses for migrants, to help them to diversify their countries of destination;
- strengthening advocacy and/or outreach to combat xenophobia and discrimination against migrants (both those working abroad at migrating within the country); and
- introducing or strengthening mobility tracking systems (consistent with human rights standards) among migrants who have contracted COVID-19, to monitor the secondary impacts of the pandemic.

A1.4 Social Protection and Food Security

What’s the challenge?

Official data from 2019 indicate that 20.1% of the population of the Kyrgyz Republic (about 1.3 million people) live below the national poverty line, while 15.5% (in 2018) were living below the \$3.20/day (at purchasing power parity) threshold recommended by the World Bank for international poverty comparisons among lower middle-income countries. Perhaps even more alarmingly, over 90% of the population continues to live below the \$10/day (at purchasing power parity) level that is increasingly seen as the threshold for entry into the global middle class. Social protection and food security therefore remain important concerns in the Kyrgyz Republic. For example, national food security monitoring highlights inadequate protein consumption among many of the country’s children.

Countries should ideally be able to quickly respond to socioeconomic shocks by expanding their social protection systems horizontally (i.e., by increasing coverage via expansion to new households) and vertically (i.e., by increasing the value or duration of

benefits). Thus far, however, the Kyrgyz Republic's social protection response (beyond the health system) to the COVID-19 pandemic has been rather limited, and has focused primarily on the provision of food. Food packages worth Som800 (\$10–\$12) each have been distributed to 225,000 vulnerable households, and price controls for food staples have been tightened. Social protection—particularly in terms of social assistance for poor families and unemployment compensation for workers who have lost their jobs—has not been emphasized. While this may be due in part to weaknesses in the country's social protection systems, the pandemic may also provide opportunities to strengthen these systems and reduce the pandemic's impact on poor and vulnerable households.

The short-term challenge is to expand the coverage and adequacy of social assistance, particularly the Monthly Benefit for Poor Families with Children (MBPFC)¹¹ and unemployment compensation, to cover greater shares of the vulnerable population. In particular, coverage should embrace informal sector participants who have lost their main income sources during the lockdown phase of the pandemic. The longer-term challenge is to review the draft national social protection strategy, with an eye to strengthening the ability of social protection systems to promote longer-term resilience among the vulnerable population.

What does the evidence say?

Benefits and eligibility for the MBPFC—the Kyrgyz Republic's main social assistance instrument—are calculated on the basis of the country's guaranteed minimum income (Som1,000 per month), which at present is only about 20% of the national minimum subsistence level. As a result, the number of households eligible for MBPFC assistance is very low. UNICEF estimates that only about 1% of households have per-capita income levels below the guaranteed minimum income. In addition to this means test, potential recipients are excluded from the MBPFC by ownership of land (and other assets), which may have only limited income-generating potential. The eligibility criteria for the MBPFC, the Monthly Social Benefit (for people with special needs), and unemployment benefits also fail to recognize the threats facing many informal sector workers, who may possess at least some assets and may have incomes close to the national poverty line.

Moreover, during crisis situations such as the COVID-19 pandemic, social protection systems should help discourage households from adopting last-resort strategies to cope financially (e.g., asset sales at desperately low prices or cutbacks in spending on education and health), which often disproportionately impact women and girls. Such coping strategies can impede post-crisis recovery and increase the risk of households falling into chronic poverty.

These concerns are highlighted by the analysis underpinning the Asian Development Bank- United Nations Development Programme (ADB-UNDP) COVID-19 socioeconomic impact assessment, which finds that income poverty in the Kyrgyz Republic could increase by up to 10.5 percentage points (some 680,000 people). UNICEF analysis indicates that the number of children living in poverty as a result of the pandemic's socioeconomic shock could increase by 160,000 or more. Meanwhile, the World Food

¹¹ Nominal recipients of this benefit are children, but the benefit is managed by parents (usually mothers). The title of the benefit used in this policy note is a heritage one; currently it is called Uiy-Bologo Komok (UBK).

Programme's rapid assessment finds that many poor households are suffering from high food prices, with over 80% adopting negative longer-term coping strategies.

Policy Options

In the short term, support to vulnerable categories of the population should be: (i) extended beyond food and/or humanitarian aid; (ii) provided in the form of cash transfers; and (iii) be integrated into the Kyrgyz Republic's overall social protection system.¹²

Eligibility criteria for the MBPFC and unemployment compensation should be relaxed, in order to better address the needs of poor and vulnerable informal sector workers. In addition, greater and more expansive social assistance could boost demand for cheaper domestically produced products and help the micro enterprises and farmers who supply such goods. Of course, by dissuading vulnerable households from adopting negative coping strategies, greater social assistance can also strengthen longer-term socioeconomic resilience.

While relaxing the strict eligibility criteria for social protection may lead to inclusion errors (people mistakenly allowed benefits), the large number of vulnerable households currently excluded from these systems suggests that inclusion errors should not be an issue. The rapid design and implementation of digital platforms for easier benefit registration, which will reduce the need for beneficiaries to stand in line in crowded government offices, could be supported by UNDP governance and digital services programming.

The UNDP-ADB socioeconomic impact assessment estimates that setting both the MBPFC and unemployment benefits at Som1,000 per recipient per month, and extending payment of these benefits for 6 months to 500,000 new recipients, would cost Som3.35 billion (0.6% of GDP) in 2020. Such a sum should be affordable to the government, particularly if international donors provide the \$500 million (7% of GDP) expected in crisis funding. Budget capacity for social protection could also be expanded if subsidies for fossil fuels and chemical fertilizers were reduced, and more ambitious efforts were undertaken to reduce illicit financial flows.

