



International
Labour
Organization

► Diagnostic report

Transition from informal to formal employment:
Extension of social protection schemes
(maternity and unemployment) in Kyrgyzstan



▶ **Diagnostic report**

Transition from informal to formal employment:
Extension of social protection schemes
(maternity and unemployment) in Kyrgyzstan

Development Pathways International Consulting Firm “

February 2023

Copyright © International Labour Organization 2023
First published 2023



This is an open access work distributed under the Creative Commons Attribution 4.0 International License (<https://creativecommons.org/licenses/by/4.0/>). Users can reuse, share, adapt and build upon the original work, as detailed in the License. The ILO must be clearly credited as the owner of the original work. The use of the emblem of the ILO is not permitted in connection with users' work.

Attribution – The work must be cited as follows: *Mapping social welfare services in the republic of Azerbaijan, Report drafted by Gabil Allahverdiyev, Independent Expert for ILO DWCT/CO Moscow*, Moscow: International Labour Office, 2023.

Translations – In case of a translation of this work, the following disclaimer must be added along with the attribution: *This translation was not created by the International Labour Organization (ILO) and should not be considered an official ILO translation. The ILO is not responsible for the content or accuracy of this translation.*

Adaptations – In case of an adaptation of this work, the following disclaimer must be added along with the attribution: *This is an adaptation of an original work by the International Labour Organization (ILO). Responsibility for the views and opinions expressed in the adaptation rests solely with the author or authors of the adaptation and are not endorsed by the ILO.*

This CC license does not apply to non-ILO copyright materials included in this publication. If the material is attributed to a third party, the user of such material is solely responsible for clearing the rights with the right holder.

Any dispute arising under this license that cannot be settled amicably shall be referred to arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL). The parties shall be bound by any arbitration award rendered as a result of such arbitration as the final adjudication of such a dispute.

All queries on rights and licensing should be addressed to the ILO Publishing Unit (Rights and Licensing), 1211 Geneva 22, Switzerland, or by email to rights@ilo.org.

ISBN: 9789220394182 (web pdf)

Also available in Russian: Диагностический отчет. Переход от неформальной к формальной занятости: охват неформальных работников Кыргызской Республики схемами социальной защиты (пособие по беременности и родам, пособие по безработице). ISBN: 9789220394199 (web pdf). Москва, МОТ, 2023.

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the ILO concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the ILO of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the ILO, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

Information on ILO publications and digital products can be found at: www.ilo.org/publns.

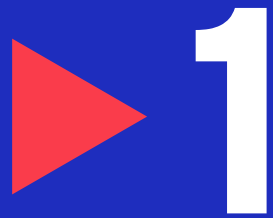
► Table of contents

Acronyms	3
1. Introduction	5
2. Theory of change – addressing informality from multiple entry points	7
3. Progress to date	11
4 Informality in the Kyrgyz Republic	13
4.1 Who is informal?.....	15
4.2 What are the drivers of informality in the Kyrgyz Republic?	21
4.2.1 Labour market drivers	21
4.2.2 Socio-economic drivers	21
4.2.3 Covariate shocks – COVID-19 as a recent driver	24
4.2.4 Regulatory and policy drivers	24
4.2.5 Low levels of compliance and investment in enforcement	26
4.3 Social protection gaps as both consequence and cause of informality.....	27
4.3.1 Maternity benefits in the Kyrgyz Republic	35
4.3.2 Unemployment benefits in the Kyrgyz Republic	37
5. Next steps	39
5.1 Scheme design – overall approach	40
5.2 Virtual design workshops	41
5.3 Validation and design of evaluation matrix.....	42
6. Provisional policy note outlines	45
6.1 Reform of maternity benefits package	46
6.2 Reform of unemployment benefits	47
6.3 Improvements to financing and regulatory regimes	48
Bibliography	51
Annex	55
Annex 1. Data note	56
Annex 2. Overview of the informal economy in the Kyrgyz Republic	57

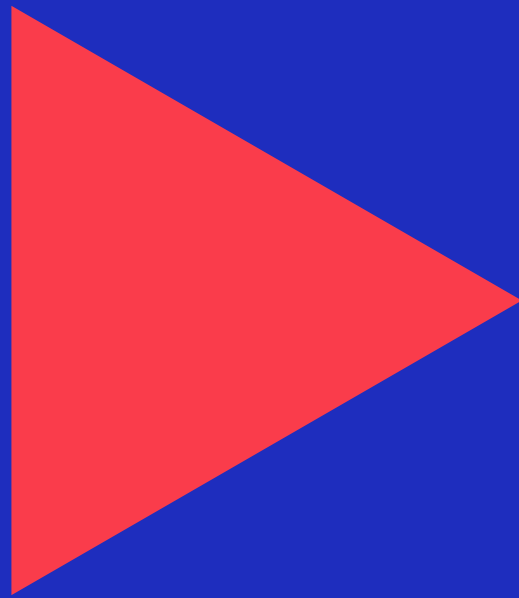
Annex 3. Order on the creation of the Inter-Agency Working Group for developing the Programme on Transition from Informal to Formal Economy in the Kyrgyz Republic 2023–26.....	70
Annex 4. Tax financed unemployment benefits around the world.....	73
Annex 5. Overview of maternity, paternity and parental leave protections around the world	77
Annex 6. ILO Theory of Change: Transition for informal to formal employment	78

▶ Acronyms

COVID-19	Coronavirus disease
GDP	Gross Domestic Product
ILO	International Labour Organization
NSC	National Statistics Committee
TOC	Theory of Change
TOR	Terms of Reference



Introduction



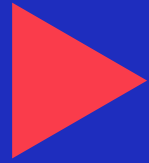
Development Pathways has been contracted by the International Labour Office to undertake the assignment titled **Transition from informal to formal employment: Extension of social protection schemes (maternity and unemployment) in Kyrgyzstan and Uzbekistan** under the direct supervision of the International Labour Organization (ILO) Decent Work Technical Support Team and Country Office for Eastern Europe and Central Asia.

The overall objectives of Work Package 1 (the Kyrgyz Republic) are:

1. Design measures to bring informal workers with and without contributory capacity under existing national social insurance schemes for maternity and unemployment benefits;
2. Empower trade unions to reach out to informal workers and enable their voices to be heard in formal social dialogue setting; and
3. Empower informal workers to present their concerns, self-organise and affiliate with formalised trade unions.

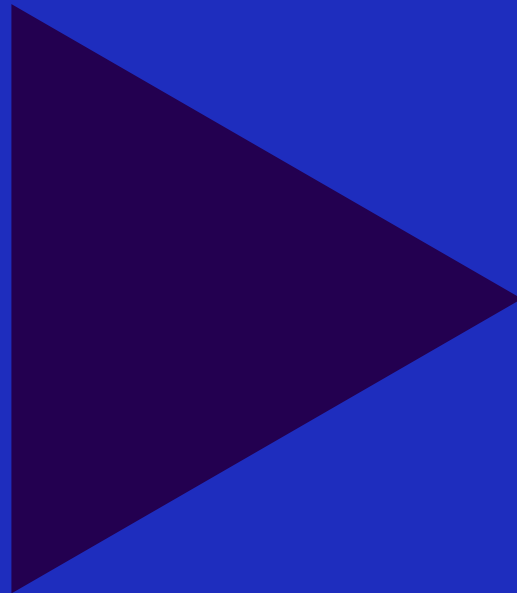
The purpose of this inception report is to demonstrate an understanding of the problem and theory of change for the assignment (i.e., the role of social protection in facilitating the transition from informal to formal employment in the Kyrgyz Republic).

Section 2 outlines the theory of change for addressing informality from multiple entry points, including social protection. Section 3 describes the progress to date. Section 4 presents analysis of available information on: informality in the Kyrgyz Republic with a focus on social protection coverage of informal economy workers. Section 5 outlines next steps for finalising the design proposals using a consultative approach, including provisional policy note outlines on: (1) reform options for maternity benefits, (2) reform options for unemployment benefits, and (3) reforms of financing and regulatory regimes to facilitate extension of social insurance to informal workers.



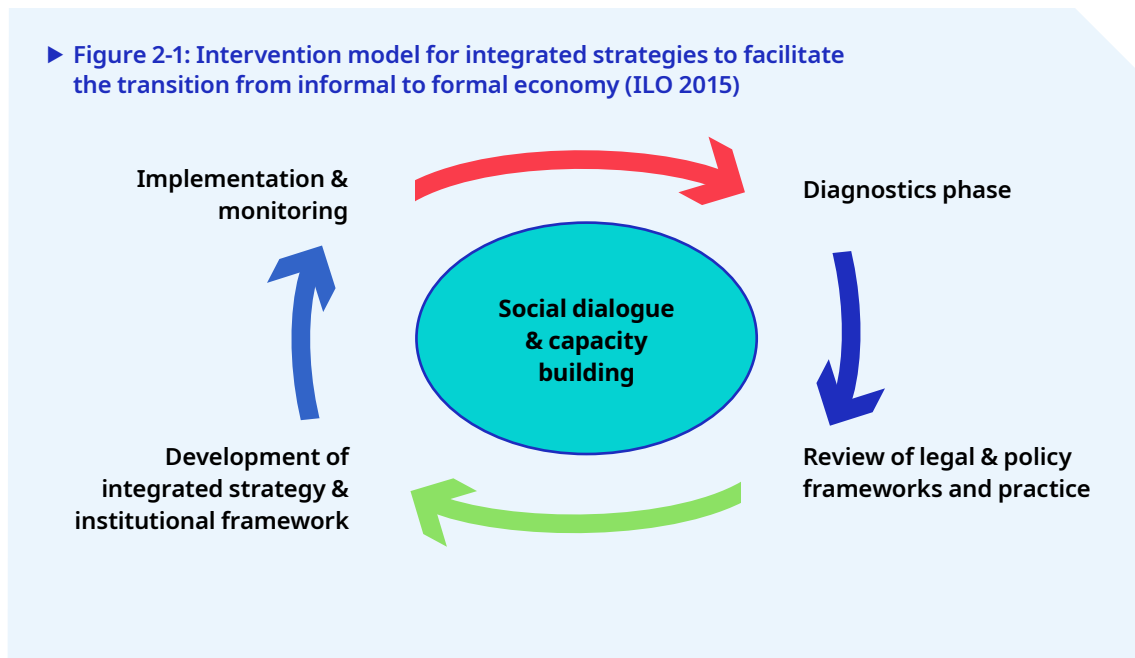
2

**Theory of change -
addressing informality
from multiple entry points**



This assignment is based on the principles expressed in the ILO's Theory of Change (TOC) on the Transition from Informal to Formal Employment (Annex 6),¹ which articulates the pathways through which countries can implement ILO Recommendation No. 204. The TOC builds on the ILO's (2015) Intervention model for integrated strategies to facilitate the transition from informal to formal economy, depicted in Figure 2-12.² Drawing on the TOC and intervention model, this assignment focuses on three key aspects of supporting the transition:

- Understanding informality (diagnosis)
- Improving and leveraging social protection systems to support the transition
- Facilitating social dialogue to identify collective solutions



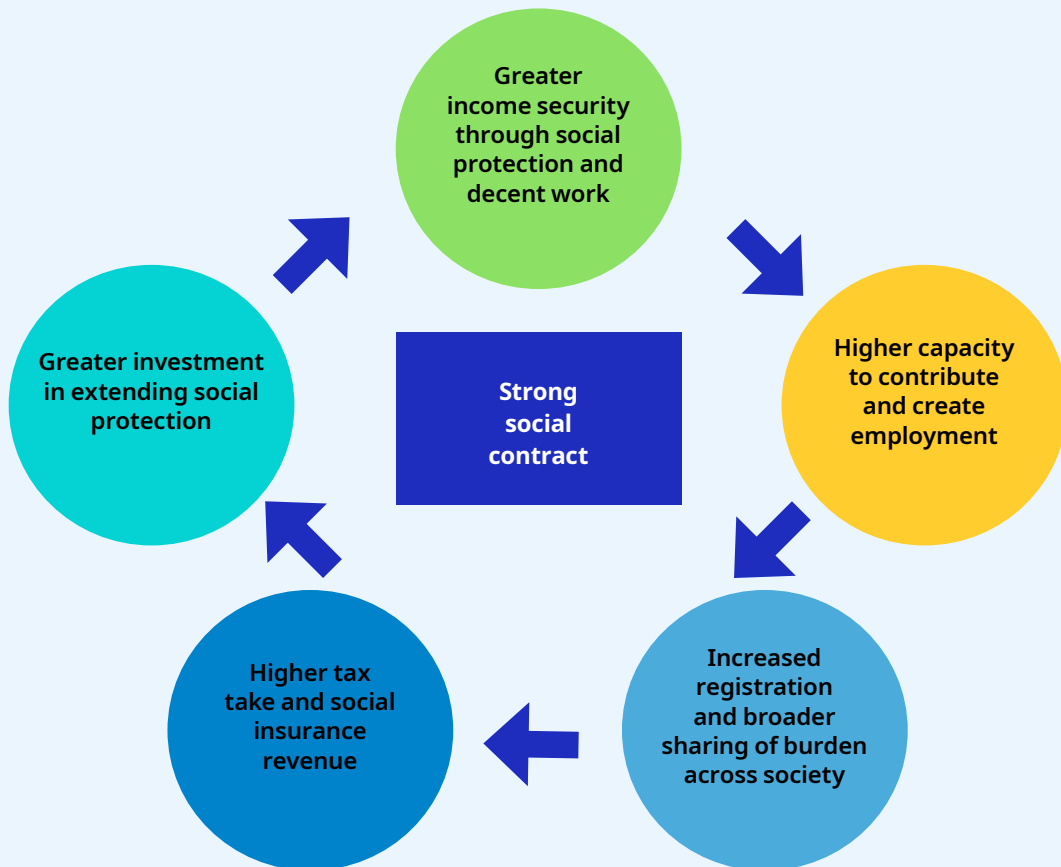
Understanding the size and nature of informality, including from a gender perspective, is key to devising appropriate tools to address it. As noted, this assignment reflects upon existing knowledge and generates new knowledge – through additional analysis of household and labour force surveys, as described in the data note (Annex 1) and presented in Annex 2. Notably, this analysis enables a fuller understanding of the contributory capacity of the informally employed population, which will shape expectations around the financing structure of potential maternity and unemployment schemes as well as inform broader understanding of the potential and limitations of risk pooling mechanisms, like social insurance, and multi-tiered designs for the development of the social protection system in the Kyrgyz Republic.

1 ILO (2021b).

2 ILO (2015).

Social protection is more than an outcome of formalisation – it is a key enabler. Social protection and formality are, in fact, mutually reinforcing components of a strong social contract (see Figure 2-14). There are multiple entry points for addressing formalisation. The ILO has focused on developing proposals for specific social protection policies that can facilitate the transition from informal to formal employment. The selection of these critical policy areas – maternity benefits and unemployment benefits – are based on international standards and best practices to directly address prime lifecycle risks faced by people in working age. If well designed, these schemes can make systems more attractive for workers, more affordable for employers, and more sustainable, with knock-on effects for registration of firms and tax collection.

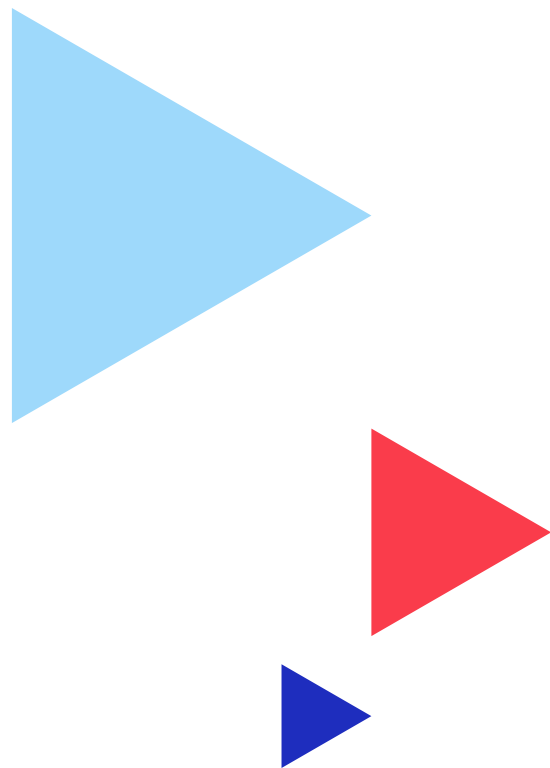
► Figure 2-2: Mutually reinforcing components of a strong social contract

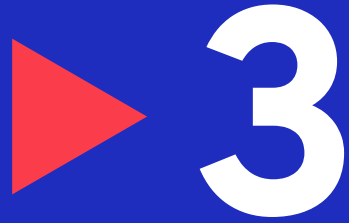


Source: Authors' depiction.

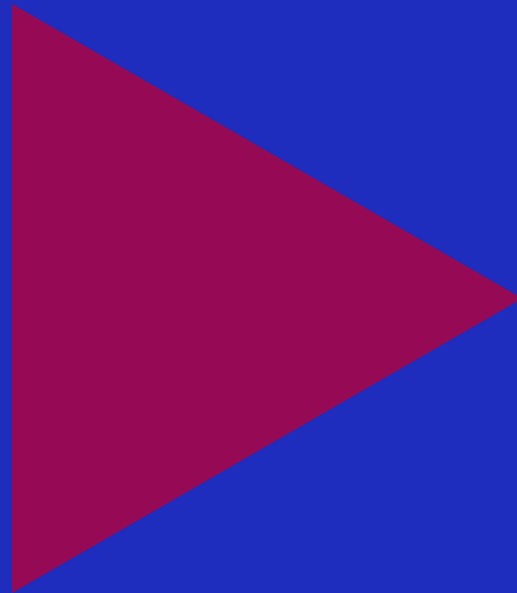
The ILO's TOC also emphasises the role of social dialogue. The Inter-Agency Working Group for Developing the Program on the Transition from Informal to Formal Economy in the Kyrgyz Republic represents key stakeholders in guiding the successful transition from informal to formal economy. They will be engaged at key points in the process of designing and selecting schemes and policies that will facilitate the transition.

The selection of the most appropriate design for mechanisms to reach informally employed workers in the Kyrgyz Republic will be informed by international standards, as previously described, but also by international experiences and best practices. Initial reviews will aim to compile existing information on the prevalence of unemployment and maternity schemes globally, their legally covered populations (including initiatives to extend coverage to those who previously lacked coverage), the source and structure of financing systems, the level of benefits and the administrative arrangements for delivering benefits.





Progress to date



The team completed a number of activities in the inception phase, including a project kick-off meeting held virtually on 3rd October 2022. Following the meeting, Development Pathways submitted a brief data note describing the approach to reviewing available data and additional requirements to provide a full picture of informal employment and social protection in the Kyrgyz Republic (see Annex 1).

In November 2022, Shea McClanahan (Development Pathways) travelled to Bishkek to participate in an inception mission, during which consultations with informal workers and constituents took place.

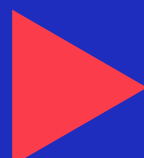
On Friday 11th November 2022, Shea presented preliminary analysis of the informal economy in the Kyrgyz Republic, as well as the approach and theory of change for the assignment, at an in-person workshop with the recently assembled Inter-Agency Working Group for developing the **Programme on Transition from Informal to Formal Economy in the Kyrgyz Republic 2023-26**.³ The overall purpose of the workshop was to introduce the assignment to national stakeholders with a view to gaining buy-in and exchanging ideas, specifically:

- to adjust and align the assignment's timelines, objectives and outputs can be according to national priorities based on a deeper understanding of the various national stakeholder initiatives that are planned or underway;
- to arrive at a common understanding of the nature of informality in Kyrgyzstan – its drivers, characteristics and consequences – and of the existing policy space, role and potential of unemployment and maternity systems vis-à-vis informal employment; and
- to exchange ideas on indicative options for the reform and development of unemployment and maternity systems for Kyrgyzstan that could be piloted.

The broad analysis presented in Section 4 incorporates feedback from members of the Working Group on the initial findings, as well as perspectives on the links between the social protection system and formalisation in the Kyrgyz Republic that will inform next steps (outlined in Section 5).⁴

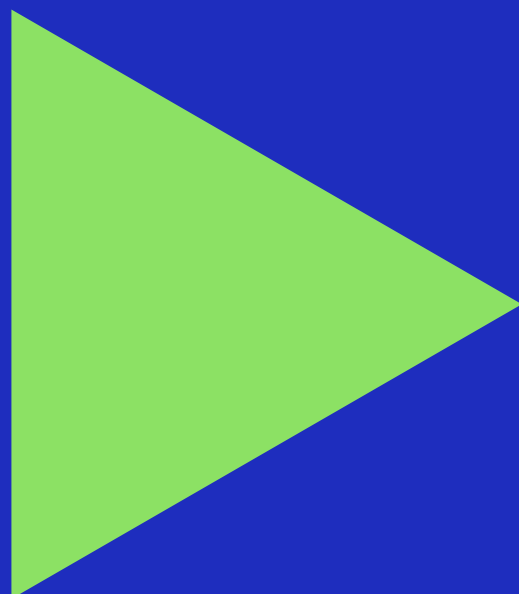
3 The order on the creation of the Inter-Agency Working Group is attached in Annex 2. See Annex 3 for a full list of members, including government agencies and other social partners (key stakeholders).

4 Annex 4 presents some high-level design information on maternity and unemployment schemes around the world. More in-depth contingency-by-contingency analysis will be presented as background to the specific scheme design proposals (not in this inception report).



