

100-Years Anniversary of the Ministry of Economy Kyrgyz Republic



yulumyan
Senior Economist

October 23, 2024

Bishkek



WORLD BANK GROUP
Equitable Growth, Finance & Institutions

Outline

I. The Poverty and Growth Story to Date

II. Reforms to Unlock Potential Sources of Higher Growth

III. Result of the 2024 pilot B-Ready Survey

Part I: The growth and poverty story to date

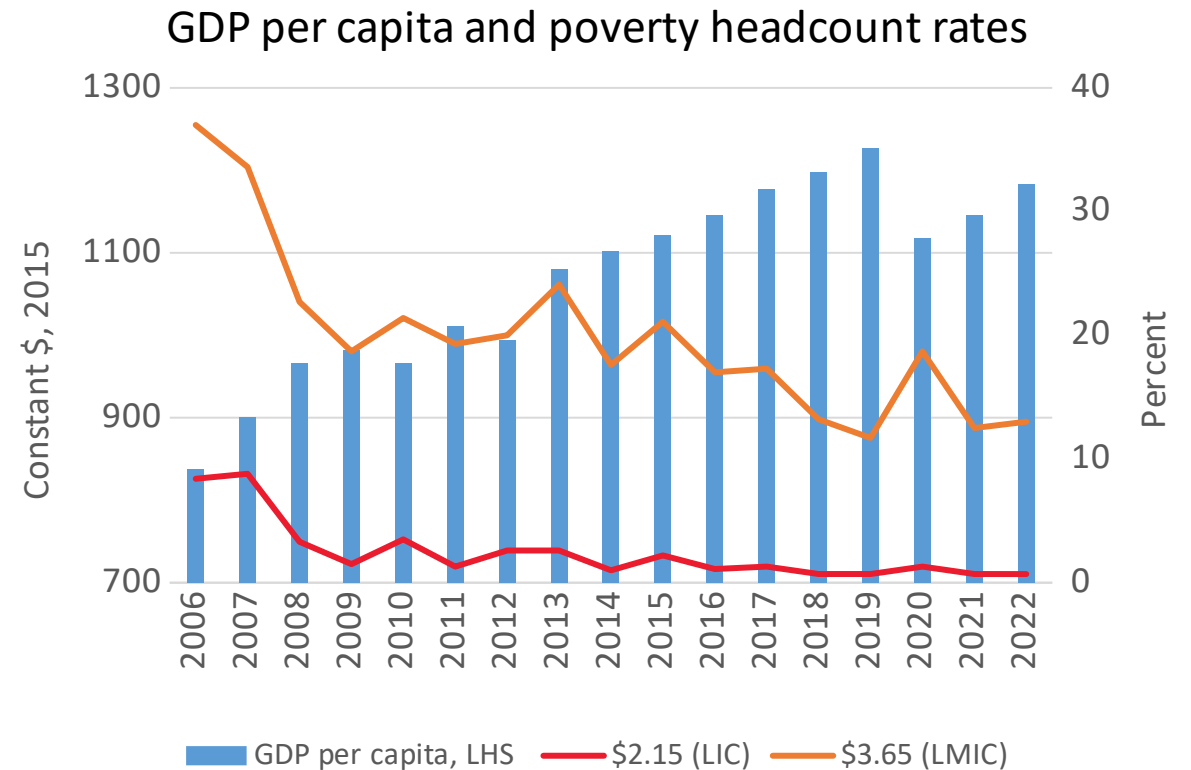
Motivation for Change

Kyrgyz is a reformist and dynamic country that has been at the forefront since the CIS group emerged

Kyrgyz Republic has been a pioneer in progressive and inclusive governance

- The first independent state of Central Asia and first post-Soviet state to join the WTO:
- Pursued a progressive program of economic liberalization, as reflected in the EBRD transition indicators by 2000.

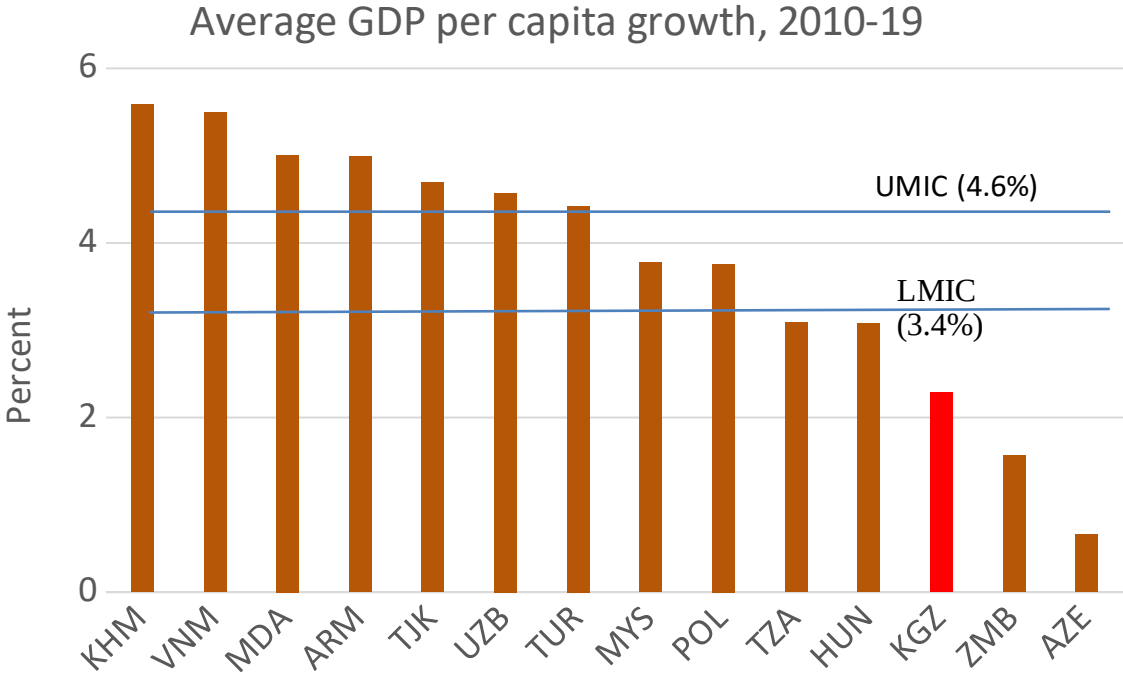
Significant poverty reduction and living standards improvements over time



Source: WB

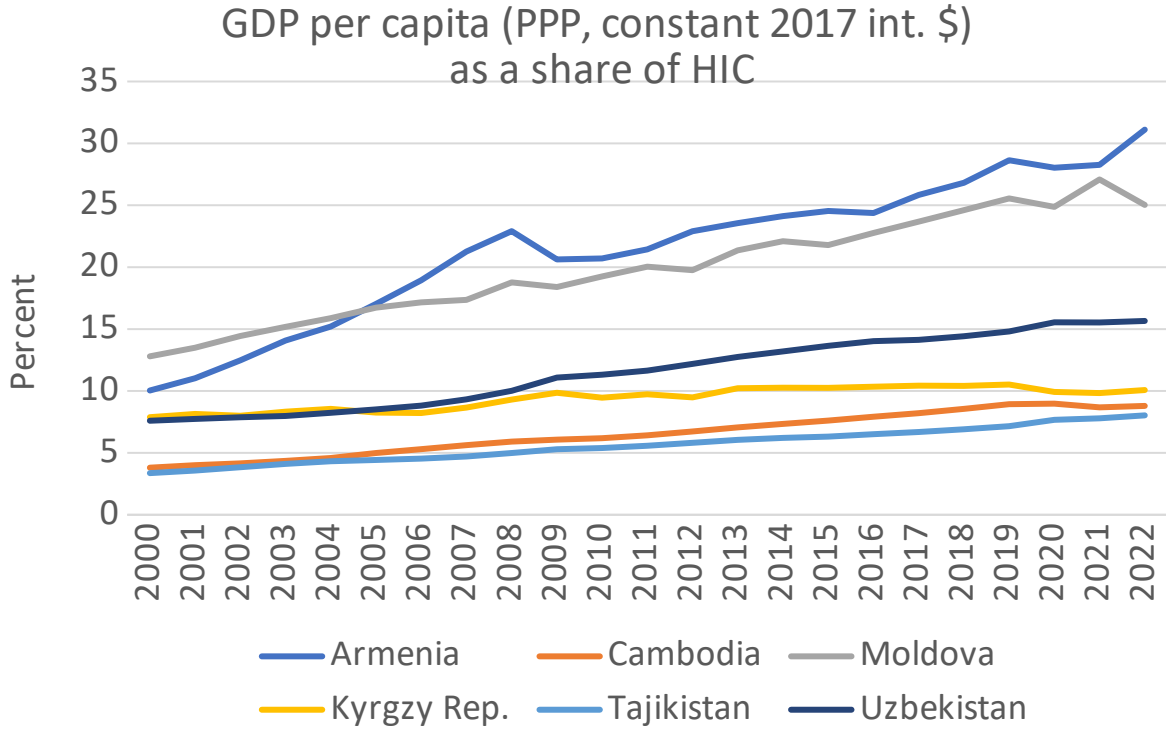
But the Kyrgyz economy has not kept pace with set ambitions, and with the pace of its structural peers