Longer term, the Kyrgyz Republic's draft national social protection strategy should be reviewed in the context of economic and social recovery beyond the COVID-19 pandemic. This review needs to consider efforts to more closely align social assistance with health and social services for households in which the coronavirus is present, with short-term public works employment (consistent with social-distancing principles), and with social care economy investments.

A1.5 Sustainable Future

What's the challenge?

Global estimates suggest that the COVID-19 health, social, and economic crisis may cost 6 years of progress toward the Sustainable Development Goals. However, pandemic-induced declines in travel and consumption have also reduced pollution and

¹² The food packages distributed to 225,000 vulnerable households were targeted through local commissions that function in parallel to the existing social protection system.

greenhouse gas emissions, helping to restore the natural capital in many countries. Moreover, potential cost savings from using natural resources (especially water and energy) more efficiently, and from reducing or realigning public budgetary measures that support unsustainable natural resource management (e.g., in energy and agriculture), can offer new growth opportunities in the “green” economy. Furthermore, slowing biodiversity loss and limiting the temperature increases can make the emergence and spread of future pandemics less likely.¹³

In addition to generating new jobs in such areas as environmental engineering, waste management, and ecotourism, green economic growth can occur within existing resource constraints, thanks in part to emerging innovative green finance options. Investment in climate-resilient infrastructure and a lower-carbon future, including in jobs in the low-carbon social care sector, can drive significant short-term job creation while increasing socioeconomic and environmental resilience.¹⁴ A green recovery can also open opportunities for women and girls to access new skills and better jobs, while also increasing women’s labor market participation and reducing informality.

Many of these opportunities are widely available to the Kyrgyz Republic, which ratified the Paris agreement on climate change at the end of 2019, and has begun taking policy steps towards a greener, low-carbon future. The Green Economy Policy was adopted in late 2019, and a pollution action plan was set out in 2020.

What does the evidence say?

While some of the Kyrgyz Republic’s investments to respond to the COVID-19 crisis, such as those relating to digitalization and innovation, have provided dividends for social and economic resilience, green economy opportunities have been much slower to emerge. In the meantime, unsustainable resource management continues to pose risks for food security, health, and poverty reduction, particularly for rural and remote communities. This outmoded approach to natural resource management also continues to impact negatively on those with access to energy grids that work only intermittently, where the burdens of collecting water and gathering fuel are likely to fall disproportionately on women and girls.

Economic growth prospects in the Kyrgyz Republic are highly vulnerable to the effects of climate change, particularly in agriculture, hydropower, mining, forestry, and tourism; and particularly in the country’s southern regions. Electricity generation capacity in the country is about 4 gigawatts, with an annual output of 12–15 billion kilowatt hours, which are consumed in full. Although 92% of electricity is produced by hydropower plants, and can be considered green, the share of renewable energy generation in the country was only 1.38% in 2018. Moreover, electricity consumption since 2010 has increased by

¹³ A. Lustgarten. 2020, [How Climate Change is Contributing to Skyrocketing Rates of Infectious Disease](#). *ProPublica*. 7 May 2020; and United Nations Environment Programme. 2020. [Working with the Environment to Protect People: UNEP’s COVID-19 Response](#).

¹⁴ McKinsey. 2020. Addressing Climate Change in a Post-Pandemic World. [https://www.unenvironment.org/resources/working-environment-protect-people-uneps-covid-19-response](https://www.mckinsey.com/business-functions/sustainability/our-insights/addressing-climate-change-in-a-post-pandemic-world#).
<https://www.mckinsey.com/business-functions/sustainability/our-insights/addressing-climate-change-in-a-post-pandemic-world#>

83%.¹⁵ Renewables could help fill this growing energy gap and reduce pressure on aging existing electrical infrastructure, between 50% and 70% of which requires urgent investment or replacement.¹⁶

The Kyrgyz Republic's growing energy needs are instead being increasingly met by coal, the consumption of which nearly tripled during 2006–2018. Much of this growth has been due to an increased reliance on inefficient and heavily polluting coal-fired boilers as well as the household use of coal for heating. In addition to a growing carbon footprint, rising air pollution, and associated health costs, annual deaths associated with air pollution in the Kyrgyz Republic are increasing.¹⁷

More sustainable energy policies could mean new opportunities for private sector employment, new green jobs, access to concessional global financing, and reduced reliance on energy imports. Estimates of possible savings in the Kyrgyz Republic energy sector range from 18% in reduced losses in electricity transmission to 60% in public buildings.¹⁸ Today's low electricity and heating prices are not covering current or future production costs, leading to seasonal shortages and unsustainable subsidy regimes.¹⁹ Water losses in agriculture are estimated at 2.1 billion cubic meters annually, or about one quarter of total water extraction. Smart investments to reduce water losses could increase cereal production by more than 900,000 metric tons per year.²⁰ Low global oil prices at present provide important reform opportunities to reduce subsidies, waste, and pollution, and to boost renewables and energy efficiency.

Similar issues are apparent in solid waste management, as the Kyrgyz Republic does not have modern recycling facilities. Urban population growth is spawning more waste generation, which is stored in landfills that often do not meet legal requirements and which themselves contribute to water, soil, and air pollution.

