

KYRGYZ REPUBLIC COVID-19 POVERTY AND VULNERABILITY IMPACTS

MACRO-MICRO SIMULATIONS OF COVID-19 SHOCK
(PRELIMINARY RESULTS, NOT FOR CITATION)

The presentation summarizes ongoing work under the Kyrgyz Poverty and Equity program

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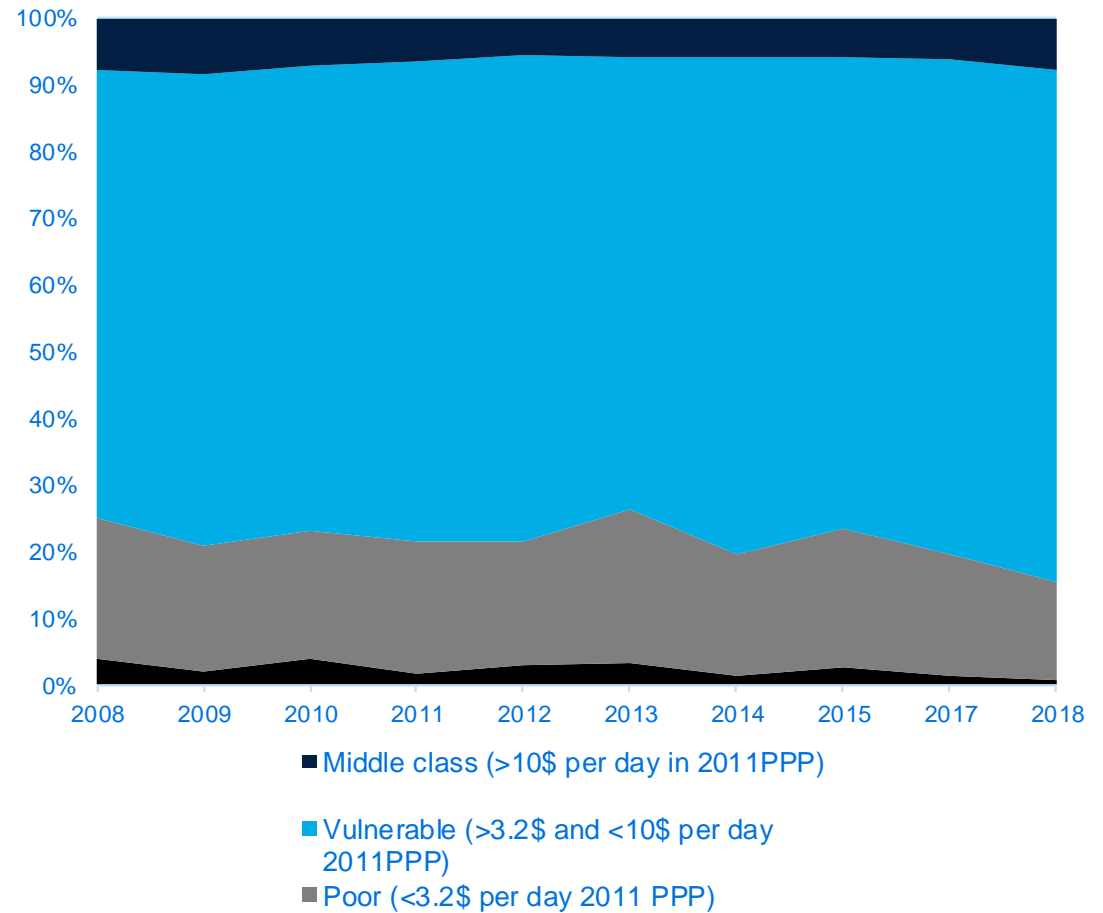
Outline

- 1) Transmission channels for poverty and vulnerability of Kyrgyz households
- 2) Analysis of impacts on Kyrgyz population:
 - Poverty and Vulnerability impacts of simulated income shock and prices
- 3) Policy measures

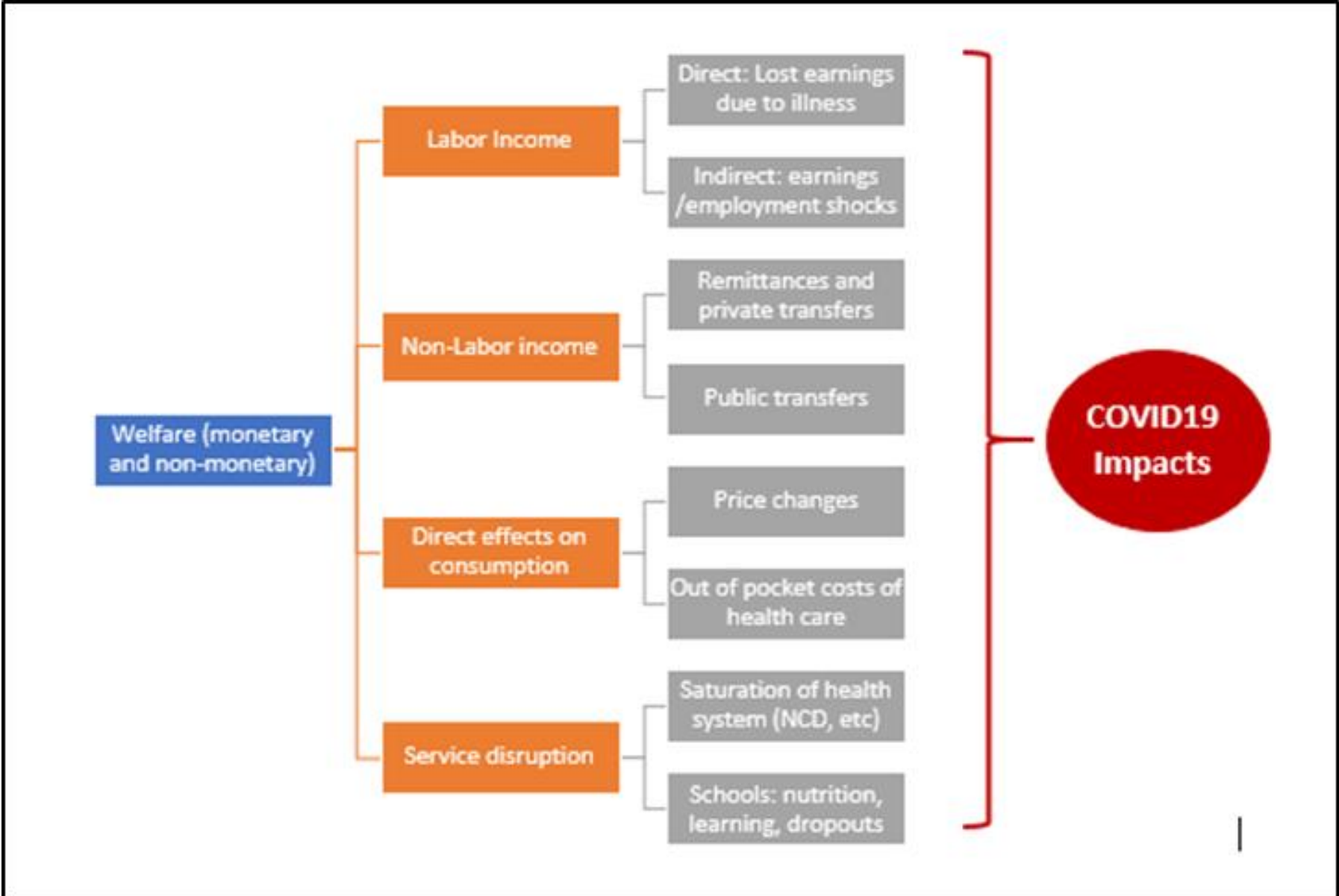
Pre-Covid trends in poverty and vulnerability