In the recent period, growth per capita has been disappointing



Source: WB

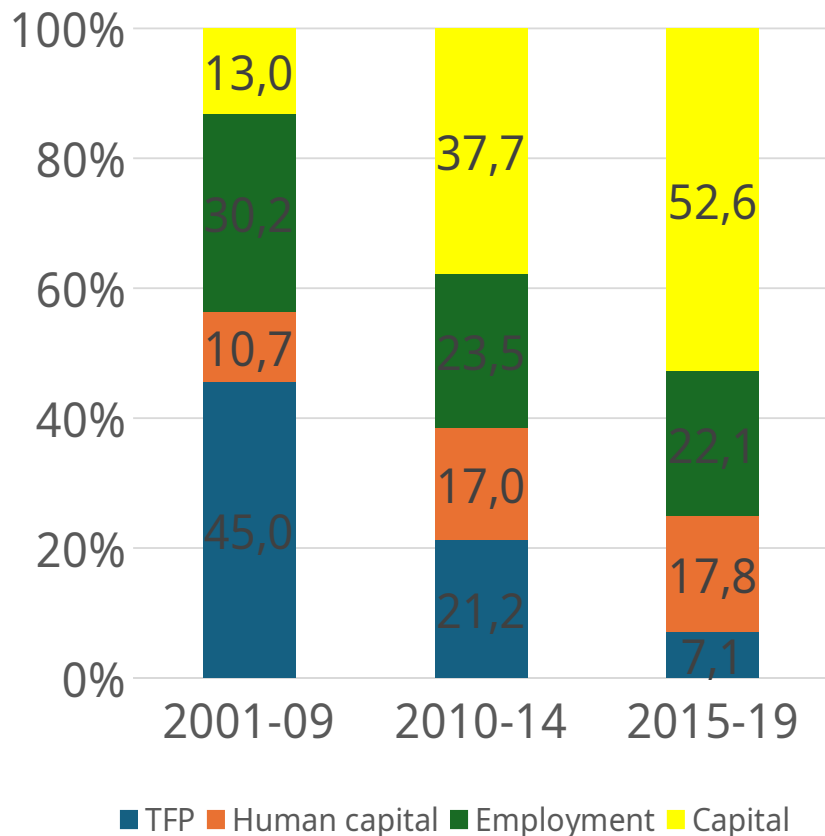
...and Kyrgyz has made little progress in converging to high income levels



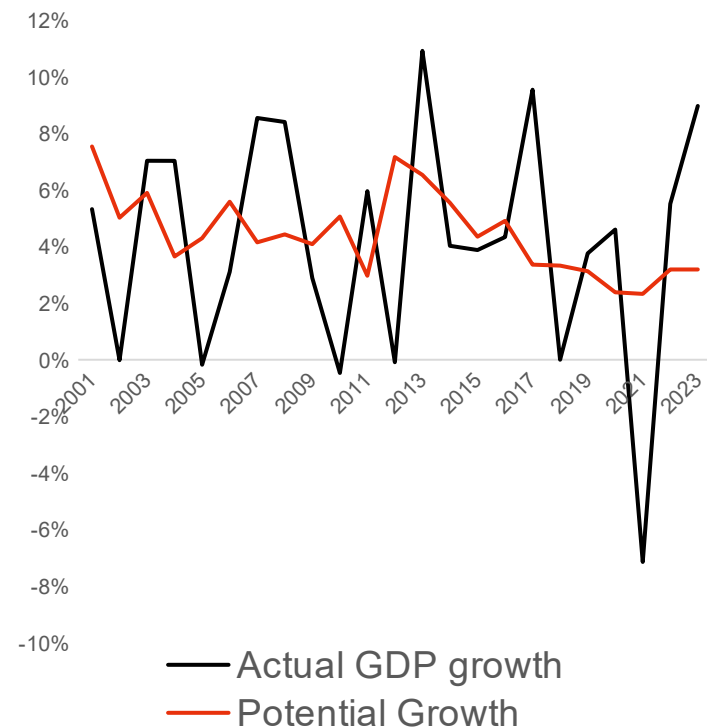
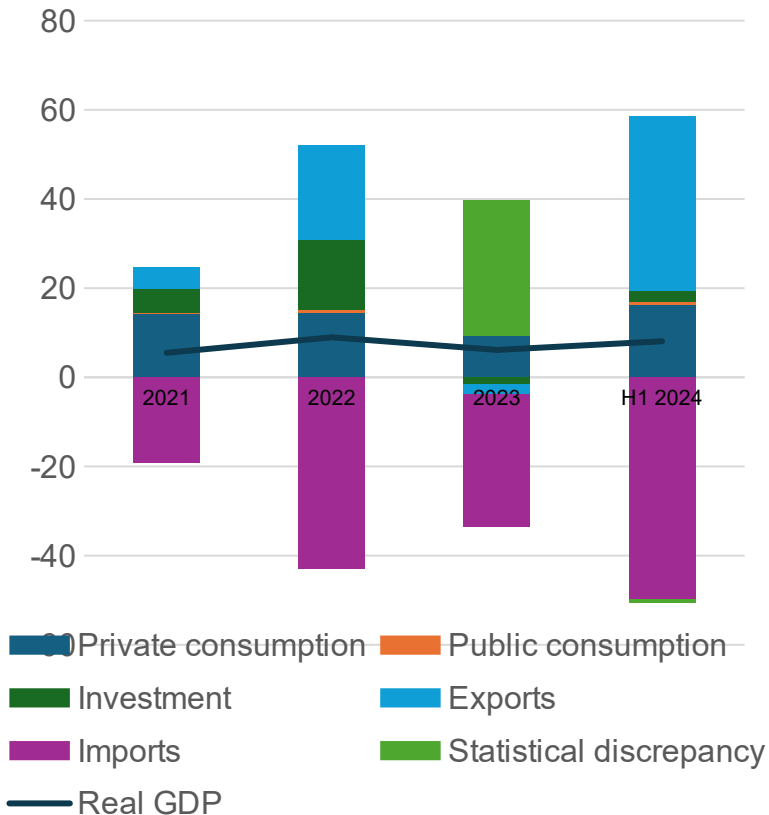
Source: WB

Growth potential of the economy declined because of significant decline in productivity

Growth became largely driven by capital accumulation and less so by productivity



Despite impressive growth since 2021, potential growth in the Kyrgyz Republic has declined over the past decade

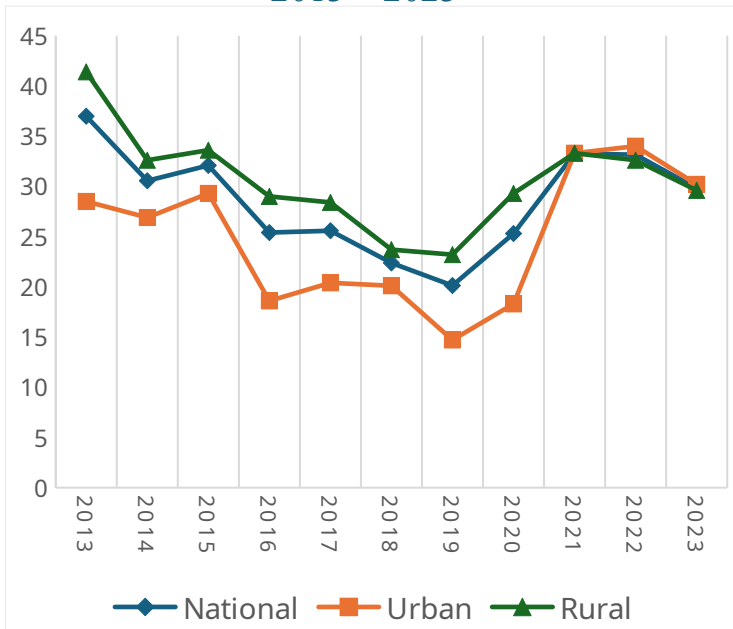


Poverty Reduction Remains a Challenge

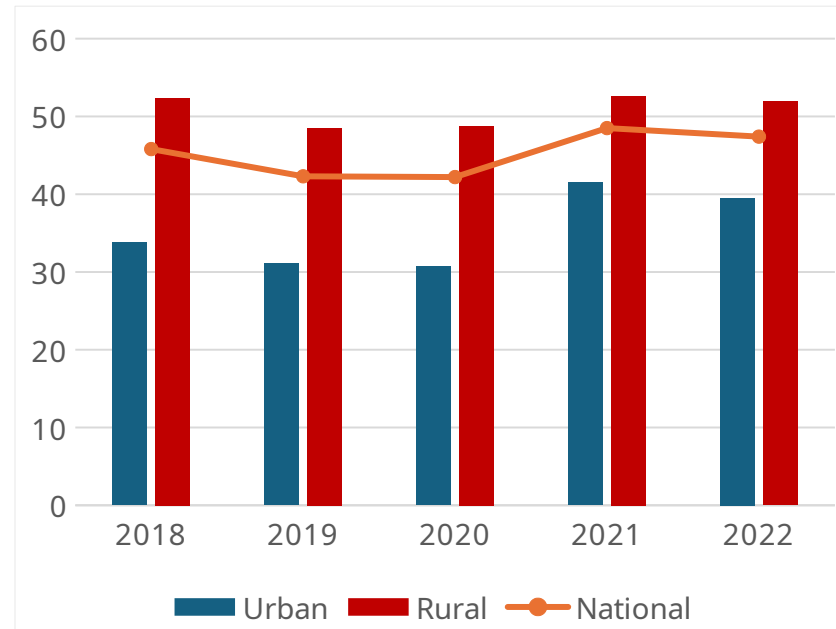
The national poverty rate remained unchanged in a decade and there are serious challenges:

- *Monetary poverty in urban areas;*
- *Persistent multi-dimensional poverty in rural areas and*
- *Raise in income inequality since the COVID-19 pandemic*

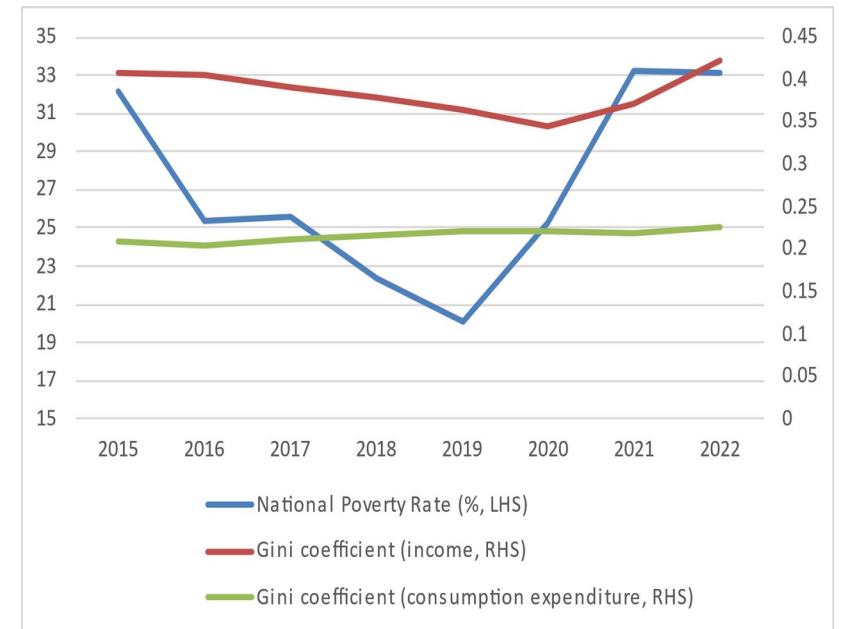
National Poverty Rate,
2013 – 2023



Multi-Dimensional Poverty



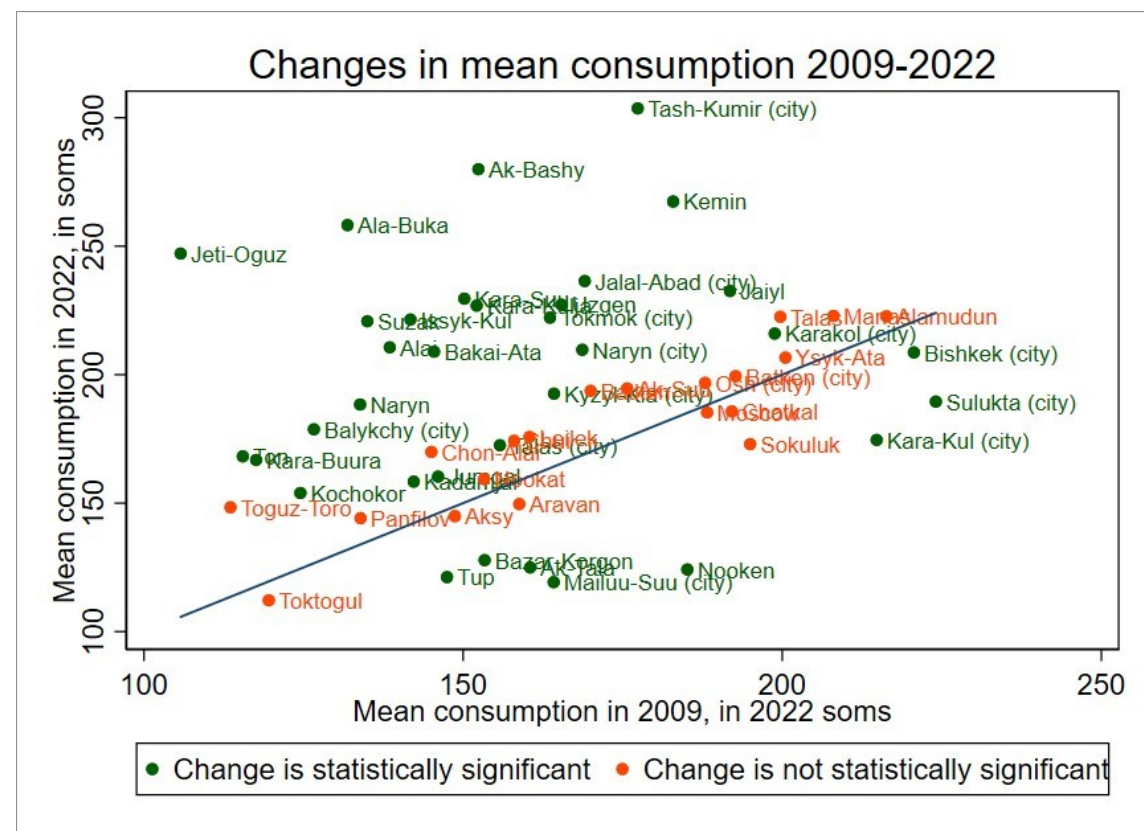
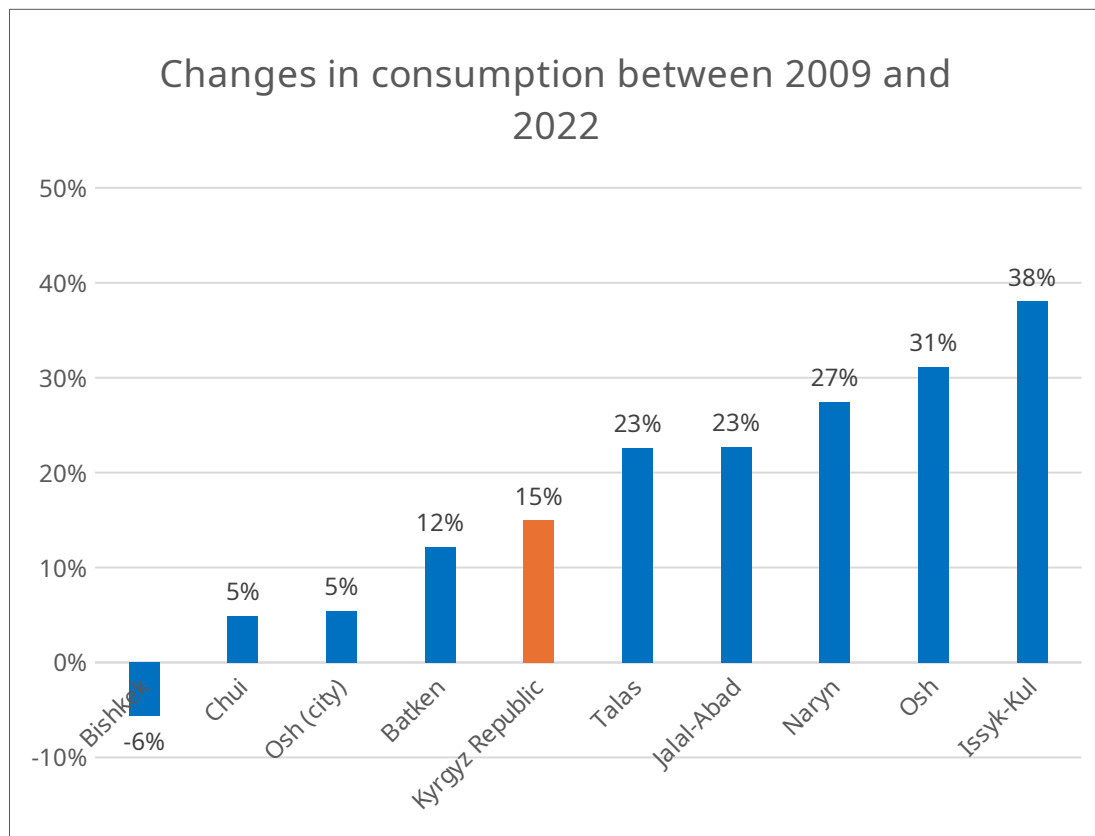
Inequality by Income and Consumption