Policy Options

¹⁵ National Statistical Committee of the Kyrgyz Republic. 2018. [Fuel and Energy Balance of the Kyrgyz Republic 2018](http://stat.kg/ru/publications/toplivno-energeticheskij-balans/). <http://stat.kg/ru/publications/toplivno-energeticheskij-balans/>

¹⁶ World Bank Group. 2017. Kyrgyz Republic: A Sustainable Economy: On a Slow Growth Path. Special Focus: Kyrgyzstan Energy Sector. Economic Review No. 5. Spring 2017.

¹⁷ Global Alliance on Health and Pollution. 2018. [Kyrgyzstan & Pollution Health and Economic Impacts](https://www.pureearth.org/wp-content/uploads/2018/11/Kyrgyzstan-Pollution-Health-and-Economic-Impacts-The-Lancet-Report.pdf). <https://www.pureearth.org/wp-content/uploads/2018/11/Kyrgyzstan-Pollution-Health-and-Economic-Impacts-The-Lancet-Report.pdf>

¹⁸ These ranges come from NSC energy balance data; and World Bank. 2019. [Roadmap for the Implementation of Energy Efficiency in Public Buildings of the Kyrgyz Republic](http://documents.worldbank.org/curated/en/491271560400148398/pdf/Roadmap-for-the-Implementation-of-Energy-Efficiency-in-Public-Buildings-of-the-Kyrgyz-Republic.pdf). <http://documents.worldbank.org/curated/en/491271560400148398/pdf/Roadmap-for-the-Implementation-of-Energy-Efficiency-in-Public-Buildings-of-the-Kyrgyz-Republic.pdf>

¹⁹ United Nations Development Programme research shows that state budget allocation to cover the costs of heat supply enterprises within the system of State Enterprise "Kyrgyzteploenergo" totalled approximately Som1.2 billion in 2019. At the municipal level, this is often topped up with further fossil fuel subsidies. Source: United Nations Development Programme. 2019. [Environmental Finance Policy and Institutional Review in the Kyrgyz Republic](http://www.biodiversityfinance.net/sites/default/files/content/knowledge_products/Environmental%20Finance%20Policy%20and%20Institutional%20Review%20in%20the%20Kyrgyz%20Republic_0.pdf). http://www.biodiversityfinance.net/sites/default/files/content/knowledge_products/Environmental%20Finance%20Policy%20and%20Institutional%20Review%20in%20the%20Kyrgyz%20Republic_0.pdf.

²⁰ Government of the Kyrgyz Republic. State Water Resources Agency.. [Water Resources and Water Management Infrastructure of Kyrgyzstan](https://www.water.gov.kg/index.php?option=com_content&view=article&id=228:vodnye-resursy-i-vodokhozyajstvennaya-infrastruktura-kyrgyzstana&catid=99&lang=ru&Itemid=1274). https://www.water.gov.kg/index.php?option=com_content&view=article&id=228:vodnye-resursy-i-vodokhozyajstvennaya-infrastruktura-kyrgyzstana&catid=99&lang=ru&Itemid=1274

In allocating finance under the COVID-19 Anti-Crisis Fund and other sources, the Government of the Kyrgyz Republic should avoid locking in higher emissions or increased longer-term vulnerability to future pandemics and climate change.

Promoting the shift towards a resilient green economy had already been highlighted as a government priority before the pandemic, as is apparent in the Green Economy Development Plan (2019) and Climate Investment Programme (2018). The challenge now lies in implementing and financing this shift. Aligning the Anti-Crisis Fund to finance COVID-19 response and recovery with green economy priorities is essential, as is intensified outreach to attract multilateral climate change and green investment financing. Important directions include investments in:

- water-efficient agriculture (climate-smart and resilient irrigation);
- the modernization of urban solid waste management, particularly in terms of recycling infrastructure;
- green and inclusive²¹ city planning (e.g., spatial planning to respond to gender-differentiated needs, nature-based solutions for urban planning, energy efficiency in residential areas, and extension of public transport);
- sustainable ecotourism, with attention to employment generation for women and other vulnerable groups, and sustainable disposal of waste in the [carpet industry](#);
- public sector energy efficiency (e.g., in public schools, kindergartens, and primary health care centres);
- renewable energy projects that can generate better jobs for both men and women;
- rangeland management and conservation services in forestry, wildlife, and biodiversity;
- fair trade, based on the expanded cultivation and sustainable harvesting of medicinal plants, for which demand is growing, and which can offer important employment- and income-generation opportunities for women;²²
- climate derisking of infrastructure investment projects;
- more effective social protection to ensure that higher energy and water tariffs are not a hardship on vulnerable households;
- social care services and infrastructure, for low-carbon care job creation; and
- integration of natural capital accounting into planning, programming, and budgeting decisions.

Significant green investment funding could also come from private finance and development partners. However, attracting this finance requires policy actions to reset incentives. Particularly important in this context are:

- setting more ambitious climate change emissions reduction commitments, with an eye to sector-specific and partner-specific financing possibilities;
- ensuring that energy, water, and communal service tariffs (e.g., for waste management) cover current and future production costs (higher tariffs are often a

²¹ Streets. 2020. [Designing Cities for Women: Lessons from Barcelona's 'Feminist City'](https://streets.mn/2020/05/22/how-can-cities-be-designed-for-women/). <https://streets.mn/2020/05/22/how-can-cities-be-designed-for-women/>

²² Central Asian Bureau for Analytical Reporting. 2019. [How to Increase the Export Potential of Kyrgyz Medicinal Herbs?](https://cabar.asia/en/how-to-increase-the-export-potential-of-kyrgyz-medicinal-herbs/) <https://cabar.asia/en/how-to-increase-the-export-potential-of-kyrgyz-medicinal-herbs/>

precondition for financing green investments, which can also be sources of new job creation); and

- promoting innovative financing or regulatory mechanisms, such as debt-for-nature or debt-for-climate swaps (which could be used both to finance green projects and as seed funding or cofinancing for blended green investments).