VULNERABILITY IS HIGH

Though many escaped poverty, vulnerability is widespread



Transmission Channels: How does COVID-19 affect poverty and vulnerability of households? (whether infected or not)



Transmission Channels: How does COVID-19 affect poverty and vulnerability of households? (whether infected or not)

The main transmission channels of the impact of Covid-19, state of emergency and its economic implications on household monetary poverty and vulnerability are through labor and non-labor incomes:

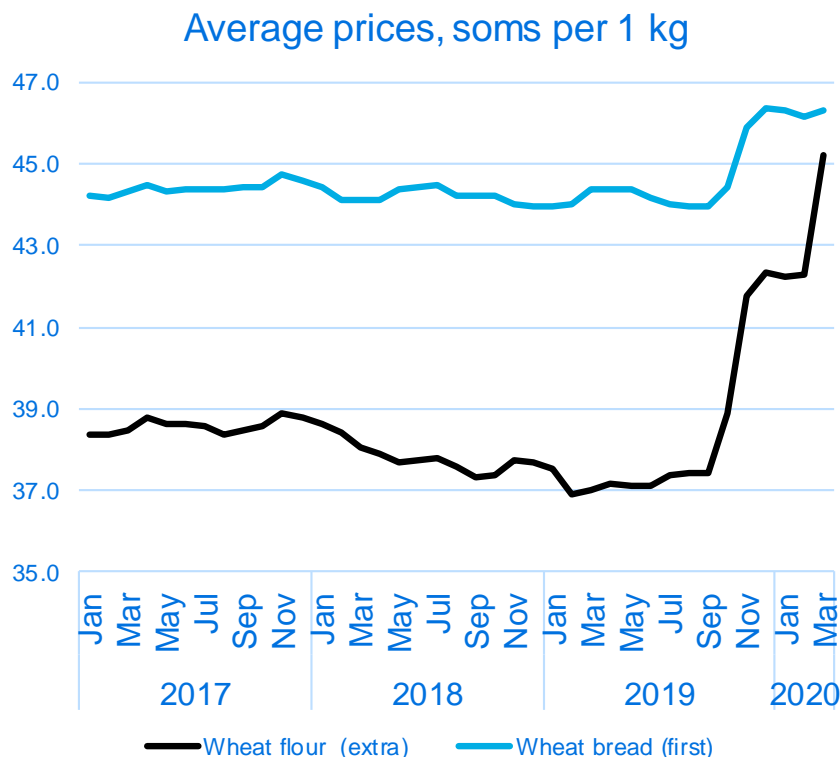
1. Impact on consumption due to higher prices
2. Health expenditure increases (mainly for infected population)
3. Labor income losses
4. Remittances losses

Non-monetary dimensions :

1. Health
2. Access to Education
3. Access to water and sanitation

Inflation is projected to accelerate, reflecting coronavirus-related supply disruptions, depreciation of the national currency (som) and an expansionary fiscal stance

INCREASE PRICES ON WHEAT AND WHEAT FLOUR AND LIMITATIONS ON EXPORT OF THOSE FOOD ITEMS WILL HURT THE POOR



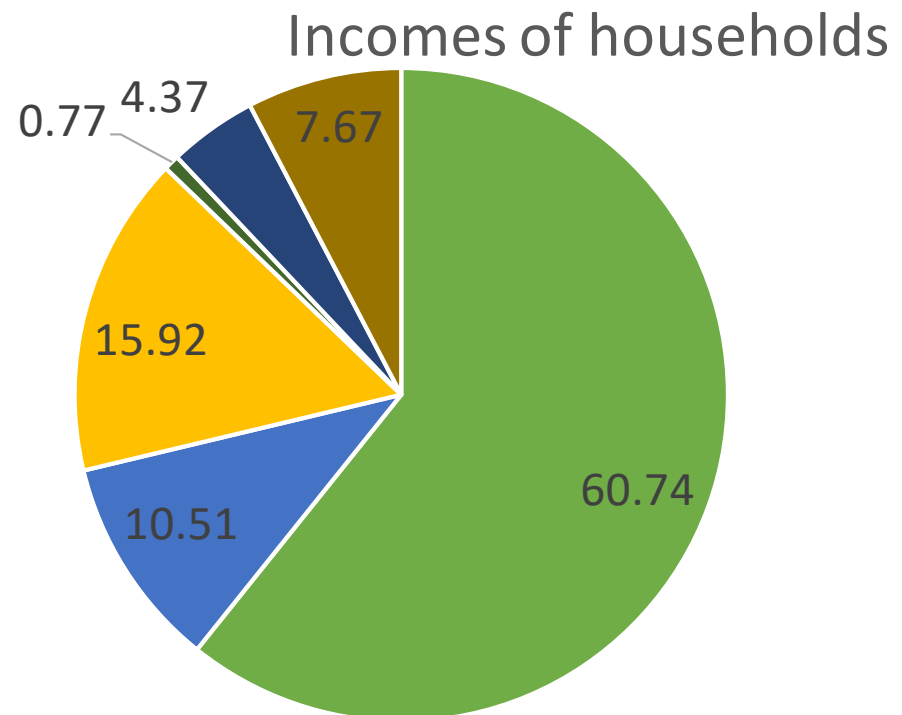
AN INCREASE OF FOOD PRICES WILL REDUCE PURCHASING POWER OF HOUSEHOLDS SHRINKING THEIR CONSUMPTION

	Kvrvaz	Extreme Poor	Poor	Non poor
Food consumption (% of total consumption)	60.63	71.00	67.11	59.72
Food consumption	100.00	100.00	100.00	100.00
Bread and bakery foods	27.10	37.05	33.36	26.10
Meat and meat foods	20.78	21.39	21.40	20.68
Vegetables, melons and gourds	9.41	6.72	8.82	9.51
Milk and dairy produce	8.93	5.06	6.36	9.34
Sugar	7.49	6.67	7.16	7.54
Fruits and berries	6.36	3.27	4.58	6.64
Eating out	5.17	0.81	2.58	5.59
Other food products	14.76	19.03	15.72	14.60

Sudden losses in incomes can have strong impacts on poor and vulnerable households

- Labor income accounts for 70% of income in poor households, and 68% of income in all households
- Remittances are a widespread source of income for households, especially in the South regions
- Selling of agricultural products is one of the important source of incomes, especially for the rural poor

- Wages and employment earnings
- Remittances (3.1+33.1)
- Pensions
- Social Assistance
- Help from relatives and other income
- Agricultural income at household level



Sectors of activity by degree of exposure to pandemic economic consequences

High risk activity sectors	Medium risk activity sectors	Low risk activity sectors
– Construction	– Manufacturing industry	– Public administration and defence; compulsory social security
– Wholesale and retail trade; car and motorcycle repair	– Electricity, gas, steam and air conditioning	– Education
– Transport activities and storage of goods	– Water supply, treatment, waste treatment and recycling	– Health and social services
– Hotel and restaurant activities	– Information and communication"	– Activities of extraterritorial organizations
– Art, entertainment and leisure	– Financial intermediation and insurance"	– Mining
	– Real estate operations	
	– Professional, scientific and technical activities	
	– Administrative and support activities	
	– Other service activities	
	– Activities of private households with employees; production by private households of a variety of goods and services for own consumption	

