**ABBREVIATION AND ACRONYMS**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>BEEPS</td>
<td>Business Environment and Enterprise Performance Survey</td>
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<tr>
<td>CBT</td>
<td>Cross-Border Trading</td>
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<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
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<tr>
<td>ECA</td>
<td>Europe and Central Asia</td>
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<tr>
<td>EEU</td>
<td>Eurasian Economic Union</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GCI</td>
<td>Global Competitiveness Index</td>
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<td>GCR</td>
<td>Global Competitiveness Report</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GERD</td>
<td>Gross Expenditure and Research Development</td>
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<td>GIZ</td>
<td>Deutsche Gesellschaft für Internationale Zusammenarbeit (German Development Cooperation)</td>
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<tr>
<td>ICT</td>
<td>Information and Communications Technology</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>KER</td>
<td>Kyrgyz Establishment Reports</td>
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<td>MFI</td>
<td>Microfinance Institutions</td>
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<td>NEET</td>
<td>Not in Education, Employment or Training</td>
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<td>NSDS</td>
<td>National Sustainable Development Strategy</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<td>PRC</td>
<td>Peoples Republic of China</td>
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<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
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<td>SME</td>
<td>Small and Medium Enterprises</td>
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<td>TVET</td>
<td>Technical and Vocational Education and Training</td>
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<tr>
<td>US</td>
<td>United States</td>
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<tr>
<td>UNESCO</td>
<td>United Nations Educational, Scientific and Cultural Organization</td>
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<td>WDI</td>
<td>World Development Indicators</td>
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<td>WGI</td>
<td>Worldwide Governance Indicators</td>
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Overview

1. Since its independence in 1991, the Kyrgyz Republic has taken steps to liberalize its economy and adopt political reforms with the aim of promoting sustained economic growth. The Kyrgyz Republic was one of the first former Soviet republics to implement economic reforms and to move toward a market-based economy. This was marked in 1998 with its accession to the World Trade Organization, allowing for greater trade with China and other bordering countries and more recently, with the accession to the Eurasian Economic Union (EEU) in 2015. In addition, in 1993, the country adopted a new constitution and transitioned toward a parliamentary democracy.1

2. The multiple economic and political reforms implemented, together with regional and global trends, have sharply changed the structure of the economy in the Kyrgyz Republic. After the fall of the Soviet Union, a lack of jobs caused workers to shift from urban and industrial jobs to the agricultural sector, more as a coping strategy than because of attractive wages or benefits.2 However, by the early 2000s, the agricultural sector had begun to deteriorate because of overgrazing, low levels of investment, and a lack of imported feed. The inevitable result is the drop in agricultural employment from 54 to 37 percent of total employment between 2003 and 2012.3 Migration, overwhelmingly to the Russian Federation, became a jobs strategy for households in the mid-2000s, and today the country is one of the most remittance dependent in the world. Finally, as in many other countries around the world, the structural transformations in the Kyrgyz Republic have led to the services sector becoming one of the most important employers in the country.

3. Employment outcomes have fallen short of expectations on at least four dimensions. First, job creation is not keeping pace with the rapidly growing population. Second, job productivity, or output per worker, is the lowest in Europe and Central Asia, and increasing wage rates are fueling concerns about eroding competitiveness. Third, job quality is a concern, with high rates of informality, temporary work, occasional work, and seasonal work. Finally, job inclusiveness is a concern because employment outcomes are weak for youth and women, and there is a lot of geographic variation in employment outcomes.

4. Policymakers are confronting the question of how to improve employment outcomes because jobs are a sustainable path out of poverty and provide workers with more than a paycheck. Despite variations in the jobs challenge, jobs are the key to people working their way out of poverty and hardship.4 Furthermore, jobs are key because they enable poor people to use their most abundant asset, namely their labor, to generate income. This income sometimes come from wage employment in the formal sector, but it may also come from wage or self-employment in the informal sector. These earnings streams are often sustainable avenues out of poverty. In addition, jobs provide more than a paycheck to workers, and in fact lead workers: skills acquisition and thus enhanced productivity; female empowerment; enhanced security through productive engagement of youth; and supporting social stability in conflict and post-conflict societies.5