Appendix 2: Notes on the Methodological Approach in the Joint ADB-UNDP Report

1. From a macroeconomic perspective, the Asian Development Bank (ADB)'s ongoing work to assess the potential economic impacts of the COVID-19 pandemic serves as the starting point for the quantitative assessment of socioeconomic implications on the Kyrgyz Republic. Three sets of estimates have been produced on these economic impacts; one on 6 March²³, one on 3 April (published within the Asian Development Outlook),²⁴ and one on 12 May.²⁵

2. The May estimates use the Global Trade Analysis Project-computable general equilibrium model, which is to revise its COVID-19 impact assessment under a short-(3 month) and long-(6 month) containment scenario. This model uses three known and measurable channels: (i) higher trade costs (lower tourism receipts, lower goods trade); (ii) negative productivity shock (production disruption, impaired mobility, transport restrictions on the supply side, and lower consumption growth and weaker investment growth on the demand side); and (iii) country policy response (health and medical spending, fiscal stimulus and liquidity injections). However, it needs to be noted that the Global Trade Analysis Project does not fully capture some important channels specific to the Kyrgyz Republic and other Central Asian economies, namely remittances. On the fiscal stimulus package and liquidity injections, while the model factors only direct income support to households, businesses, or the public sector, the assumption is that there is no time-lag to create institutional structures, operating modalities for disbursing funds to the targeted groups, and usually enterprise support done through an anti-crisis fund.

3. The previous ADB estimates, released on 3 April, assessed spillovers of demand shocks through trade and production linkages, using the multiregional input-output model. The analysis generated estimates of the decline in the Kyrgyz Republic's gross domestic product (GDP) and employment by major economic sectors, based on scenario assumptions on external shocks transmitted through tourism, domestic consumption (growth in domestic consumption in outbreak-affected economies declines by 5 percentage points), and investment (growth in domestic investment in outbreak-affected economies declines by 6.25 percentage points).²⁶ This version operates with three scenarios: (i) shorter containment in 3 months, smaller demand shocks; (ii) longer containment in 6 months, larger demand shocks; and (iii) additional impact if significant outbreak occurs. The lower boundary estimate for the Kyrgyz Republic's GDP decline in 2020 is now 4.35%. It provides estimates for changes in employment. The analysis explicitly recognizes the limits of data availability and the need to account for the country context ("Many additional channels for effects on economic activity are not as easily analyzed or quantified, such as disrupted supply from production stoppages..."). Hence, further adjustment is necessary.

²³ ADB. 2020. The Economic Impact of COVID-19 on Developing Asia. *ADB Briefs*. No. 128. Manila: ADB.

²⁴ Asian Development Bank. 2020. *Asian Development Outlook 2020. What Drives Innovation in Asia. Special Topic. Impact of the Coronavirus Outbreak-An Update*. Manila.

²⁵ ADB. 2020. ADB Brief. Updated Assessment of the Economic Impact of COVID-19. Manila

²⁶ This April update added countries with 2000+ COVID-19 cases as of 27 March to the initial list of 8 countries used in the earlier March assessment, which were France, Germany, Iran, Italy, the People's Republic of China, South Korea, Spain, and the United States. The new countries added as part of the April Update were Australia, Brazil, Canada, the rest of the European Union, Japan, Norway, Switzerland, Turkey, and the United Kingdom.

4. These macro-level adjustments are based on the available information on country-level shocks. This information includes: (i) monthly statistical reports produced by the National Statistical Committee of the Kyrgyz Republic on the socioeconomic situation in the country (a report with April 2020 results has yet to become available) and the National Bank of Kyrgyz Republic on remittances (the May 2020 edition has yet to become available); (ii) situation and forecast updates by the International Monetary Fund, the World Bank, and other international organizations; and (iii) recent relationships between these key macro-indicators and other macroeconomic variables of interest including government budget revenue and expenditure, imports and exports, etc.

5. Using available statistical information on the structure of the economy, these macro-estimates are disaggregated by economic sector and geographic region, accounting also for known sector-level and region-level shocks. This disaggregation is based on sector and region shares of GDP and total employment, and on sector-specific and region-specific estimates regarding production and employment growth rates. These rates are then calibrated to match macro-indicators. Using available micro-level data (based on the government's Kyrgyz Integrated Household Survey for 2018) and inflation projections, these production and employment effects are translated into poverty estimates.

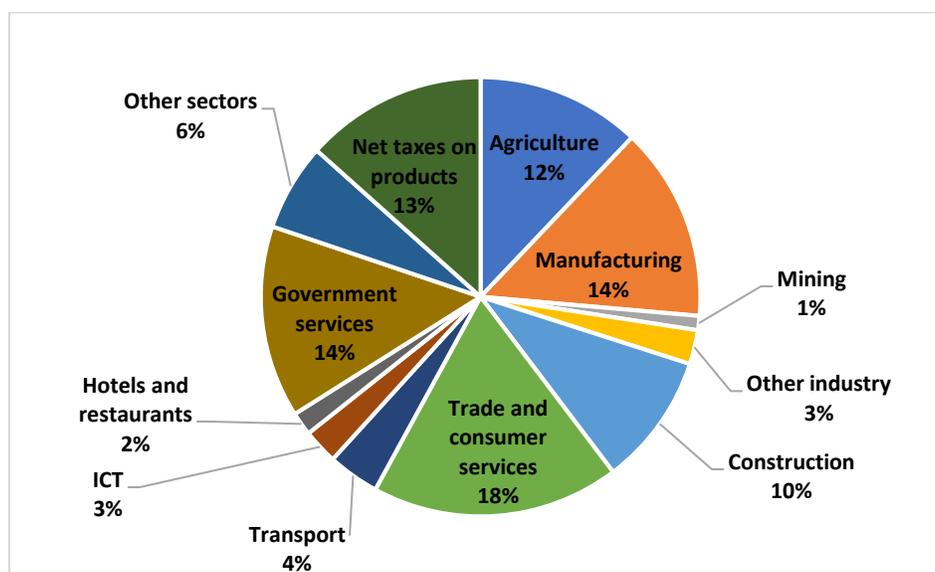
6. This process for the socioeconomic assessment has been further refined by the following data collection initiatives:

- (i) World Food Programme survey of vulnerable households (data collection completed by the end of April and data became available in mid-May) providing information on changes in household incomes and expenditures and on coping strategies. These have informed estimates of poverty figures. Projections on poverty and food insecurity based on price monitoring data, household income, and agricultural situation at the region level are also included in the analysis.
- (ii) Food and Agriculture Organization survey of agricultural value-chain participants (data available on a weekly basis) with qualitative information on issues in agriculture and related sectors. Findings from these weekly assessments have fed into the sectors' growth estimates.
- (iii) United Nations Development Programme (UNDP)-supported survey by the Ministry of Economy's Economic Policy Research Institute of micro, small, and medium-sized enterprises and new vulnerable groups (data collection took place in May–June 2020). These data informed sector-level understanding of vulnerabilities, growth estimates, and poverty estimates for those groups not covered by the World Food Programme survey.
- (iv) United Nations Women's ongoing work on gender and development issues and to ensure that key gender equality considerations are taken into account during the preparation of the country-specific Social and Economic Impact Assessment and Response;
- (v) International Labor Organization's (ILO) rapid labor market assessment (commenced in May and data available in June), which is to cover informal sector employment. Findings from this assessment are to inform labor market effects;
- (vi) The World Bank's social protection assessment based on the 2018 round of the Kyrgyz Integrated Household Survey. This has allowed the assessment team to compare their analysis and findings of the vulnerable groups with the present ADB-UNDP analysis.

- (vii) The UNESCO Institute for Statistics data source from its cross-nationally disaggregated comparable statistics on the impact of the COVID-19 crisis on the education sector, including on the most vulnerable groups, by working with national statistical offices, line ministries, and other statistical organizations; and
- (viii) Surveys conducted on micro, small, and medium-sized enterprises by UNDP-Agency for Technical Cooperation and Development (ACTED) and the Organization on Security and Cooperation in Europe, and on light industry by the Department for International Development and the Palladium Group.

Appendix 3: Charts and Diagrams

Figure A3.1: GDP by Economic Sector, 2019



ICT = information and communication technology.

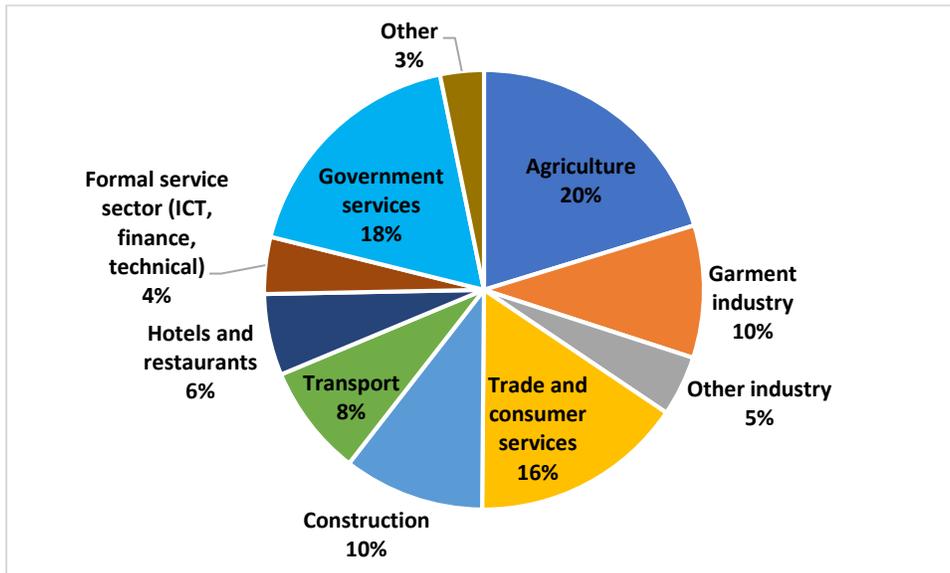
Source: National Statistical Committee of the Kyrgyz Republic.