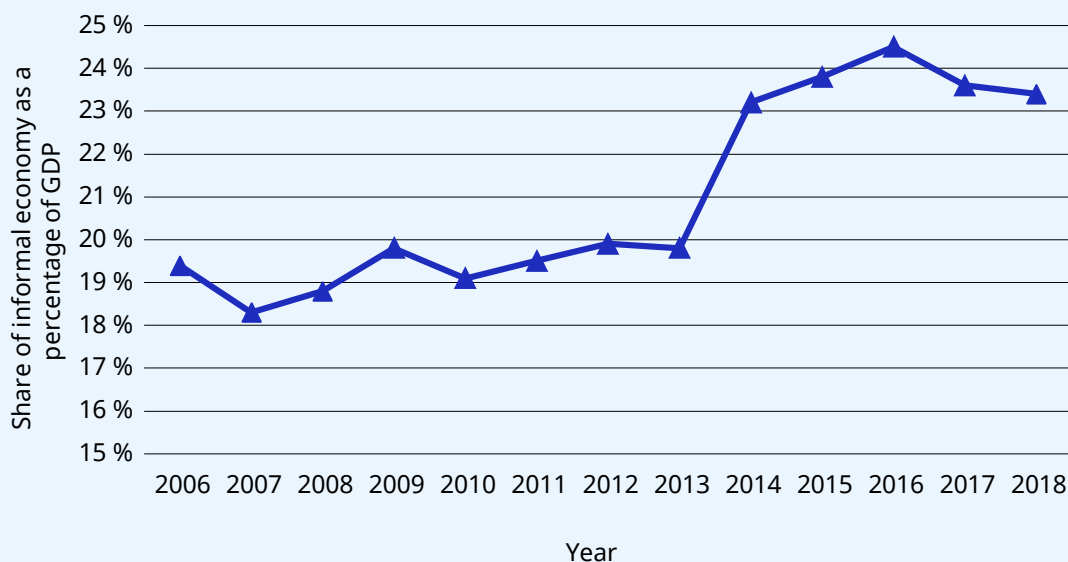
4

Informality in the Kyrgyz Republic



Economic informality (unregistered economic activity contributing to the official national product if those activities were counted) is an established reality observed in the last three decades of the Kyrgyz Republic's history. The informal economy level has grown in recent years, reaching a peak of 24.5 per cent of gross domestic product (GDP) in 2016 (see Figure 4-1). In 2014–2018, it hovered between 23 and 25 per cent, up from 18 to 20 per cent in the years 2006–2013.

► Figure 4-1: Share of the informal economy as a percentage of GDP in 2006–2018



Source: NSC.

The consequences of informality are dire. Although it is distinguished by its flexibility and is the source of income for a significant portion of the population in the Kyrgyz Republic, the informal economy provides no guarantee of decent work. Informal work often entails small, unsafe and unhealthy working conditions. It exacerbates challenges with low skills, low productivity and irregular incomes, leading to an increased likelihood of being and remaining “poor”. Informal workers do not exist officially: they are not recognised or registered, and are not protected by labour legislation – nor do they benefit from its effective implementation.⁶

5 Schneider and Williams (2013).

6 ILO (2020a).

High informality means large numbers of people do not have minimum guaranteed level of income security when they experience common contingencies. While informal workers, in principle, should not be excluded from legislation protecting health and safety at work or guaranteeing minimum wages, in practice they lack coverage of social insurance, including contributions to mandatory health insurance which grants access to health care. Nor are they entitled to holidays, and they are not covered if they are sick or injured in the workplace. Workers in the Kyrgyz Republic who do not contribute to the Social Fund will only receive a minimal pension once they retire, and as detailed in Box 2-2, the long-term viability of the pension system is therefore at great risk unless the current situation is remedied. In case of maternity or unemployment, a lack of social insurance coverage produces a double burden: economic distress coupled with little or no access to income support.

► Box 4-1: The Pension Fund

Payments by the Pension Fund (comprising benefits for old age, disability and survivors) totalled 31.3 billion soms in 2015 (7.3 per cent of GDP) and accounted for 89.9 per cent of Social Fund spending. The Pension Fund's spending grew at an average annual rate of 7.1 per cent between 2011 and 2015 in nominal terms, primarily due to an increase in the number of beneficiaries (from 575 000 pensioners in 2010 to 634 000 in 2014). The average pension benefit also increased – from 2,886 soms to 4,710 soms per month – over the same period, though its value decreased in terms of GDP per capita, from 7.1 per cent to 6.8 per cent.

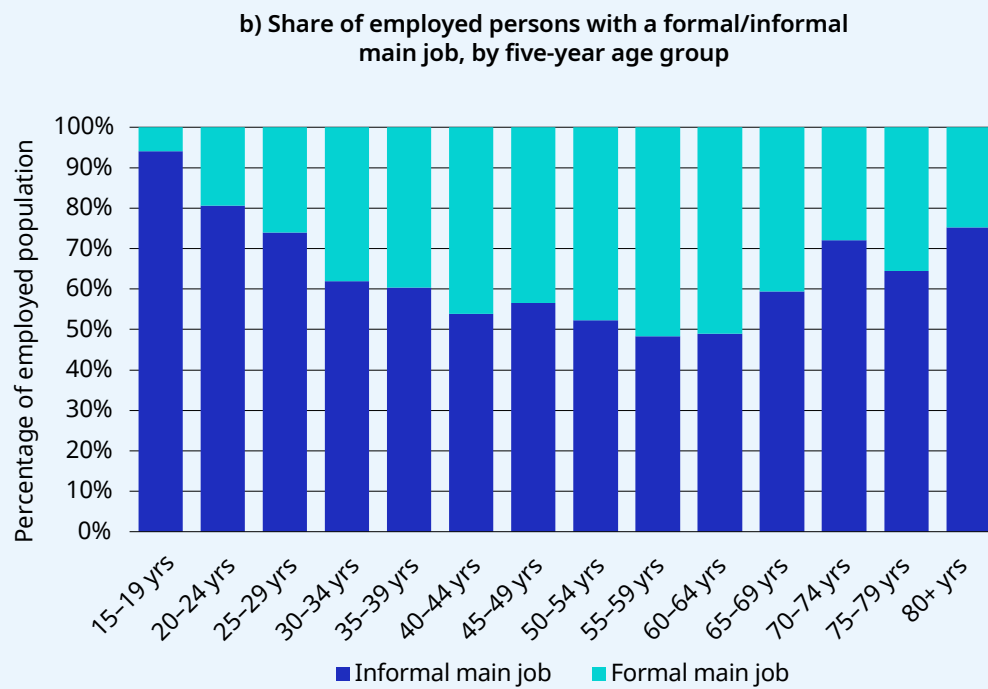
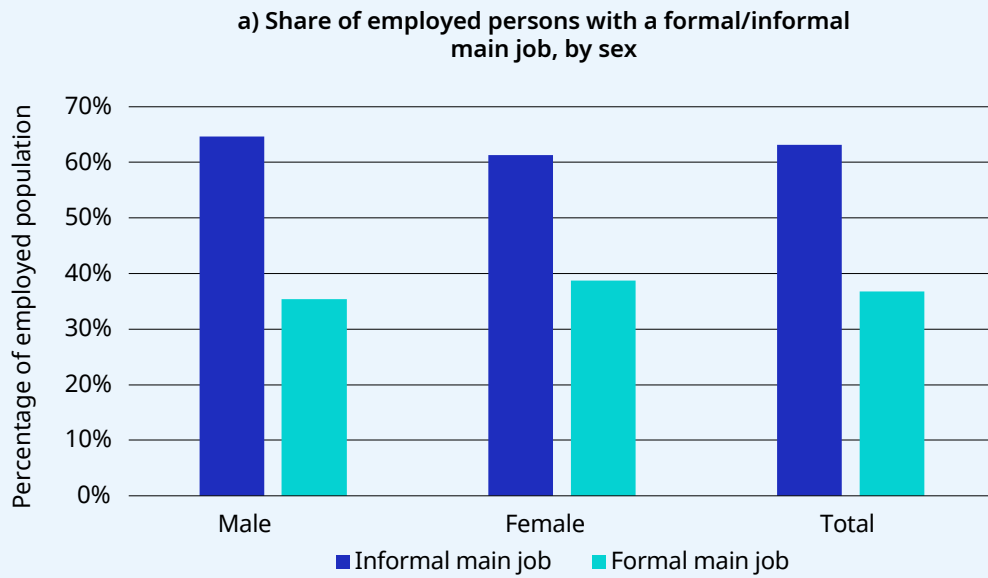
Increased expenditure has not been matched by increased contributions. Although the Kyrgyz Republic's demographics are favourable for a pay-as-you-go arrangement, high levels of emigration and informality have resulted in the ratio of contributors to pensioners declining to between 1:1 and 2:1. This situation is exacerbated by the non-contributory pensions and pension top-ups paid by the Social Fund as well as by the design of the basic pension component, which accounted for 27.4 per cent of all pension payments in 2015; the benefit is based on the duration of contributions rather than the value. In 2015, these supplementary pension payments were almost as expensive as basic pensions (7.7 billion soms vs. 8.6 billion soms).

Source: OECD (2018).

► 4.1 Who is informal?

Informal employment is pervasive in the Kyrgyz Republic. Nearly two thirds of workers (63.2 per cent) are employed informally for their main job (see Figure 4-2a). Men are slightly more likely than women to be informally employed, mirroring the overall higher share of men in the labour market. Younger workers and older workers (above pensionable age) are also more likely to be informally employed than those aged 30–64 years (see Figure 4-2b). For younger workers, being informally employed may affect/delay the ability to accumulate contributory entitlements, and for older workers, it is potentially indicative of inadequate (social) pensions. While disaggregated data on the type of pensions older people receive was not available at the time of writing, it is highly likely that there is a correlation between receipt of a social pension and participating in informal employment after retirement to supplement income.

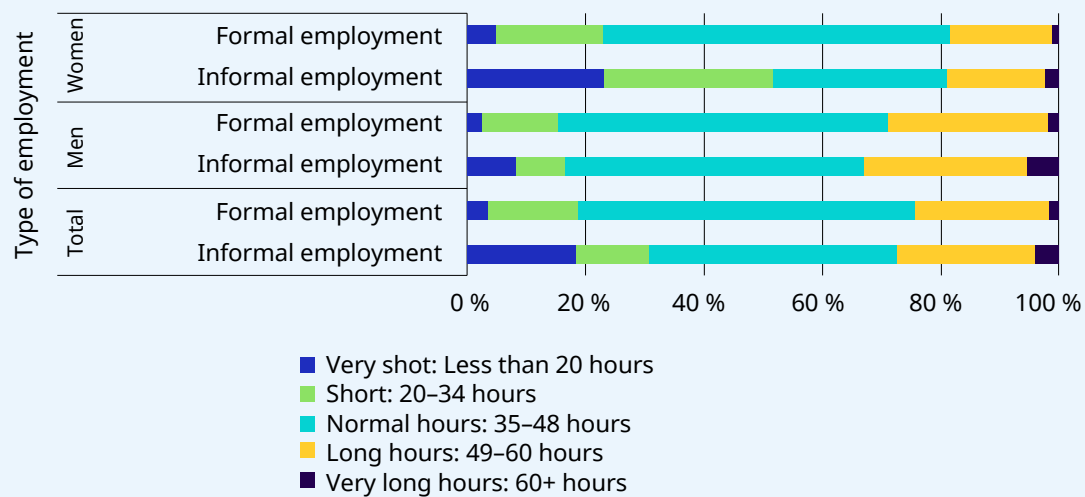
► Figure 4-2: Share of the employed population with a formal/informal main job



Source: 2021 LFS.

People who are in informal employment are more likely to work very short, long or very long hours than people in formal employment (see Figure 4-3). This is the case for both men and women in the Kyrgyz Republic. Women who are in informal employment are also slightly more likely to work short hours (the opposite is true for men). For both men and women, those in formal employment are more likely to work normal hours.

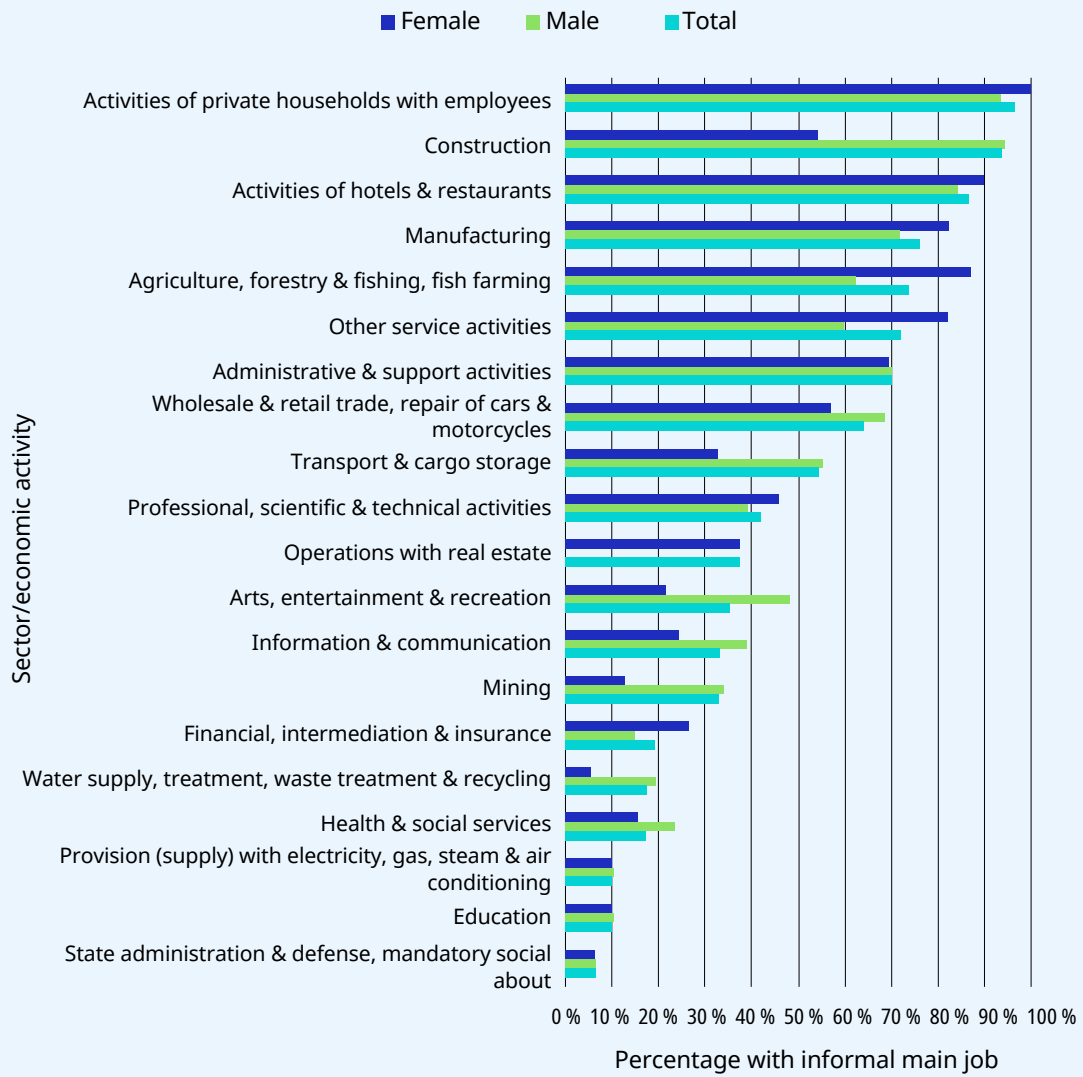
► **Figure 4-3: Distribution of formal and informal employment, by number of hours worked per week and sex**



Source: 2021 LFS.

The Kyrgyz Republic defines the informal sector as “non-criminal, profit-yielding economic activities concealed to avoid taxation and/or social security contributions”. Employment in the informal economy can be defined as a sum of informal sector employment and informal employment outside the informal sector. Informal work permeates all sectors/economic activities but is concentrated in a few, with new kinds of informal economic activities emerging to create new types of jobs. Overall, persons who are employed in private households in the Kyrgyz Republic are the most likely to have an informal main job (93.7 per cent), and those employed in state administration and defence are the least likely (6.5 per cent). However, for men who are employed, the share of those with an informal main job is highest in the construction sector, where the gender gap is also the highest (see Figure 4-4).

► Figure 4-4: Share of employed persons with an informal main job, by sector and sex



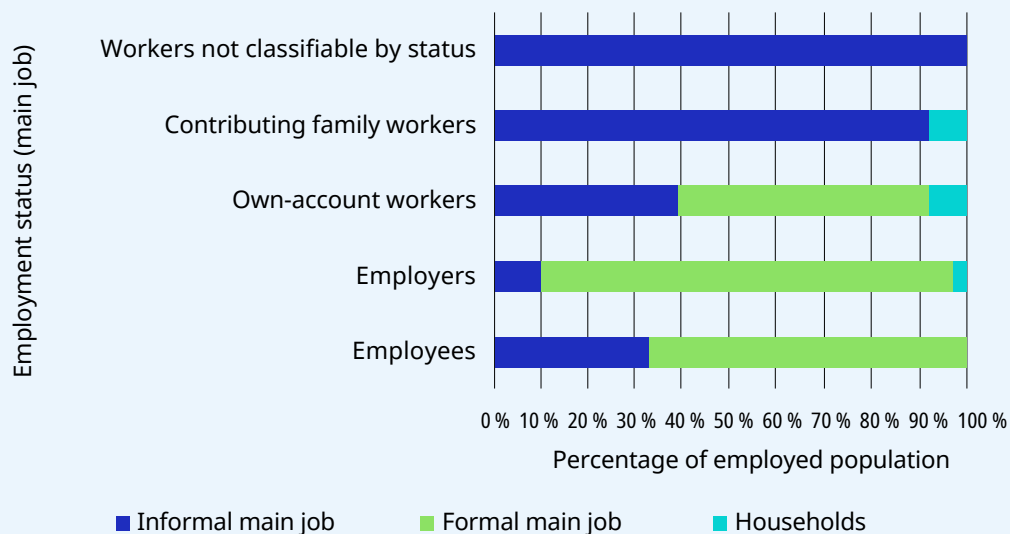
Source: 2021 LFS.

Informal employment also varies considerably by employment status. The NSC considers workers informally employed if they work in enterprises that are not registered as legal entities⁷, i.e.:

- ▶ Agricultural workers who are employed in agriculture and do not make social insurance contributions;
- ▶ Self-employed persons/own-account workers who are not registered as commercial providers of paid services (e.g. childcare providers, housekeepers, cooks, drivers, guards, etc.); and
- ▶ Persons employed by entrepreneurs – members of their families, persons working without documented employment (construction workers, haulers, etc.), who do not make social insurance contributions.

Figure 4-5 shows the share of employed persons with a formal/informal main job, by their employment status. As of 2021, 63.2 per cent of employees were in informal jobs as their main job, compared with 46 per cent of own account workers and just 13.2 per cent of employers. In contrast, contributing family workers are (by definition) informally employed, and members of producers' cooperatives are classified as formal.

► Figure 4-5: Share of persons with a formal/informal main job, by employment status

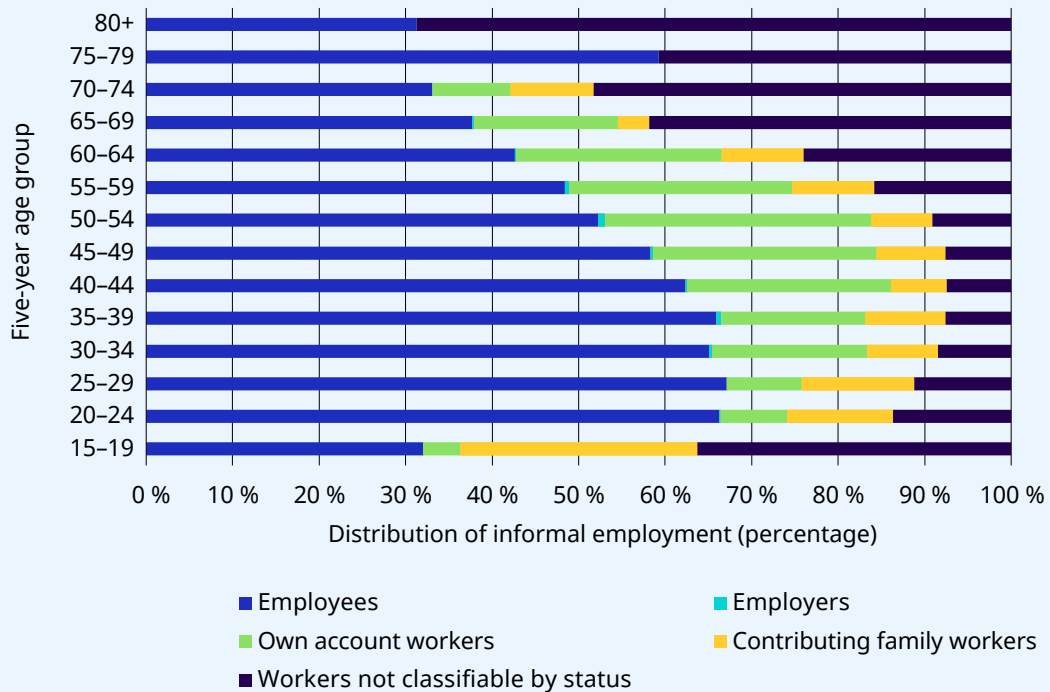


Source: 2021 LFS

7 OECD (2018).

Further, the distribution of informal employment according to employment status varies by age group. Figure 4-6 clearly shows that workers with an informal main job who are aged 20-44 years are most likely to be employees (share who are employees is above 60 per cent for these age groups). Those aged 15-19 and 80+ years are least likely to be employees and most likely to be “not classifiable by employment status”. Persons with an informal main job who are aged 40-64 are most likely to be self-employed/own account workers – particularly those aged 50-54 years (share who are self-employed/own account workers is above 30 per cent).

► Figure 4-6: Distribution of informal employment by respective employment status, by five-year age group



Source: 2021 LFS.

Figure 0-5 (Annex 2) shows the same, further disaggregated by sex. Notably, for all age groups of workers with an informal main job, men are consistently more likely than women to be self-employed/own account workers, with the gender gap widest among those aged 60-64 years. The situation is the similar for employees (except for those aged 75-79 years), though the gender gap is widest among younger workers aged 25-29. Contrastingly, women are consistently more likely to be contributing family workers, with the gender gap widest among those aged 25-29 years.

► 4.2 What are the drivers of informality in the Kyrgyz Republic?