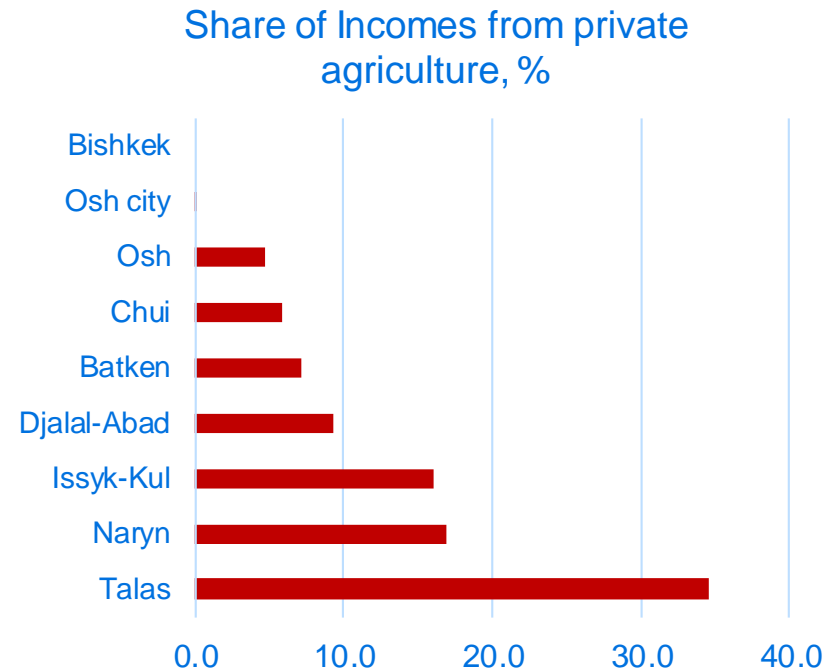
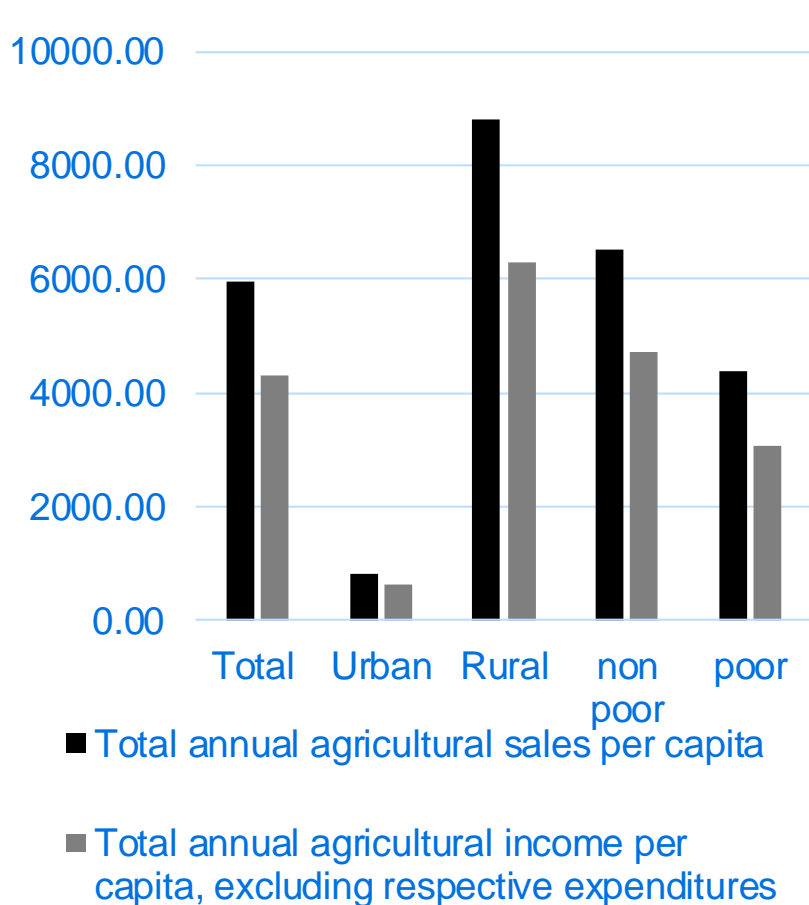
Reduction in labor incomes will put pressure on consumption of households, especially the most vulnerable

The poor will experience significantly lower labor incomes due to closure of trade, construction, other services and overall slowdown of economic activities.

Slower domestic demand will negatively impact the bottom 40 employed in an informal sector (60.4%).

Impact of crisis by sector	All population	Bt20	Bt40	T60
Highly impacted, including	71.2	79.5	77.3	68.6
Construction	10.6	13.2	13.6	9.3
Trade	16.2	13.4	13.1	17.4
Agriculture	18.4	25.7	24.8	15.7
Hotels and restaurants	6.2	3.7	3.7	7.3
Moderately impacted	10.5	6.1	8.5	11.3
Relatively unimpacted	18.4	14.4	14.2	20.1
Total employed	100.0	100.0	100.0	100.0

Border closures and localized restrictions on movements might negatively impact agricultural production and productivity and lead to decline of households' incomes from selling agricultural products

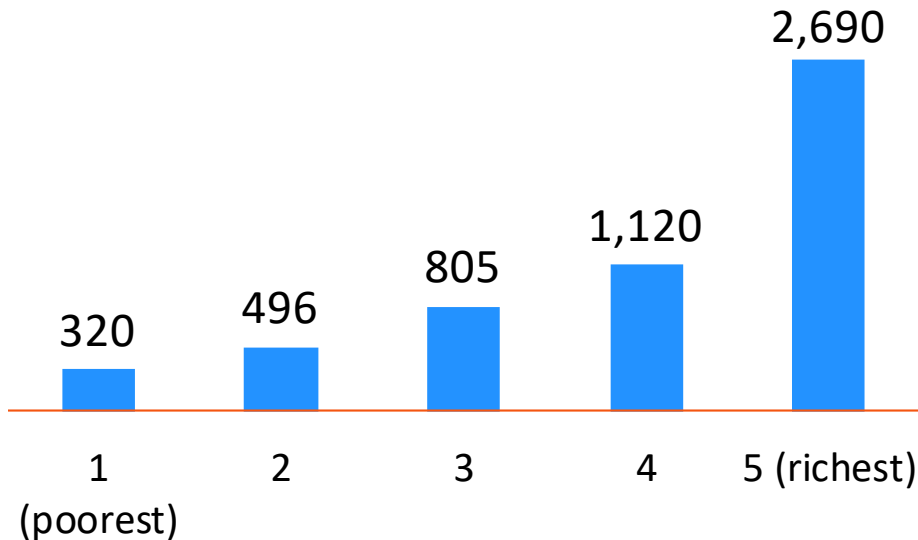


About 400,000 smallholder who produce about 90% of total agricultural output. 24.8% of the bottom 40 employed in an agricultural sector

Health expenditure increase

Rise in out-of-pocket cost of healthcare for those directly affected by the pandemic, which may reduce consumption of other necessities among credit-constrained households

On average, households in the wealthiest quintile spend 8 times more on health related expenses (including medicine, hospitalization, and outpatient treatment) than the households in the poorest quintile.



Mean health Expenditure Per capita by quintile (in kgs)

14x

Households in the wealthiest quintile spend 14 times more in absolute terms on outpatient treatment than the poorest quintile.