5. Policymakers in the Kyrgyz Republic have ambitious development goals to be achieved by 2040. The current Development Program of the Kyrgyz Republic (2018-2023) aims to be the first stage toward developing the country into: “a free country with a strong economy, high quality of life, competitive human capital and recognized new contribution to world’s culture.” To do this, the development program recognizes that “private sector leadership and technological breakthroughs” will be necessary. Private sector led growth, and

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1 Asian Development Bank. 2014.
2 Ibid.
3 Ibid.
technological progress can directly or indirectly impact employment outcomes in the country. However, what has been lacking in the country is a comprehensive diagnostic of the jobs problem and a necessarily cross-sectoral, coordinated, and evidence-based strategy to confront the weaknesses.

6. Within this context, this report provides practical recommendations for a comprehensive approach to improving employment outcomes in Kyrgyz Republic. This report offers a snapshot of jobs in the Kyrgyz Republic, with a focus on the number of jobs available, labor market productivity and inclusiveness; it takes a closer look at where jobs are concentrated; and, identifies labor market demand, supply and matching constraints. Acknowledging the challenging economic and political environment in the Kyrgyz Republic, the report offers realistic policy recommendations for addressing some of the most critical issues to improving employment outcomes in the short run while noting that some policies will take time to develop and implement. The key messages of the report are elaborated on below.

Workers and potential workers in Kyrgyz Republic face challenging employment outcomes

7. Job creation is not keeping pace with the rapidly growing population. Kyrgyz Republic’s potential workforce is growing at about 2 percent per annum – faster than some of its neighbors in Europe and Central Asia. Fertility rates in Kyrgyz Republic have increased from 2.4 in 2000 to 3.2 in 2014. An estimated 50,000 new entrants join the labor market each year. By 2030, the working-age population is expected to reach around 4.6 million persons. Job creation, though, has not kept pace with the increasing population. Between 2009 and 2013, job growth averaged only 0.9 percent per annum. This has contributed to nearly one-third of the Kyrgyz working population to be inactive or not part of the labor force: 38 percent of these persons are in school, while the other 62 percent are neither in school nor working, which leaves 640,000 working age adults who are not engaged in productive activity and are not investing in their own human capital.

8. Job productivity, or output per worker, in the Kyrgyz Republic is the lowest in Europe and Central Asia. Labor productivity, measured as GDP per worker, was about US$7,600 in the Kyrgyz Republic in 2014, while in the Russian Federation it was US$45,000, in Kazakhstan it was US$39,000 and US$11,000 in Moldova (Figure A). Furthermore, labor productivity growth in the Kyrgyz Republic has been averaging 4.3 percent per annum since 2005, which is low relative to other countries in the region. Increases in informality in the low-productivity sectors of services and industry have contributed to the deterioration of national productive growth. Despite slow productivity growth, real wages have risen robustly. The increase in wages has been largely fueled by strong wage growth in the construction and service sector. In the Kyrgyz Republic, the ratio

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6 The NSDS’ development priorities also include: (i) maintenance of macroeconomic stability; (ii) an improved business environment and investment climate; (iii) a strengthened financial sector; and, (iv) the promotion of strategic industries such as agro-processing, energy, mining, transport and telecommunications, and tourism.

7 The working age population grew at 2 percent per annum between 2003 and 2013.


12 World Bank. 2015. “Transitioning to Better Jobs in the Kyrgyz Republic: A Jobs Diagnostic.” Report No. 99777-KG. World Bank, Washington, DC. Aggregate productivity growth in the formal sector has been strong, averaged 6.7 percent a years since 2009; however, overall productivity growth average less than 1 percent.
of wages to productivity is extremely high (Figure B) relative to other CIS countries, and this could weaken external competitiveness.

