



# **Country Experiences Kyrgyzstan**

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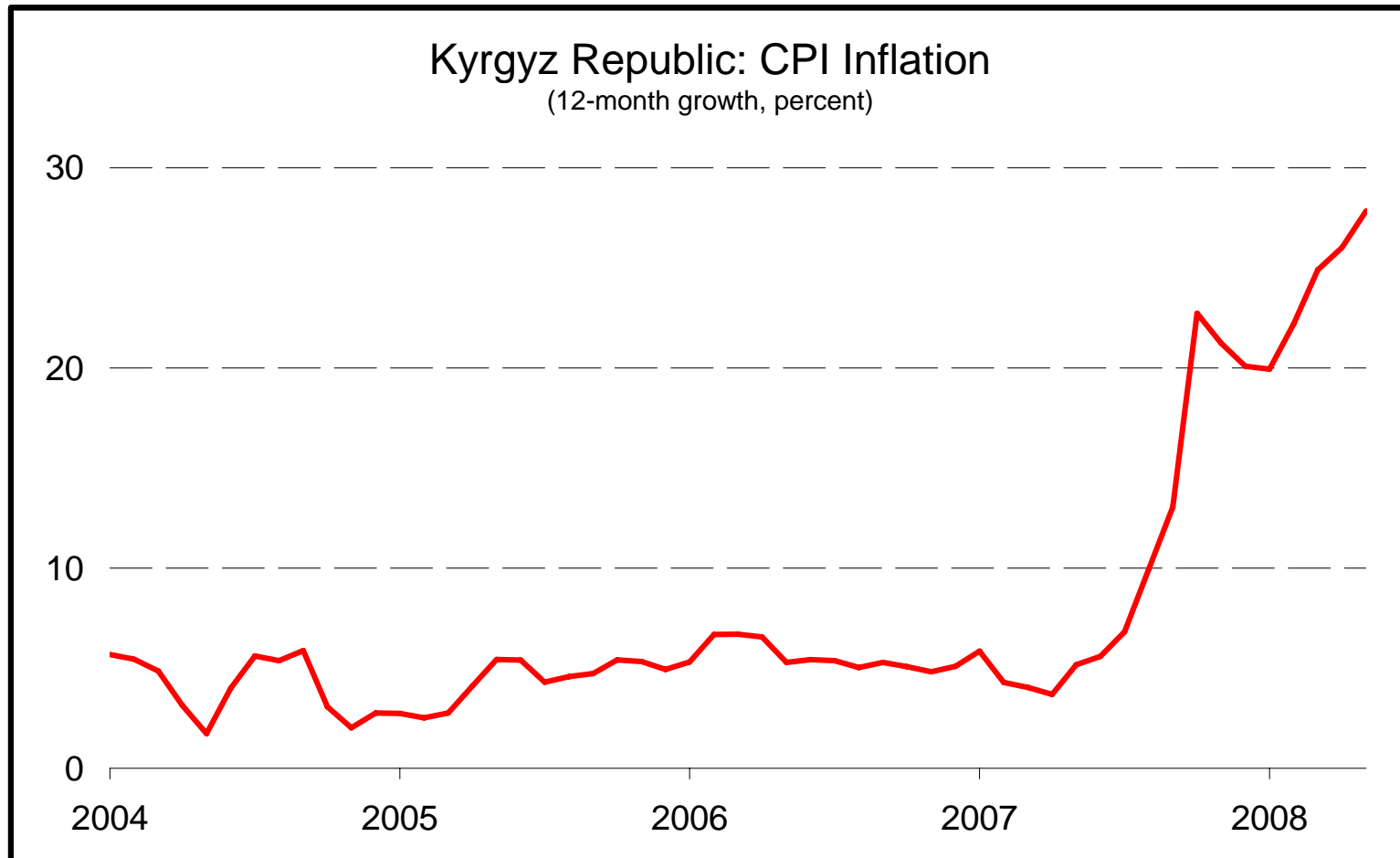
**Food and Energy Price Increases and Policy Options  
July 9 – 10, 2008**