10x

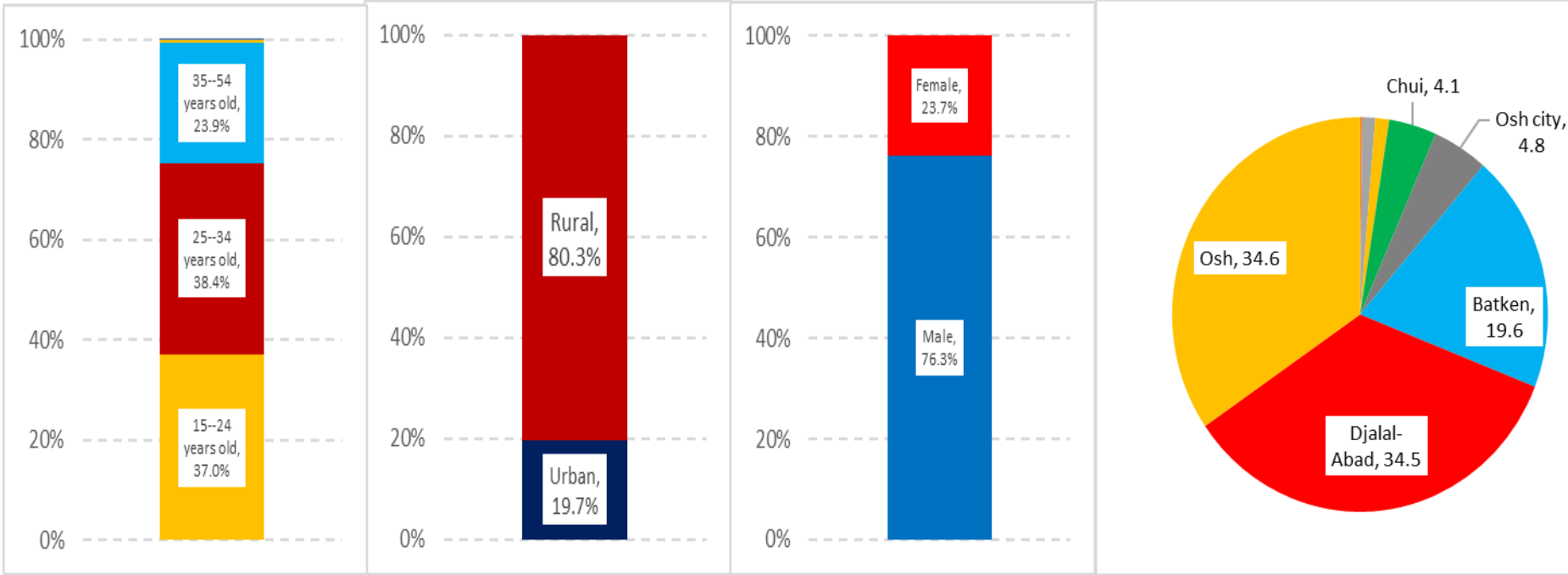
Households in the wealthiest quintile spend 10 times more in absolute terms on hospitalization than the poorest quintile.

8x

The wealthiest quintile spend 8 times more in absolute terms on medicines and other pharmaceuticals than the poorest quintile.

Lower inflow of remittances due to weakening growth in Russian and the ruble depreciation adversely affect migrant households

Remittances supported significant gains in poverty reduction over last decade. For households with a migrant abroad, the receipt of remittances accounted for almost double the reduction in poverty. Remittances are an important income source for rural households. **Potential job losses in Russia and reduction of remittances will push migrant households into poverty and deepen poverty**

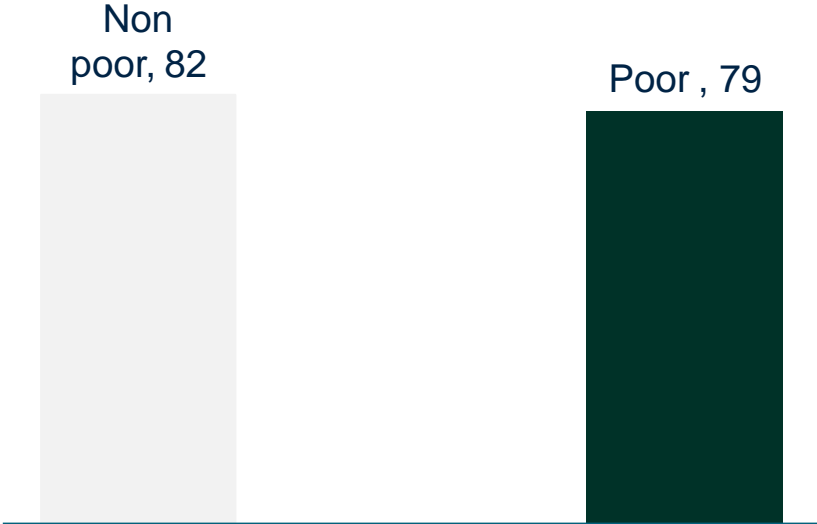


In the long run, health issues and limited access to education might further trap households in poverty

ACCESS TO BASIC AND SECONDARY EDUCATION WILL BE LIMITED FOR POOR HOUSEHOLDS, INCREASING THEIR CHANCES TO STAY POOR

ONLY 0.6 PERCENT OF THE POOR HOUSEHOLDS HAVE COMPUTERS OR OTHER DEVICES TO ACCESS E-LEARNING

Percent of SCHOOL AGE children attending school by POVERTY STATUS



% of HHs	National	Urban	Rural	Poor	Non poor
Wireless receiver	3.3	1.5	4.5	5.3	2.9
Monochrome television receiver	4.4	2.0	6.1	2.6	4.8
Color television receiver	98.6	98.3	98.8	96.5	99.0
Personal computer	6.8	12.6	2.8	3.0	7.5
Personal computer (laptop, planchet, tablet)	5.7	8.5	3.8	0.6	6.7
Mobile phone	94.0	96.1	92.6	88.9	95.0

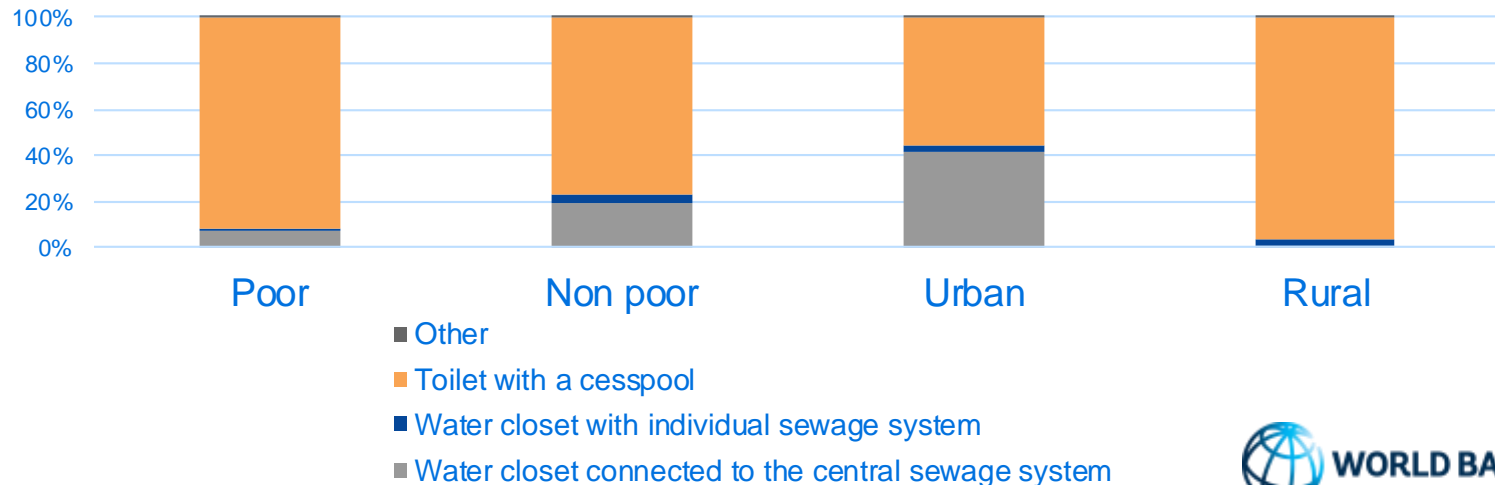
Low availability of sanitation facilities increase risk of wide spreading the disease