Table A3.1: Population and Labor Market Indicators, 2018

	Kyrgyzstan	Women	Men	Urban	Rural
Population, million	6.39	3.22	3.17	2.17	4.22
Labor force, million	2.54	0.98	1.56	0.94	1.60
Labor force participation rate, %	59.8	45.0	75.4	62.3	58.5
Employment, million	2.38	0.91	1.47	0.88	1.51
Unemployment rate, %	6.2	6.9	5.7	6.5	5.9

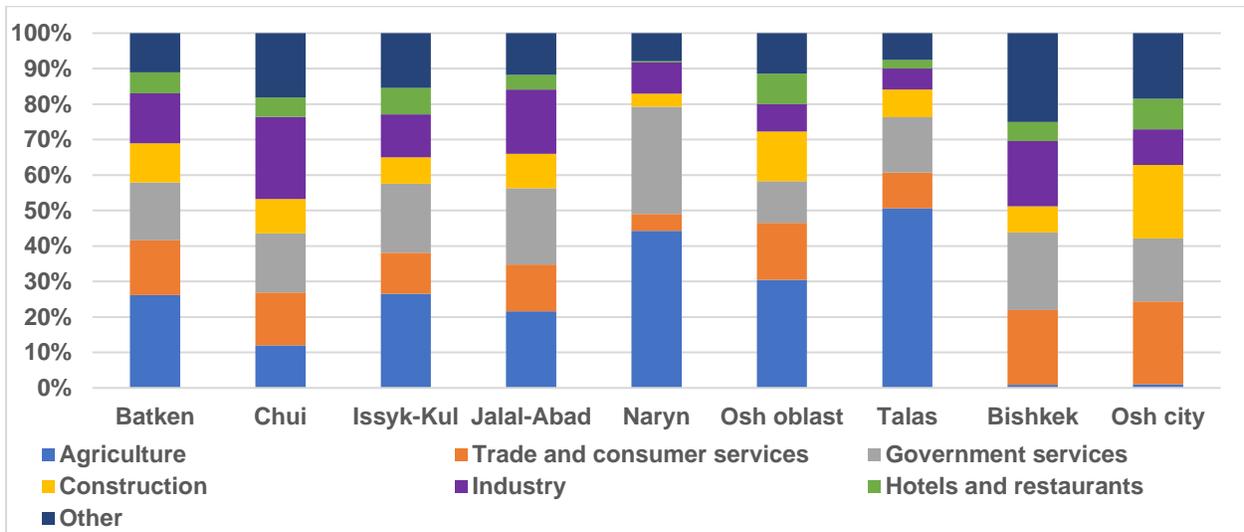
Source: National Statistical Committee of the Kyrgyz Republic.

Figure A3.2: Employment Structure by Economic Sector, 2018

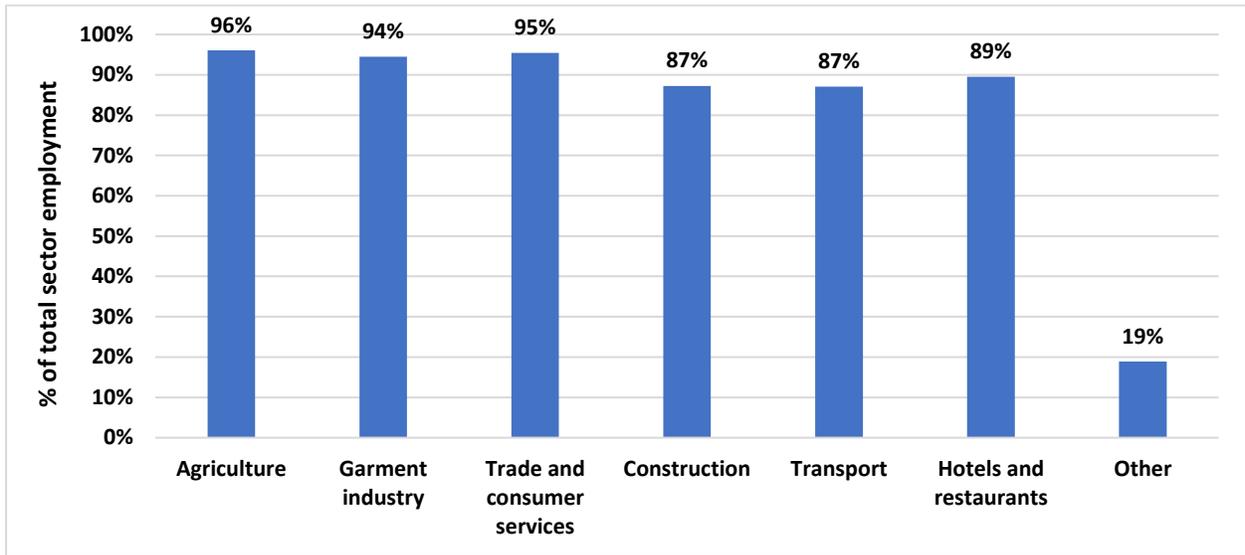


ICT = information and communication technology.
 Source: National Statistical Committee of the Kyrgyz Republic.

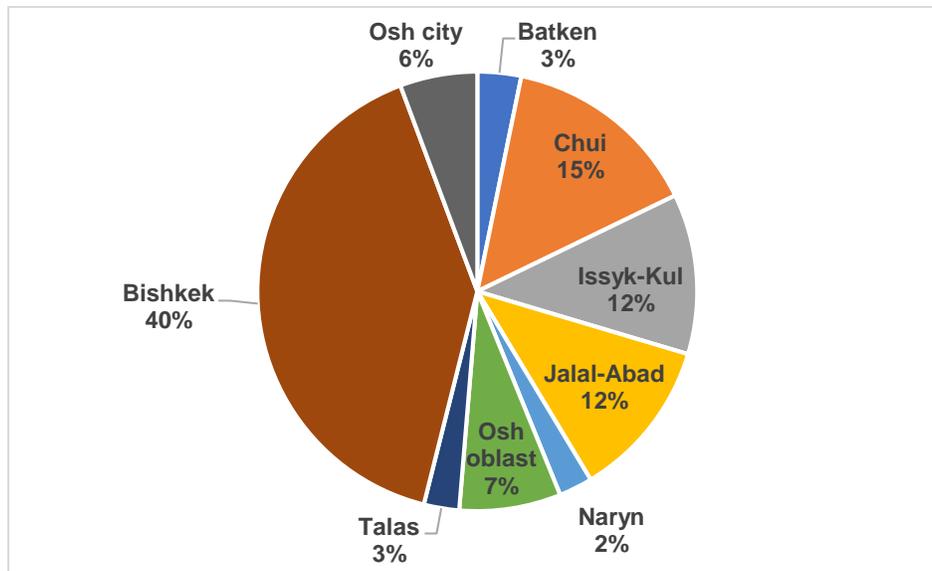
Figure A3.3: Employment Structure by Economic Sector and Geographic Region, 2018