# Outline

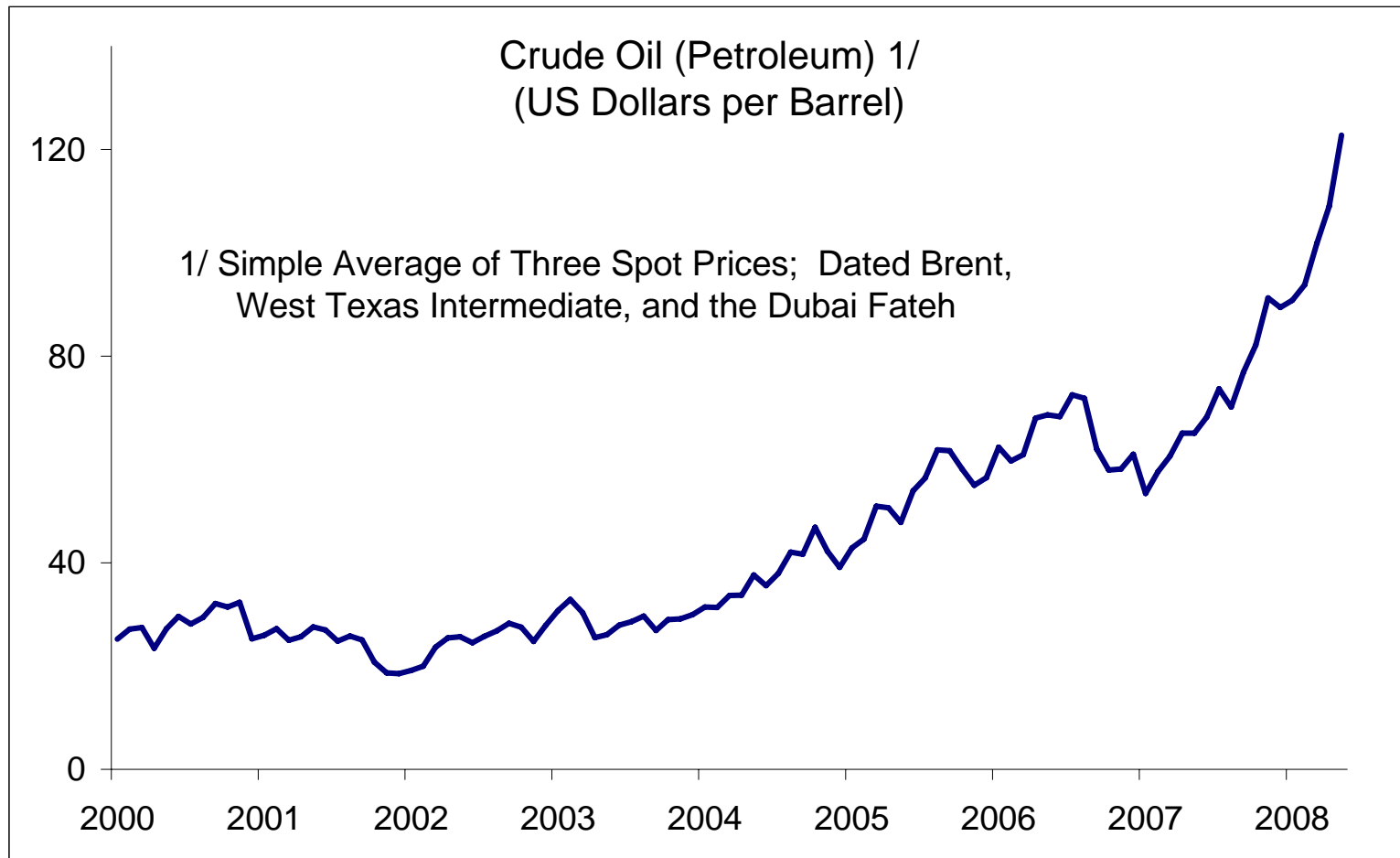


- **The issue: rising inflation, food imports and extreme poverty**
- Food prices are increasing the most, especially prices of staple cereals
- The country is not food self-sufficient
- The poorest are affected most notably
- **The response**
- Government short-term and long-term response: macroeconomic trade, agriculture and social protection measures
- World Bank's response, including comparison with Tajikistan
- **Outlook**

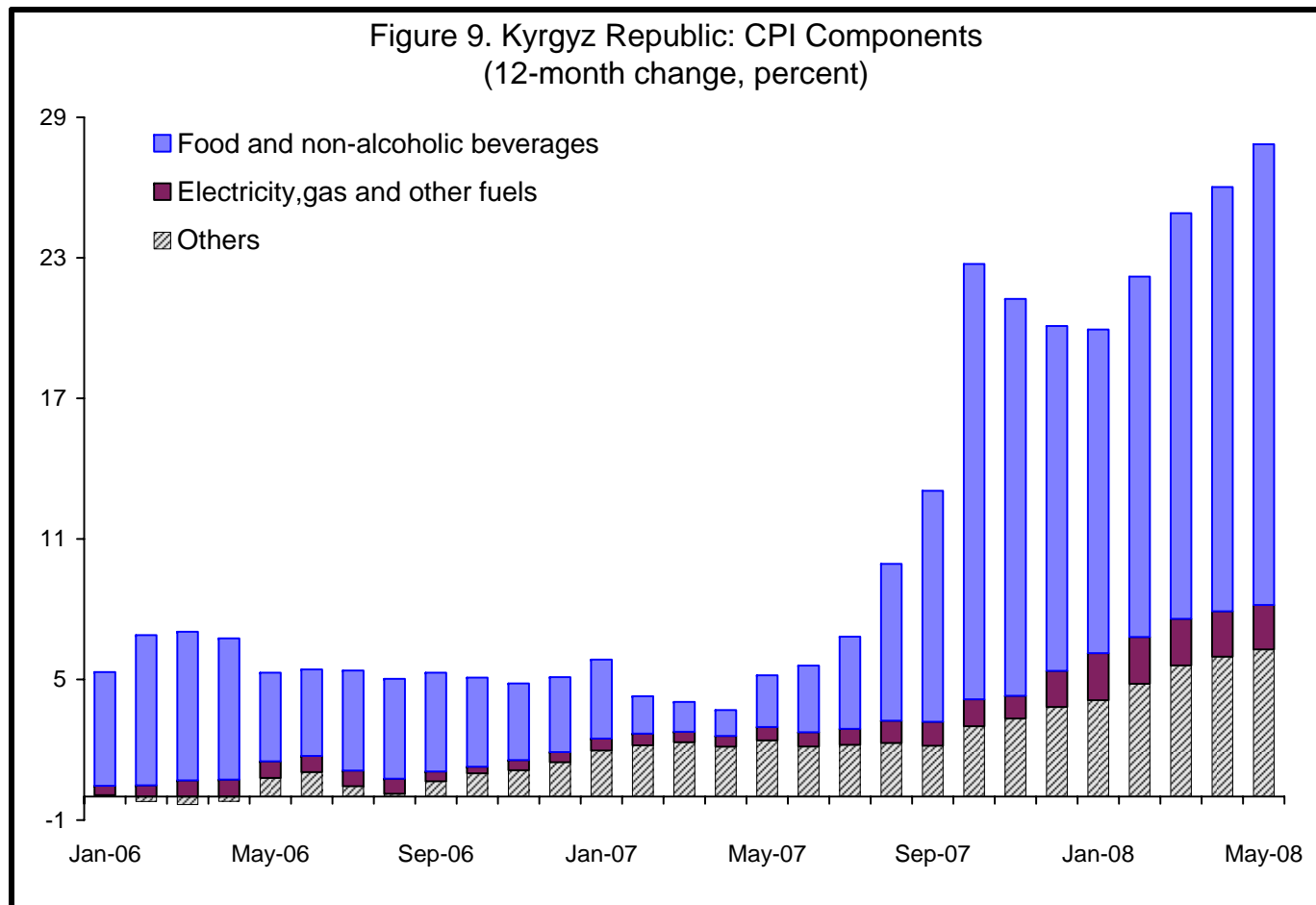
# The issue: Inflation in Kyrgyzstan rose sharply since the summer of 2007