AVAILABILITY OF APPROVED SANITATION FACILITIES IS LOW

Only 2.3% of rural population use water closet connected to the central sewage system. Majority (97%) of rural residents use toilets with a cesspool (pit latrine)

	National	Urban	Rural	Poor	Non poor
Water supply	92.6	94.4	91.3	88.0	93.4
Sewage system	37.1	70.0	14.1	18.4	40.6

What type of bathroom do your household members mostly use?



Analysis of impacts on population of the Kyrgyz Republic

Poverty and Vulnerability impacts of Covid-19: Employment and Labor incomes

Simulation of the impact on poverty rate due to changes in agricultural incomes, wages by sector of activity of the HH and unemployment, all other things being equal

	Poverty rate	Absolute Difference
Benchmark (forecast 2019)	22.4%	0.0%
Labor incomes -40% (high risk sectors); -10% (moderate risk sectors); no change (low risk)	24.6%	2.2%
Labor incomes -50% (high risk sectors); -20% (moderate risk sectors); 10% reduction in incomes from selling agri products; no change (low risk)	25.8%	3.4%
Labor incomes -50% (high risk sectors); -20% (moderate risk sectors); 20% reduction in incomes from selling agri products; no change (low risk)	26.0%	3.6%
Note: earnings of unemployed (HH head) reduced by 20%, all cases		

Simulation of the impact on poverty rate due to reduction in labor incomes by regions and urban/rural

Urban households will be adversely affected through employment transmission channel

	HR -50%; MR -20%; AGR -10%	Scenario total number of poor	Difference in percentage points	Difference number of poor
KYRGYZSTAN total	25.77%	1681309	3.4%	220234
Urban	24.47%	545943	4.6%	103611
Rural	26.47%	1136385	2.7%	115553
Yssyk-Kul oblast	23.81%	118090	2.7%	13636
Jalal-Abat oblast	33.89%	419862	1.3%	16649
Naryn oblast	33.31%	96479	2.3%	6650
Batken oblast	38.21%	205338	3.5%	19050
Osh oblast	20.13%	275362	5.2%	71385
Talas oblast	24.42%	65295	2.3%	6184
Chui oblast	17.41%	167125	1.9%	18132
Bishkek city	19.11%	201435	4.9%	52063
Osh city	41.50%	129697	5.8%	18111

Poverty and Vulnerability impacts of Covid-19: Remittances and Prices

Simulation of the impact on poverty rate due to changes in remittances from abroad, all other things being equal

	Poverty rate	Absolute Difference
Benchmark (forecast 2019)	22.2%	0.0%
Remittances -20%	22.5%	0.3%
Remittances -30%	22.6%	0.4%
Remittances -50%	22.7%	0.5%

Simulation of the impact on poverty rate due to changes in prices, all other things being equal

	Poverty rate	Absolute Difference
Benchmark (forecast 2019)	22.2%	0.0%
pline +3%	24.5%	2.3%
pline +5%	25.8%	3.6%
pline +10%	29.5%	7.3%
pline + 15%	33.5%	11.2%
pline +20%	38%	16.1%

Poverty and Vulnerability impacts of Covid-19: Remittances and Prices

Simulation of the impact on poverty rate due to changes in remittances from abroad, all other things being equal

Simulation of the impact on poverty rate due to changes in prices, all other things being equal

	Poverty rate	Absolute Difference		Poverty rate	Absolute Difference
Benchmark (forecast 2019)	22.4%	0.0%	Benchmark (forecast 2019)	22.4%	0.0%
Remittances -20%	22.7%	0.3%	pline +5%	26%	3.6%
Remittances -30%	22.9%	0.5%	pline +10%	29.7%	7.3%
Remittances -50%	23.3%	0.9%	pline + 15%	33.7%	11.3%
			pline +20%	38.5%	16.1%

¹⁸Note: KIHS does not capture some households with labor migrants working abroad due to design (for example, hhs with parents working abroad closed during survey, or migrants with double citizenship). Thus, the results might underestimate the full impact due to the data limitation.

The impact of prices, however, is difference across regions, urban and rural

Simulation of the impact on poverty rate due to increase of prices by 10%

	Poverty line +10%	Scenario total number of poor	Difference in percentage points	Difference number of poor
KYRGYZSTAN total	29.7%	1936183	7.3%	475109
Urban	25.9%	578651	6.1%	136318
Rural	31.7%	1360537	7.9%	339705
Yssyk-Kul oblast	30.8%	152902	9.8%	48449
Jalal-Abat oblast	41.9%	518789	9.3%	115575
Naryn oblast	39.5%	114392	8.5%	24563
Batken oblast	41.3%	221948	6.6%	35660
Osh oblast	23.6%	323408	8.7%	119431
Talas oblast	27.0%	72088	4.9%	12978
Chui oblast	20.3%	195000	4.8%	46007
Bishkek city	18.0%	190179	3.9%	40808
Osh city	45.0%	140632	9.3%	29047

Negative Impact of reduction in remittances is much higher for households with labor migrants

SIMULATION OF THE IMPACT ON POVERTY RATE
DUE TO REMITTANCES, 30% REDUCTION

	Difference in percentage points	Difference number of poor
KYRGYZSTAN total	0.5%	32 226
Urban	0.5%	11 356
Rural	0.5%	20 818
Yssyk-Kul oblast	0.5%	2 624
Jalal-Abat oblast	1.5%	18 272
Naryn oblast	0.0%	0
Batken oblast	0.9%	4 686
Osh oblast	0.3%	4 268
Talas oblast	0.0%	0
Chui oblast	0.0%	10
Bishkek city	0.0%	0
Osh city	0.7%	2103

SIMULATION OF THE IMPACT ON GROUP-SPECIFIC POVERTY RATE DUE TO
REMITTANCES. GROUP: HH WHO RECEIVED REMITTANCES

	remittances -30%	Total number of poor	Difference in percentage points	Difference number of poor
KYRGYZSTAN total	23.7%	31 7318	2.5%	33 029
Urban	28.6%	91 488	3.6%	11 494
Rural	22.1%	227 159	2.1%	21 575
Yssyk-Kul oblast	29.6%	16620	5.0%	2 796
Jalal-Abat oblast	35.5%	113978	6.1%	19 571
Naryn oblast	24.6%	1324	0.0%	0
Batken oblast	31.7%	75562	2.0%	4 843
Osh oblast	10.9%	50279	0.9%	4 349
Talas oblast	5.3%	981	0.0%	0
Chui oblast	17.5%	19786	0.0%	0
Bishkek city	26.4%	12130	0.0%	0
Osh city	37.1%	29685	2.6%	2100

Note: KIHS does not capture some households with labor migrants working abroad due to design. Thus, the results might underestimate the full impact due to the data limitation.