9. Job quality is a concern, with high rates of informality, as well as temporary, occasional and seasonal work. Permanent, or long-term contracts in the formal sector that provide regular pay are the most attractive to workers, but too many jobs are in the informal sector in the Kyrgyz Republic (48 percent of all jobs) and make up nearly an estimated 19.9 percent of GDP, more than two times the 1995 estimate (8.4 percent). Contracts are often seasonal or short-term and proper receipt of payment is sporadic (Figure C). Informal sector workers do not have a labor contract with their employers. Exacerbating the problem with job quality is that 30 percent of all workers are seasonal; 6 percent are occasional workers; and 10 percent work on a temporary basis. Therefore, 46 percent of all workers have a job that is not permanent, most of which are in the informal sector. 43 percent of all jobs in the informal sector are seasonal, 9 percent are occasional, and 14 percent are temporary, i.e., two thirds of informal sector jobs are not permanent. Working under these conditions means that workers’ security and welfare are unpredictable; their pay often does not constitute a living wage, and these factors leave them more vulnerable to poverty and shocks.

10. Formal employment is largely concentrated in the public sector, with limited development of formal private sector jobs. In general, the formal sector in the Kyrgyz Republic is small and usually urban, the public sector makes up most of the employment (public administration, education, and health/social services). The recent Kyrgyz Labor Force Survey suggests that public sector employment accounts for only 20 percent of overall employment, which is in line with OECD levels; however, this accounts for 60 percent of formal employment. The flipside is that 40 percent of employment is in the private sector, which represents about 11 percent of overall employment.

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13 Note that this definition of informality excludes self-employed people. In Ajwad el al. (2014) self-employed people are also included in the definition of informality and therefore, the informality rate was 62 percent.
11. Jobs are not inclusive: employment outcomes for youth and women are weak and regionally concentrated, making employment challenging for certain groups. Labor force participation rates for women has slowly declined over the last couple of years and now hovers around 58 percent. The same can be said for youth, where participation decreased between 2009 and 2013 by about 6 percentage points from 51 percent to 45 percent (Figure D). This drop was not a result of leaving work to continue education as the number of working age youth not in education, employment or training (NEET) increased after 2005. Instead, the main hypothesis for this decline is that youth withdrew from the domestic labor market in search of jobs overseas. It is worth noting, though, that when holding all other factors constant, females account for 78.5 percent of 15-24-year-old NEETs, while males only make up 21.5 percent of 15-24-year-old NEETs. Employment outcomes are also positively associated with certain regions in Kyrgyz Republic. Workers in Bishkek and Jalal-Abad have the most desirable jobs, with 66 percent and 53 percent of employees, respectively, that are paid in regular installments, while fewer than 35 percent of employees in other regions are paid regularly.

Figure C. Indicators of Type of Employment, 2013


Figure D. Labor Force Participation Rate by Age, 2005-2013

Job creation is limited to a few sectors, and is often not in the highest productivity sectors

12. Formal, private sector employment is small, highly concentrated in urban areas, and is in a few sectors. Less than one-third of all workers are employed in the formal sector in the Kyrgyz Republic and most are in large enterprises. More than 60 percent of employment is in firms with 50 or more workers, and more than a third of employment is in firms with at least 200 workers (Figure E). Moreover, formal sector employment in

the Kyrgyz Republic in 2009 and 2012 was largely concentrated in the urban center of Bishkek and in only a few sectors including manufacturing, electricity/gas/water and transport and communications.¹⁷

13. Firm size matters, with larger private, formal firms employing the most people; however, small- and medium-sized enterprises create employment, but rarely survive. Larger firms account for a higher percentage of employment in the formal sector than smaller firms (Figure F); these larger firms are also more likely to survive. Despite this, they create little employment relative to output growth. Small and medium-size firms, on the other hand, provide many jobs in the private formal sector, and as such their role in the sector and their development is important. However, many small and medium size firms have been unable to grow or even survive, restricting employment expansion. Therefore, entry rates are strong for smaller establishments, but job creation is mostly in larger firms.

14. In the Kyrgyz Republic, the agriculture, education, and mining sectors are most likely to hire new workers. Between 2009 and 2012, firms in the agriculture sector were the most likely to hire workers, with the education and mining sectors also revealing a high probability of hiring.¹⁸ In the agriculture sector, hiring accompanied the increase in a number of new large farming activities between 2009 and 2012, and experienced growth.¹⁹ More recent growth of 5.3 percent in the agriculture sector between the fall of 2014 and the fall of 2015 (growth rate of 5.3 percent) is also likely to have contributed to an increase in hiring.²⁰ Although the agriculture sector is usually associated with low levels of productivity, it supports community development and small rural livelihoods. Mining firms were 5 percent more likely to expand employment than other sectors, given the presence of growth; mining is capital intensive, but nearly half the mining establishments in the Kyrgyz Republic increased employment by about 41 percent between 2009 and 2012. Overall, additional information is needed to understand the future potential growth/hiring relationship in the mining and agricultural sectors.