4.2.1 Labour market drivers

Labour market development in the Kyrgyz Republic is mainly driven by the demographic characteristics of the population. Population growth in the country has led to the growth of labour supply: the labour force has increased by 5.2 per cent in the last decade, amounting to 2.58 million people.⁸ Between 2010 and 2019, the share of those in the labour force who are women declined from 42 per cent to 39 per cent⁹, and the share who are aged 50+ years increased from 16 per cent to 21 per cent (and is predicted to continue to grow).¹⁰ The share who are rural based remained largely constant (at around 64 per cent).

Meanwhile, the structure of the labour market has also changed. In the last decade, employment increased among private entrepreneurs (from 15 to 18 per cent) and individuals (from 26 to 37 per cent) and declined among agricultural workers (from 21 to 15 per cent) and private/home-based workers (from seven to two per cent).¹¹ Labour market growth has been directly linked to the growth in microbusinesses and self-employment: small microbusinesses operating within the individual entrepreneurship base are creating a high self-employment rate with numerous jobs being created in specific sectors, notably trade and services, construction, processing industry, transport, and logistics. Workers who are hired by individuals and self-employed persons now make up 76 per cent of the whole informal labour market. While the mentioned sectors contribute significantly to the Kyrgyz Republic's overall GDP, this phenomenon is, at the same time, causing the highly fragmented structure of the national economy, allowing for a high level of informality.

4.2.2 Socio-economic drivers

Low productivity is often mentioned as a characteristic of informal economic units. Low level of education among workers in informal sector enterprises is also considered an important factor. Other factors include the lack of access to credit resulting in capital constraints and operations below the efficient scale of production for informal firms and the use of (low skill) labour as a substitute; and the lack of access to markets and to key public goods and services.¹³

Relatedly, there is a clear positive relation between poverty and informality worldwide, with the poor facing higher rates of informal employment.¹⁴ However, not all informal workers are poor, and not all workers enter the informal economy for the same reason. It is worth noting that in 2015, in adopting Recommendation Supporting Transition from Informal to Formal Economy No. 204, ILO constituents from countries all over the world agreed that most people enter the informal economy not by choice, but

8 Tilekeyev (2021).

9 This trend may change with the decline in the number of young workers in the labour market.

10 NSC, replicated in <https://library.fes.de/pdf-files/bueros/bischkek/18023.pdf>.

11 Tilekeyev (2021).

12 Tilekeyev (2021).

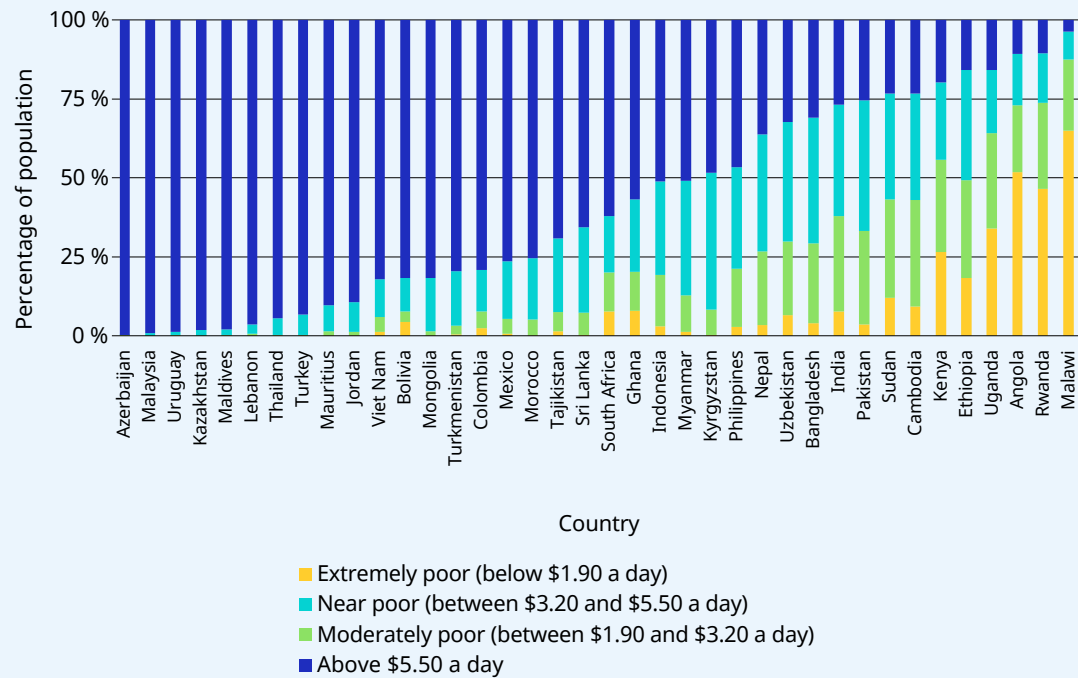
13 ILO (2018).

14 Kucera & Roncolato (2008) cf. ILO (2018).

as a consequence of a lack of opportunities in the formal economy and in the absence of other means of livelihood.¹⁵

Workers in the informal economy – who are concentrated in highly vulnerable occupations and earn lower wages – are less likely to have contributory capacity to social security systems.¹⁶ Indeed, work does not pay for too many people who live in, or on the verge of, poverty in the Kyrgyz Republic. As Figure 4-7 shows, more than half (52 per cent) of workers are living on less than US\$5.50 per day.

► Figure 4-7: Proportion of the working population living below various international poverty lines



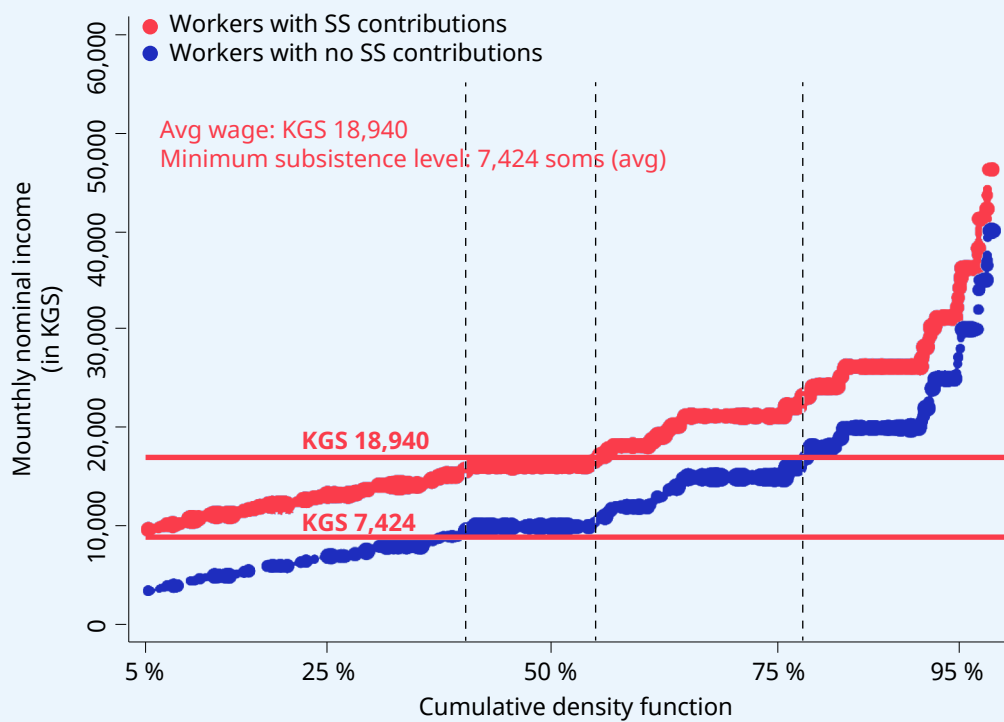
Source: ILOSTAT, latest year available.

15 ILO (2018).

16 Ortiz et al. (2019).

Low wages mean making contributions is challenging, even for those already contributing to social insurance. As Figure 4-8 shows, of those who are making contributions, more than half earn less than the average wage per month (approximately 18,940 soms per month in 2022). Of those who are not contributing, more than three quarters earn less than that amount and around 40 per cent earn less than the subsistence minimum, which was 7,424 soms per month in 2022.

► **Figure 4-8: Cumulative density function of nominal wages (KGS), by social insurance status**



Source: 2021 LFS.

4.2.3 Covariate shocks – COVID-19 as a recent driver

The COVID-19 pandemic has greatly exacerbated the challenges that the Kyrgyz Republic has been facing as a result of rapid transformations in the labour market. The already high level of informality (and growing poverty incidence),¹⁷ aggravated by the COVID-19 pandemic, continues to grow. The Kyrgyz Republic has one of the highest levels of informality in Europe and Central Asia. Economic activity in the informal sector (71.8 per cent in 2019) accounted for 23.5 per cent of value-added in 2019 and 95.3 per cent of new jobs.¹⁸ Tens of thousands of labour migrants have returned home, facing long-term unemployment, lack of access to any or sufficiently meaningful social protection, protection of rights and representation of their interests.

The second wave of COVID-19 (surge in October 2020) has further aggravated the existing social-economic and labour market challenges: long-standing problems with fundamental worker rights, adequate minimum wages, working hours, health and social protection benefits, safety and health at work for all workers, especially those in informal employment. Insufficiently regulated self-employment and weak labour law enforcement allows for further informalisation of jobs in the formal enterprises leaving workers without labour and social safeguards. Among the most affected are female workers in the textile and garment sector. Such approach causes further dry up of workers and employers' contributions to health and social protection funds that are crucial for ensuring effective recovery and resilience of the Kyrgyz society towards ongoing and possible future crises.

4.2.4 Regulatory and policy drivers

In addition to the broader structural and global drivers of informality, the regulatory and policy environment can either attenuate or exacerbate informality. In the Kyrgyz Republic, the government has pursued a number of strategies aimed at reducing informality, with a focus on easing the burden for enterprises. While their full impact remains to be seen, emerging evidence suggests that some of the measures employed may have been less effective than anticipated, and could have worsened certain measures of informality, including informal employment.

There has been a perception among entrepreneurs and the government that social insurance contributions, as they are currently conceived in the Kyrgyz Republic, could be among the drivers of informality. According to an evaluation of the informal economy by the National Institute for Strategic Studies, 26.8 per cent of entrepreneurs and 50.8 per cent of entities cited contributions to the Social Fund and income tax payments as reasons for informal activities. Some 26.8 per cent of individual entrepreneurs and 28.6 per cent of firms chose informality to avoid providing social guarantees to workers, while 73.2 per cent of entrepreneurs and 55.6 per cent of legal entities cited the complexity of recruitment and dismissal procedures.¹⁹

In response, the government has embarked on a strategy to reduce the financial and administrative burden for (small) enterprises, so far with mixed results. Indeed, recent experience suggests that the tax system in the Kyrgyz Republic – and specifically, a patent tax regime designed for microbusinesses and entrepreneurs to avoid complex tax burden and enable quick entry and operations in the country – creates incentives for informality in the labour market. First, the threshold for qualifying under the patent regime is high: businesses with annual turnover of US\$ 110,000 (second highest in Europe and Central Asia) are considered micro-enterprises.²⁰ Moreover, compliance requirements are minimal – there are

17 World Bank (2020).

18 ILO (2020b).

19 OECD (2018).

20 Sahovic (2019).

no book-keeping or record-keeping requirements and essentially no inspections. When compared with the relatively stringent requirements for small, medium and large businesses covered under the VAT and general tax regime, the incentives to grow (or accurately declare turnover or employees) are low.²¹ Registering under the patent regime is clearly an attractive option (between 2014 and 2017, patent registrations grew by 37 per cent compared with 18 per cent for SMEs.²² The effective tax burden is modest (see Table 4-1).

Similarly, the social security tax (contributory) system favours small businesses and individual entrepreneurs, creating incentives to bypass more stringent regulations for medium and large businesses and not declare employees. Monthly reporting to the Social Fund, as well as the relatively higher contributions, are perceived as burdensome.²³ While entrepreneurs who work under the patent regime were apparently previously exempt, new instructions issued on 17 July 2020 introduced contributions for various categories of individual entrepreneurs, ranging from monthly contributions of three per cent of the average monthly wage (individual entrepreneurs selling goods from trays and trading places) to 10 per cent (individual entrepreneurs under a common tax regime or special regime who acquire a compulsory patent).²⁴ Notably, Samyibekov (2022) notes that, *“regardless of the category of the payer, whether a legal person or a natural person, in the event of an employment relationship arising, he becomes an employer and he has to pay insurance premiums for his employees and report State social insurance funds to the tax authorities.”* This means that even those operating under apparently favourable tax conditions as individual entrepreneurs would automatically be required to pay 27.25 per cent of wages for any employee he or she acquires.

21 Sahovic (2019).

22 Sahovic (2019).

23 Sahovic (2019).

24 Samyibekov (2022). Instructions refer to the Law “On State Social Insurance”: “Order of the Government of the Kyrgyz Republic of July 17, 2022 No. 385 on the Instruction about procedure for charge and payment of insurance premiums on the national insurance.”

► **Table 4-1: Summary of the additional burden that companies in the Kyrgyz Republic bear as they grow**

Size of firm	Legal status	Taxes		Social security		Registration
		Rates	Compliance	Rates	Compliance	
Microbusinesses and entrepreneurs	Patent/certificate	Patent: US\$7-714/month Certificate: 2-6% of revenue, depending on type of activity	Patent: None Certificate: Simplified accounting quarterly reports	Patent: 6% of average monthly salary Certificate: 10% of average monthly salary; or 17.25% of salary fund	None	Patent: Simplified registration Certificate: Registration required (single window)
SME	Single tax regime (below VAT)	2-6% of revenue, depending on sector of activity and payment type	Simplified accounting quarterly reports	10% of average monthly salary; or 17.25% of salary fund	Monthly reports	Registration at multiple agencies
	Single/general tax regime (turnover between VAT threshold and 30 million soms)	Corporate tax: 10% VAT: 12% Sales tax: 1-5%	Quarterly reports for single tax Monthly reports for legal entities	17.25% of salary fund and 10% of salary	Monthly reports	Registration at multiple agencies
Largec	Turnover exceeds 30 million soms	Corporate tax: 10% VAT: 12% Sales tax: 1-5%	Monthly reports	17.25% of salary fund and 10% of salary	Monthly reports	Registration at multiple agencies

Source: World Bank, replicated in Sahovic (2019).

4.2.5 Low levels of compliance and investment in enforcement

Despite the new instructions, compliance (i.e. reporting) requirements for individual entrepreneurs are minimal – there is little to no burden by inspections or regulatory compliance.²⁵ Moreover, governance and corruption issues are affecting businesses and add to the reluctance of businesses to formalise.²⁶ Focus group discussions²⁷ reaffirmed this and highlighted the prominence of “middlemen” labour contractors who supply day labourers to mining and construction firms, facilitating their undeclared status as dependent workers or, alternatively, encouraging the misclassification of workers as individual entrepreneurs under the patent regime. Indeed, Samyibekov (2022) found that only 2 per cent of individual entrepreneurs were declaring their employees, despite a legal obligation to do so.

It is possible that a similar phenomenon is at work in the garments and textile industries, which could explain the apparently weak response to a recent policy change to encourage employers to bring workers out of the shadows, as explained in Box 4-2.

25 It should be noted that inspections are known to be problematic. There are very few (less than 100) labour inspectors checking compliance of a growing number of individual entrepreneurs under the patent system. Further, it is claimed that authorities place greater importance on checking compliance with tax payments than social security contributions.

26 Sahovic (2019).

27 Focus group discussion, Bishkek, 11 November 2022.

► **Box 4-2: Efforts to promote formalisation in the garments and textile industry**

The government has recently zoned in on the garments and textiles industries, introducing a new law aimed at reducing the burden of compliance regulations for legal entities with 50 or more employees, and registering up to an estimated 250,000 workers. The law reduced the social insurance contribution rate for such enterprises to 12-40 per cent of the average monthly salary (two per cent to be paid by the employer and 10 per cent by the employee) for the years 2019-23. Despite the incentive, the policy has apparently had little impact with just 964 garments and textiles workers reportedly employed at legally registered entities in 2019 (1,415 in 2020 and 2,512 in 2021) (Social Fund, 2022).

It is important to note that the revised contribution rate brings it in line with that which individual entrepreneurs are obliged to pay, only with a lower compliance burden. Therefore, it is likely that with a qualifying threshold as high as 50+ employees, enterprises on the fringes of the threshold and below are continuing to register as individual entrepreneurs under the patent system (and potentially encouraging the misclassification of their employees as the same). It should also be noted that it is common practise for garment and textile enterprises (like in other industries, such as construction) to work “in shifts”, meaning they rely on various supporting staff or “middlemen” to supply labour (e.g., accountants, drivers, security personnel etc.). In practise, this aids small enterprises in concealing their true number of employees.

Samyibekov (2022) also concluded that most informal workers were unaware of their obligations, that complying with obligations was difficult for small employers who lack resources to hire professional accountants with full knowledge of the tax and social security systems, and that, in general, there is no coherent system for resolving and preventing labour rights violations.²⁸

► 4.3 Social protection gaps as both consequence and cause of informality

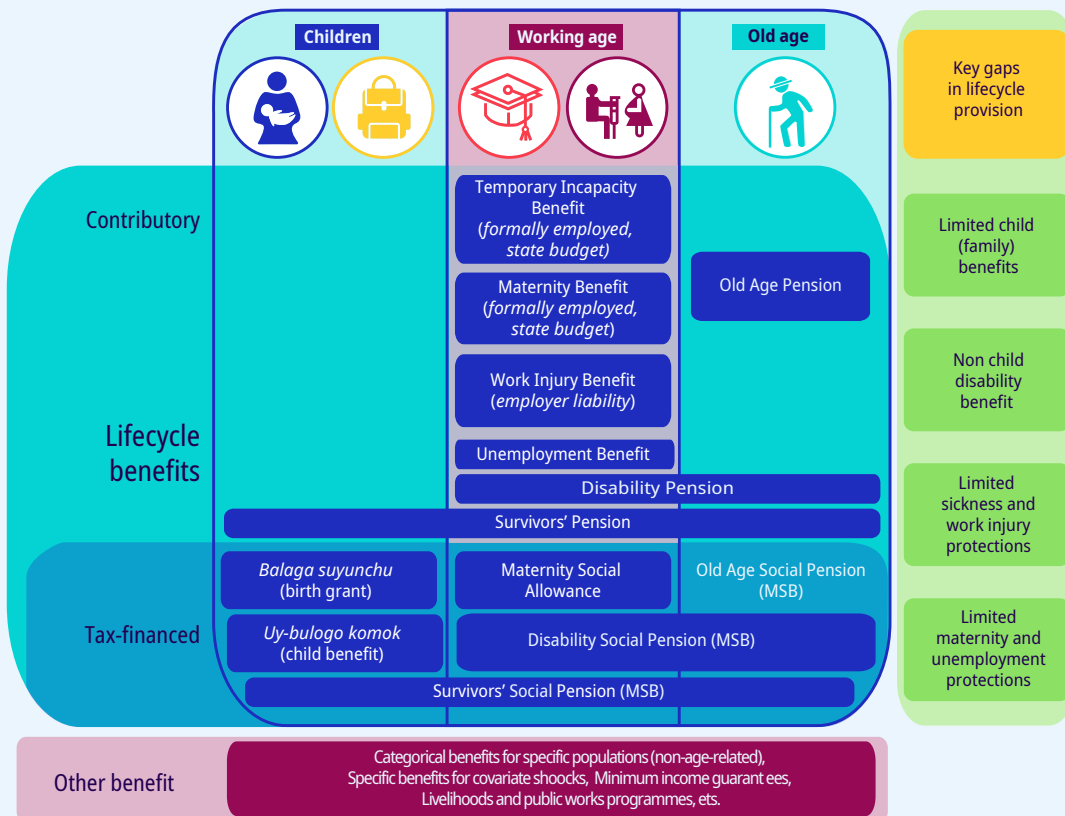
A lack of social protection is often framed as a key consequence of informal employment, and this is especially true in social protection systems that have historically been constructed around contributory and employment-related entitlements, as in the Kyrgyz Republic. However, the degree to which the design of the social protection benefits system itself contributes to informality is often overlooked. To date, the government of Kyrgyzstan has prioritised *affordability*, primarily for enterprises – lowering contributions to induce them to formalise and declare their workers, with limited success. Over the same period, very little attention has been paid to equally important issues around *attractiveness* – whether

28 Samyibekov (2022).

the social security/protection system offers credible and meaningful benefits for people in working age, whose participation in the formal tax and social security systems today is nothing short of existential for the future of public pensions in the country. Additional cuts to contributions to encourage participation threaten to further undermine collective financing and increase reliance on the state budget, which is already under pressure. This section explores how the social protection system is both a consequence and, in its current form, a cause of deepening informality in the Kyrgyz Republic.

Social protection programming and design in the Kyrgyz Republic has undergone significant reform in recent decades. As a whole, the social protection system has only partially diverged from that which was established under the Soviet Union in that it is still largely a social insurance and earnings-related social security system. There are some tax-financed schemes – a combination of universal and means tested benefits (introduced since the 1990s). In addition, there are some employer liability programmes, notably a mandatory employment injury scheme (Work Injury Benefit), underpinned by Law No. 194 “On compulsory insurance of employers’ liability in cases of occupational accidents and diseases” (2008), while cash maternity benefits and temporary disability (sickness) benefits are reserved for formally employed persons but financed by the state budget. Figure 4-9 shows the main components of the current system that are present in the national policy domain and discourse today. It also highlights key gaps in lifecycle provision.