Simulation of the impact on poverty rate due to different scenarios

Number of new poor, who potentially might request social assistance is ranging from **384,8 thousand to 1.5 mln. people** depending on economic situation in the country

Simulation of the impact on poverty rate	Scenario Poverty rate	Scenario total number of poor	Difference in percentage points	Difference number of poor
scenario A: inflation +5%; High risk sectors (HR) reduction in incomes by -30%; moderate risk(MR) by: -10%; Remittances -30%;	28.3%	1,845,898	5.90%	384,823
scenario B: inflation +10%; HR -40% MR -10%; Remittances -30%;	32.9%	2,145,263	10.49%	684,188
scenario C: inflation +15%; HR -50% MR -20%; Agriculture -10%; Remittances -50%;	39.9%	2,603,410	17.51%	1,142,335
scenario D: inflation +20%; HR -50% MR -20%; Agriculture -10%; Remittances -50%;	44.8%	2,925,738	22.45%	1,464,663

Benchmark poverty rate --- 22.4%

Simulation of the impact on employment

Participation rate (2018)	Employment rate	Unemployment rate
59.8	56.1	6.2
58.7	55.4	5.5

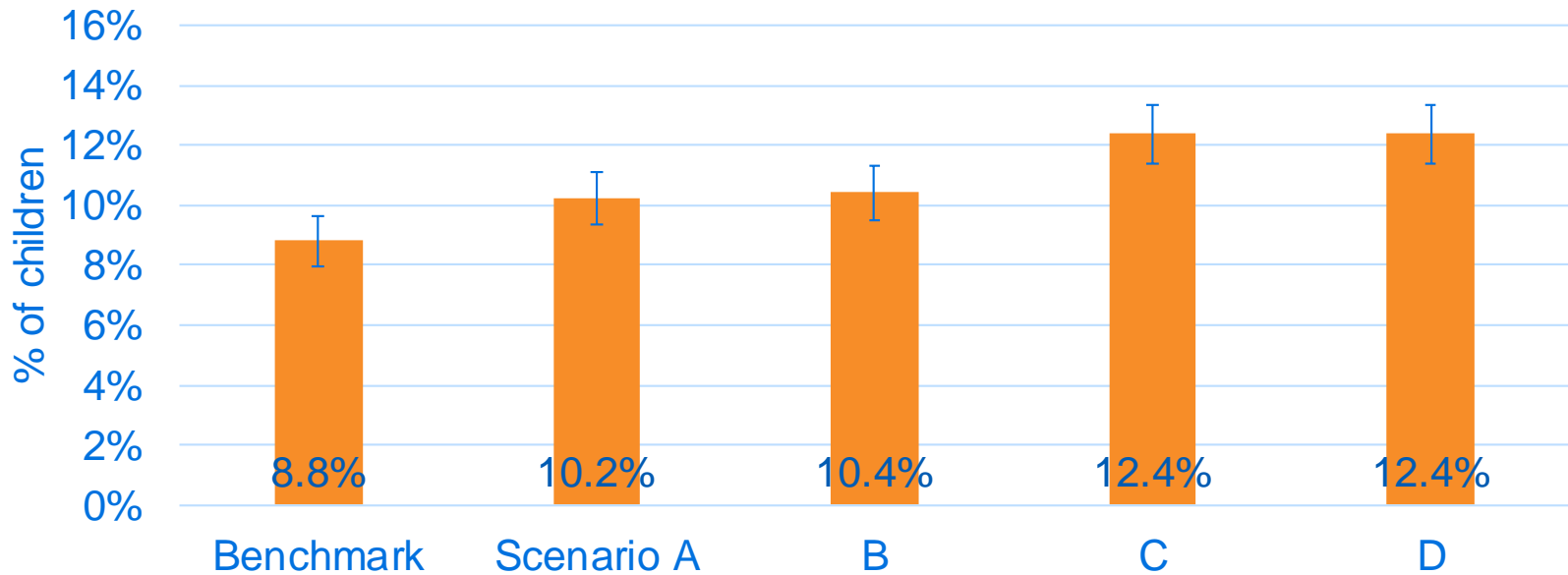
Scenario	Unemployment rate	Change Unemp. rate	Difference to benchmark		
			Percentage difference		
			All Employed	Employed abroad	Unemployed
Scenario A	8.5	3.0	-4.5	-13.1	51.8
Urban	8.8	3.0	-4.3	-12.8	57.3
Rural	7.8	2.4	-4.6	-13.2	48.3
Scenario B	9.3	3.8	-5.7	-16.8	65.1
Urban	9.5	3.7	-5.3	-15.1	71.0
Rural	8.4	3.0	-6.0	-17.3	61.2
Scenario C-D	11.6	6.1	-8.9	-24.4	104.3
Urban	11.4	5.6	-8.0	-20.4	109.5
Rural	10.3	4.9	-9.4	-25.5	101.0

Implications for UBK

This section prepared jointly with UNICEF

Based on income*, up to 78,600 newly poor children would become eligible for the UBK

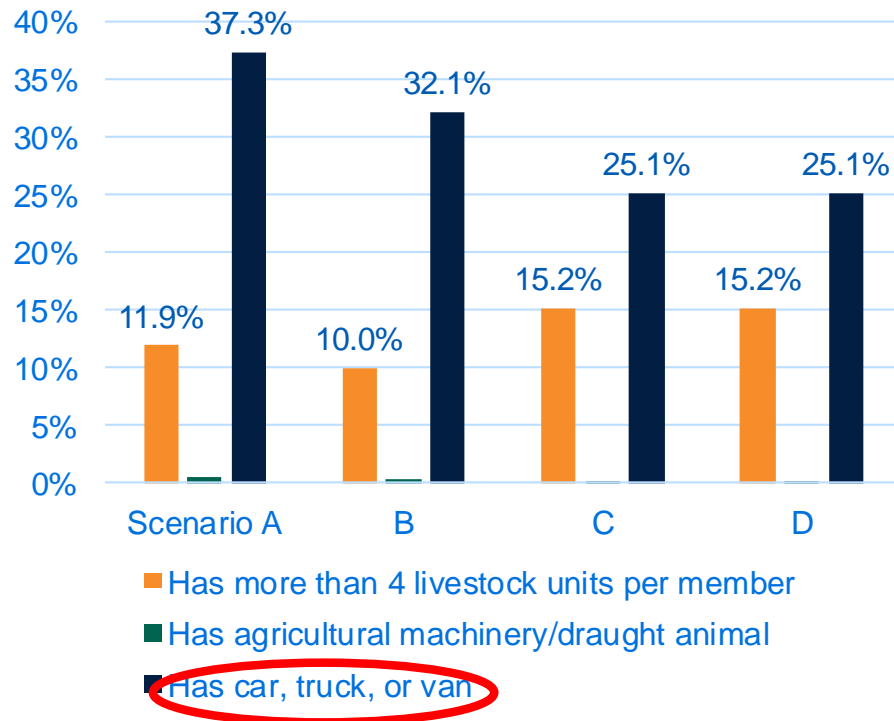
Estimated share of children (<16) eligible for UBK