¹⁸ Ibid.
¹⁹ Ibid.
²⁰ World Bank. 2105(b).
Labor demand, supply and matching constraints limit job creation, productivity, job quality and inclusiveness

15. Labor demand is constrained by the macroeconomic outlook, ease of doing business and political stability. Since the late 1990s, macroeconomic indicators have improved; though, growth has fluctuated considerably over the last two decades largely due to political changes and instability, high dependence on commodity exports, and the country’s overwhelming reliance on remittances. The inflow of remittances has created a foreign exchange surplus, triggering exchange rate appreciation and possible “Dutch Disease”, possibly hindering the expansion of exports and reducing the country’s competitiveness. Kyrgyz Republic is also perceived as having a governance issue, deterring business, limiting government effectiveness, and making it difficult to resolve legal issues. Additionally, institutions face many limitations to doing business including laborious efforts to paying taxes, long waiting times to get an electricity connection, and limited access to affordable finance (especially for small and medium enterprises).

16. Connectivity barriers, including geographic access and information and communications technology (ICT) have also curbed potential enhancements in employment outcomes. The country has taken advantage of its geography through cross-border trading (CBT). Small enterprises/individuals import goods from China, Tajikistan, Kazakhstan, Turkey and other countries in Central Asia. In many ways, it has emerged as a major re-exporter or supplier of bazaar goods to bazaars in other Central Asian countries. The positive employment effects include people directly employed at bazaars as well as service providers and local suppliers for whom

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the bazaar is often the only venue for their products.\textsuperscript{23} That said, Kyrgyz Republic remains one of the most logistics-disadvantaged countries, even among landlocked economies. High transport costs increase the cost and impact of competitiveness and potential for economic diversification. ICT in Kyrgyz Republic is also costly and lacks the necessary infrastructure to thrive. Currently, more than 80 percent of the population would have to spend at least 10 percent of their household expenditure to obtain a basic mobile plan.\textsuperscript{24}

17. Notable obstacles are also limiting workers from labor force participation or improving their current employment situation. While there has been an increase in the labor supply, with youth and women making up the largest percentage of potential workers, social norms and other constraints prevent many from entering the labor force or improving their employment outcomes. Among these constraints are: childcare duties; lack of education and skills; legislative barriers; and, discrimination. Persons with disabilities also have limited access to jobs. In 2016, the Kyrgyz Republic estimated that there are more than 172,000 persons with disabilities (about 3 percent of the population) and this number is growing.\textsuperscript{25} Critical to the inclusion agenda is creating and enforcing legislation that does not allow discrimination against people with disabilities in the workplace.

18. Economic dynamism has led to a mismatch between jobseeker skills and employer needs. Kyrgyz firms are increasingly demanding higher-level skills. Figure G illustrates the change in an index of the skills intensity of jobs relative to 2006, measured in “centiles” (or less precisely, the percentile change in skills requirements in jobs). The graph shows that new economy skills have risen since 2009, with the largest increase between 2011 and 2012. In addition, the demand for routine cognitive skills has shown a subtle increase as well.\textsuperscript{26} New economy and routine cognitive skills are often associated with services and manufacturing jobs, while manual skills are often associated with agriculture and retail occupations. The increase in demand for higher level skills is paralleled by a high percentage of firms claiming that lack of relevant job skills and education in the labor force was a great impediment to doing business. (Figure H).\textsuperscript{27}

19. Attempts have been made to improve job-relevant skills through vocational and on-the-job training; however, many of the TVET schools remain out of touch with employer skills demands. As participation in tertiary education increases, secondary vocational training is declining. This is consistent with the structural shift in the labor market toward the services sector and like the experience of post-Soviet countries after the closure of some production facilities that were tied to vocational training. Many employers continue to recognize the professions that are offered in vocational training, as evidenced above by the better labor market outcomes for those with secondary technical/special education; however, standards and equipment have deteriorated contributing to outdated and low-quality content.\textsuperscript{28} The agency responsible for vocational education and training has worked to improve connections with employers, but efforts are not considered widely successful.\textsuperscript{29} Opportunities remain for increasing on the job training among existing firms as well as increasing skill knowledge in information and communications technology.