► Figure 4-9: Overview of the social protection system in the Kyrgyz Republic



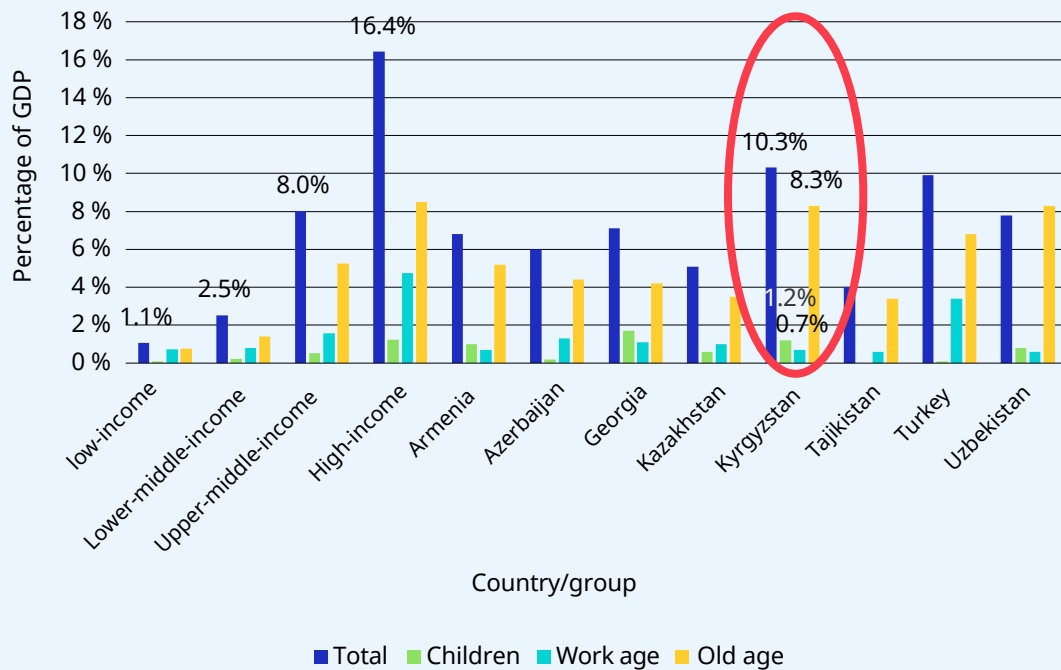
Source: Authors' depiction.

In terms of investment, the Kyrgyz Republic spends more than most lower-middle-income countries on social protection, but spending is concentrated on older people (see Figure 4-10). The main social protection programmes with substantial funding from the national budget are contributory pensions, state benefits, and basic and mandatory health insurance. Investment in tax-financed programmes has been limited. Expenditure on children, for example, is very low (1.2 per cent of GDP in 2020), illustrating the importance placed on social insurance (contributions for certain contingencies, such as pensions, are earmarked in the budget for that purpose only). Investment in labour market programmes is also exceptionally low (just 0.1 per cent of GDP in 2015).²⁹ Allocations from the national budget fully cover the expenses of the Social Fund for the payment of the basic part of all types of pensions, as well as for the

²⁹ Source: ADB Social Protection Indicator Database (see: <https://spi.adb.org/spidmz/>). In 2015 (latest year available), expenditure on labour market programmes amounted to just 120.3 million soms (0.3 per cent of total social protection expenditure).

payment of benefits and compensations provided for in the country's legislation. Allocations from the national budget to the Social Fund amount to 3.3 per cent of GDP.³⁰

► Figure 4-10: Spending on social protection (excluding health) as a percentage of GDP



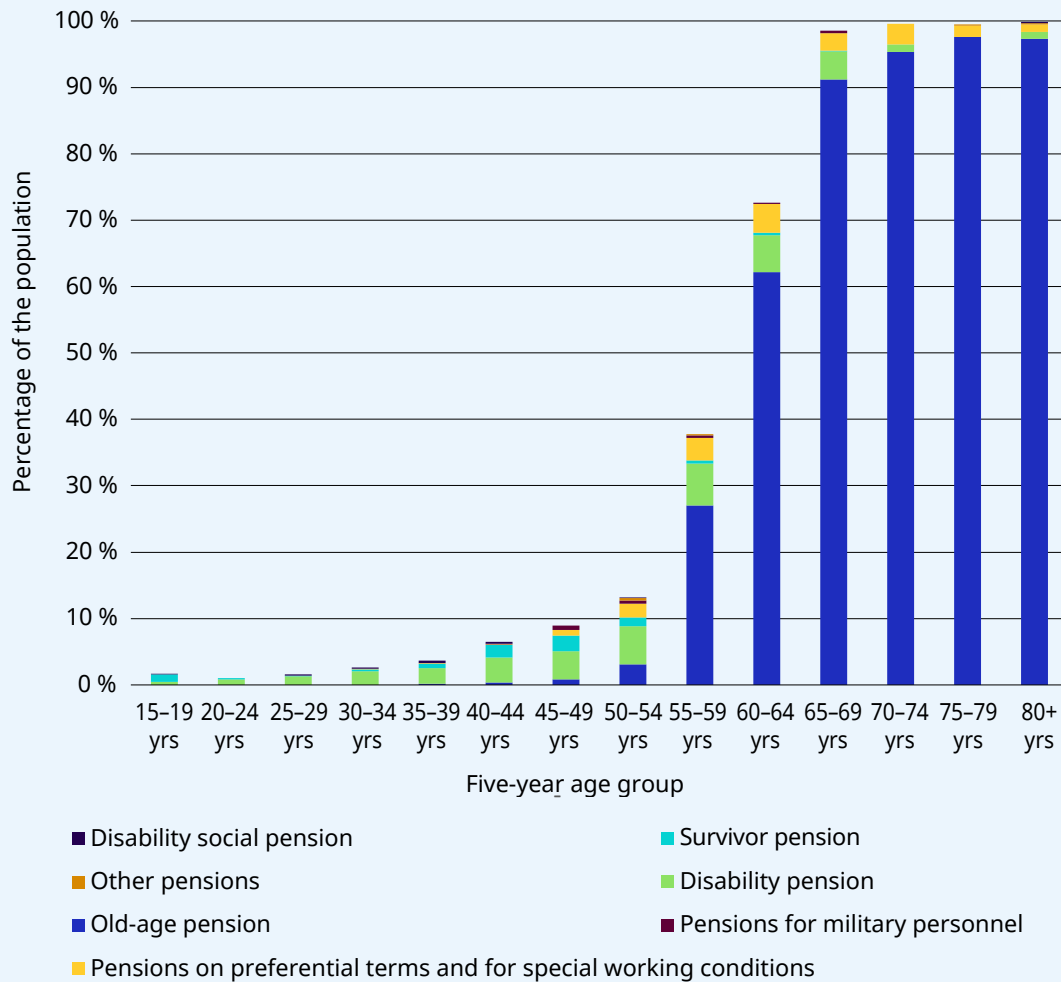
Source: ILO (2021d).

Coverage of the social protection system reflects this, with younger cohorts, including children and people of working age, disadvantaged. Overall, approximately 42 per cent of the population in the Kyrgyz Republic are covered by at least one social protection benefit.³¹ Figure 4-11 shows the large discrepancies in coverage across age groups: there is almost universal coverage of people over the statutory retirement age (approximately 40 per cent of older persons receive the social pensions), while coverage of young persons is very low.

30 FINAL-KGZ SP Profile_ENG_final.docx

31 ILO (2021d).

► **Figure 4-11: Percentage of the population receiving social protection benefits, by five-year age group and type of programme**



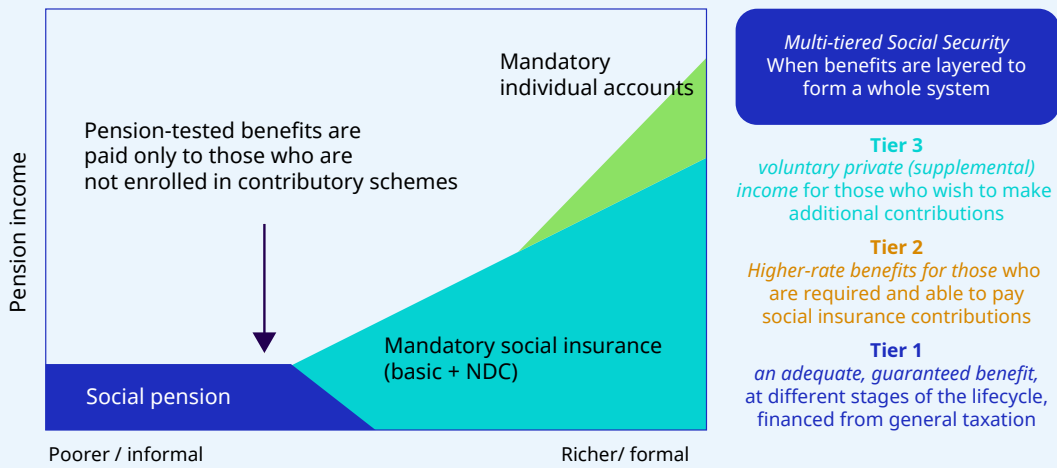
Source: 2021 LFS.

Certain features of the social protection system in Kyrgyzstan offer inclusive coverage, irrespective of income or labour market status. The Kyrgyz Republic’s universal, multi-tiered pension system ensures that all older people have access to guaranteed income security in old age. Figure 4-12 depicts a model of the old-age, disability and survivors’ benefits in the Kyrgyz Republic, showing how each are layered to provide universal coverage by design. In theory, Tier 1 (social pension) should provide an *adequate, guaranteed benefit* to older persons, persons with disability and survivors and is financed from general taxation. The tax-financed (pension-tested) benefit is withdrawn entirely if someone is in receipt of a contributory pension. The *higher rate* Tier 2 benefits (mandatory social insurance) are for those who are required and able to make social insurance contributions and should reduce disincentives to enter the social insurance system since all recipients of contributory pensions would always receive more than

from the tax-financed social pension alone. Cross-subsidisation within the social insurance system should help to reduce inequalities between higher earners and lower earners in their old age. Tier 3 (mandatory individual accounts) serves as *supplemental income* based on additional contributions that are tightly linked to a worker’s earnings.

► **Figure 4-12: Model of the Kyrgyz Republic’s old-age, disability and survivors’ benefits**

Kyrgyzstan’s universal, multi-tiered pension system ensures that all older people, regardless of their labourmarket status, have access to guaranteed income security in old age



Source: Authors’ depiction.

Unfortunately, the vast majority of people in working age and their families are not afforded the same security, which poses a threat for the future sustainability of the pension system. The bifurcated system of benefits that are available to working age persons and their families in the Kyrgyz Republic (see Figure 4-13) leaves out many who neither receive employment-based entitlements nor are eligible for social assistance – often referred to as the “missing middle”. For example, the child benefit *uy-bulogo komak* has very low coverage, due to a restrictive means test, as explained in Box 4-3. And, due to their design, maternity and unemployment protections do not cover many people experiencing these contingencies today, and benefits are inadequate for those few who are receiving them.

► Figure 4-13: Model of Kyrgyz Republic's benefits for people of working age



Source: Authors' depiction.

► **Box 4-3: Failed reform of the system of child benefits in the Kyrgyz Republic, with broader implications for the development of the social security system**

In June 2017, the Government of the Kyrgyz Republic legislated the reform of its system of child benefits, bringing in a universal, age-restricted, "quasi-universal" child benefit. The plan was to implement the following:

- a universal birth grant of around US\$58 for each child;
- a universal categorical monthly grant for all children aged 0-3 years, amounting to around US\$10 a month;
- a monthly family grant for the third and subsequent children in families with three or more children aged 3-16, of around US\$7.50 per child.

The Government had wanted to reform the poverty-targeted *uy-bulogo* – the Kyrgyz Republic's Monthly Benefit for Poor Families – which provides cash support to children in such families. Over recent years, the number of children receiving support had fallen, and 60 per cent of children classified as poor were not receiving any benefit. The design of the new proposed benefits also provided a simpler selection that would address fraud and maladministration – another major government concern. National implementation of the law was scheduled from January 2018.

► Box 4-3: Continuation

However, in June and November 2017, the IMF and World Bank mission expressed concern about fiscal sustainability, repeatedly requesting the government to restore targeting and add conditions to the programme. Following deferral of implementation, the Government in 2018 released an amended law in which the mean-tested design was restored.

During the COVID-19 crisis, the Government of the Kyrgyz Republic introduced measures to provide emergency financial relief to poor families, by expanding existing programmes, including the *uy-bulogo*. Up to 200,000 households with approximately 230,000 beneficiary children were to receive the monthly child grant. These new beneficiaries were in addition to the 305,000 existing ones. However, the temporary measure expired, despite the continuing needs of lower and middle-income families with children.

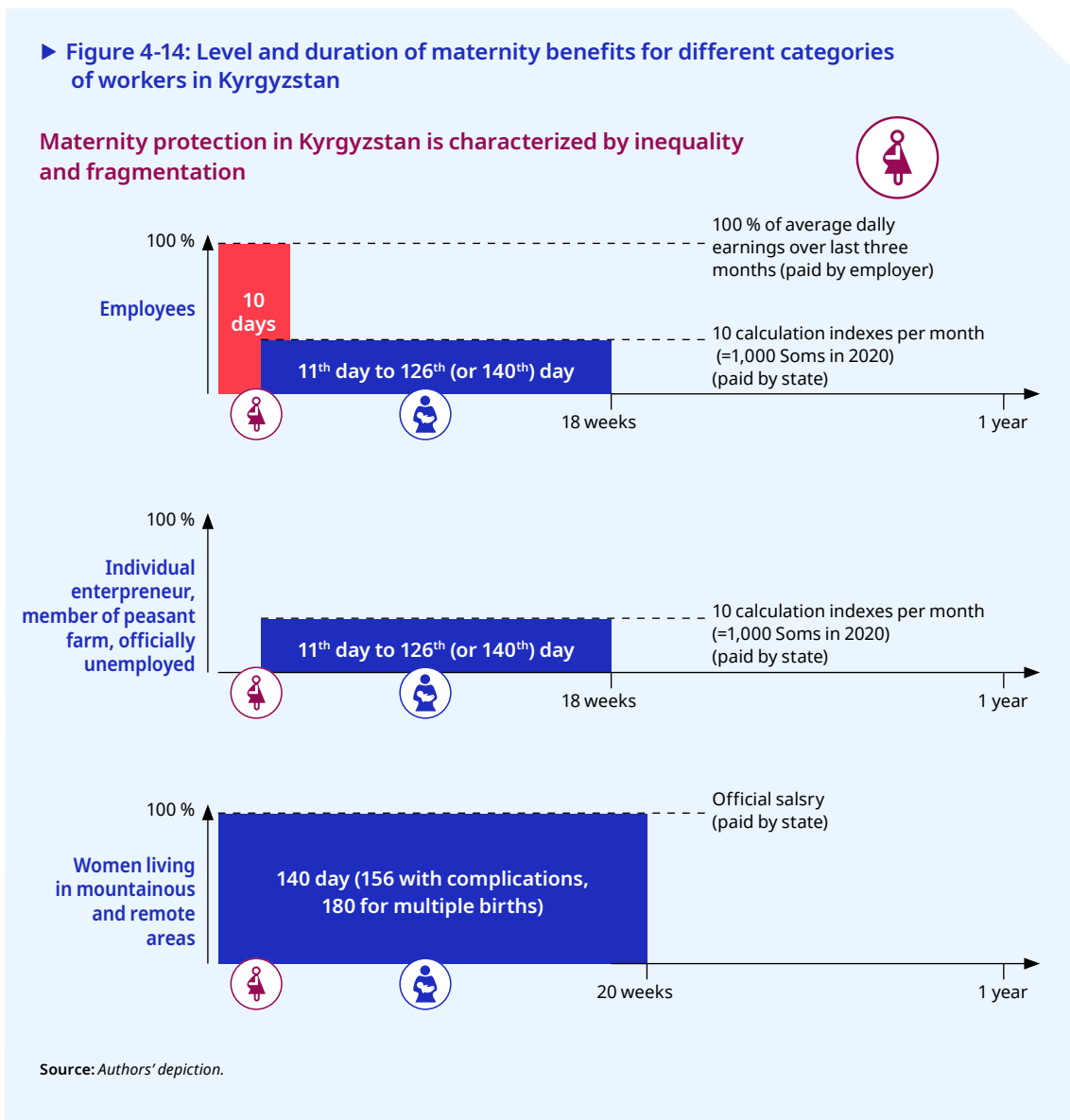
The World Bank has since committed to increasing funding to “enhance the effectiveness” of the *uy-bulogo* programme. However, rather than move forward with the reforms proposed by the Government in 2017, the Bank seeks to implement an “improved” eligibility criteria and beneficiary selection methodology “to reduce exclusion and inclusion errors” through means testing.

Currently, the absence of regular, predictable income security for all children in the Kyrgyz Republic represents a missed opportunity. Universal child benefits not only fulfil children’s fundamental right to social security, but they enhance consumption and wellbeing of all households with children, bolstering the contributory capacity of working parents on the margins of formal employment. Further, they play a key role in building trust in the state, which is a necessary condition for the financial and political sustainability of the social security system.

Source: UNICEF (2020); World Bank (2020); World Bank (2022).

4.3.1 Maternity benefits in the Kyrgyz Republic

There are also more fundamental issues with both the design and adequacy of benefits aimed at protecting people in working age. Maternity benefits for formally employed women, for example, are fragmented, with different benefit design, levels and duration for different categories of workers, as depicted in Figure 4-14.



The maternity benefit system also reflects an unusual financing arrangement, combining employer liability mechanism with state budget financing. Employer liability systems are not only difficult to enforce, especially for those working in the private sector, but can serve as a disincentive to hiring women. ILO Convention 183 warns against employer liability systems for maternity protection for precisely these reasons.³² In the Kyrgyz Republic, the bulk of benefits for formally employed women are financed from the state budget, but dependence on the state budget also makes funding vulnerable to political decisions and buy-in from stakeholders (especially workers)³³, jeopardising the integrity and sustainability of financing over time.

Further, in terms of adequacy, the benefit value is very low after the first ten days (just 1,000 soms per month, paid as a lump sum, for the remaining 116 days), leading to low take up, especially in the private sector. Only 33,200 maternity benefits were paid in 2021 (22 per cent of women who gave birth).³⁴ A recent analysis found that the benefit – equal to around 5.3 per cent of the average wage – did not comply with minimum standards set out in ILO Conventions,³⁵ which call for at least 45 per cent of the reference wage (C102), at least 66.7 per cent of previous earnings (C183) and 100 per cent of previous earnings (R191). Moreover, the maternity benefit system leaves out women who are outside of formal employment but who nonetheless make (paid and unpaid) contributions to society the economy through their care (which enables others to work and thrive), informal labour, and payment of indirect taxes. These women, and their children and families, also require support during the particularly vulnerable maternity period.

It is perhaps unsurprising that focus group discussions highlighted how workers in the Kyrgyz Republic are also struggling to see the benefit of contributing when transfer values are so low, especially for benefits aimed at people in working age. Regarding maternity protections, for example (which, although not financed from a dedicated contribution, still rely on formal status, which includes contributions to the Social Fund), one participant noted how a 10+ per cent contribution over several months was not worth it for a 1,000 soms per month benefit.³⁶

32 Convention 183 warns against Employer Liability systems in Article 6 (8): “In order to protect the situation of women in the labour market, benefits in respect of the leave referred to in Articles 4 and 5 shall be provided through compulsory social insurance or public funds, or in a manner determined by national law and practice. An employer shall not be individually liable for the direct cost of any such monetary benefit to a woman employed by him or her without that employer’s specific agreement except [in very specific circumstances].”

33 Focus group discussions actually revealed reluctance on the part of some workers to claim the benefit.

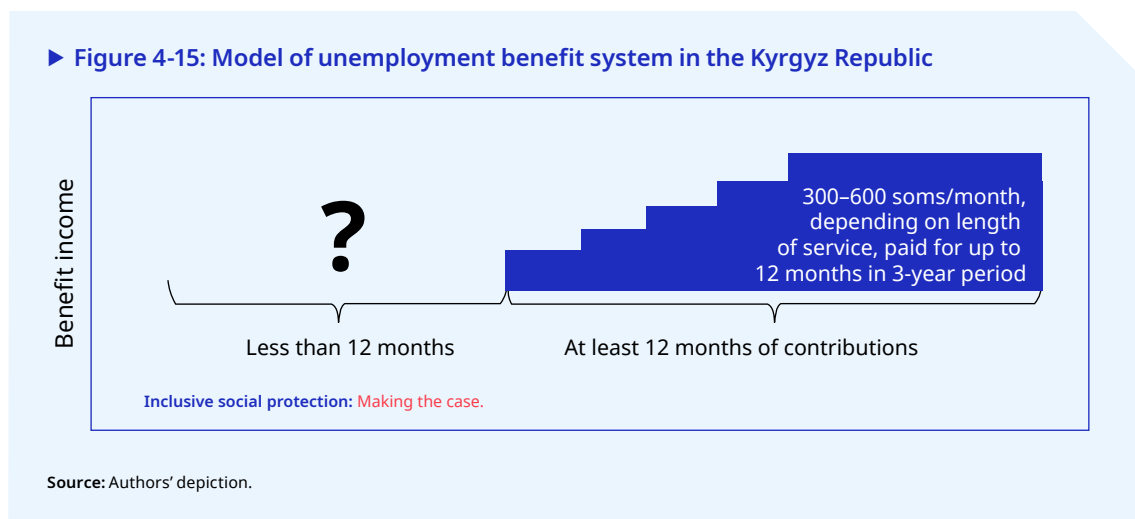
34 Administrative data.

35 ILO (forthcoming). DRAFT.

36 Focus group discussion, 11 November 2022.

4.3.2 Unemployment benefits in the Kyrgyz Republic

Similarly, although the Kyrgyz Republic is one of only 96 countries across the globe providing a statutory unemployment scheme, the scheme is also unusual in its financing arrangements and suffers from serious adequacy challenges. Figure 4-15 depicts the current unemployment benefit system in Kyrgyzstan, which shows that transfer values are extremely low (just 300-600 soms per month, depending on the duration of contributions made), and not surprisingly do not meet the ILO Minimum Standards of 45 per cent (C102) or 50 per cent (C168) of the reference wage.³⁷



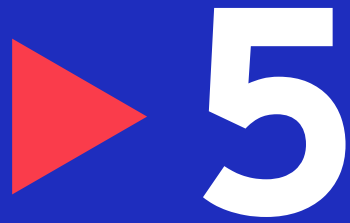
Further, there were only 360 beneficiaries in 2021 due to strict eligibility criteria and low take-up rates,³⁸ and there are no provisions for those outside of formal employment, despite their clear need for minimal levels of support during periods without work.