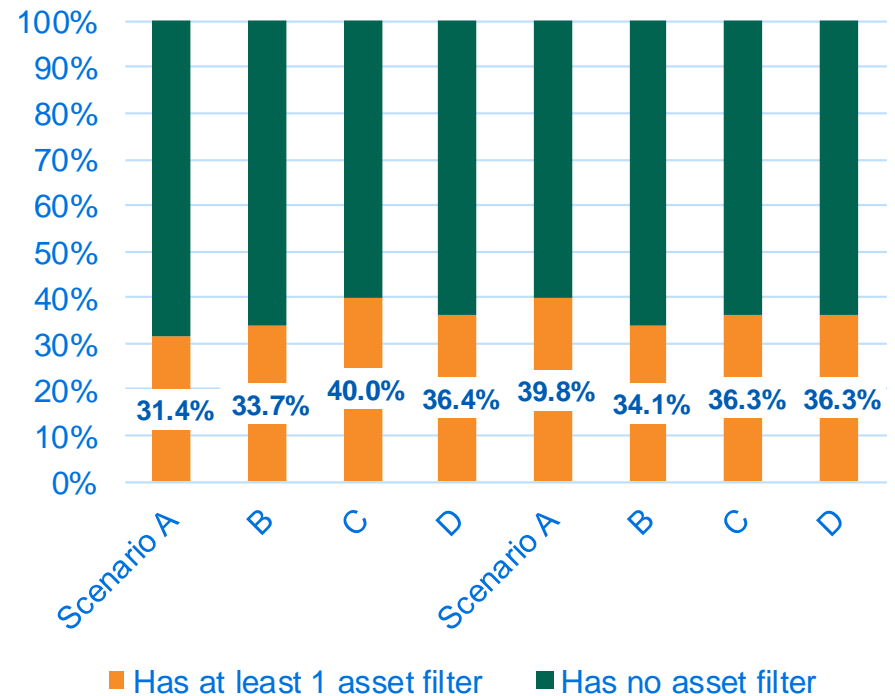
**Income: total income excluding pensions, MSB and UBK*

But asset filters limit eligibility for newly poor children and their families

Prevalence of filters among new GMI-eligible children



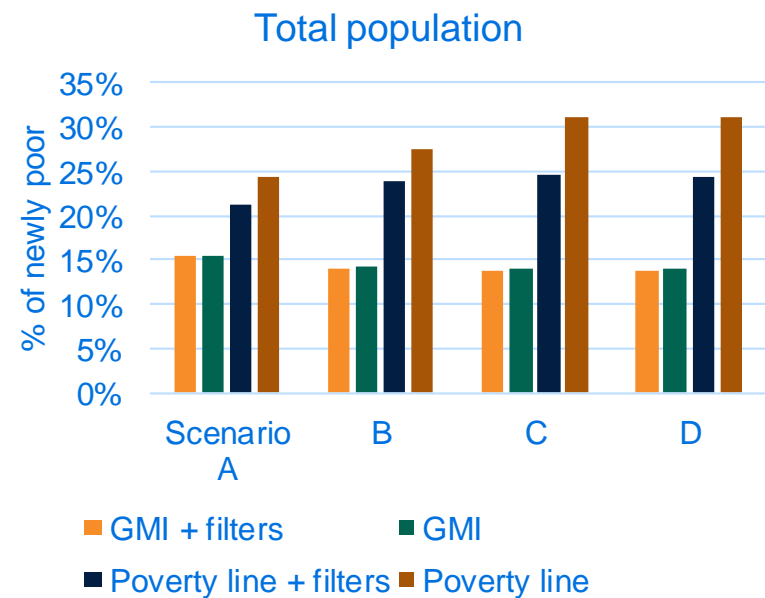
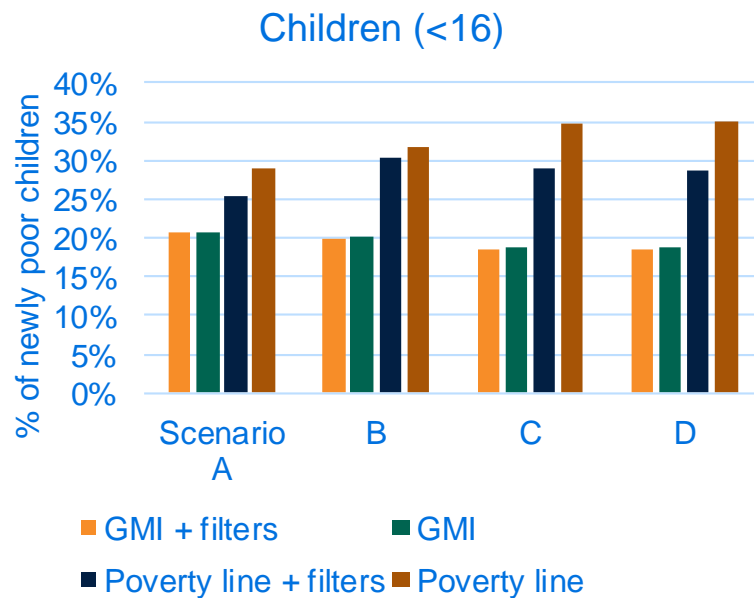
Newly poor and newly GMI-eligible children passing asset test



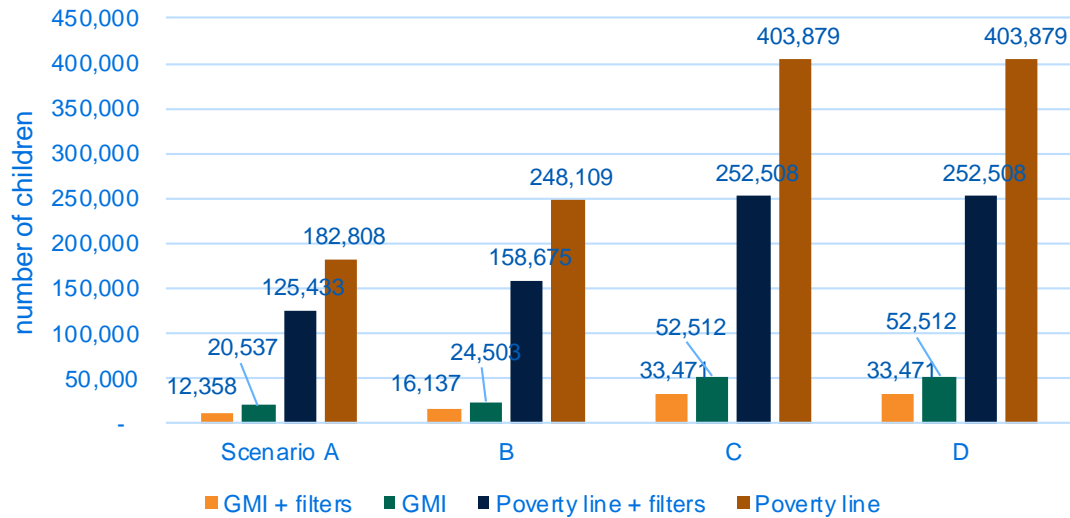
Options to extend the UBK

	Option 1	Option 2	Option 3	Option 4
Income eligibility threshold	GMI	GMI	Benchmark poverty line	Benchmark poverty line
Filters	yes	-	yes	-
Simulated targeting errors	None	None	26% exclusion error	26% exclusion error
Monthly transfer	810 KGS			