\begin{itemize}
\item \textsuperscript{26} Ibid.
\item \textsuperscript{28} Baumann, Arne, Eva Jansova, and Ellu Saar. 2013. “Transition from School to Work in Kyrgyzstan: Results for the 2011/12 Transition Survey.” European Training Foundation (ETF), Torino, Italy.
\item \textsuperscript{29} World Bank. 2015(c). “Transitioning to Better Jobs in the Kyrgyz Republic: A Jobs Diagnostic.” Report No. 99777-KG. World Bank, Washington, DC.
\end{itemize}
Finally, information asymmetries in trying to match labor supply with labor demand as well as high levels of mobility have made it difficult to facilitate job matching. In the Kyrgyz Republic, there are deficiencies in job search methods and skill signaling among workers. Data indicate that almost half of the persons in the World Bank/GIZ survey experienced significant barriers to learning about vacancies, preparing a resume, performing an interview and getting good recommendations. Additionally, while internal and external migration has become an important jobs strategy for many in the Kyrgyz Republic, it has had an impact on employment outcomes in Kyrgyz Republic. Internal migration from rural to urban areas is much more common among women who are most likely to engage in small-scale and low-paid jobs in the services sector. Young persons, usually male, tend to move out of the country. Kyrgyz workers prefer to go to the Russian Federation, Kazakhstan, and to a lesser extent, Turkey, and the United Arab of Emirates. While there are relatively high levels of mobility both internally and externally, Kyrgyz Republic does not support the programs or policies to support improvements in employment outcomes and transition individuals after relocation.

Unleashing the Jobs Potential in Kyrgyz Republic

This report provides a set of policy recommendations by taking a comprehensive approach to creating and sustaining improved employment outcomes. Policy recommendations are divided into three key areas: (i) increasing labor demand; (ii) increasing labor supply; and (iii) improving labor market matching. The policy recommendations target formal sector firm productivity, and may be equally useful when trying to increase informal sector firm productivity. It is worth noting that some recommendations may take several years to yield

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fruit, and so it would be helpful to consider a mix of policies that affect shorter-, medium-, and longer-term needs. The following are the key recommendations:

Increase labor demand through job growth

- **Improve Macroeconomic Stability**: Reduce changes in technical government staff during political transitions to promote greater economic stability, better manage aggregate fluctuations, and strengthen financial intermediation of remittances.
- **Strengthen Institutions and Governance**: Simplify and streamline business regulations and improve tax administration, promote broader anti-corruption measures at the national level, and support community-level corruption monitoring initiatives.
- **Increase Firm Connectivity**: Reduce transport logistics costs, further improve the current trade facilitation regime, and reform the energy sector and lower barriers to digital adoption.
- **Reduce the cost and obstacles to Finance**: Increase access to firm and consumer-centered financial products and revise and expand the micro-finance institutional regulatory framework.
- **Encourage Innovation**: Provide tax incentives and subsidies to stimulate investment in research and development in the private sector, with particular attention to the regions, and increase Government R&D investments in risky and uncertain areas.

Prepare and develop a skilled and capable workforce

- **Reform Social Policies to Encourage Labor Force Participation**: Increase childcare and early childhood education access, remove gender-related legislative restrictions to sectors and occupations, consider interventions to overcome and influence social norms, and increase access to jobs for persons with disabilities.
- **Cultivate Job Relevant Skills**: Enhance foundational skills, equip secondary school aged children with customized vocational education and training, profile the unemployed and job seekers to link with activation services, and upgrade skills for the existing workforce.

Implement labor equilibrating policies

- **Reducing Information Asymmetries**: Develop a labor market observatory and implement labor market intermediation services.
- **Diminish Spatial Disparities**: Provide internal migrants with incentives (housing and living) and links with services, encourage the diversification of migrant destination countries, upgrade potential migrants' skills, and certify skills of returning migrants.