Source: National Statistical Committee of the Kyrgyz Republic.

Figure A3.4: Informal Employment Structure by Economic Sector, 2018

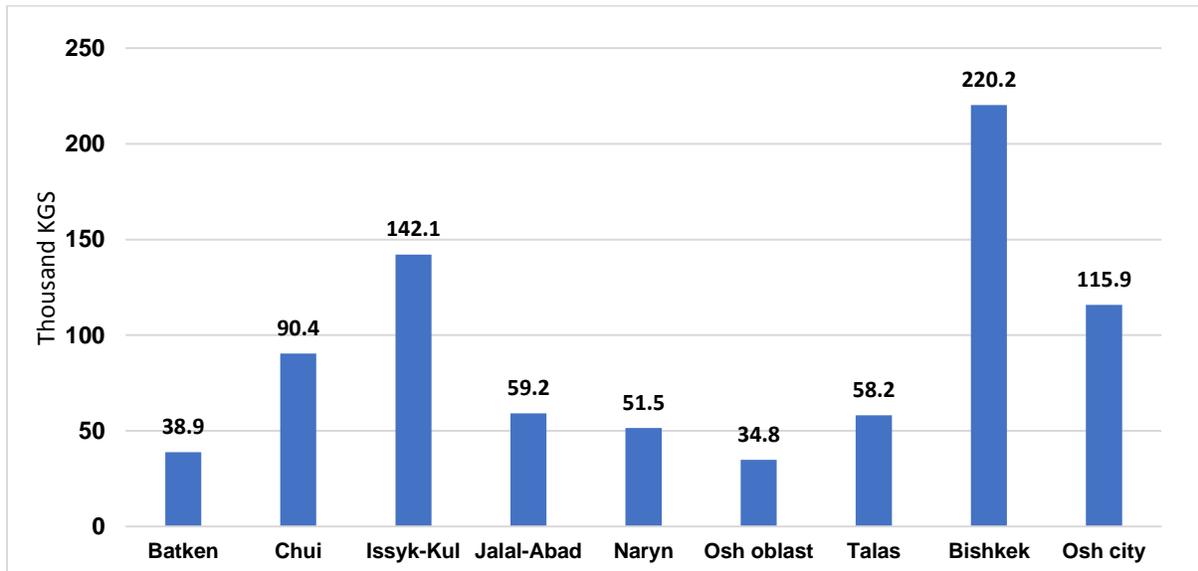
Source: National Statistical Committee of the Kyrgyz Republic.

Figure A3.5: Gross Domestic Product Contribution by Geographic Region, 2018

Source: National Statistical Committee of the Kyrgyz Republic.

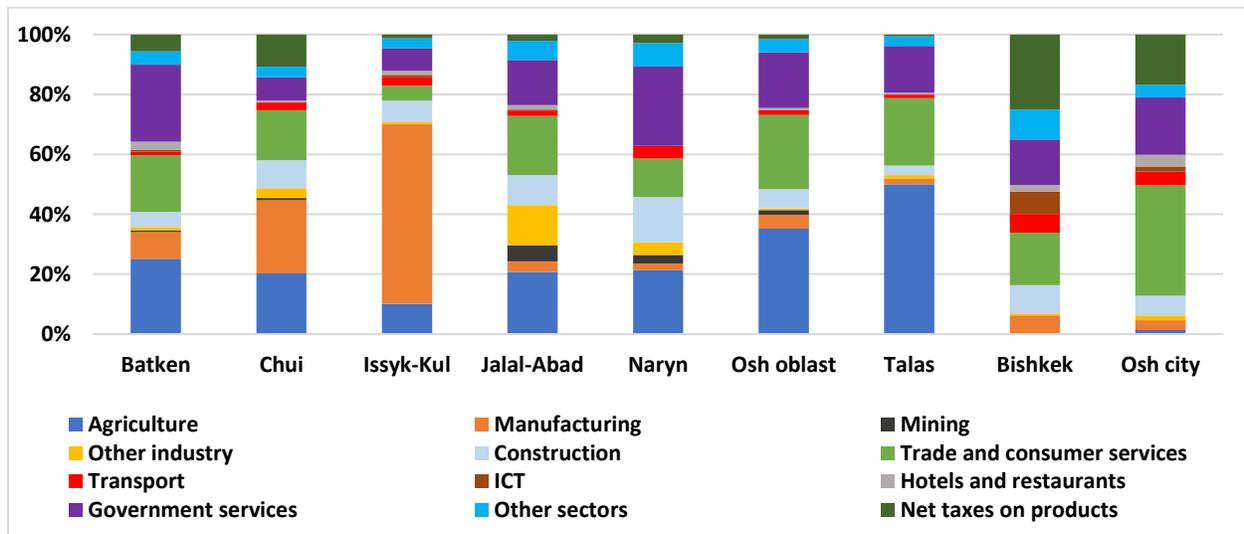
Figure A3.6: Gross Regional Product per Capita, 2018