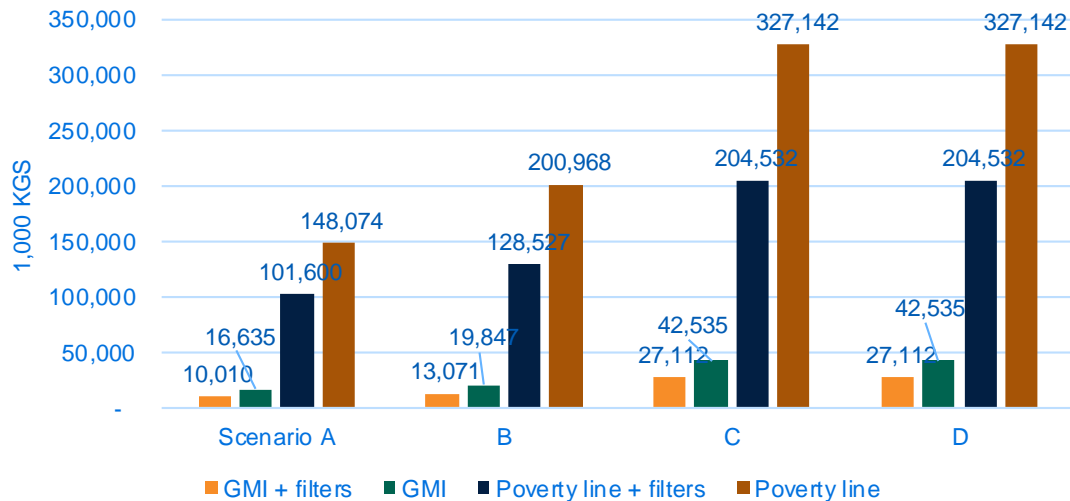
Estimated coverage of the new poor would still remain relatively low



Estimated number of new beneficiaries (children)



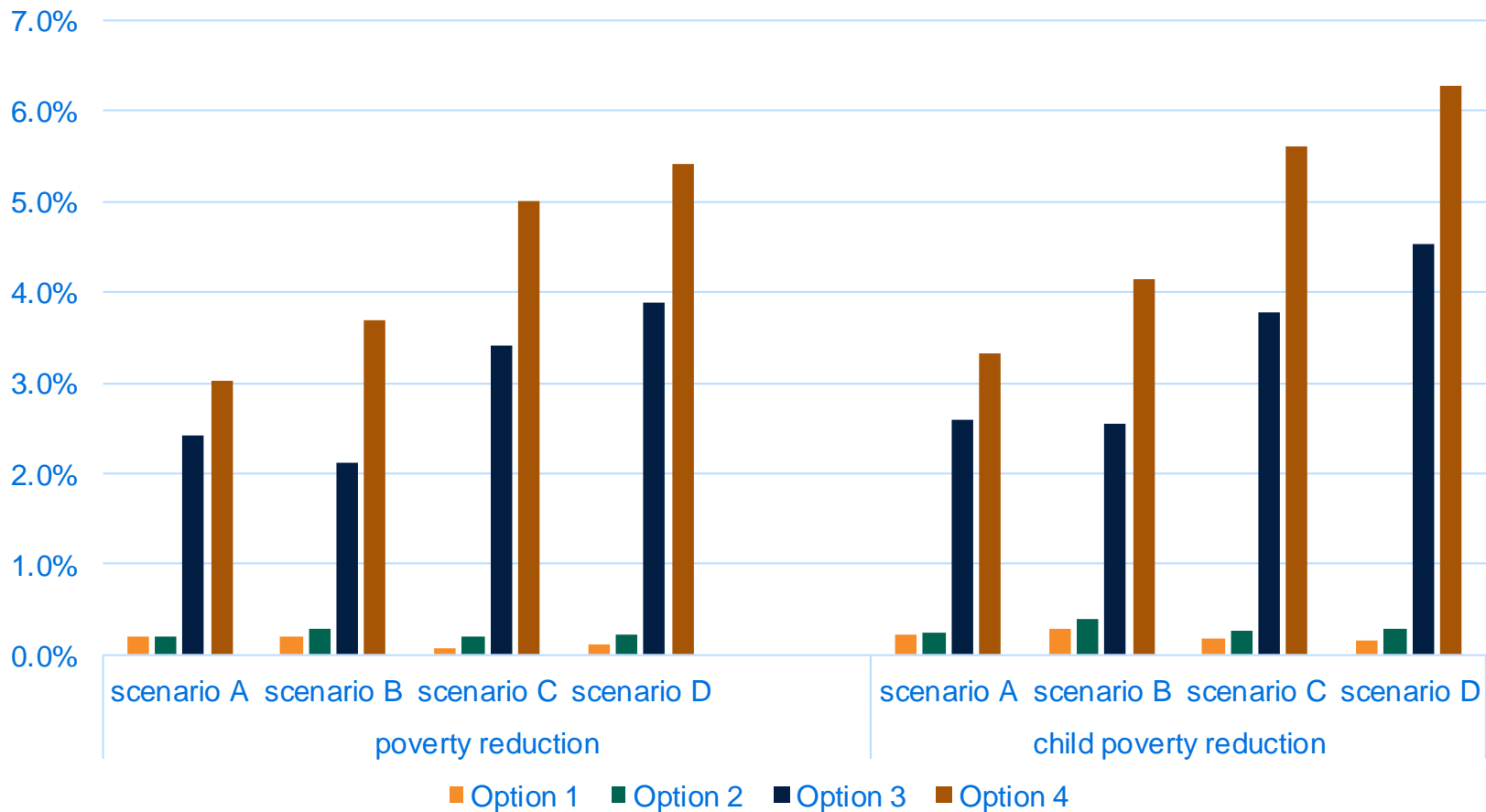
Estimated monthly costs of extending UBK (1,000 KGS)



Number of new beneficiaries and costs per month of extending UBK

Outcome indicators

Relative poverty reduction compared to no UBK extension



Policy measures

Macroeconomic stability and food availability

Stabilizing food prices and agricultural production for food safety

Do not allow strong fluctuation of prices, especially wheat, in the market

Reducing cost of food through import tariff cuts

Raising funds for pre-purchase of essential seeds and inputs

Releasing public grain stocks

Creating 'green corridors' for movement of food, inputs, and workers

Strengthening market monitoring measures to avoid any speculations;

Continue with price monitoring and analysis;

Design and implement awareness raising campaigns for broader public to avoid panic related to speculations linked to food shortages, market functionality;

Social Protection: Helping the Poor and New Poor

SHORT TERM RESPONSE

MID-TERM STRATEGY

<p>Social Assistance</p>	<p>To increase the social benefits to current UBK beneficiaries To improve coverage of the program by including new poor</p>	<p>Strengthening targeting of the current social protection programs</p>
<p>Labor Market</p>	<p>To implement measures for maintain jobs To support people, who lost jobs due to the crisis</p>	<p>Modernization of the employment centers</p>
<p>Social insurance</p>	<p>To support elderly people and other vulnerable groups (pensioners)</p>	<p>Strengthening the social insurance system in order to ensure effectiveness and sustainability of the pensions system</p>

UBK

Extension of UBK can partly mitigate the economic shock

in families with children, if

- Filters are temporarily abandoned, and/or
- Eligibility threshold increased

More than 400,000 poor children could be reached at a monthly cost of KGS 327 million

The low monthly benefit value limits a stronger impact on poverty outcomes

THANK YOU

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