And Regional Disparities Increased

Nation-wide consumption increased in the last decade (2009-22), however

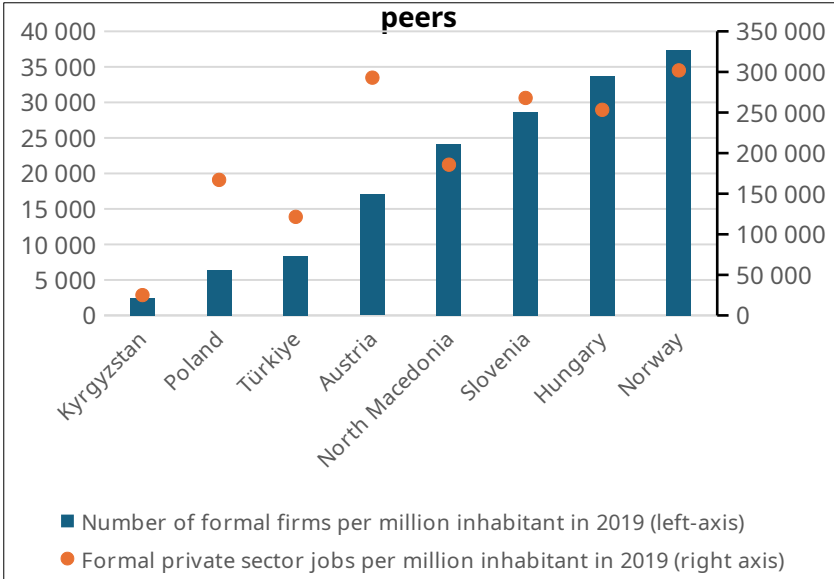
- *there are strong disparities of average consumption between oblasts and especially between regions;*
- *There is reduction in urbanization rate and development of agglomerations around cities.*



Part II: Reforms to Unlock Potential Sources of Higher Growth

The firm-level analysis showed that markets don't reward more productive firms which can generate good-quality employment

Number of formally incorporated firms and formal private sector jobs per country population: KGR vs peers



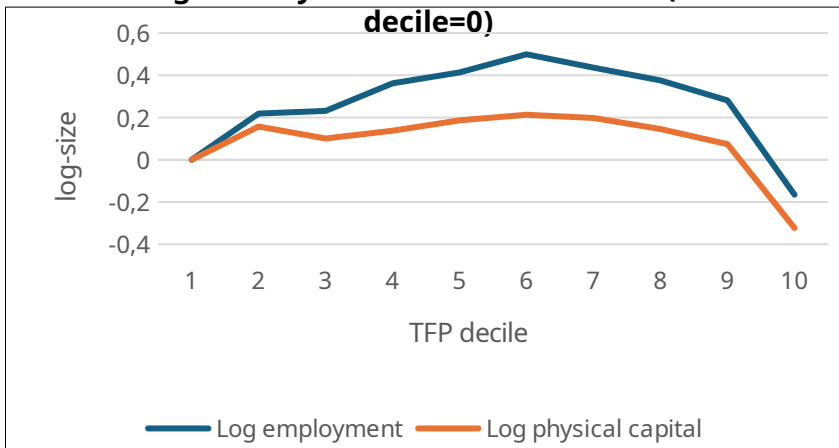
Source: WB staff elaboration based on Kyrgyz admin data and Eurostat data

1

- **Low level of business dynamism:** Low number of formally incorporated businesses leading to low private sector job creation.
- Business density was only 28% that of Türkiye. => Private sector job creation was sixfold less than in Türkiye.
- Potential entrepreneurs might encounter significant barriers that elevate the costs or diminish the advantages of starting and running a business.

3

Average size by TFP distribution in KGR (1st TFP decile=0)



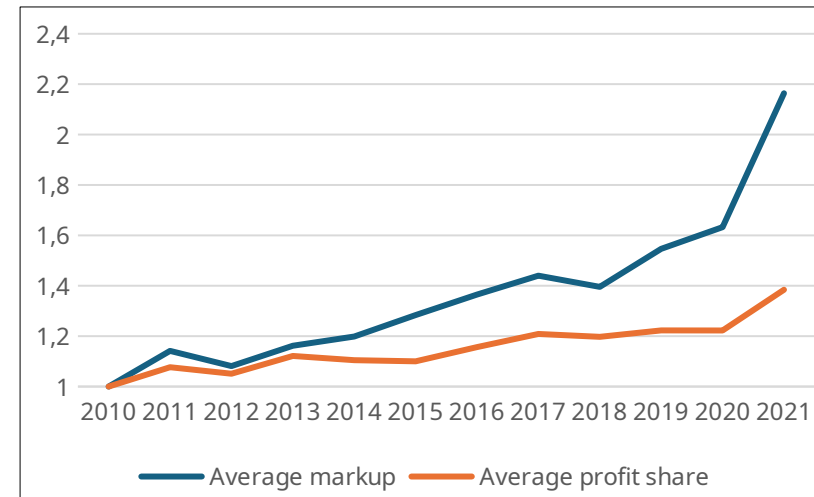
Source: WB staff elaboration based on Kyrgyz admin data. Results are based on 2010-2019 period

The productivity - firm size relationship shows signs of misallocations on the use of productive resources

- Most productive firms are smaller and employ, on average, less workers and less capital than the median firm.
- in other words, more productive firms employ less inputs (labor and capital) than less productive ones, and this reduces aggregate productivity.

2

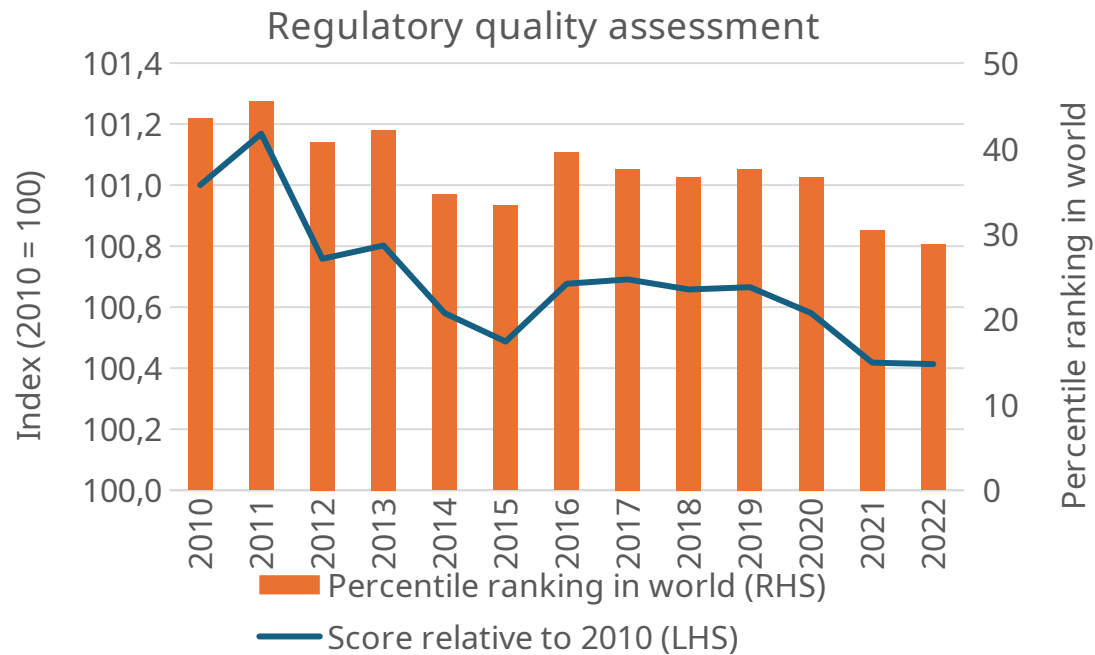
Evolution of markups and profit share in KGR (relative to 2010 level)



Source: WB staff elaboration based on Kyrgyz admin data. Note: Markups are defined as the ratio between prices charged to consumers and marginal production costs. Profits share is defined as operational profits over value added.

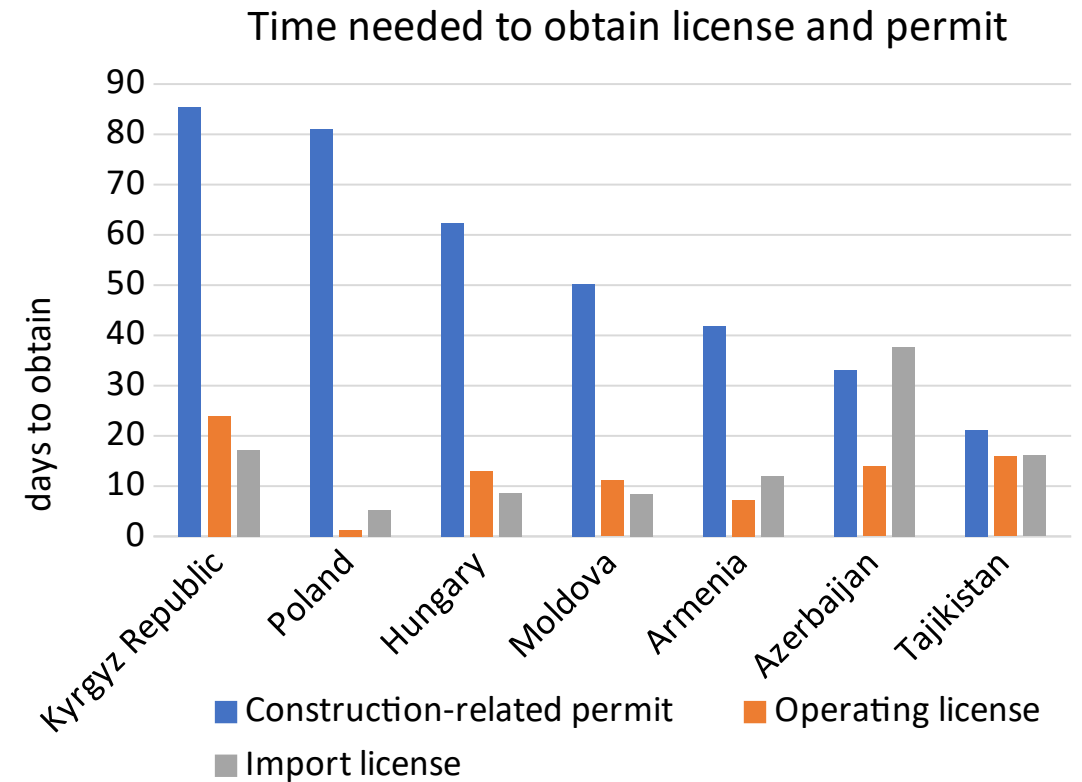
- **Markups and profit share have been growing, a sign that the competitive environment in Kyrgyz markets has been deteriorating**
- The fact that both markups and profit share increased over time suggests that the increase in estimated markups was not—or at least not fully—induced by an increase in production fixed costs and was instead the result of an increase in firms' ability to charge inefficiently high prices.