Finally, the financing arrangement – whereby benefits are contributory (in that they require a minimum contribution period to the Social Fund) are not financed from contributions but are paid from the state budget, creating a wide disconnect between contributions and benefits. This setup is not only unusual³⁹ but can erode buy-in from social partners and weaken financial sustainability over time.

³⁷ ILO (forthcoming). DRAFT.

³⁸ Administrative data. Note: 300-600 soms amounts to 3.3-6.6 per cent of GDP per capita in 2021.

³⁹ ILO (2021d).



Next steps



Subsequent components of the assignment, described in this section, will feed into the development of the national strategy on Transition from Informal to Formal Economy as well as offering a platform for testing and developing potential key policy components.

▶ 5.1 Scheme design – overall approach

Strategies for encouraging the transition from informal to formal economy, including through extension of social protection, must be multi-pronged, taking into account the very real income constraints of large swaths of the workforce. A strategy of focusing solely on encouraging registration (of enterprises and workers alike) and enforcing compliance with existing tax and social security obligations is likely to quickly encounter an upper limit beyond which further attempts at extraction are futile. Similarly, a strategy that aims solely at bolstering income security (and, by extension, contributory capacity) through non-contributory transfers, but fails to invest in the systems that ensure the financial sustainability of that system – whether via tax or contribution collection – will be insufficient to address the full scale of the challenge.

The team from Development Pathways will work with the ILO to develop specific policy options to bring informal workers with and without contributory capacity under existing national social insurance schemes for unemployment and maternity benefits, with the aim of contributing to their transition to formal jobs. Because these mechanisms need to be selected in consultation with informal workers and constituents, we will hold a series of iterative consultative design workshops aimed at building knowledge and awareness of the importance of providing protections during these key contingencies experienced by people in working age and understanding the purpose, functions and trade-offs of different design choices. These design workshops will be held before the end of the year – one on unemployment towards the end of November, and one on maternity in mid-December.

The workshops will focus on the design of:

- ▶ mechanisms to test the extension of social insurance in case of unemployment of selected groups of workers in informal economy (to be defined through a tripartite discussion) with contributory capacity; and
- ▶ mechanisms for the extension of maternity protection to (at least priority) groups of currently unprotected workers.

The design of the mechanisms will be undertaken in reference to appropriate national and international benchmarks, including international standards as well as the experiences of peer countries at similar levels of economic development. The reform proposals will emphasise the development of a multi-tiered social security system that can deliver a set of adequate, guaranteed lifecycle benefits financed from general taxation, paired with parallel, higher-rate lifecycle benefits financed through social insurance contributions. The design of the system must consider the interaction between the two tiers, including the built-in incentive structure and its implications for ensuring adequacy and sustainability over the long term. The mechanisms would place a special emphasis on gender- and disability-sensitive policy design.

The contributory components of the schemes will involve actuarial modelling to ascertain the appropriate level of contribution required to ensure adequate benefits for incorporated workers from the informal economy, as well as financial sustainability over the long term. The exercise will take into account available actuarial studies and modelling for existing schemes in the Kyrgyz Republic to ensure coherence. Depending on the availability of the ILO Actuary, the actuarial costings would be expected to follow the agreement on indicative options, with final proposals presented after the in-depth design workshops.

The indicative design options will be developed in close consultation with ILO and will be presented to constituents and representatives of informal workers for discussion. Upon receiving the draft options, the ILO will review and provide technical comments within one week. Based on feedback from the ILO, the options will be revised accordingly and presented to stakeholders for consideration.

► 5.2 Virtual design workshops

We will hold a one-day virtual capacity building and design workshop, for each contingency (maternity/unemployment) with selected representatives of informal workers and constituents to review the options and come to agreement on one selected option to pilot.

Defining a smaller technical working group

While we are open to considering holding this second workshop with the broader Inter-Agency Working Group (Annex 3), we note that the group consists of more than 30 members, which may pose challenges for reaching agreement on nuances in design. Therefore, we would prefer to limit the broader group to a smaller select technical unit – a “multi-stakeholder technical working group” group – that would ideally be made up of 6-10 closely invested social partners who would have the legitimacy to both endorse and help to communicate the findings from the working group to the broader Inter-Agency Working Group and other decision-makers and stakeholders. The ILO will advise Development Pathways on potential members of this working group based on the organizations they represent, their positions within them, their level of interest and their potential to act as champions of rights-based social protection designs for unemployment and maternity benefits. However, we suggest the following potential participants (or their assigned technical delegates) and look forward to feedback from ILO:

- Deputy Minister, Ministry of Economy and Commerce of the Kyrgyz Republic; Chair of the working group;
- Head of Labour Unit, Ministry of Labor, Social Insurance and Migration of the Kyrgyz Republic;
- Head of Employment Promotion Unit, Ministry of Labour, Social Insurance and Migration of the Kyrgyz Republic;
- Deputy Head, Social Charges Planning and Recording Unit, Social Fund of the Kyrgyz Republic;
- Chief specialists of Pension and Tariff Policy Department, Social Fund of the Kyrgyz Republic;
- Head of Analysis and Strategic Development Department, Chamber of Commerce and Industry of the Kyrgyz Republic;
- Head, Unit for Social and Economic Protection of Workers, Federation of Trade Unions of The Kyrgyz Republic;
- President, legal entities organization “Association of Suppliers (Producers and Distributions)”;
- Specialist of Agrarian Cluster Policy and Value-Added Chains Development Department, Ministry of Agriculture of the Kyrgyz Republic;
- Chief specialist of Analysis and Strategic Planning Unit, Ministry of Agriculture of the Kyrgyz Republic.

Agenda for potential virtual workshops

In the morning of the workshop day, the Team Leader (Shea) will deliver a core module tailored to the specific interests, challenges and relative sphere of influence of the target audience.

The core module will lay out, for example:

- ▶ the basic concepts behind universal social protection, social insurance and multi-tiered social security/protection;
- ▶ the value of the contingency (unemployment insurance or maternity protection) from a global perspective and linking it to the Kyrgyz context;
- ▶ the importance of collective governance of social protection and tripartite stakeholder representation;
- ▶ the shared responsibility of financing and the notion of solidarity and cross-subsidization in different models of contributory provision;
- ▶ the challenges of extension to difficult-to-cover groups and the importance of engaging in coalition-based advocacy around common interests;
- ▶ other themes as deemed strategically important based on the assessment of the national context.

Interactive sessions will then explore participants' perceptions of the key constraints, potential and implications of the eventual implementation of the proposed schemes in Kyrgyzstan. Development Pathways would rely on the ILO and national expert to facilitate the workshop and provide interpretation where required. The workshops will end with a joint decision on the high-level design option for each scheme.

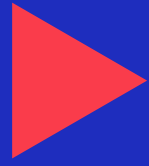
▶ 5.3 Validation and design of evaluation matrix

Following the selection of options, the team will finalise the design proposals and submit them to the ILO for feedback. At the same time, Development Pathways will construct an evaluation matrix that can be used to monitor and evaluate the schemes that are eventually piloted by the Ministry. This will include guidance for establishing a baseline, including sampling criteria, and assessment framework to capture key performance indicators, such as:

1. Take-up rates for the schemes (relative to appropriate labour market and population benchmarks)
2. Demographic and income characteristics of new members/beneficiaries and non-members/beneficiaries, notably:
 - a. Age
 - b. Sex
 - c. Education level
 - d. Disability status
 - e. Geographic location
 - f. Sources and regularity of income
 - g. Spending patterns (including change in per capita consumption)

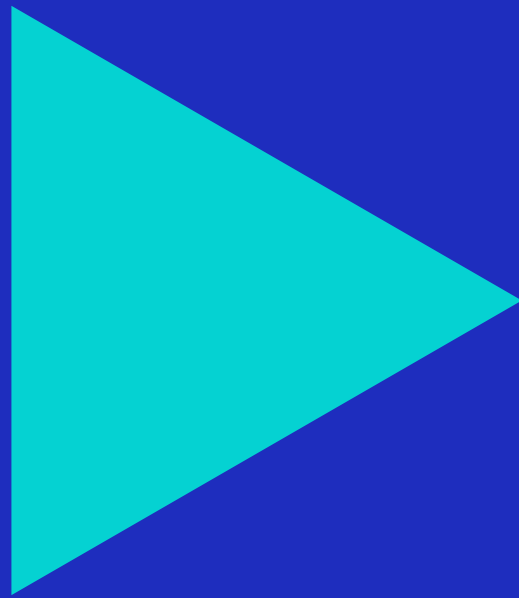
3. Employment status of new members/beneficiaries and non-members/beneficiaries, notably:
 - a. Type of employment (dependent vs self-employment)
 - b. Sector of employment
 - c. Occupation
 - d. Working time (full-time vs part-time)
 - e. Job duration (permanent vs temporary/fixed term)
4. Wages of new members/beneficiaries and non-members/beneficiaries, notably:
 - a. Type of wage (fixed salary vs payments for time or output work)
 - b. Minimum wage (below vs above)
5. Enterprise characteristics of new members/beneficiaries and non-members/beneficiaries, notably:
 - a. Size (number of employees and annual turnover)
 - b. Registration status (registered vs not registered)
 - c. Form of registration, if any
6. Reasons for joining/not joining, with a view to understanding:
 - a. Affordability
 - b. Attractiveness
 - c. Accessibility
7. Linkages of members/beneficiaries with other programmes and formalisation efforts (e.g. tax, registration of enterprises, central data registries, etc.)

Upon receiving approval from the ILO, Development Pathways and the ILO could lead a validation workshop early in 2023 to present the final proposals and the evaluation matrix to the full Inter-Agency Working Group. This workshop would explain the rationale, selection process and final options chosen. We believe that it would be beneficial for members of the smaller technical working group to themselves take ownership of the options and present them to the broader group to enhance buy in, but this can be determined in later discussions with the ILO.



6

Provisional policy note outlines



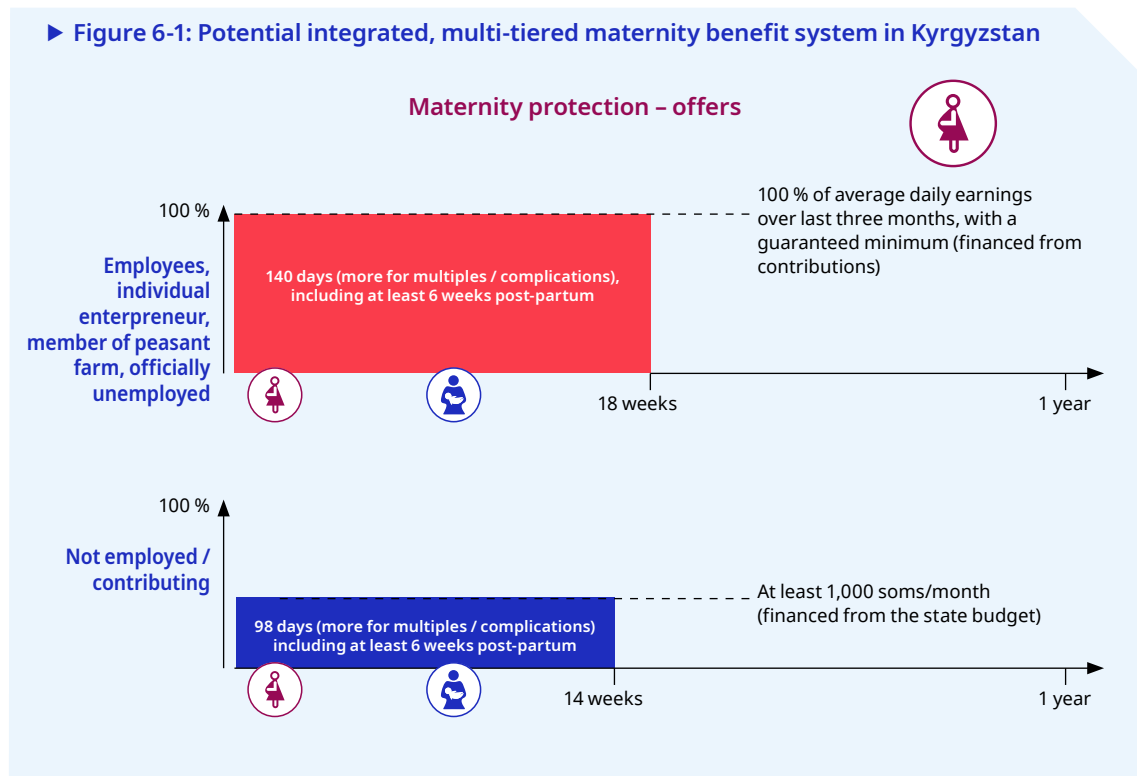
To facilitate the selection of reform options to facilitate the transition from formal to informal employment, the team will develop policy notes for the reform of maternity benefits, unemployment benefits and improvements to the financing and regulatory regime. Each brief will consist of two pages describing the policy context in detail, and three pages with options for reform.

► 6.1 Reform of maternity benefits package

The maternity benefit design stream will present at least three options. Indicative high-level options under consideration include:

- Integrated, multi-tiered maternity benefit with universal first tier;
- Integrated, multi-tiered maternity benefit with benefit-tested first tier;
- Potential multi-tiered family benefits, with sub-options.

Figure 6-1 depicts a potential future integrated, multi-tiered maternity benefit system.



In each case, the team will work closely with the ILO and members of a technical working group comprised of representatives of social partners to agree on appropriate benchmarks for a minimally adequate benefit for those outside of formal employment.

Similarly, while ensuring a minimally adequate level of income security for all new mothers, regardless of their attachment to the labour market, is a priority, care must be taken to ensure that the incentive to join an improved social insurance system capable of financing generous maternity protection is strong. At the end of the day, working women in Kyrgyzstan should see clear benefits to formal employment, which should include decent remuneration during the period of maternity leave, in line with international standards.

Costing will be undertaken by an actuary from the ILO. The level and distribution of social contributions required to finance social insurance maternity benefits will be determined jointly with social partners through social dialogue.

▶ 6.2 Reform of unemployment benefits

The unemployment benefit design stream will also explore multi-tiered options that improve financing and adequacy of benefits for those in formal employment, while also providing minimal protections to those outside formal employment. Indicative high-level options under consideration include:

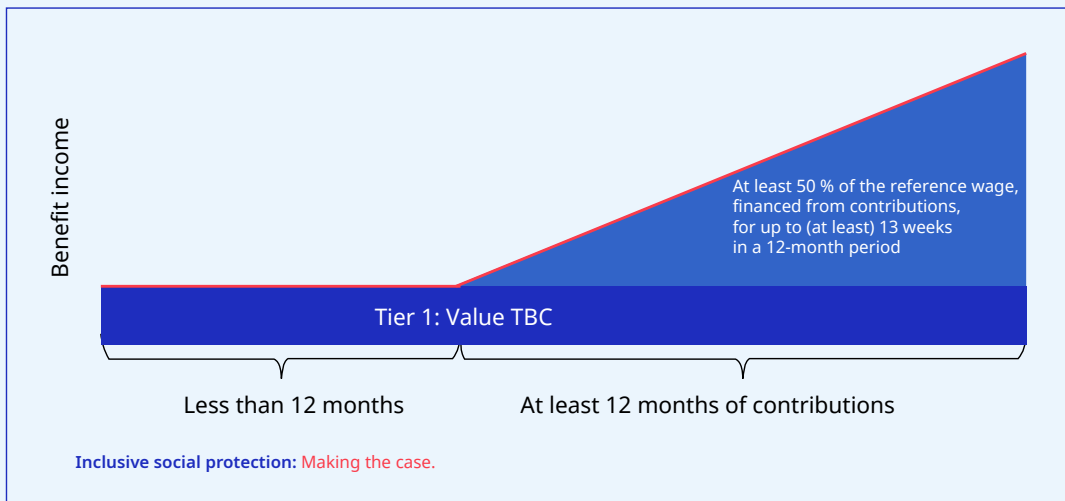
- ▶ Multi-tiered unemployment benefit with universal first tier;
- ▶ Multi-tiered unemployment benefit with benefit-tested first tier;
- ▶ Stand-alone social insurance unemployment benefit.

In all cases, the financing structure for the earnings-related component would change from the state budget to social insurance. The replacement rate would be in line with ILO minimum standards for contributory unemployment benefits. In the case of a tax-financed minimum unemployment benefit for those outside of formal employment (Tier 1), the team will work closely with the ILO and members of a technical working group comprised of representatives of social partners to agree on appropriate benchmarks.

Moreover, as with maternity and all multi-tiered systems, the incentive to join social insurance must be strong – for workers at the margins, the benefits of paying contributions must always outweigh the costs of not joining. Appropriate requirements for eligibility, for example participation in active labour market programmes, will be discussed and agreed with social partners.

Figure 6-2 depicts a potential future multi-tiered unemployment benefit system in Kyrgyzstan.

► Figure 6-2: Model of a potential unemployment benefit system in Kyrgyzstan



Finally, costing will be undertaken by an actuary from the ILO. The level and distribution of social contributions required to finance social insurance unemployment benefits will be determined jointly with social partners through social dialogue.

► 6.3 Improvements to financing and regulatory regimes

The final stream will consider improvements to the overall financing and regulatory regimes governing formalization, including social insurance participation, in Kyrgyzstan. A policy note will explore potential financing reform (comparison of mono tax versus the patent regime, and potential measures to avoid unintended consequences).

In addition, a major challenge is **non-compliance with adopted regulations**. There are several reasons for this:

- excessive red tape and reporting requirements;
- complex tax administration and inability of enterprises and workers to manage records (due to insufficient managerial and administrative skills);
- lack of a tax compliance culture – high tolerance of informality in the Kyrgyz society and deliberate evasion of tax and social contributions;
- lack of incentives for enterprises and informal workers to formalise business operations and employment;

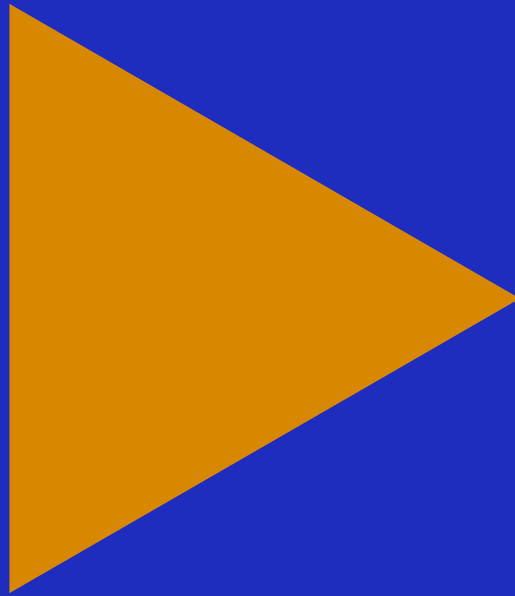
- ▶ inadequate self-regulation – lack of awareness among employers and employees of the rules and provisions of the national labour and employment law;
- ▶ lack of enforcement mechanisms – insufficient number of labour inspectors; low status of the OSH inspectorate;
- ▶ frequent alternation of governing bodies (lack of legal succession);
- ▶ bribery and corruption among government officials regulating the operation of enterprises;
- ▶ lack of transparent distribution of Pension Fund resources;
- ▶ low confidence in fiscal authorities among enterprises and workers.

Ultimately, the consequence of non-compliance is **further growth of informal jobs at registered enterprises, only to deprive workers of employment and social security guarantees.**

Indicative options (priority recommendations)

1. **Improve regulatory framework to reduce barriers to formalisation by:**
 - a. simplifying the law and standardising registration requirements and compliance regulations;
 - b. reducing the administrative and fiscal burden of registration and compliance on enterprises.
2. **Promote and support the formalisation of workers and enterprises by:**
 - a. introducing a system of incentives for enterprises to register as legal entities, e.g. creating a system of targeted tax benefits for fully formal enterprises;
 - b. establishing awareness campaigns on the incentives of formalisation (targeting enterprises, to improve the culture of compliance) and on the negative impacts of informality (targeting workers, to reduce tolerance of informal economic activities in society); and,
 - c. building up institutional support for micro and small businesses, e.g. developing a system of advisory and business formalisation support services, and supporting the wider engagement of employer associations and trade unions to support formalisation.
3. **Strengthen cooperation to identify and monitor informal economic activities by:**
 - a. regularly collecting disaggregated data on the state of informality, to support ongoing monitoring of the drivers as they evolve; and,
 - b. promoting interagency cooperation for the exchange of such information, to improve supervisory capacity and inspection efficiency.