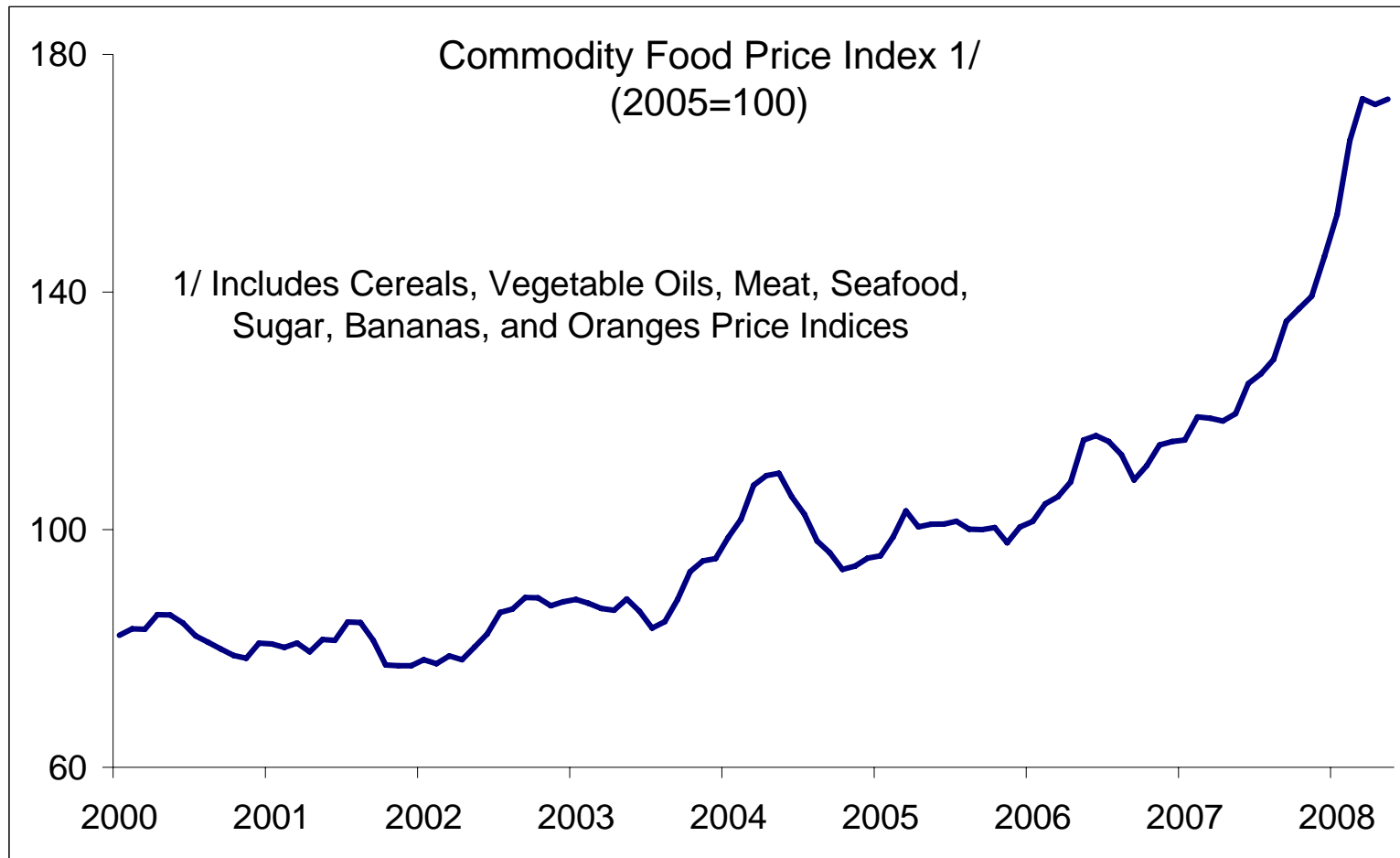
Energy prices are a contributing factor.  
They are rising since 2000, more notably  
since the beginning of 2007