Improve business regulations and governance to reduce barriers for doing business



Source: World Bank Worldwide Governance Indicators

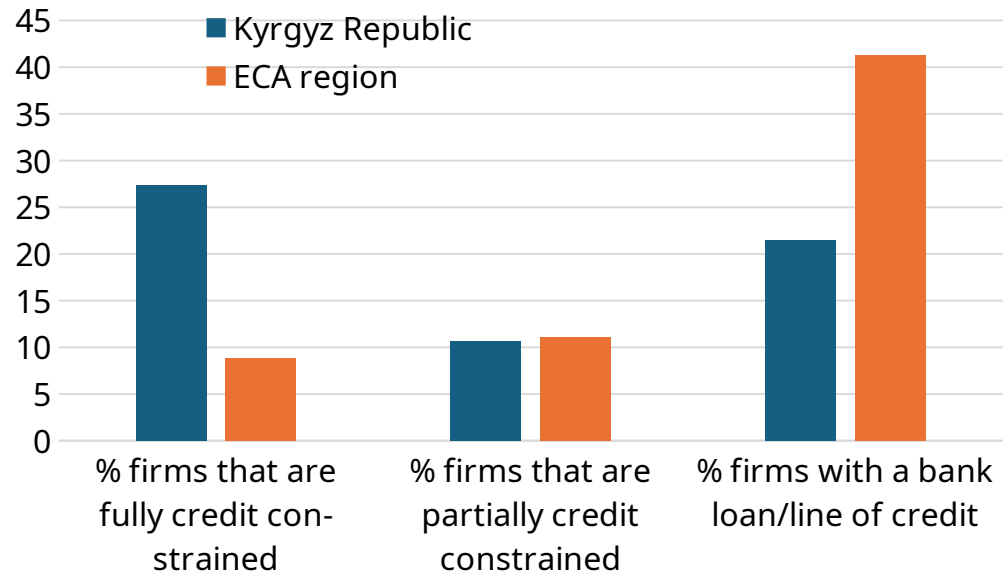
Time needed to gain license highest amongst peers



Source: WB Enterprise Survey

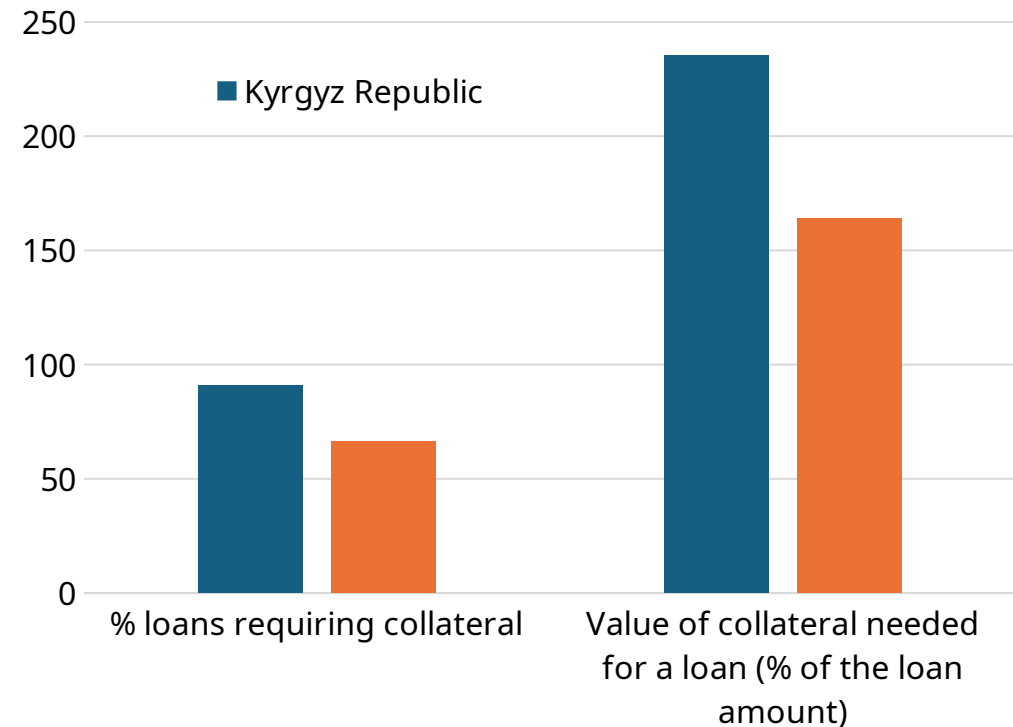
Improve access to finance for firms that could create value added and jobs