(Som '000)



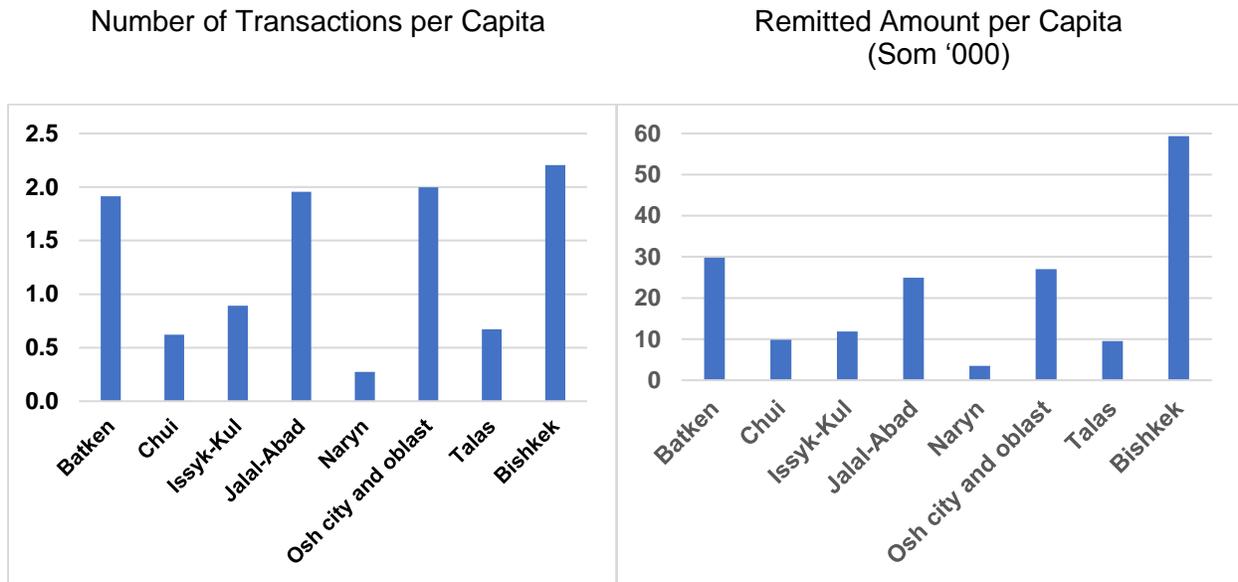
Source: National Statistical Committee of the Kyrgyz Republic.

Figure A3.7: Gross Regional Product by Economic Sector, 2017



ICT = information and communication technology.

Source: National Statistical Committee of the Kyrgyz Republic.

Figure A3.8: Incoming Remittances by Geographic Region, 2019

Note: Remittances attributed to Bishkek may be erroneous as many people prefer to transact in the city, regardless of their place of residence.

Sources: National Statistical Committee of the Kyrgyz Republic; and National Bank of the Kyrgyz Republic.

Appendix 4: Socioeconomic Survey of Vulnerable Groups Affected by the COVID-19 Crisis

To inform the Socioeconomic and Vulnerability Impact Assessment with evidence related to the impact of COVID-19 on the population of the country, the Economic Policy Research Institute of the Ministry of Economy of the Kyrgyz Republic, with funding from the United Nations Development Programme (UNDP) and technical support from the UNDP and the Asian Development Bank (ADB), organized a survey of different vulnerable groups in April–June 2020. This survey focused on the six social groups that were expected to be the most affected by the COVID-19 crisis: (i) entrepreneurs managing small and medium-sized enterprises, (ii) current or former hired workers and self-employed people in the informal sector, (iii) poor households, (iv) old-age pensioners, (v) people with special needs, and (vi) healthcare workers. This was a country-wide survey with more than 2,000 respondents representing all parts of the country. The details of the sample are summarized in Table A3.1.

Table A3.1: Sample Details of Vulnerable Groups Affected by the COVID-19 Crisis

	Respondents		By Region								
	Total	Women	Bishkek	Osh city	Batken oblast	Chui oblast	Jalal-Abad oblast	Issyk-Kul oblast	Naryn oblast	Osh oblast	Talas oblast
Entrepreneurs	298	103	17	50	30	48	22	16	85	27	3
Workers and unemployed	562	197	31	85	41	50	74	36	162	69	14
Poor	300	235	34	45	51	17	17	60	27	37	12
Pensioners	381	294	36	58	76	60	28	41	25	27	30
People with special needs	675	463	63	46	72	111	124	70	43	113	33
Healthcare workers	124	79	34	8	32	8	21	-	-	-	21
Total	2,340	1,371	215	292	302	294	286	223	342	273	113

Source: Government of the Kyrgyz Republic, Ministry of Economy, Economic Policy Research Institute.

The survey methodology was based on random sampling of the different groups' representatives. This was built on the lists of these groups available at the State Tax Service, State Registry Service, Ministry of Labor and Social Development, Ministry of Health, and Red Crescent. Data collection was implemented through computer-assisted telephone interviews, based on questionnaires specific for each group of respondents. Altogether, there were six different questionnaires (one per vulnerable group covered by the survey). These questionnaires covered the key issues the respondents faced during the COVID-19 pandemic, including their strategies to cope with health risks, interruptions to their economic and social activities, consumer price growth, the support they receive from the government and other stakeholders, etc.