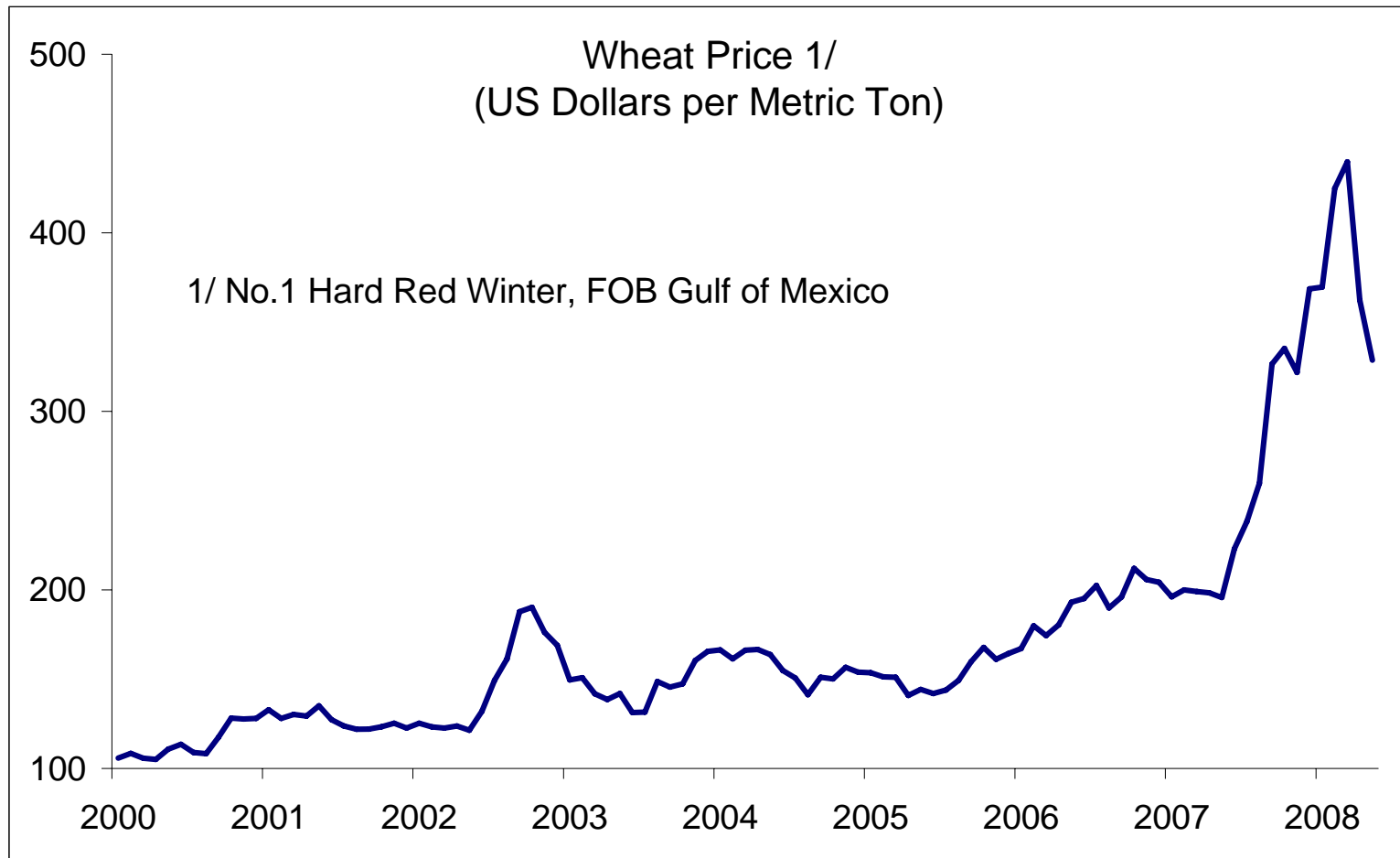
# But food inflation is the principal driver of overall inflation



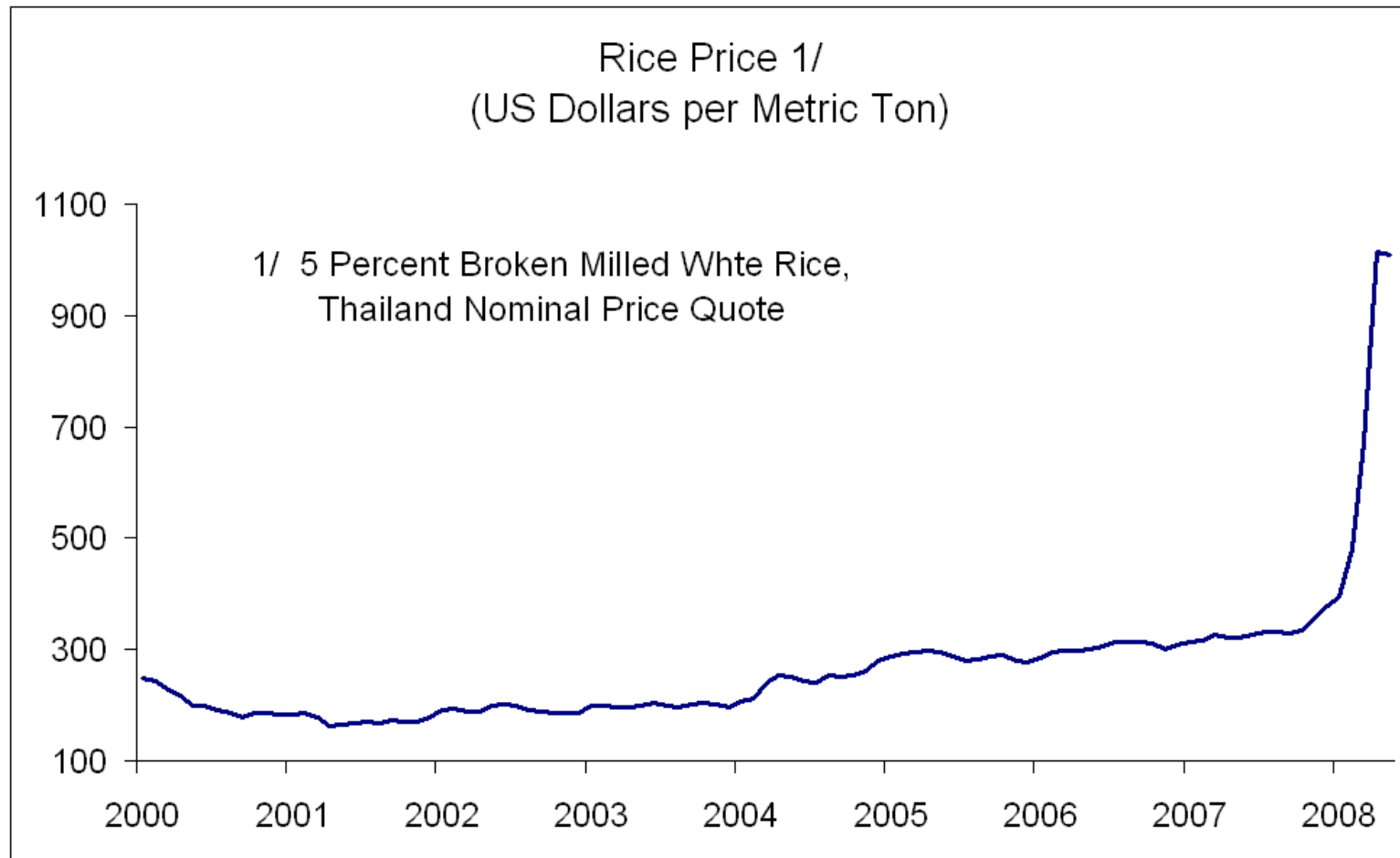
# Food prices increase more rapidly than other prices in 2000-07