Share of firms experiencing credit constraint, percent of all firms



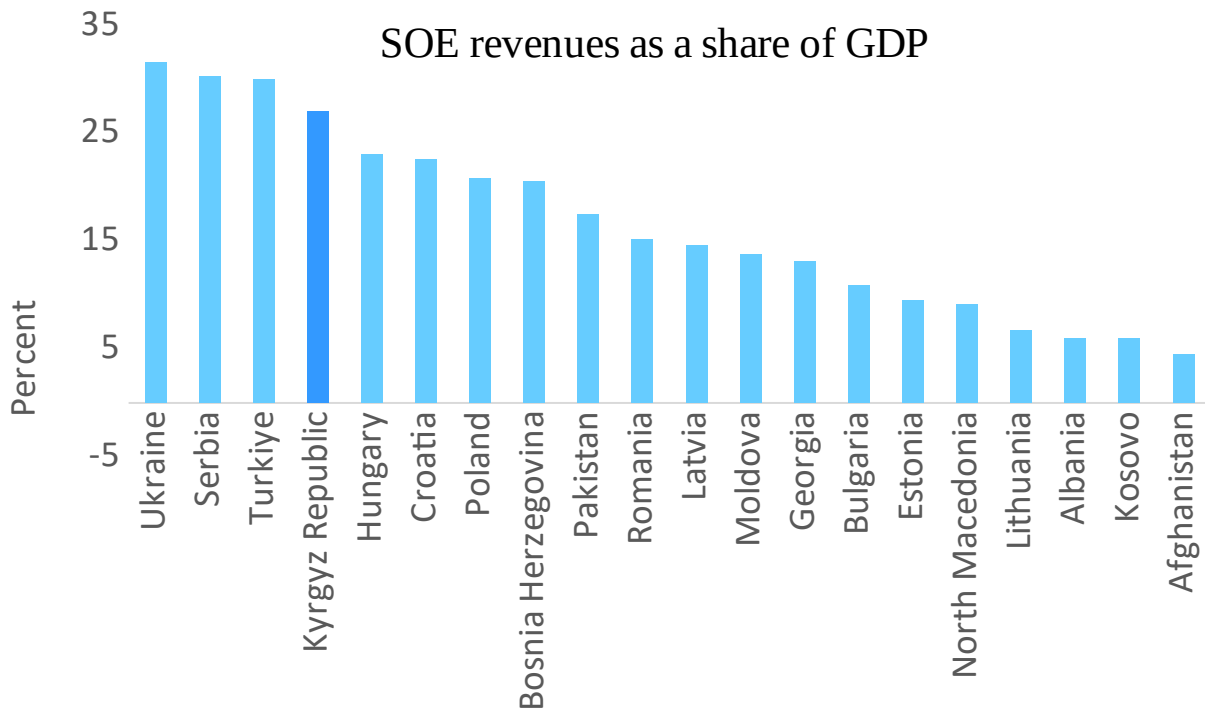
Source: Enterprise Surveys 2023

Share of loans requiring collateral and the value of collateral



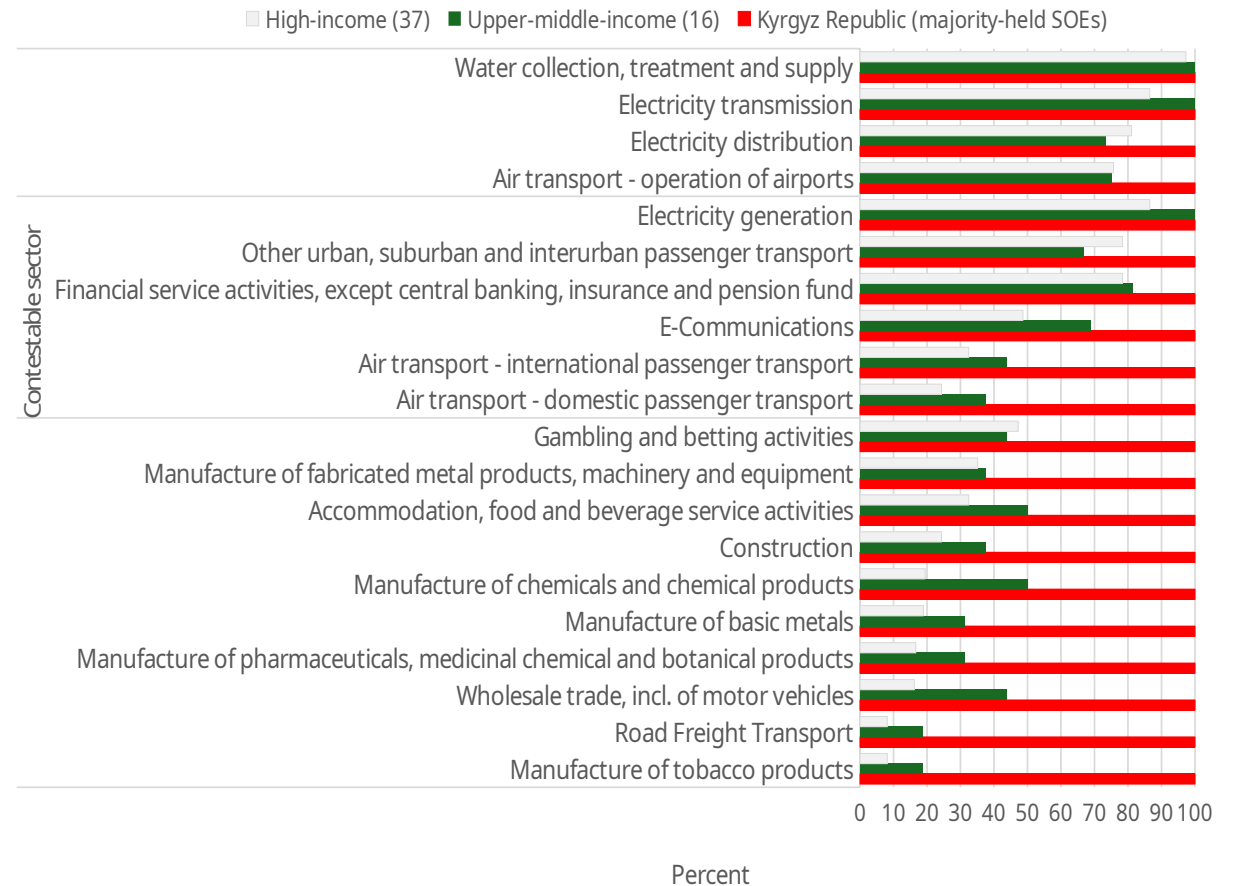
Sharpen competition and create level playing field for all business

SOEs are a dominant presence in the Kyrgyz economy, including in competitive sectors



Source: WB

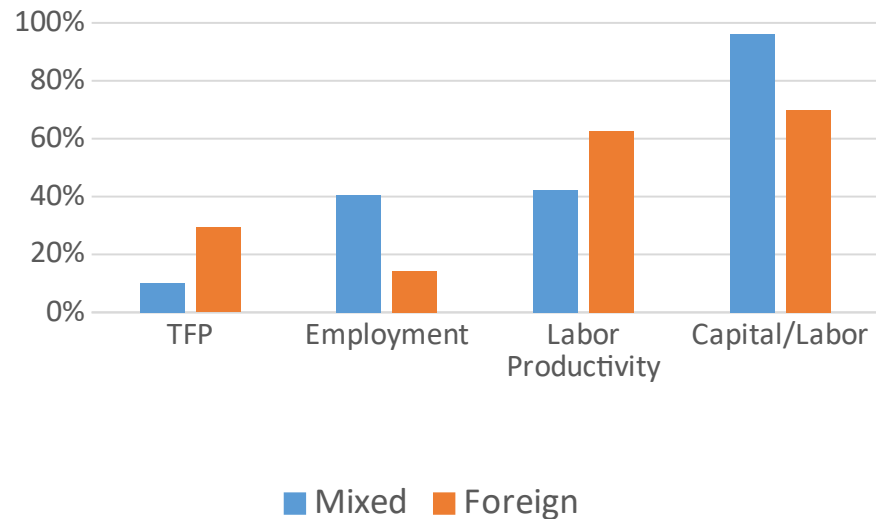
Probability of having at least one SOE present in a sector



Source: WB

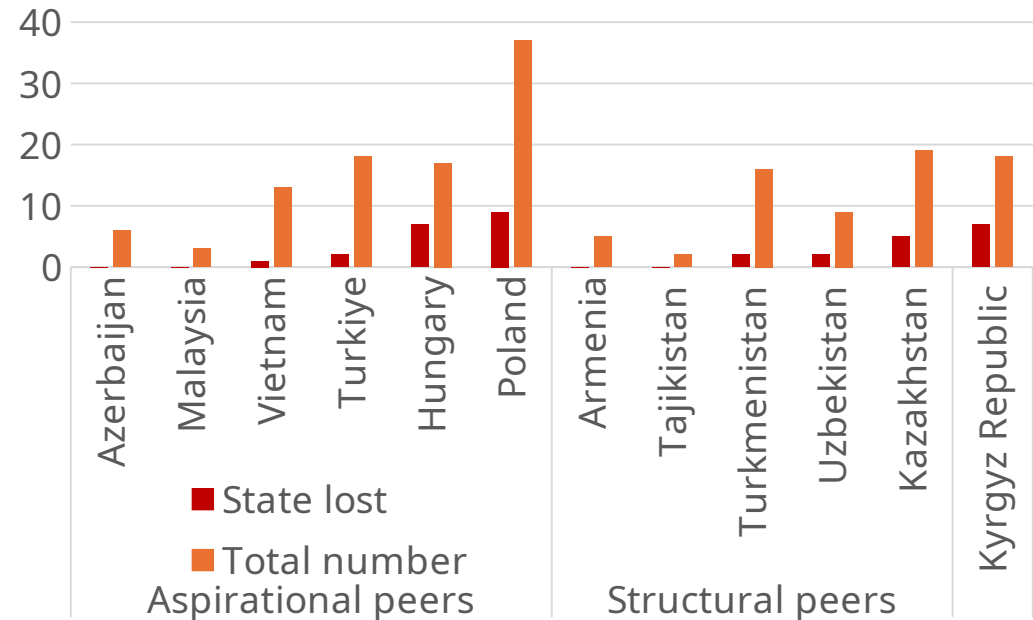
Facilitate FDI as a source of technological infusion, productivity and high-quality jobs

Firms with foreign ownership are more productive and employ more



Source: Administrative data

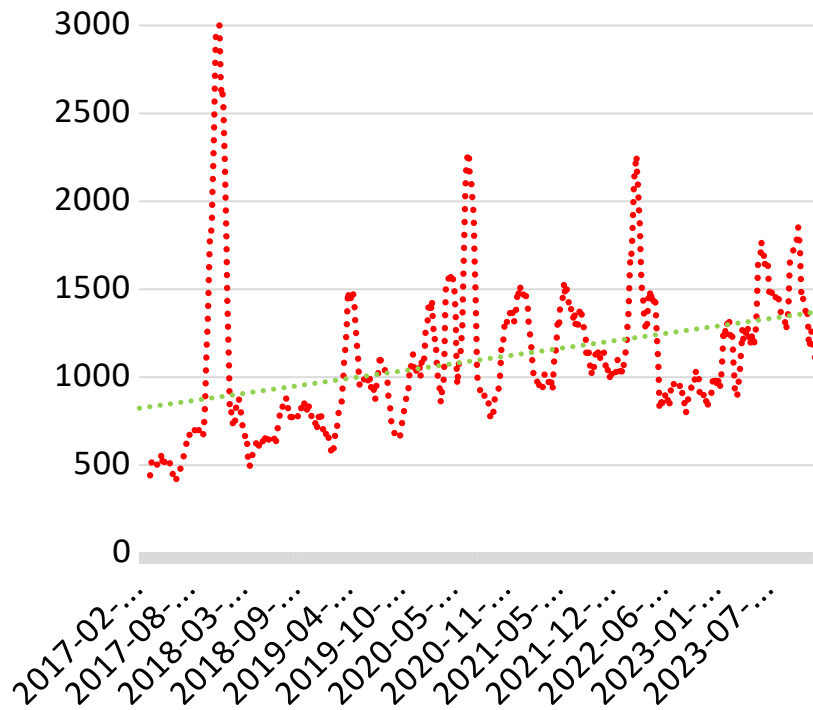
High rates of investor-state disputes put off potential investors