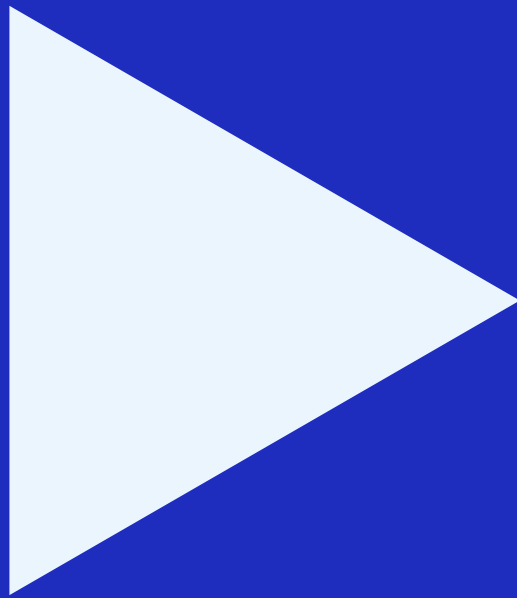
Bibliography



- ILO. (2016). Maternity and paternity at work: Law and practice across the world. Geneva: International Labour Office. <https://www.ilo.org/global/topics/equality-and-discrimination/maternity-protection/publications/maternity-paternity-at-work-2014/lang--en/index.htm>
- ILO. (2018). Women and men in the informal economy: A statistical picture [Third edition]. International Labour Organization. https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm
- ILO. (2020). Informal Economy [DECENT work for sustainable development (DW4SD) Resource Platform]. International Labour Organization. Retrieved October 14, 2022. <https://www.ilo.org/global/topics/dw4sd/themes/informal-economy/lang--en/index.htm>
- ILO. (2020b). Rapid assessment of the employment impacts of the COVID-19 pandemic in Kyrgyzstan. International Labour Organization. https://www.ilo.org/wcmsp5/groups/public/---europe/---ro-geneva/---sro-moscow/documents/publication/wcms_761673.pdf
- ILO. (2021a). Assessment of the Social Protection System in Georgia. https://www.ilo.org/wcmsp5/groups/public/---europe/---ro-geneva/---sro-moscow/documents/publication/wcms_767261.pdf.
- ILO. (2021b). Transition from the informal to the formal economy – theory of change. https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/briefingnote/wcms_768807.pdf
- ILO. (2021d). World Social Protection Report 2020-22: Social protection at the crossroads – in pursuit of a better future [ILO Flagship Report]. International Labour Organization. https://www.ilo.org/global/publications/books/WCMS_817572/lang--en/index.htm
- ILO. (Forthcoming). Assessment of the Kyrgyz Republic social security legislation – in comparison with the Social Security (Minimum Standards) Convention, 1952 (No. 102) [Prefinal report v.1 (pts I&II)]. International Labour Organization.
- Kucera, D. and Roncolato, L. (2008). Informal employment: Two contested policy issues. International Labour Review. <https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1564-913X.2008.00039.x>
- NSC. (2020). Employment and unemployment. Results of the integrated survey of the households' budget and labour force in 2019. Bishkek: National Statistics Committee.
- OECD. (2018). Social Protection System Review of Kyrgyzstan. OECD Development Pathways. Paris: OECD Publishing. <https://doi.org/10.1787/9789264302273-en>
- Ortiz, I., Chowdhury, A., Durán-Valverde, F., Muzaffar, T. and Urban, Stefan. (2019). Fiscal Space for Social Protection: A handbook for assessing financing options. UN Women and ILO. <https://www.unwomen.org/sites/default/files/Headquarters/Attachments/Sections/Library/Publications/2019/Fiscal-space-for-social-protection-en.pdf>
- Sahovic, T. (2019). What's holding back the Kyrgyz Republic private sector? [Blog]. Brookings Institution. <https://www.brookings.edu/blog/future-development/2019/07/25/whats-holding-back-the-kyrgyz-republic-private-sector/>
- Samyibekov, K. (2022). Transition from informal to formal employment. Kyrgyz Republic.

- Schneider, F. and Williams, C. (2013). The shadow economy. The Institute of Economic Affairs (IEA). <https://www.iea.org.uk/sites/default/files/publications/files/IEA%20Shadow%20Economy%20web%20rev%207.6.13.pdf>
- Tilekeyev, K. (2021). Understanding informal economy in Kyrgyzstan: Better social justice for workers, higher sustainability for the country. Friedrich-Ebert-Stiftung. <https://library.fes.de/pdf-files/bueros/bischkek/18023.pdf>
- UNICEF. (2019). Universal Child Grant Benefit Studies: The Experience of the Kyrgyz Republic. UNICEF. <https://www.unicef.org/media/70461/file/KGZ-case-study-2020.pdf>
- World Bank. (2020). The Kyrgyz Republic to Mitigate Pandemic-Caused Economic Shocks for Businesses, Vulnerable People and Communities with World Bank Support [Press Release]. World Bank Group. <https://www.worldbank.org/en/news/press-release/2020/07/30/kyrgyz-republic-to-mitigate-pandemic-caused-economic-shocks-for-businesses-vulnerable-people-and-communities-with-world-bank-support>
- World Bank. (2022). World Bank Support to Help Strengthen Kyrgyz Republic's Social Protection System [Press Release]. World Bank Group. <https://www.worldbank.org/en/news/press-release/2020/07/30/kyrgyz-republic-to-mitigate-pandemic-caused-economic-shocks-for-businesses-vulnerable-people-and-communities-with-world-bank-support>

Annex



▶ Annex 1. Data note

After thoroughly reviewing the data workbook, reports and publications shared, we propose to analyse the Labour Force Survey (2018, 2019 and 2020), Kyrgyz Integrated Household Survey of the Households' Budget and Labour Force (2019) and Quarterly Household Budget Survey (2020) to analyse informality with a focus on coverage with social protection schemes and analysis of contributory capacity of informal workers in different sectors in the Kyrgyz Republic. This is due to the following:

- ▶ While the publications shared do give us a sense of the current situation of informality in the Kyrgyz Republic, they do not provide in-depth analysis of informality with a focus on coverage with social protection schemes and analysis of contributory capacity of informal workers in different sectors.
- ▶ The definition of informality in the publications shared are not clearly defined, hence it makes it difficult to compare the information on informality across different sources. Moreover, different sources use different terms for informality such as "informal economy", "shadow economy" and "informal sectors" making it difficult to assess how the definition of "informality" is quantified in these sources.
- ▶ Similarly, different sources report statistics on different aspects of informality (and across different sources) which makes it difficult to draw comparisons.
- ▶ The workbook shared with the report **Samyibekov, K., (2022). Transition from informal to formal employment. Kyrgyz Republic** does not clarify if the data is only for informal workers or for all workers. The tables provided in the workbook do not provide information on what the data is reporting and what source has been used to generate these data tables.
- ▶ The report **Samyibekov, K., (2022). Transition from informal to formal employment. Kyrgyz Republic** only provides information on analysis of personal insurance accounts which only provides limited information on the current contributory capacity of informal workers.
- ▶ The brief note provided by the Social Fund on *the effect of social contributions reduction for the garments sector enterprises* only provides aggregated statistics on the impact and it is only limited to the impact in garments sector. We feel that this is insufficient to provide accurate information on the wider sector and to feed into the scheme design.

With access to the raw household datasets mentioned above, as well as administrative data, we will be able to do an in-depth analysis of informality with a focus on coverage with social protection schemes and analysis of contributory capacity of informal workers in different sectors, and will be able to identify trends, patterns, incidence and causes of deprivations and challenges, disaggregated by relevant segments of the population and areas of the country.

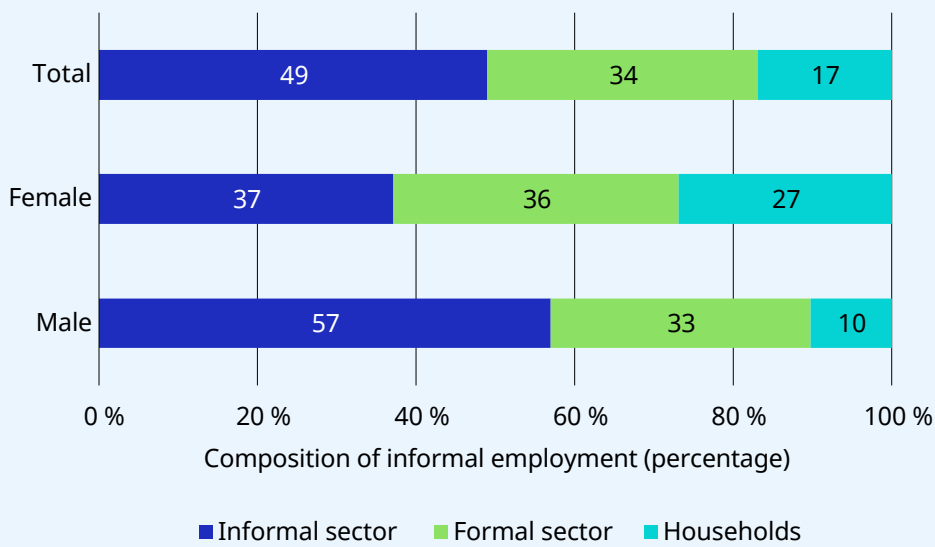
► Annex 2. Overview of the informal economy in the Kyrgyz Republic

► Table 0-1: Composition of informal employment, by sex

Informal employment, of which are employed in:	Male	Female	Total
Informal sector	40.6%	27.4%	35.1%
Formal sector	52.8%	56.2%	54.2%
Households	6.6%	16.5%	10.7%

Source: 2021 LFS.

► Figure 0-1: Composition of informal employment, by sex



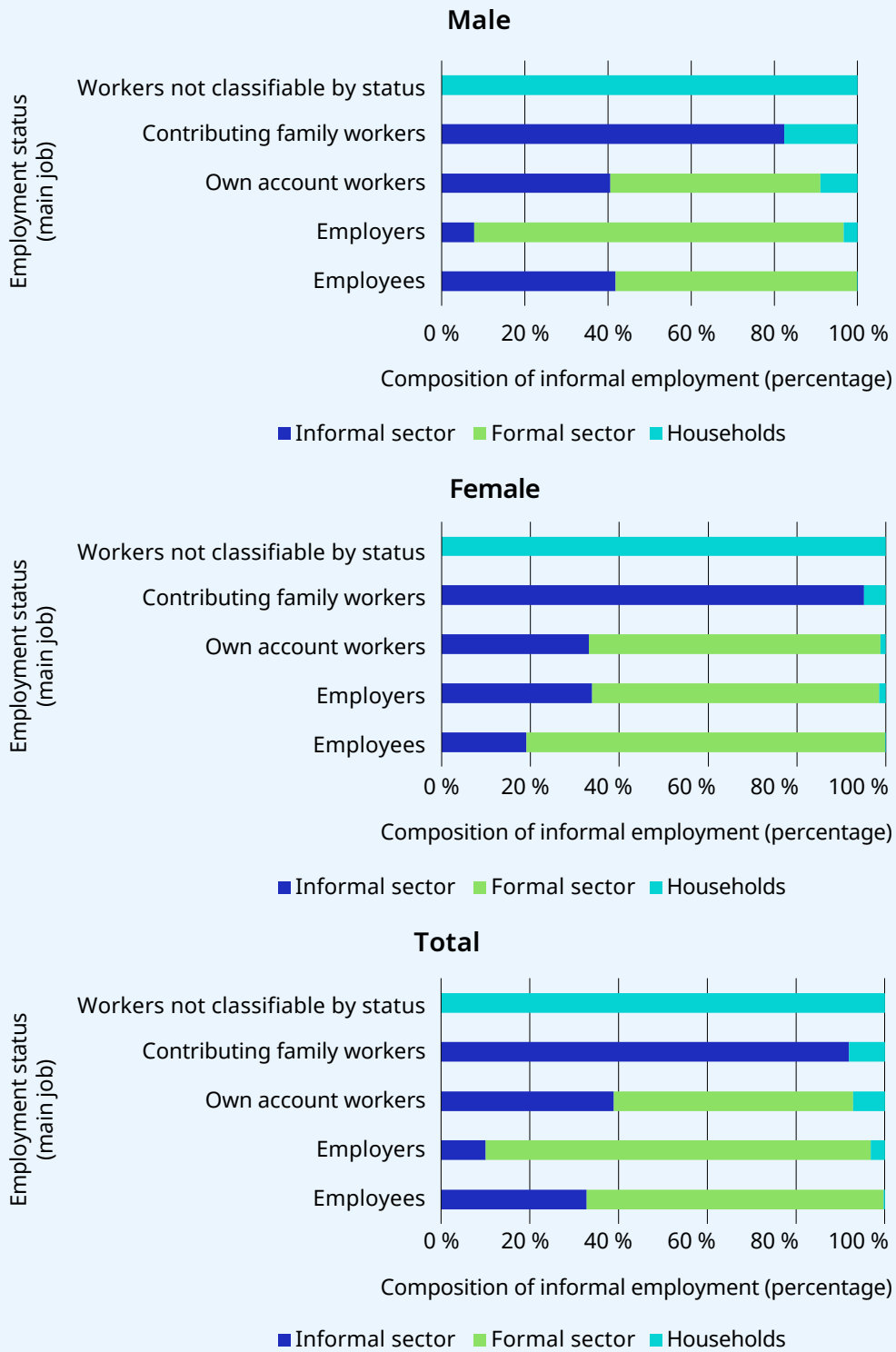
Source: 2021 LFS.

► Table 0-2: Composition of informal employment, by employment status (main job) and sex

Employment status (main job)	Male			Female			Total		
	Informal sector	Formal sector	Households	Informal sector	Formal sector	Households	Informal sector	Formal sector	Households
	<i>Informal employment, of which are employed in:</i>								
Employee	41.9%	58.0%	0.1%	19.2%	80.6%	0.2%	32.8%	67.0%	0.2%
Employer	7.9%	88.9%	3.3%	33.9%	64.5%	1.5%	10.0%	86.8%	3.2%
Own account worker	40.6%	50.5%	8.9%	33.2%	65.6%	1.3%	38.9%	54.0%	7.1%
Contributing family worker	82.5%	0.0%	17.5%	95.1%	0.0%	5.0%	91.9%	0.0%	8.1%
Not classifiable by status	0.0%	0.0%	100.0%	0.0%	0.0%	100.0%	0.0%	0.0%	100.0%

Source: 2021 LFS.

► **Figure 0-2: Composition of informal employment, by employment status (main job) and sex**



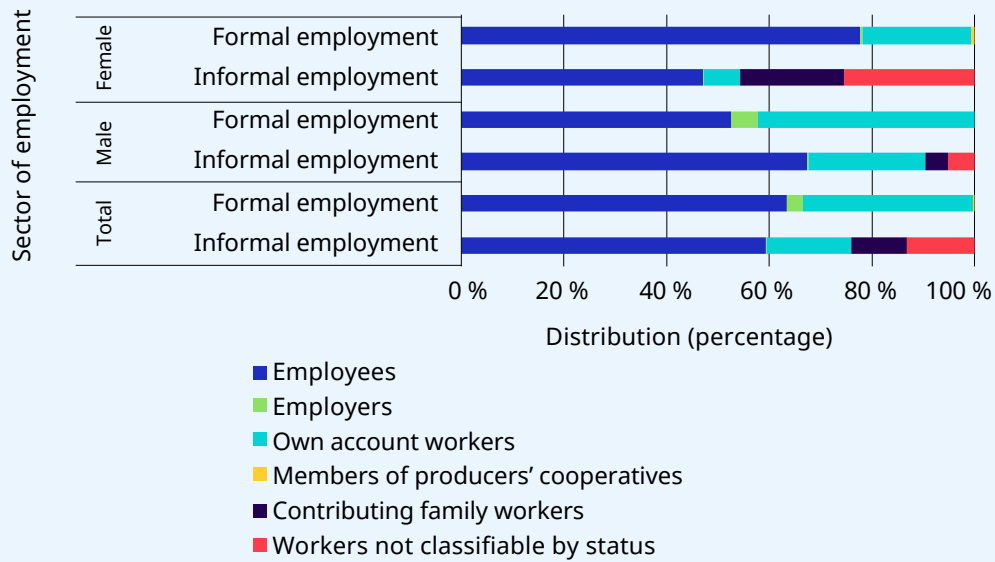
Source: 2021 LFS.

► **Table 0-3: Distribution of formal and informal employment, by employment status (main job) and sex**

Employment status (main job)	Male		Female		Total	
	Informal sector	Formal sector	Informal sector	Formal sector	Informal sector	Formal sector
Employee	67.4%	52.5%	47.2%	77.7%	59.3%	63.5%
Employer	0.4%	5.3%	0.2%	0.5%	0.3%	3.2%
Own account worker	22.7%	42.2%	7.1%	21.2%	16.4%	33.1%
Member of producer's cooperative	0.0%	0.0%	0.0%	0.6%	0.0%	0.3%
Contributing family worker	4.5%	0.0%	20.3%	0.0%	10.8%	0.0%
Not classifiable by status	5.2%	0.0%	25.4%	0.0%	13.2%	0.0%

Source: 2021 LFS.

► **Figure 0-3: Distribution of formal and informal employment, by employment status (main job) and sex**



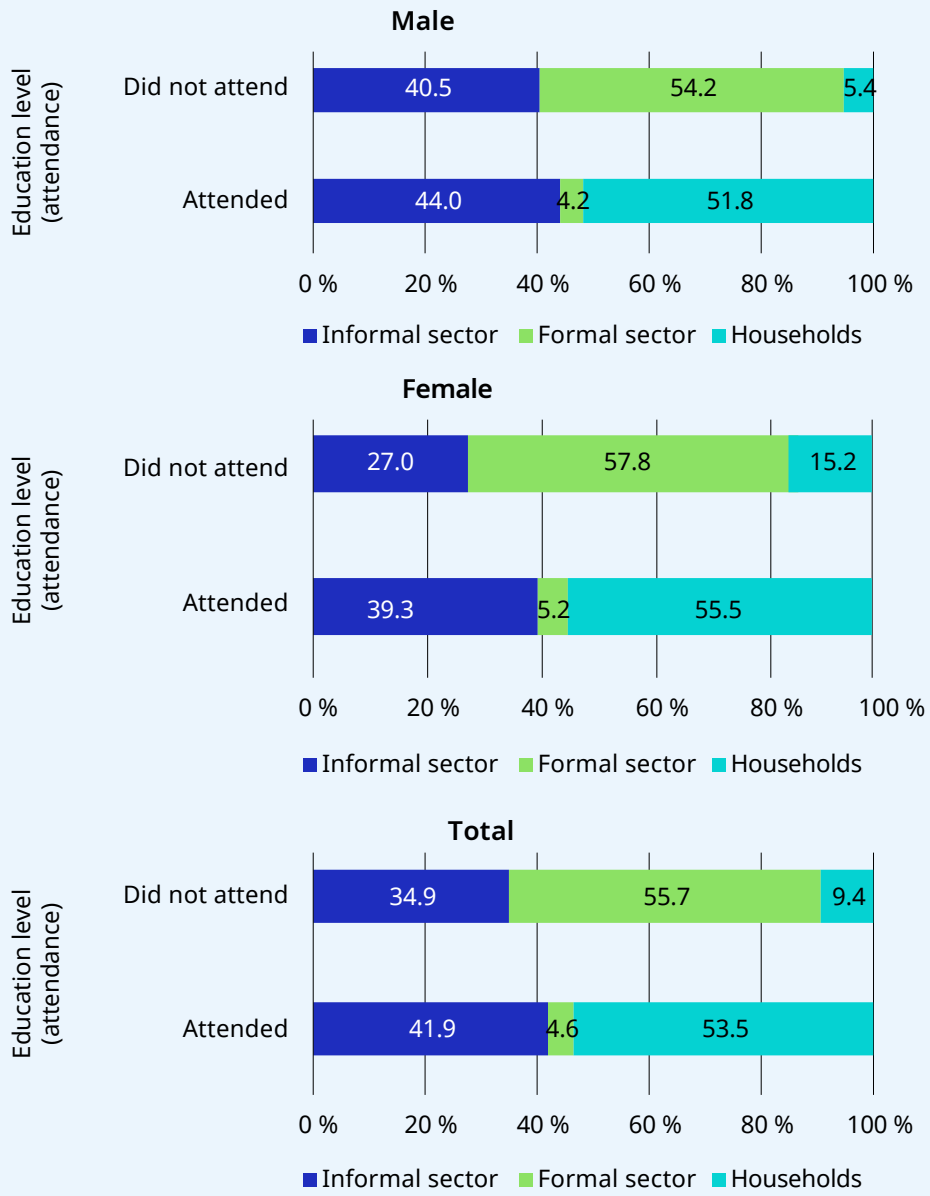
Source: 2021 LFS.

► Table 0-4: Distribution of informal employment, by education level (attendance) and sex

Education level (attendance)	Male			Female			Total		
	<i>Informal employment, of which are employed in:</i>								
	Informal sector	Formal sector	Households	Informal sector	Formal sector	Households	Informal sector	Formal sector	Households
Attended	44.0%	4.2%	51.8%	39.3%	5.2%	55.5%	41.9%	4.6%	53.5%
Did not attend	40.5%	54.2%	5.4%	27.0%	57.8%	15.2%	34.9%	55.7%	9.4%

Source: 2021 LFS.

► Figure 0-4: Distribution of informal employment, by education level (attendance) and sex



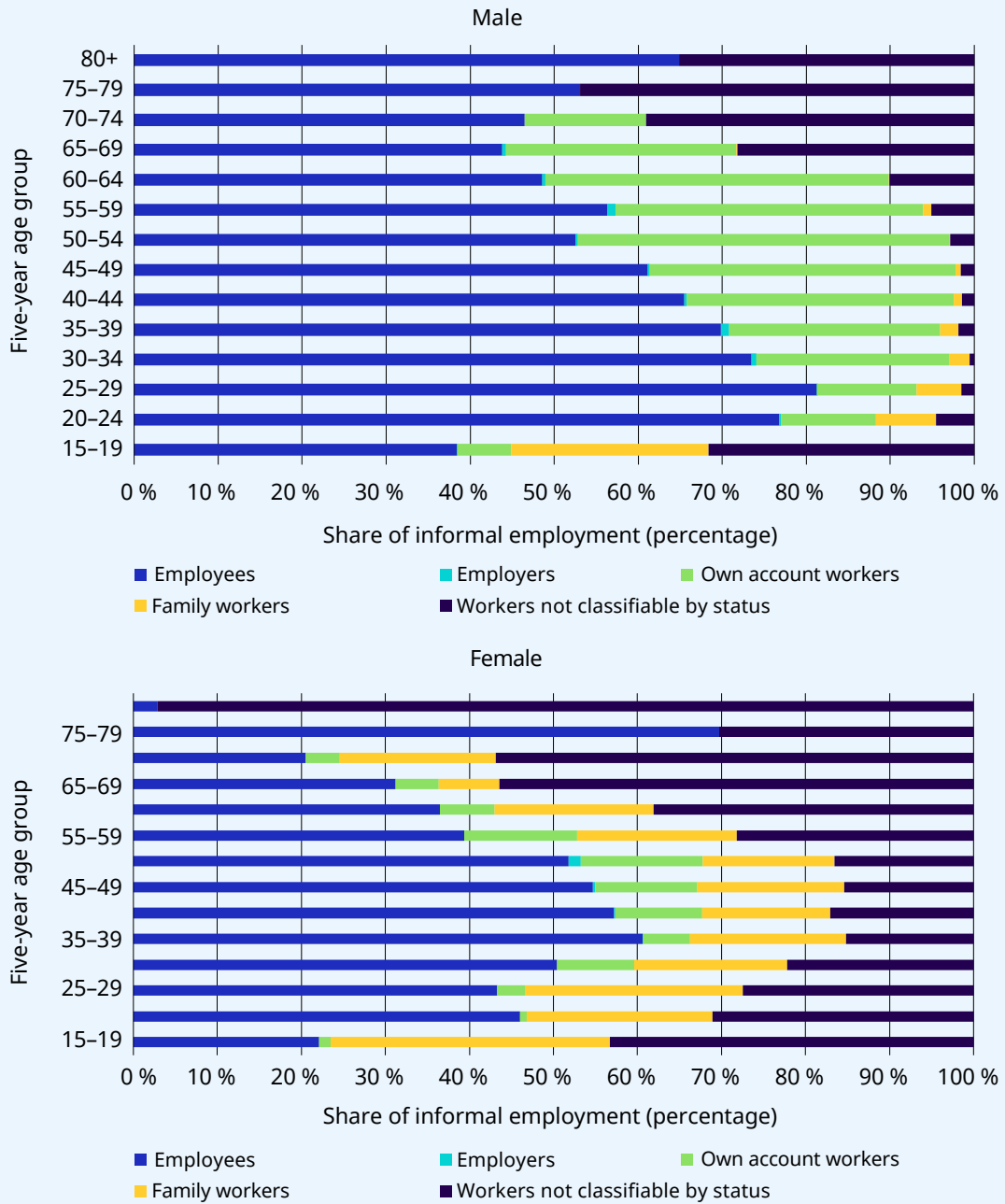
Source: 2021 LFS.