# Especially the price of wheat



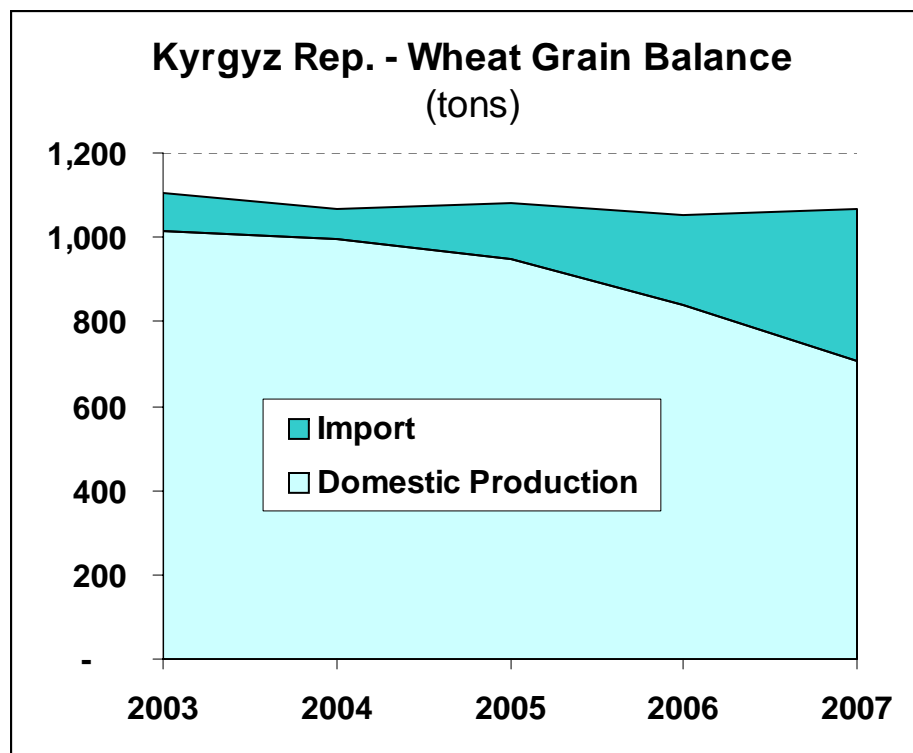
# .....and the price of rice



## Kyrgyzstan is not self-sufficient, but a net food importer



- ❑ Food imports increased in 2008 – current account deficit increased accordingly, fiscal vulnerabilities as well
- ❑ The wheat grain balance is increasingly achieved through imports from Kazakhstan



# Availability and affordability of food products are at risk

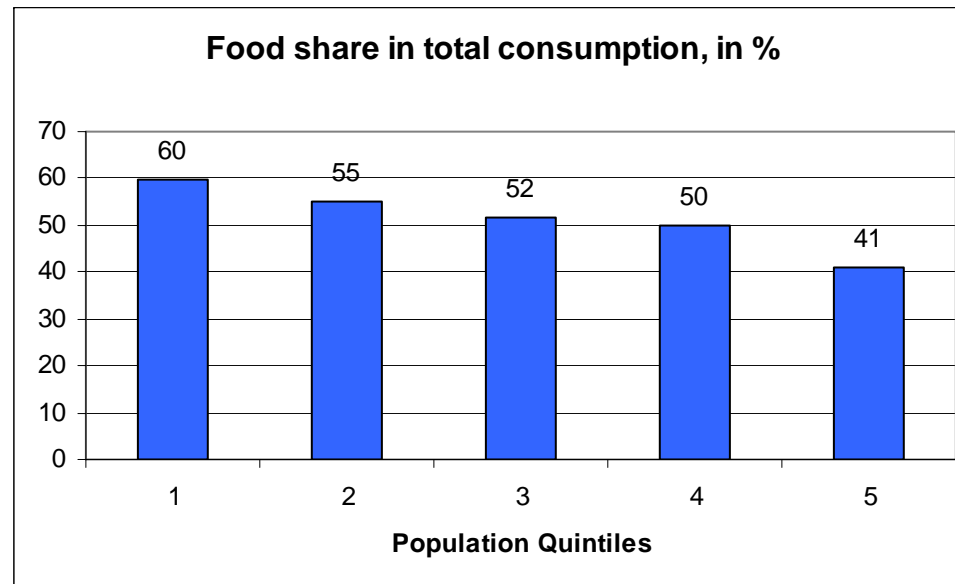


- ❑ **Availability and security of supply** of food products are at risk because Kazakhstan banned the export of wheat
- ❑ Reduced availability requires - where possible - to consider alternative sources of import (challenging for wheat) and to increase domestic production
- ❑ **Affordability** was significantly reduced by recent food price increases. This implies to:
  - Continue to foster growth to increase income and salaries
  - Manage inflation and the exchange rate
  - Support vulnerable groups
  - Reduce drastic price fluctuations