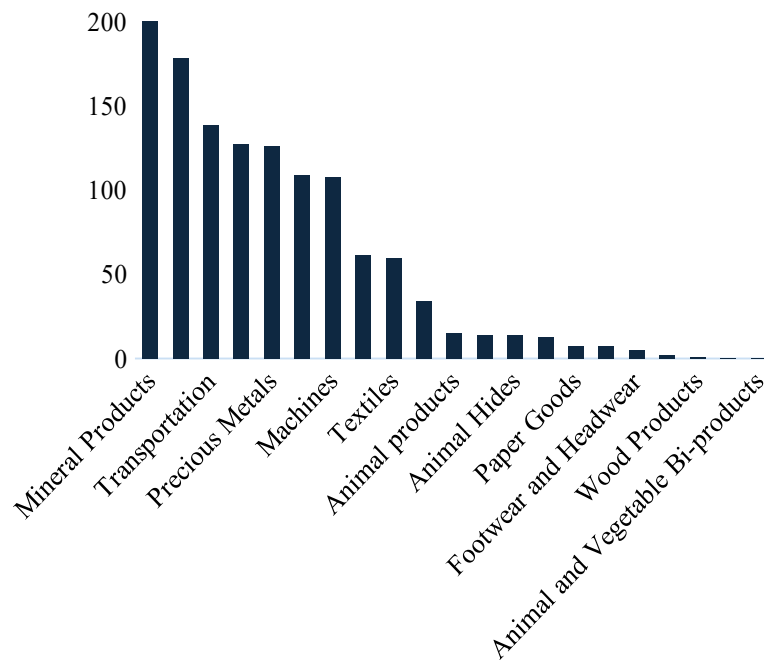
Source: IMF balance of payments

Improve Trade Infrastructure and reduce trade cost to take advantage of global integration for growth and job creation

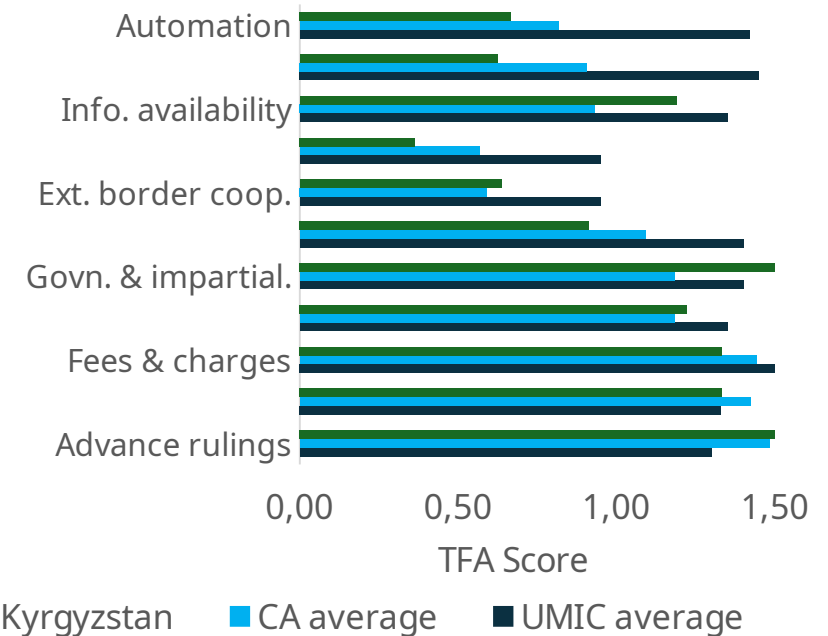
Length of queues at the Kyrgyz-Kazakh border



Estimates suggest an untapped export potential of more than US\$1bn (13 percent of GDP) per year



Assessment of trade facilitation

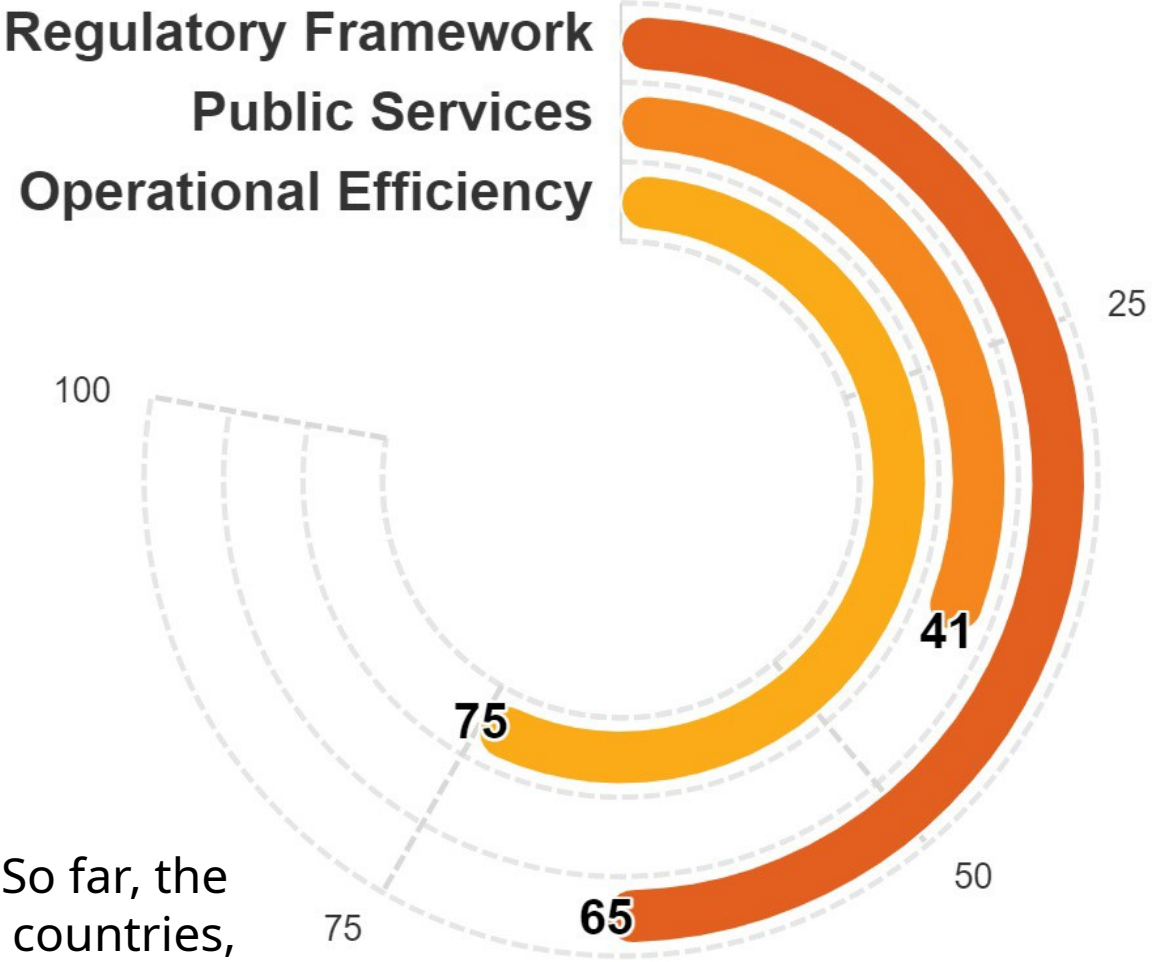


Source: OECD Trade Facilitation Assessment

Part III: Results of 2024 Pilot Business Ready Survey

Kyrgyz Republic
Business – Ready 2014
Pilot Results :

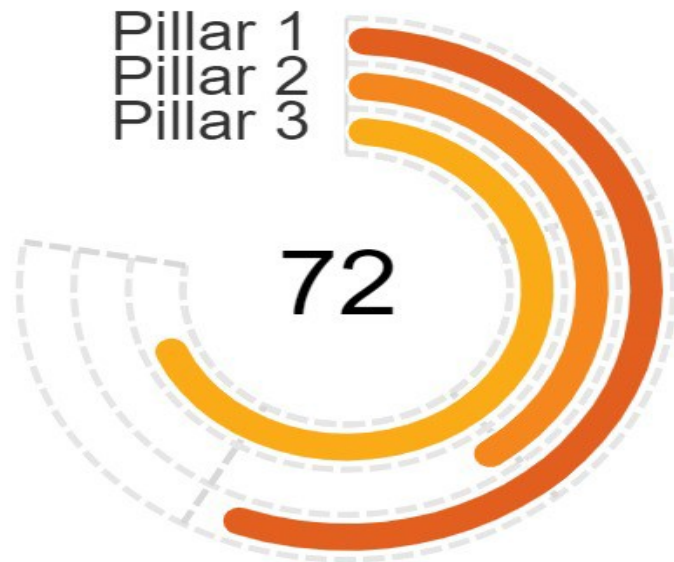
This survey has not yet been fully rolled out. So far, the pilot covers only about (50) of a total of (180) countries, and it will be a three-year roll-out phase. There is a lot of analysis and discussion of the initial results of the pilot. We welcome any feedback from the Kyrgyz authorities.