► Table 0-5: Distribution of informal employment by respective employment status, by five-year age groups and gender

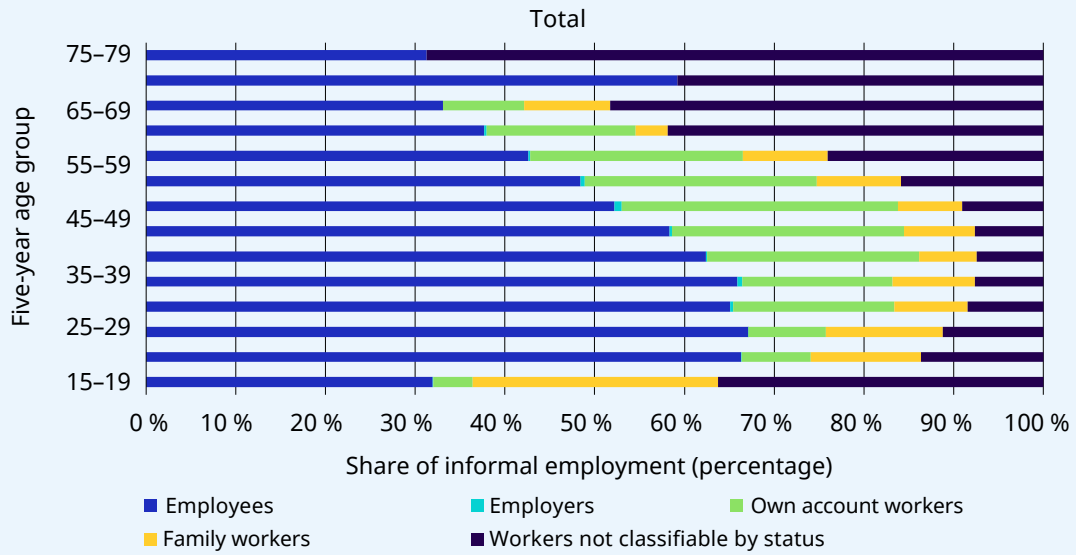
Five-year age group	Male					Female					Total				
	Employees	Employers	Own account workers	Contributing family workers	Workers not classifiable by status	Employees	Employers	Own account workers	Contributing family workers	Workers not classifiable by status	Employees	Employers	Own account workers	Contributing family workers	Workers not classifiable by status
15-19	38.4 %	0.1 %	6.3 %	23.5 %	31.7 %	22.1 %	0.0 %	1.3 %	33.2 %	43.3 %	32.0 %	0.0 %	4.4 %	27.4 %	36.3 %
20-24	76.8 %	0.2 %	11.3 %	7.1 %	4.6 %	46.0 %	0.0 %	0.8 %	22.1 %	31.1 %	66.3 %	0.1 %	7.7 %	12.3 %	13.6 %
25-29	81.3 %	0.0 %	11.9 %	5.4 %	1.5 %	43.3 %	0.0 %	3.3 %	25.9 %	27.5 %	67.1 %	0.0 %	8.7 %	13.0 %	11.2 %
30-34	73.5 %	0.6 %	22.9 %	2.4 %	0.6 %	50.4 %	0.0 %	9.2 %	18.2 %	22.2 %	65.1 %	0.4 %	17.9 %	8.2 %	8.4 %
35-39	69.9 %	1.0 %	25.1 %	2.2 %	1.9 %	60.6 %	0.0 %	5.6 %	18.6 %	15.2 %	65.9 %	0.6 %	16.7 %	9.2 %	7.6 %
40-44	65.5 %	0.3 %	31.8 %	1.0 %	1.5 %	57.3 %	0.1 %	10.3 %	15.3 %	17.1 %	62.4 %	0.2 %	23.6 %	6.4 %	7.4 %
45-49	61.2 %	0.2 %	36.4 %	0.6 %	1.6 %	54.7 %	0.3 %	12.1 %	17.5 %	15.4 %	58.3 %	0.3 %	25.9 %	8.0 %	7.6 %
50-54	52.5 %	0.3 %	44.2 %	0.1 %	2.9 %	51.8 %	1.4 %	14.5 %	15.7 %	16.6 %	52.2 %	0.8 %	30.8 %	7.1 %	9.1 %
55-59	56.3 %	1.0 %	36.6 %	1.0 %	5.1 %	39.3 %	0.0 %	13.4 %	19.0 %	28.1 %	48.4 %	0.5 %	25.8 %	9.4 %	15.8 %
60-64	48.6 %	0.4 %	40.8 %	0.1 %	10.1 %	36.5 %	0.0 %	6.5 %	19.0 %	38.1 %	42.6 %	0.2 %	23.8 %	9.5 %	24.0 %
65-69	43.8 %	0.4 %	27.4 %	0.2 %	28.2 %	31.2 %	0.0 %	5.1 %	7.2 %	56.5 %	37.7 %	0.2 %	16.6 %	3.6 %	41.9 %
70-74	46.5 %	0.0 %	14.5 %	0.0 %	39.0 %	20.5 %	0.0 %	4.0 %	18.5 %	56.9 %	33.1 %	0.0 %	9.1 %	9.6 %	48.3 %
75-79	53.1 %	0.0 %	0.0 %	0.0 %	46.9 %	69.7 %	0.0 %	0.0 %	0.0 %	30.3 %	59.2 %	0.0 %	0.0 %	0.0 %	40.8 %
80+	64.9 %	0.0 %	0.0 %	0.0 %	35.1 %	2.9 %	0.0 %	0.0 %	0.0 %	97.1 %	31.3 %	0.0 %	0.0 %	0.0 %	68.7 %

Source: 2021 LFS.

► Figure 0-5: Distribution of informal employment by respective employment status, by five-year age groups and gender



► **Figure 0-5: Distribution of informal employment by respective employment status, by five-year age groups and gender**



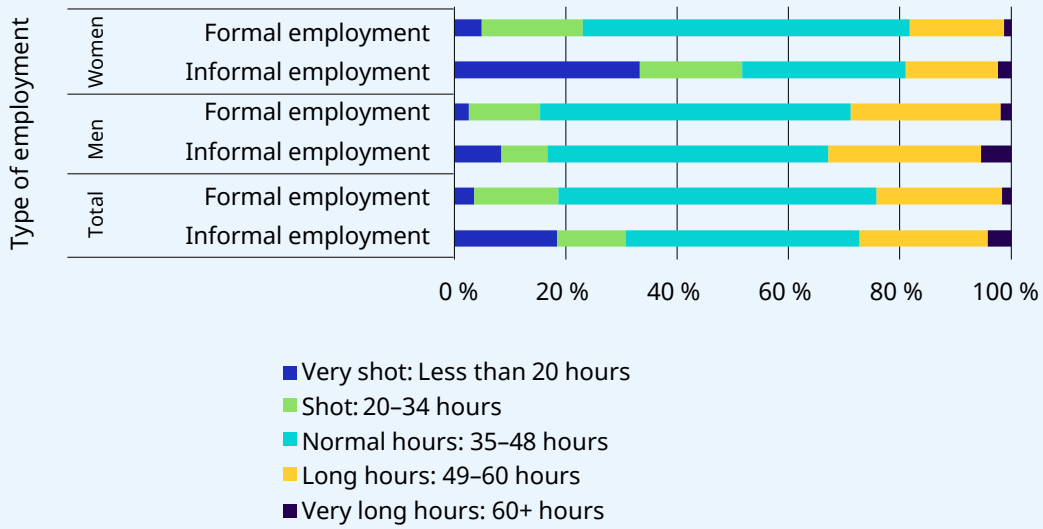
Source: 2021 LFS.

► **Table 0-6: Distribution of formal and informal employment, by number of hours worked per week and gender**

Working hours (per week)	Male		Female		Total	
	Informal employment	Formal employment	Informal employment	Formal employment	Informal employment	Formal employment
Very short: Less than 20 hours	8.4%	2.6%	33.4%	5.0%	18.4%	3.6%
Short: 20-34 hours	8.3%	12.8%	18.3%	18.1%	12.3%	15.1%
Normal hours: 35-48 hours	50.4%	55.8%	29.4%	58.7%	42.0%	57.1%
Long hours: 49-60 hours	27.4%	26.9%	16.6%	16.9%	23.1%	22.5%
Very long hours: 60+ hours	5.5%	2.0%	2.4%	1.3%	4.2%	1.7%

Source: 2021 LFS.

► **Figure 0-6: Distribution of formal and informal employment, by number of hours worked per week and gender**



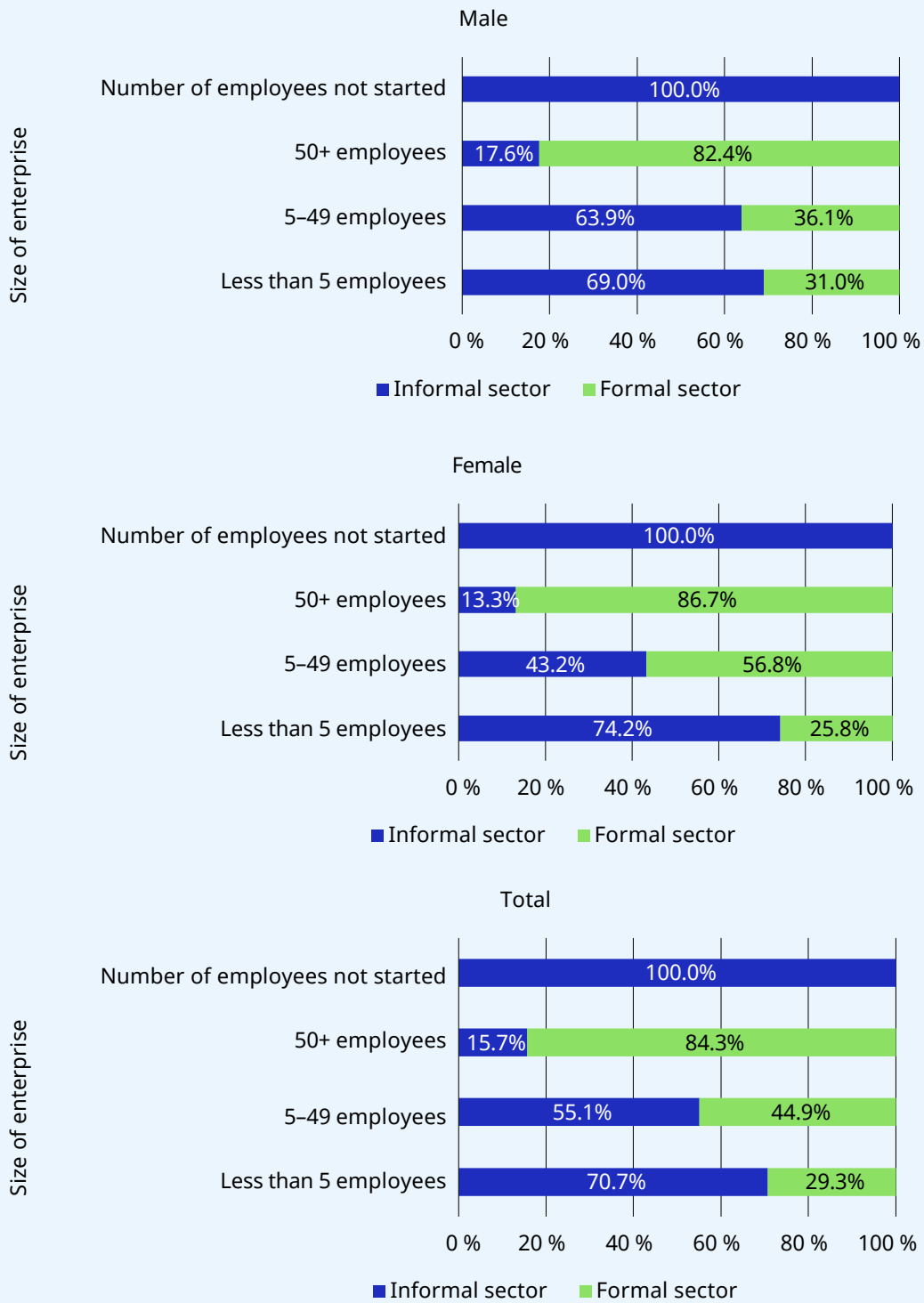
Source: 2021 LFS.

► **Table 0-7: Distribution of informal employment, by size of enterprise and gender**

Size of enterprise	Male		Female		Total	
	Informal sector	Formal sector	Informal sector	Formal sector	Informal sector	Formal sector
Less than 5 employees	69.0%	31.0%	74.2%	25.8%	70.7%	29.3%
5-49 employees	63.9%	36.1%	43.2%	56.8%	55.1%	44.9%
50+ employees	17.6%	82.4%	13.3%	86.7%	15.7%	84.3%
Number of employees not stated	100.0%	0.0%	100.0%	0.0%	100.0%	0.0%

Source: 2021 LFS.

► Figure 0-7: Distribution of informal employment, by size of enterprise and sex



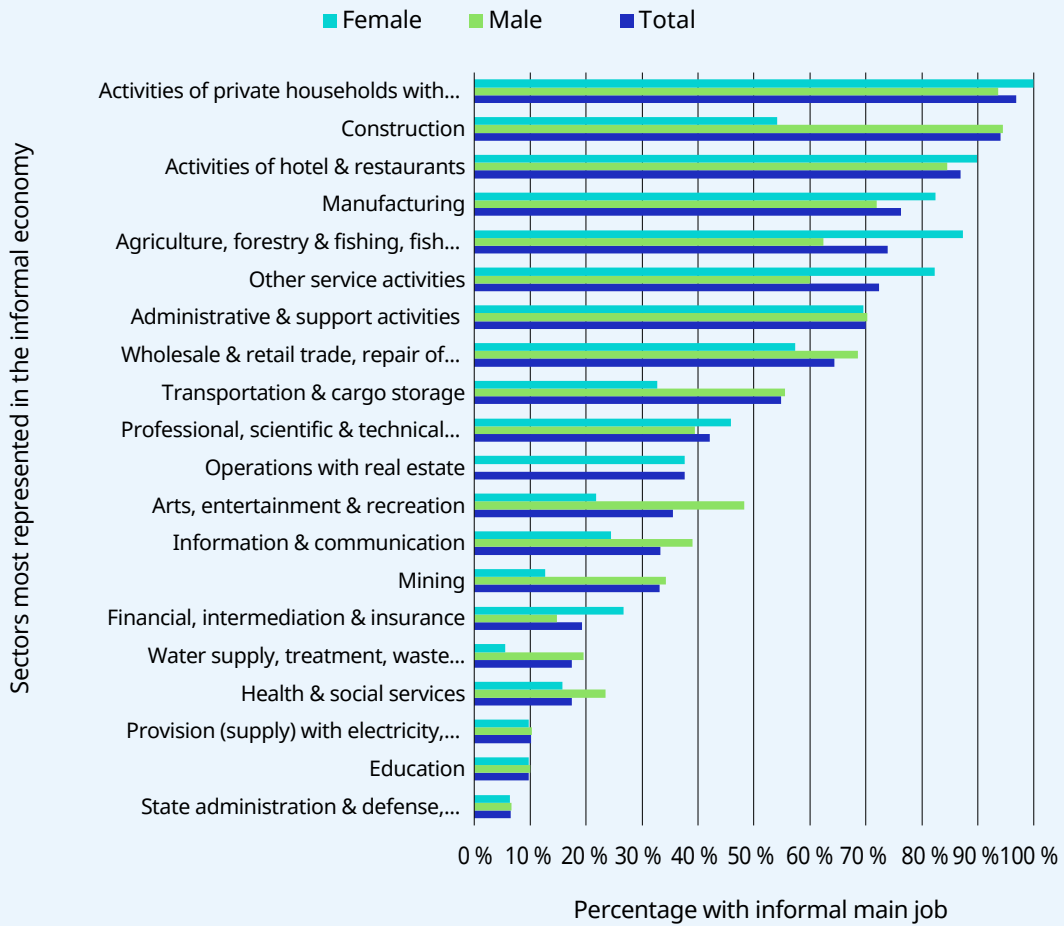
Source: 2021 LFS.

► **Table 0-8: Persons with informal main job, by sector (10 sectors most represented in the informal economy) and sex**

Ten sectors most represented in the informal economy	Male	Female	Total
Agriculture, forestry & fishing, fish farming	62.4%	87.4%	73.9%
Mining	34.2%	12.7%	33.1%
Manufacturing	71.9%	82.4%	76.3%
Provision (supply) with electricity, gas, steam & air conditioning	10.3%	9.8%	10.2%
Water supply, treatment, waste treatment & recycling	19.6%	5.5%	17.5%
Construction	94.5%	54.1%	94.0%
Wholesale & retail trade, repair of cars & motorcycles	68.6%	57.3%	64.3%
Transport & cargo storage	55.6%	32.7%	54.8%
Activities of hotels & restaurants	84.5%	89.8%	86.9%
Information & communication	39.0%	24.4%	33.3%
Financial, intermediation & insurance	14.8%	26.7%	19.2%
Operations with real estate	0.0%	37.6%	37.6%
Professional, scientific & technical activities	39.4%	45.9%	42.1%
Administrative & support activities	70.2%	69.5%	70.0%
State administration & defence, mandatory social about	6.6%	6.4%	6.5%
Education	10.0%	9.8%	9.8%
Health & social services	23.5%	15.7%	17.4%
Arts, entertainment & recreation	48.3%	21.8%	35.5%
Other service activities	60.0%	82.3%	72.3%
Activities of private households with employees	93.7%	100.0%	96.8%
Activities of extraterritorial organizations	0.0%	0.0%	0.0%

Source: 2021 LFS.

► Figure 0-8: Persons with informal main job, by sector and gender



Source: 2021 LFS.

► Annex 3. Order on the creation of the Inter-Agency Working Group for developing the Programme on Transition from Informal to Formal Economy in the Kyrgyz Republic 2023–26

About establishment of the Inter-agency working group on drafting the Program on transition from informal to formal economy of the Kyrgyz Republic for 2023–2026

For creation of favourable conditions fostering sustainable development of the country's economy and reducing the share of the informal economy in the Kyrgyz Republic and pursuant with sub-paragraph 10 of paragraph 13 of the Regulation about operations of the Ministry of Economy and Commerce of the Kyrgyz Republic, approved by Decree of the Cabinet of Ministers of the Kyrgyz Republic dated 15 November 2021, No. 250,

IT IS ORDERED AS FOLLOWS:

1. To create inter-agency working group to be responsible for drafting the Program on transition from informal to formal economy of the Kyrgyz Republic for the period of 2023-2026 (referred as – the Program) in the membership attached to this Order (Attachment).
2. Inter-agency working group shall be obliged to:
 - by 30 November 2022 make an analysis of the status of the informal economy of the Kyrgyz Republic in their relevant sectors, as well as to prepare brief notes about those ongoing measures and activities which directly or indirectly affect the reduction of the share of informal economy and informal employment;
 - by 30 December 2022 draft proposals for relevant areas to be included into the draft Program;
 - by 28 February 2023 draft the Program and action plan supporting implementation of the Program in the mid-term period (referred to as – Action plan);
 - by 30 March 2023 ensure wide discussion of draft Program and Action plan (round tables, conferences);
 - by 30 April 2023 submit draft Program and action plan to the Ministry of Economy and Commerce of the Kyrgyz Republic for their further agreement with state authorities and further submission to the Office of the President of the Kyrgyz Republic..
3. Business policy department shall be responsible for providing organizational, methodological and other support to the Inter-agency working group.
4. Documents' circulation and control unit shall ensure submission of the issued Order to Deputy ministers and members of the inter-agency working group.
5. Control over execution of the Order shall be imposed over Deputy Minister of Economy and Commerce of the Kyrgyz Republic – A.D. Usenbekova.