# The higher imports and the food price hike erode consumption



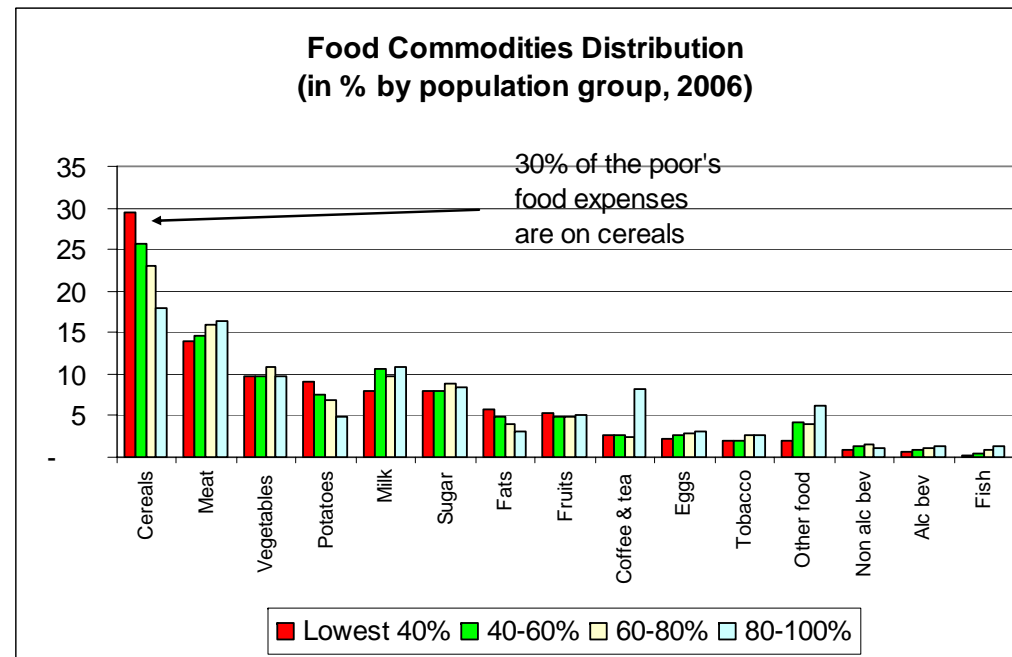
- ❑ The food share in total consumption is 50% and above for 80% of the population



# ... and especially the consumption of the poor



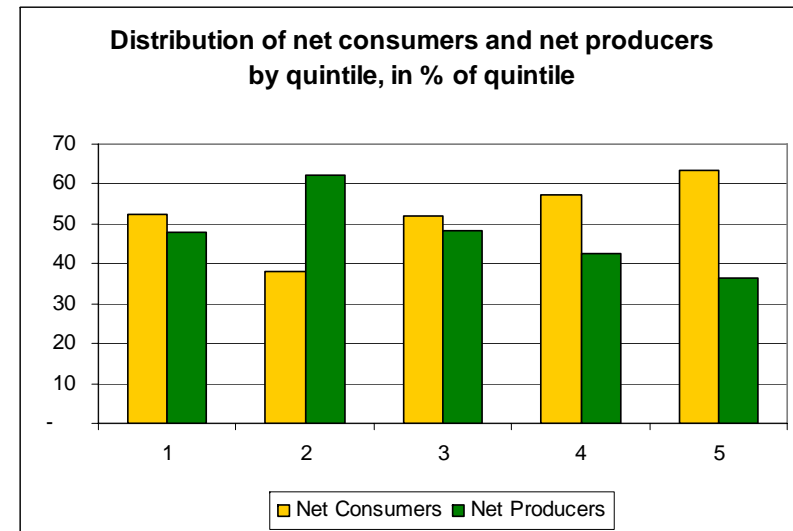
- ... because almost 30% of the food expenses of the poor (two bottom quintiles) are on cereals



There are many net agricultural producers, but many of them are poor and unable to take advantage of the high food prices



- 47% of the population live in households that are net food producers
- 44% of net producers are poor vs. 35% of net consumers
- The net producers have not yet harvested and sold their crops, at this point they have to cope with the higher prices of inputs
- 19% of the population are both poor and net consumers and will be especially hard hit by food price increases



## Simulations (KIHS 2006) indicate that



- Food price increases will hurt net consumers significantly
- Extreme poverty will increase sharply between 56% to 84% (or 264,000 – 398,000 persons). The current level of 11% extreme poverty will go up to 17-20%
- While total poverty could either increase or decrease by 2-3 percentage points
- Urban poverty will increase sharply
- As real incomes decline, vulnerability to poverty will increase

# Policy responses

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- Macro
- Trade
- Agriculture
- Social protection