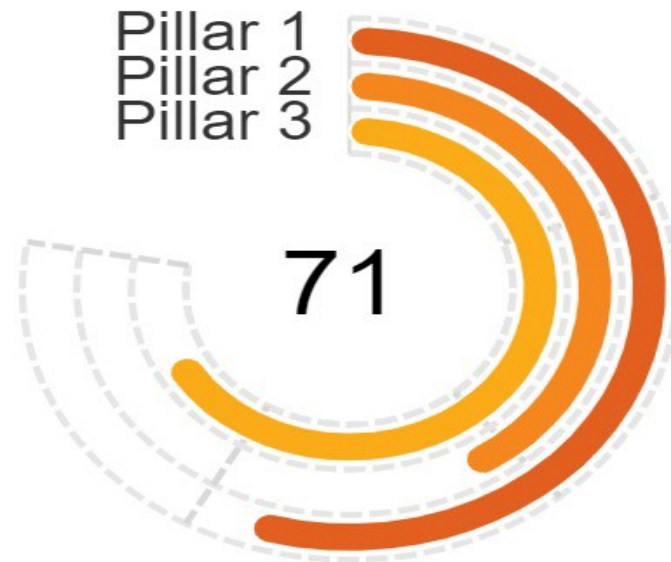
B-Ready Kyrgyz Republic - Highest Scores

1. Regulations on the safety of electricity connections,
2. Consumer protection regulations for electronic payments;
3. Strong land use and zoning regulations.

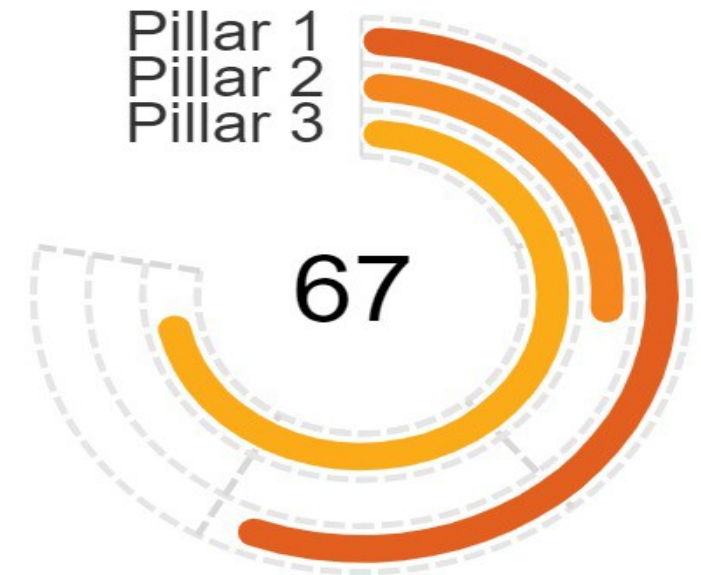
Utility Services



Financial Services



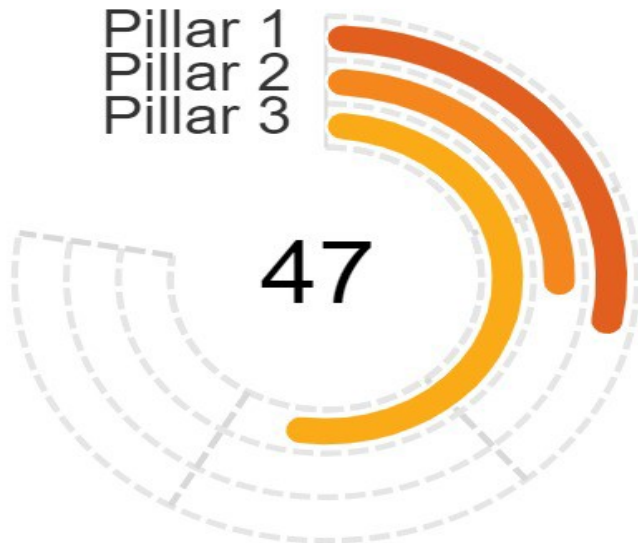
Business Location



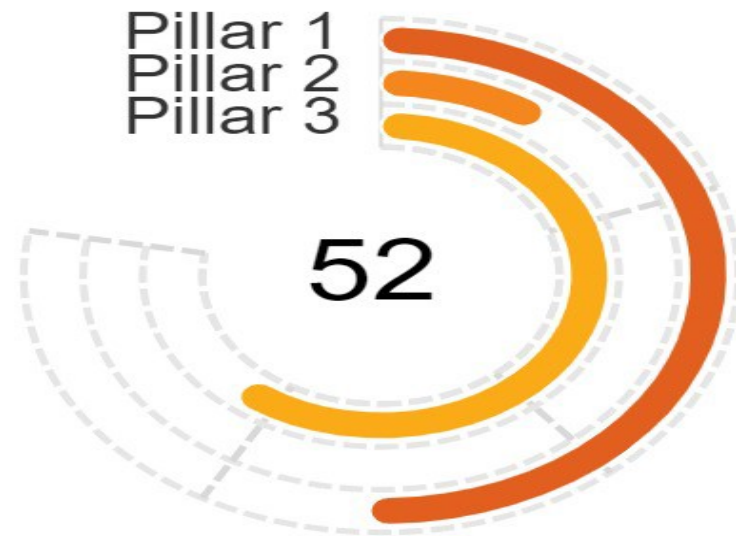
B-Ready Kyrgyz Republic Lowest Scores

1. lags in the mechanisms for the second-level review of tax disputes,
2. No electronic case management systems in place in liquidation and reorganization of companies
3. Restrictions on foreign firms that want to participate in public procurement.

Taxation



Business Insolvency

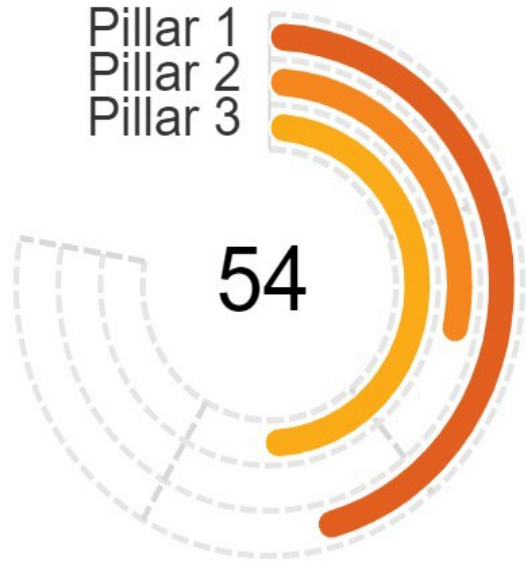


Market Competition



B-Ready Kyrgyz Republic Medium Scores

Labor



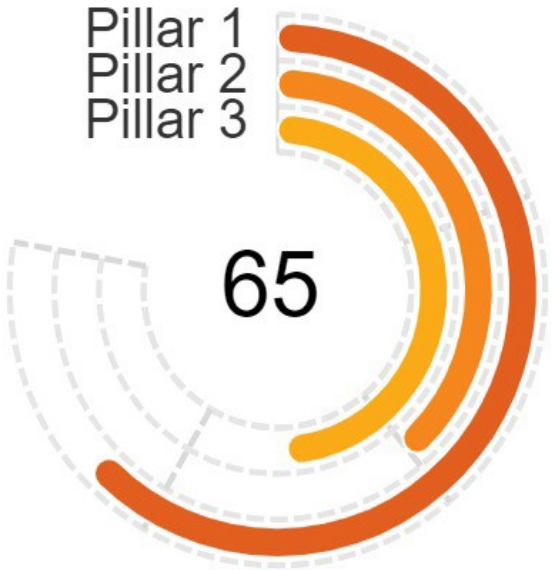
International Trade



Dispute Resolution



Business Entry



Planned B-READY rollout

B-READY 1 2024

50 economies with new (2024) data from expert questionnaires

50 economies with new (2024) data from Enterprise Surveys

B-READY 2 2025

112 economies with new (2025) data from expert questionnaires

50 economies with Enterprise Surveys data from B-READY 1 (2024)

62 economies with new (2025) data from Enterprise Surveys

B-READY 3 2026

184 economies with new (2026) data from expert questionnaires

50 economies with Enterprise Surveys data from B-READY 1 (2024)

62 economies with Enterprise Surveys data from B-READY 2 (2025)

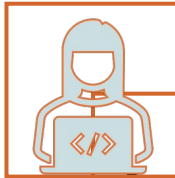
72 economies with new (2026) data from Enterprise Surveys

The World Bank is ready to continue its support for reforms



Effective competition

- Amend and Strengthen Competition Law;
- Approve SOE Ownership Policy;
- Foster competitive neutrality; and
- State aid control framework



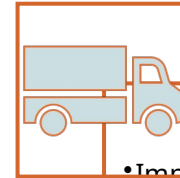
streamline business regulations

- Develop comprehensive reform program and communication plan for business environment improvement
- Reform and strengthen regulatory reform, consultation and communication;
- Ensure regulatory impact assessment of procedures;
- Reduce the number of licenses and permits by half;
- Introduce risk-based inspections.



Remove barriers to high value FDI

- Align investment law and bilateral investment treaties
- Improve investor information
- Reduce restrictions on foreign investors
- Fully operationalize investor grievance mechanism at NAI
- Develop an FDI strategy
- Strengthening NAI investment promotion function



Make trade as an engine for growth

- Improve transparency of trade policy
- Streamline non-tariff measures
- Improve logistics performance
- Upgrade trade facilitation
- Strengthen export capacities
- Improve national quality infrastructure
- Foster regional cooperation on trade
- Introduce risk-based post-clearance audit at Customs and improve border agency coordination