Minister

D. D. Amangeldiev

Attachment 1 to
The Order of the Ministry of Economy
and Commerce of the Kyrgyz Republic

**Members of the Inter-agency working group on drafting the National Program
on transition from informal to formal economy of the Kyrgyz Republic
for the period of 2023-2026**

- ▶ Usenbekova A.D. Deputy Minister, Ministry of Economy and Commerce of the Kyrgyz Republic; Chair of the working group
- ▶ Kataganov M.K. Head of Business-Policy Department, Ministry of Economy and Commerce of the Kyrgyz Republic; Deputy Chair of the working group
- ▶ Imankulova T.D. Head of Anti-Terrorism Financing and Legalization of Criminal Income Unit, Department of Precious Metals, Ministry of Finance of the Kyrgyz Republic
- ▶ Akynbekov A.E. Deputy Head of the Department for Customs Charges, and Head of Tariff Regulation Unit, Ministry of Finance of the Kyrgyz Republic
- ▶ Moldokalieva D.T. Chief specialist of Economy, Accounting and Reporting Department, Ministry of Transport and Communication of the Kyrgyz Republic
- ▶ Ilyazova S.Sh. Chief specialist of Economy, Accounting and Reporting Department, Ministry of Transport and Communication of the Kyrgyz Republic
- ▶ Akunov K.K. Head of Organizational and Legal Support Unit, Department of Land and Water Transport, Ministry of Transport and Communication of the Kyrgyz Republic;
- ▶ Kalenova N.I. Head of Economy and Accounting Unit, Department of Land and Water Transport, Ministry of Transport and Communication of the Kyrgyz Republic
- ▶ Turdumamatova M.K. Head of Labour Unit, Ministry of Labor, Social Insurance and Migration of the Kyrgyz Republic
- ▶ Turkebekova N.A. Head of Employment Promotion Unit, Ministry of Labour, Social Insurance and Migration of the Kyrgyz Republic
- ▶ Kozhomkulova M.K. Chief specialist of Labour Unit, Ministry of Labor, Social Insurance and Migration of the Kyrgyz Republic
- ▶ Zakirov R.T. Chief specialist of Licencing Unit, Ministry of Education and Science of the Kyrgyz Republic
- ▶ Chargynbaev E.U. Head of Fiscal Policy Planning and Financing Unit, Ministry of Health of the Kyrgyz Republic;
- ▶ Usonova B.A. Chief specialist of Legal Unit, Ministry of Health of the Kyrgyz Republic
- ▶ Akmatova F. Specialist of Agrarian Cluster Policy and Value-Added Chains Development Department, Ministry of Agriculture of the Kyrgyz Republic
- ▶ Zhaparbekova G. Chief specialist of Analysis and Strategic Planning Unit, Ministry of Agriculture of the Kyrgyz Republic

- ▶ Astarkulova N.E. Deputy Head, Social Charges Planning and Recording Unit, Social Fund of the Kyrgyz Republic
- ▶ Samudinova A.R. Chief specialists of Pension and Tariff Policy Department, Social Fund of the Kyrgyz Republic
- ▶ Azhibayev M.R. Head of Methodological Operations Unit, Department for Work With Tax Payers, State Tax Service under the Ministry of Finance of the Kyrgyz Republic
- ▶ Shaiykov Z.M. Senior inspector, Analytical Work and Control Unit, State Tax Service under the Ministry of Finance of the Kyrgyz Republic
- ▶ Asanbekova A.I. Chief specialist, Economic Statistics and National Account Department, National Statistics Committee of the Kyrgyz Republic
- ▶ Shakenova A.M. Chief specialist, Labour and Employment Statistics Unit, National Statistics Committee of the Kyrgyz Republic
- ▶ Tagayev R.T. Head of Analysis and Strategic Development Department, Chamber of Commerce and Industry of the Kyrgyz Republic;
- ▶ Shermatov D.T. Specialist of Analysis and Strategic Development Department, Chamber of Commerce and Industry of the Kyrgyz Republic
- ▶ Babaeva R.B. Deputy Chair, Federation of Trade Unions of the Kyrgyz Republic;
- ▶ Zharkynbaeva A.A. Chair of the Republican Committee for Workers of Textile, Iight Paper and Combined Sectors, Industry and Services, Federation of Trade Unions of the Kyrgyz Republic
- ▶ Kasymaliev G.K. Head, Unit for Social and Economic Protection of Workers, Federation of Trade Unions of the Kyrgyz Republic
- ▶ Uskenbaeva G.T. President, Legal Entities Organization "Association of Suppliers (Producers and Ditrributors)"
- ▶ Ibragim Zade-Maryam Lawyer, Legal Entities Organization "Association of Suppliers (Producers and Distributors)"
- ▶ Karabaev B.R. Head of Legal Unit, Alfa Telecom JSC, member of International Business Council
- ▶ Mamatkarimov M.K. Head of Legal Service, Nur Telecom Ltd., member of International Business Council
- ▶ Omoshov Zh.B. Board Chair, JIA Business Association
- ▶ Zheenbay uulu Azzambek Executive Director, JIA Business Association

► Annex 4. Tax financed unemployment benefits around the world

Country	Qualifying conditions	Description of benefits
<p>New Zealand (one general tax financed unemployment benefit, no prior work requirement)</p>	<p>Unemployment benefit (Job Seeker Support, income tested): Must be aged 18 or older (aged 20 or older with a dependent child); have at least two years of continuous residence; be available for and actively seeking full-time work and must comply with the work test, which includes acceptance of any offer of suitable employment. The unemployed person is ineligible for benefits for the first 13 weeks in cases of voluntary unemployment or dismissal for serious misconduct (during which time a provisional benefit may be paid if specified tasks are performed for six weeks).</p> <p>For citizens or permanent residents with less than two years of residency in New Zealand, a benefit may be paid in cases of hardship. For non-permanent residents, an income- and asset-tested emergency benefit may be paid in cases of hardship.</p>	<p>Unemployment benefit (Job Seeker Support, income tested): Up to NZ\$215.34 (net) a week is paid if aged 25 or older, single, and with no children; NZ\$179.44 (net) a week if aged 20 to 24 or if aged 18 or 19 and living away from home; NZ\$143.55 (net) a week if aged 18 or 19 and living with a parent.</p> <p>Up to NZ\$334.05 (net) a week is paid if single with children; up to NZ\$192.25 (net) a week for each member of a married, civil-union or de-facto couple with children or NZ\$179.44 (net) a week without children.</p> <p>The benefit is paid after a waiting period of up to two weeks, depending on the beneficiary's previous income and family circumstances.</p> <p>Income test: The benefit is reduced by NZ\$0.70 for every NZ\$1 of gross weekly earnings above NZ\$80 for beneficiaries who are not single parents. For single parents, the benefit is reduced by NZ\$0.70 for every NZ\$1 of gross weekly earnings above NZ\$100; by NZ\$0.30 for every NZ\$1 of weekly income from NZ\$100 to NZ\$200; and by NZ\$0.70 for every NZ\$1 of weekly income above NZ\$200.</p> <p>There is no limit on the period of eligibility for the unemployment benefit but the beneficiary must reapply every 52 weeks.</p> <p>Benefit adjustment: Benefits are adjusted annually on April 1 based on changes in the consumer price index for the previous calendar year.</p>

Country	Qualifying conditions	Description of benefits
<p>Australia (separate general unemployment benefits for adults and youth, no prior work requirement)</p>	<p>Adult unemployment benefit (Newstart Allowance, means tested): Must be aged 22 to the normal retirement age, actively seeking paid work, and participating in government-approved activities designed to facilitate entry into employment (unless temporarily exempted from such activities).</p> <p>In limited circumstances, the adult unemployment benefit is payable abroad for up to six weeks.</p> <p>Additional assistance: Persons receiving the adult unemployment benefit automatically receive the energy supplement and health care card, and may be eligible for other supplementary benefits. See Family Allowances.</p> <p>Youth unemployment benefit (Youth Allowance, means tested): Must be aged 16 to 21 (24 if a full-time student), and either actively seeking employment or participating full-time in an approved education or training program. If the person is a dependent, parental and personal income and assets are considered in the means test.</p> <p>In limited circumstances, the youth unemployment benefit is payable abroad for up to six weeks.</p> <p>Youth disability supplement: Must be younger than age 22 and be assessed with a partial capacity to work.</p> <p>Additional assistance: Persons receiving the youth unemployment benefit automatically receive the energy supplement and health care card, and may be eligible for other supplementary benefits. See Family Allowances.</p>	<p>Adult unemployment benefit (Newstart Allowance, means tested): With no dependent children, up to A\$550.20 (if single) or A\$496.70 (if partnered) is paid every two weeks. If single with dependent children or if aged 60 or older and has received the benefit for at least nine consecutive months, up to A\$595.10 is paid every two weeks (September 2018). The benefit is paid after a seven-day waiting period (the waiting period may be extended depending on the claimant's personal circumstances and liquid assets).</p> <p>The benefit may be reduced, postponed, suspended, or terminated if the beneficiary does not participate in training programs, job interviews, and certain other activities, or if the beneficiary refuses a suitable job offer.</p> <p>Additional assistance: The amount of additional assistance depends on family situation and income. See Family Allowances.</p> <p>Youth unemployment benefit (Youth Allowance, means tested): A\$244.10 to A\$762.40 (March 2018) is paid every two weeks, depending on age, living arrangements, marital status, and whether the recipient has dependent children.</p> <p>Youth disability supplement: Up to A\$129.80 (January 2019) is paid every two weeks to recipients younger than age 22 with an assessed partial capacity to work.</p> <p>Additional assistance: The amount of additional assistance depends on family situation and income. See Family Allowances.</p>
<p>United Kingdom (standard contributory – not shown – plus means-tested jobseeker benefit with no prior work requirement)</p>	<p>Job seeker's allowance (means tested): Paid to those who do not qualify for the contributory job seeker's allowance and have savings of less than £16,000. Must work less than 16 hours a week on average and have a partner who works up to 24 hours a week.</p> <p>Must be registered as unemployed; be capable of, available for, and actively seeking employment; and have a current Jobseeker's Agreement. The Jobseeker's Agreement is drafted and signed by the job seeker and the job seeker's advisor. It obliges the job seeker to actively seek training and work. Failure to sign a Jobseeker's Agreement results in the suspension of benefits.</p>	<p>Job seeker's allowance (means tested): The amount of the allowance depends on the claimant's age and on household income and composition. £57.90 a week is paid to an unmarried person younger than age 25; £73.10 if aged 25 or older (£114.85 for a couple if both are aged 18 or older) (April 2017). The allowance is paid after a seven-day waiting period.</p>

Country	Qualifying conditions	Description of benefits
<p>Mauritius (standard contributory – not shown – and means-tested allowance with no prior work requirement)</p>	<p>Unemployment benefit (Unemployment Hardship Relief, social assistance, income tested): Must be registered as unemployed at the employment exchange for at least 30 days, be capable of and available for work, and actively seeking employment.</p> <p>Income test: Family income must not exceed a certain limit.</p> <p>Spouse's allowance: Paid to the spouse of a beneficiary of unemployment benefits.</p> <p>Child allowance: Paid for unmarried children younger than age 20.</p> <p>Rent allowance: Paid to help with the cost of rental payments.</p>	<p>Unemployment benefit (Unemployment Hardship Relief, social assistance, income tested): Up to 468 rupees a month is paid.</p> <p>Spouse's allowance: 468 rupees a month is paid.</p> <p>Child allowance: 192 rupees a month is paid for each eligible child younger than age 3; 181 rupees for each child aged 3 to 9; 220 rupees for each child aged 10 to 14; 305 rupees for each child aged 15 to 19 if a full-time student; or 322 rupees for a disabled child up to age 19.</p> <p>Rent allowance: 50% of the claimant's rent is paid, up to 363 rupees a month.</p> <p>The minimum monthly unemployment benefit is 270 rupees.</p> <p>Benefit adjustment: Benefits are adjusted annually in January based on changes in the cost of living.</p>
<p>France (standard contributory – not shown – and less stringent means-tested allowance for those who have exhausted UI)</p>	<p>Specific solidarity allowance (Allocation de solidarité spécifique, social assistance, income tested): Must have at least five years of employment in the last 10 years before unemployment, no longer be entitled to unemployment benefits, and be registered at an employment office. An insured person aged 50 or older can choose between the specific solidarity allowance and the unemployment benefit.</p> <p>Income test: Average monthly household income (excluding social benefits, savings, and alimony) before entitlement to unemployment benefits ceased must not exceed €1,153.60 for a single person; €1,812.80 for a couple.</p> <p>Temporary waiting period allowance (Allocation temporaire d'attente, social assistance, income tested): Paid to certain unemployed persons (persons awaiting reintegration, asylum seekers, certain foreigners) who are not entitled to unemployment benefits. The insured must be actively seeking employment.</p> <p>Income test: Monthly income must be less than the active solidarity income.</p>	<p>Specific solidarity allowance (Allocation de solidarité spécifique, social assistance, income tested): If household income is from €659.20 to €1,153.60 for a single person or from €1,318.40 to €1,812.80 for a couple, the monthly benefit is the difference between the household income and €1,153.60 or €1,812.80, respectively. The benefit is awarded for a six-month period and is renewable if qualifying conditions are still satisfied. The benefit ceases when the insured reaches the legal minimum retirement age (or the automatic age of entitlement for a full pension).</p> <p>The beneficiary may work and receive the solidarity allowance (up to a maximum) for up to 12 months.</p> <p>Temporary waiting period allowance (Allocation temporaire d'attente, social assistance, income tested): €311.49 a day is paid for up to 12 months.</p> <p>The insured may work and receive the temporary waiting period allowance (up to a maximum) for up to 12 months.</p>

Country	Qualifying conditions	Description of benefits
<p>Portugal (standard contributory – not shown – and less stringent means-tested allowance for those who have exhausted UI)</p>	<p>Unemployment social benefit (Subsídio Social de Desemprego, social assistance, means tested): Must have at least 180 days of contributions in the 12 months before unemployment and be ineligible for or have exhausted unemployment benefits. The insured must register at an employment office and be capable of and available for work. Unemployment must be involuntary.</p> <p>Means test: Total household assets (bank accounts, stocks, investment funds, etc.) must not exceed 240 times the value of the monthly social benefit rate and monthly household per capita income must not exceed 80% of the monthly social benefit rate.</p> <p>The monthly social benefit rate is € 428.90.</p>	<p>Unemployment social benefit (Subsídio Social de Desemprego, social assistance, means tested): 80% of the monthly social benefit rate is paid to a single person; 100% with dependents.</p> <p>The monthly social benefit rate is €428.90.</p> <p>The duration of benefits depends on the beneficiary's age when contributory unemployment benefits cease. If aged 40 or older, the duration is the same as the social insurance unemployment benefit; if under age 40, the duration is half of the social insurance unemployment benefit.</p> <p>The social assistance unemployment benefit may be renewed until early retirement age provided the insured became unemployed at age 52 or later.</p>
<p>Spain (standard contributory – not shown – and less stringent means-tested allowance for those who have exhausted UI)</p>	<p>Unemployment assistance (Subsidio por desempleo, income tested): Must have at least six months of contributions (at least three months if the insured has dependents) and have exhausted entitlement to (or does not qualify for) the contributory unemployment benefit.</p> <p>Income test: Monthly income must not exceed 75% of the legal monthly minimum wage.</p> <p>The legal monthly minimum wage is €735.90.</p>	<p>Unemployment assistance (Subsidio por desempleo, income tested): €430.27 is paid for up to six months. The benefit may be extended for two additional six-month periods; for up to a maximum of 30 months under special circumstances. If the beneficiary is older than age 55, the benefit may be paid until retirement age under certain conditions.</p>
<p>Germany (standard contributory – not shown – means-tested allowance with no prior work requirement)</p>	<p>Unemployment benefit (Arbeitslosengeld II, social assistance, means tested): Paid to jobseekers aged 15 to the normal retirement age who are capable of, available for, and actively seeking work, including employed persons seeking more suitable work and social insurance unemployment beneficiaries.</p> <p>The basic subsistence needs of the beneficiary must not be met by any other benefit.</p> <p>Housing allowance (Bedarfe für Unterkunft und Heizung): Paid to tenants or homeowners who incur housing costs.</p> <p>Dependent's supplement: Paid for dependent children younger than age 18. Children younger than age 15 must not work.</p> <p>Pregnancy supplement: Paid to pregnant women.</p> <p>Single parent supplement: Paid to single parents.</p>	<p>Unemployment benefit (Arbeitslosengeld II, social assistance, means tested): A basic monthly benefit of €332, €374, or €416 is paid, according to the family composition.</p> <p>Housing allowance (Bedarfe für Unterkunft und Heizung): The total monthly rent, utilities, maintenance costs, or other housing costs are paid, up to an amount that is assessed as reasonable.</p> <p>Dependent's supplement: €240 a month is paid for each child younger than age 6; €296 for each child aged 6 to 13; €316 for each child aged 14 to 17.</p> <p>Pregnancy supplement: 17% of the unemployment benefit is paid from the 13th week of pregnancy to the time of childbirth.</p> <p>Single parent supplement: 12% to 60% of the unemployment benefit is paid, according to the number and ages of the children living in the same household.</p> <p>Additional supplements may be paid according to the assessed need.</p> <p>Means test: The total benefit (basic benefit and supplemental benefits) is reduced by 20% of income from €100.01 to €1,000 a month; 10% of income from €1,000.01 to €1,200 (from €1,000.01 to €1,500 if the beneficiary has any children). Certain types of income (including certain level of savings) are excluded.</p> <p>There is no limit to duration.</p>

▶ Annex 5. Overview of maternity, paternity and parental leave protections around the world

Based on a systematic review of **maternity legislation** in 170 countries conducted in 2013, the ILO (2016) found that:

- ▶ 98 countries provide at least 14 weeks of leave;
- ▶ 74 countries pay at least two thirds of earnings;
- ▶ More than 100 countries financed benefits through social security (contributory or non-contributory);
- ▶ 47 countries require employers to cover the costs directly.

Many countries also offer **paternity leave**. According to the review:

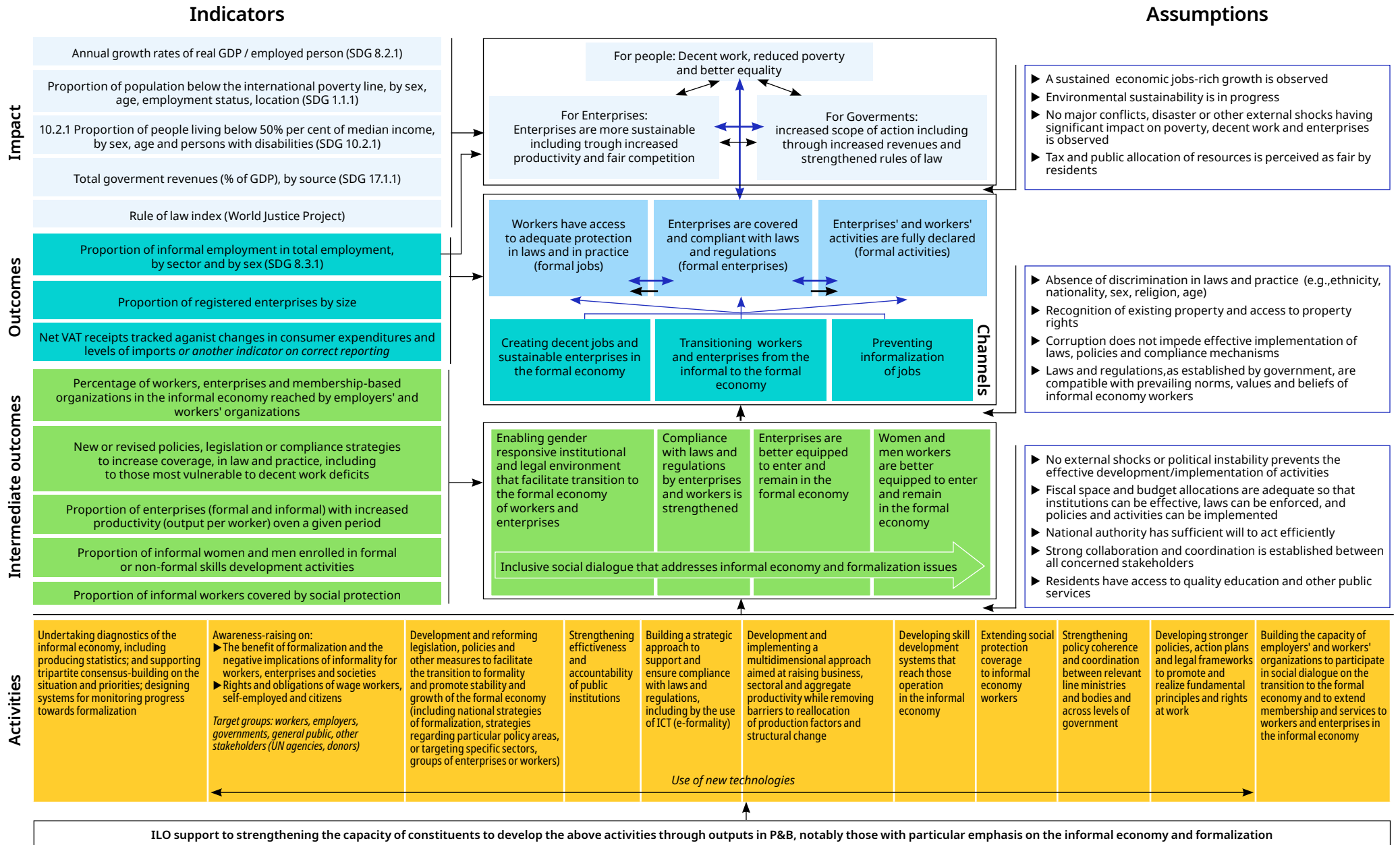
- ▶ 79 countries provide paternity leave, in 71 of which it is paid leave;
- ▶ Generally, paternity leave is paid at 100 per cent of the worker's previous earnings, with some exceptions;
- ▶ In 46 countries, the employer pays the benefit;
- ▶ In 28 countries, the benefit is paid through social security.

The review of **parental leave** policies found that:

- ▶ 66 countries provide some form of parental leave, of which 36 provide cash benefits;
- ▶ Benefits range from 20 per cent of the minimum wage (Uzbekistan) to two thirds of earnings (18 countries);
- ▶ Benefits are typically financed through the social security system, primarily social insurance;
- ▶ Take-up rates are low among men unless the period of leave is non-transferable (i.e. must be used by the man).

Source: As summarised in ILO (2021a), based on ILO (2016).

► Annex 6. ILO Theory of Change: Transition for informal to formal employment





ILO Decent Work Technical Support Team and
Country Office for Eastern Europe and Central Asia

Petrovka st. 15, office 23
107031 Moscow,
Russia

T: +7 495 933 08 10
F: +7 495 933 08 20
E: moscow@ilo.org