## Macroeconomic and trade policy

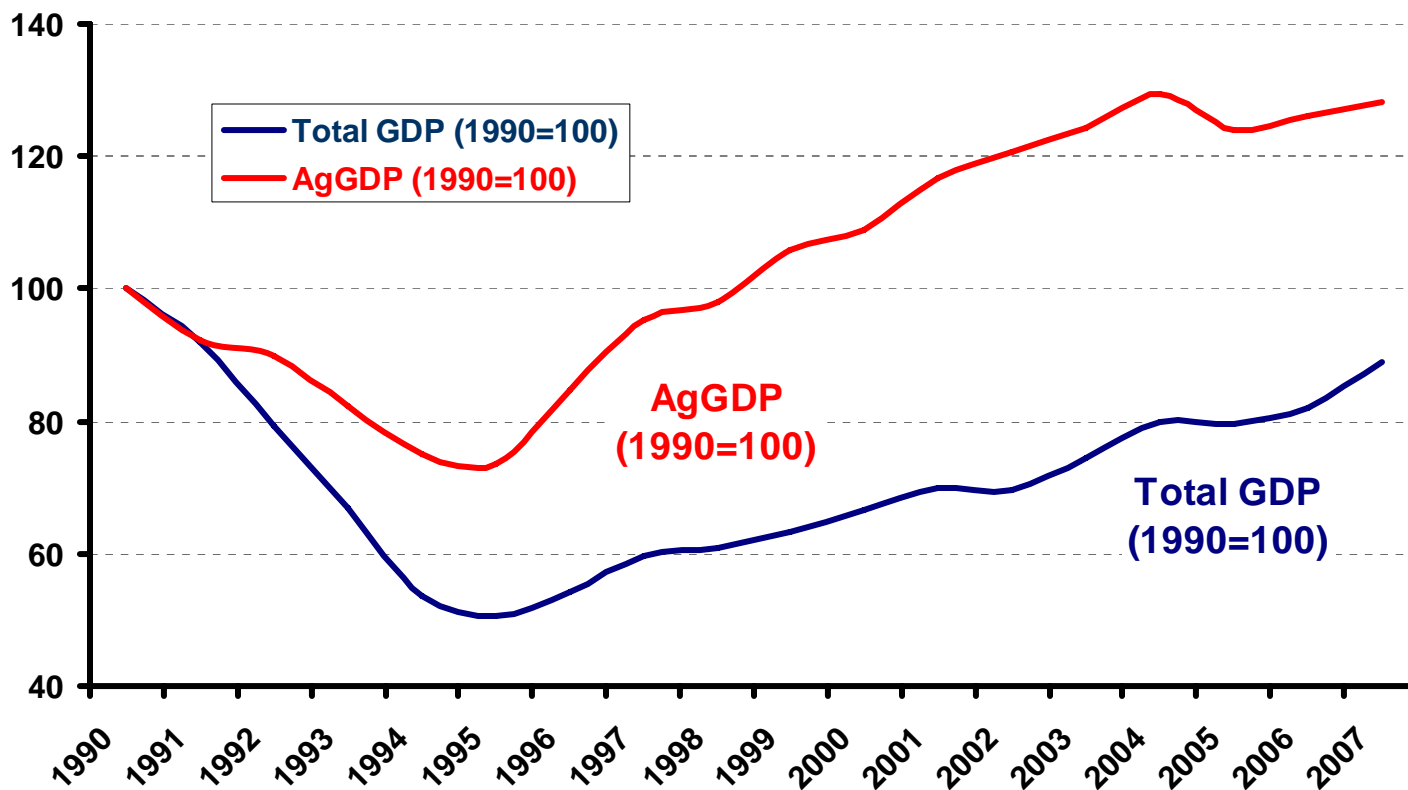


- Action Plan of the GOKG and the National Bank to curtail Inflation (adopted May 2008)
- Measures to improve the investment climate and develop the private sector – to offset the loss of national income (people will on average be worse off in the short term)
- Law on food security
- Trade – restrictions on agricultural exports

# Agriculture was the engine of growth till 2005



## Kyrgyz Republic - Ag. Growth Vs. Overall Growth



## The current government programs aim at sustaining high growth



- The short-term instrument - farmers' subsidies
  - Through Aiyl Bank - has a lending portfolio of \$14 million approved but without available funds
  - Subsidies may be useful when demand is lagging, which is not anymore an issue in the Kyrgyz Republic
  - State subsidies' programs could provide benefits to a small share of farmers, not necessarily selected on efficiency basis

## Agriculture long-term vision - to encourage investments and domestic production



- ❑ Increase in fertilizers consumption and number of tractors per 100 sq. meters
- ❑ Replace the obsolete with new agricultural equipment
- ❑ However, domestic production will not be able to entirely isolate the country from international price fluctuations. Even Kazakhstan, which is a large wheat exporter and has a well-funded wheat price regulation mechanism suffered food price hikes similar to Kyrgyzstan
- ❑ Domestic food production could have many benefits:
  - ❑ reduce availability risks/increase security of supply
  - ❑ help domestic farmers capitalize on the opportunity
  - ❑ Increase rural incomes and salaries
- ❑ ... but this should not induce producing domestically when there is no competitive nor comparative advantage

# Social protection responses



- ❑ Update of the Social Development Strategy to reflect the new challenges
- ❑ Short term policy response of the government – to increase social spending
- ❑ Not necessarily targeted on the bottom 10-15% (the beneficiaries of the targeted social support program – Unified Monthly Benefit)
  - Proposal to MOF for increase in Monthly Social Support Program (for people with disabilities, orphans, mothers of many children and elderly without work-related pension)
  - Proposal to increase the monetary value of privileges (38 categories) and basic pension
  - Ideas to introduce price subsidies, discounted food stores, direct food purchases from the state reserve (ill-targeted, governance challenges, high costs of administration)

Bank response: Additional financing at the amount of US\$4 million for the Agricultural Investments and Services Project



- ❑ **Objective:** to contribute to reducing food price volatility, and to support broad-based growth in productivity and market participation in agriculture to ensure an adequate supply response as part of a sustained improvement in food supply
  
- ❑ **Activities:** Facilitation of farmers' access to:
  - quality seeds (support for state grain storage management, community-based grain storage)
  - Fertilizers (fertilizers and seeds program)
  - Extension services and agricultural information dissemination
  
- ❑ All activities aimed to increase crop yields and quality

Bank response: Additional financing at the amount of US\$6 million for the Health and Social Protection SWAp



- ❑ **Objective:** To protect and improve the health and nutritional status of particularly vulnerable populations in the face of food price shocks and help poor families manage and mitigate the impact of food price shocks and protect consumption by scaling up and strengthening targeted cash transfers
- ❑ **Activities:**
  - Protecting health and nutritional status (US\$1 million for 2 years) – delivery of nutritional supplements to pregnant and breast-feeding women and children under 5, and nutritional education
  - Mitigating poverty impacts of shocks through expanded targeted social assistance (total estimated costs US\$5 million) – topping up of the existing Unified Monthly Benefit Program with US\$1 per beneficiary per month (around 30% increase) for 10 months starting October 2008

## Bank response: Additional financing at the amount of US\$6 million for the Health and Social Protection SWAp



- Information / awareness raising on the intake of nutritional supplements
- Provision of technical assistance for:
  - development of rapid assessment tools to diagnose and identify poor families and vulnerable groups most hardly affected by the crisis in order to facilitate program coverage strengthening and expansion
  - enhancing the capacity of MLSD and local SP Departments to promote active outreach to register potentially poor families affected by the food crisis
  - enhancing MLSD capacities to oversee the UMB program, monitor performance and implementation specifically related to the food crisis
  - strengthening MLSD M&E systems to monitor and verify impacts
  - TA for government agencies for internal and external monitoring, including external certification, for salt iodization and flour fortification

## Similar Bank approach in Tajikistan



- ❑ AF at US\$4 million to the Community and Basic Health Project and a grant of US\$5 million to offset short-term productivity losses in agriculture
- ❑ **Objective of the AF to CBHP:** To improve the nutritional status of women and children focusing on (i) under-nutrition caused by inadequate intake of quantity of calories and protein; and (ii) by vitamin A and iron deficiency
- ❑ **Activities:** provision of nutritional supplements and nutrition education to pregnant and lactating women, infants and small children using the existing Primary Health Care system, and performance contracts with NGOs with experience with Mother and Child Health to deliver nutritional supplements and nutrition education
- ❑ **But no scaling up existing safety net programs**

# The response is different though the poverty and child health indicators imply similar types of interventions



	<b>TJ</b>	KZ	<b>KG</b>	TK	UZ
Under 5 Mortality per 1,000 live births	<b>68</b>	29	<b>41</b>	51	43
Infant Morality Rate per 1,000 live births	<b>56</b>	26	<b>36</b>	45	38
Diarrheal disease, % children <5	<b>22</b>	48	<b>22</b>	25	28
Low birth weight % live births	<b>10</b>	6	<b>5</b>	4	5
Iodine deficiency % households	<b>46</b>	92	<b>76</b>	87	53
Underweight prevalence	<b>17</b>	4	<b>3</b>	11	5
- % moderate and severe	<b>4</b>	1	<b>0</b>	2	1
Stunting prevalence	<b>26.9</b>	12.8	<b>13.7</b>	14.5	14.6
- % moderate and severe	<b>9.1</b>	4	<b>3.7</b>	4.4	4.3
Wasting prevalence	<b>7.2</b>	3.8	<b>3.5</b>	6.2	3.3
- % moderate and severe	<b>7.2</b>	3.8	<b>3.5</b>	6.2	3.3

# The difference in response was determined by the existing knowledge about the safety net performance: the role of ESW

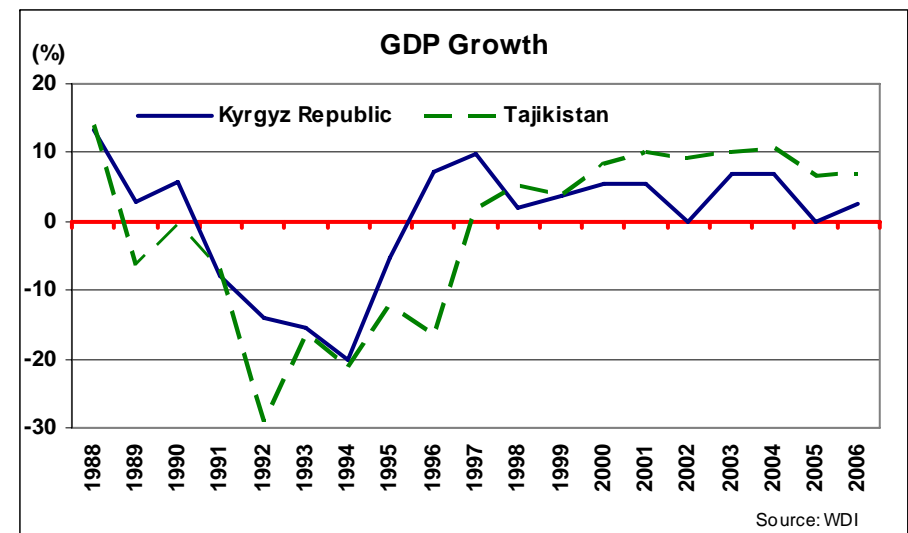
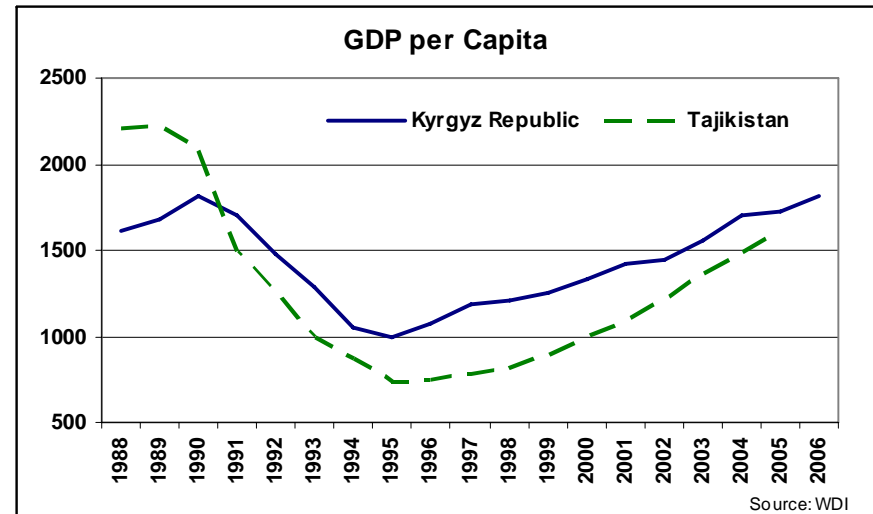


## Kyrgyzstan

- UMB – well targeted via means-testing; instrumental basis for food crisis response
- Assessment – study/ESW of the effectiveness of targeting of the UMB program
- **Allowed scaling up the UMB**

## Tajikistan

- Similar targeted social assistance program but with low coverage, poor targeting, and inadequate benefits
- Lack of recent program assessment
- **Not feasible to scale up SSN**



# Outlook/risks



- ❑ Tracking of the use of the funds (TA, more intensive supervision of the SWAp with closer attention to UMB program delivery mechanisms)
- ❑ Sustaining the purchasing power of the targeted social benefit and the nutritional interventions
  - The Bank's top up and nutritional interventions have a limited timeframe
  - There is a will on the side of MOF to continue financing
  - Donors' financing might be available to continue the interventions initiated by the Bank
- ❑ Harmonization of the responses of different development partners (sharing of ESW findings, modeling of reform scenarios with budget implications)