

Identifying Vulnerable Groups in the Kyrgyz Labour Market: Some Implications for the National Poverty Reduction Strategy

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Abstract

This paper investigates the overlap between work and labour market status and identifies those groups at risks of poverty and social exclusion in the labour market. A particular attention is devoted to the working poor and precarious workers. This analysis is undertaken using the Kyrgyz Poverty Monitoring Survey, which is the only survey to date that allows a comprehensive analysis of poverty and labour market outcomes. The period under investigation covers the years 1997-1998, for which data are available.

The Kyrgyz Republic is the second poorest country in the former Soviet Union (FSU) after Tajikistan. Despite obvious signs of economic recovery and overall poverty reduction in the past 5 years, the situation in the labour market has remained rather bleak. Formal job creation has remained very low, and this has been associated with widespread joblessness and a large incidence of precarious employment.

The first sets of results concern the sensitivity of unemployment rates to the definitions used and the heterogeneous nature of employment. The paper shows that including the discouraged unemployed, who are not actively seeking work because they have lost of hope finding a job, is essential to understanding the true nature of unemployment in the Kyrgyz Republic. Indeed, taking account of the discouraged unemployed, the unemployment rate quadruples. Moreover it shows that for a complete picture of the labour resources left unused in the economy, both the hidden unemployed and the underemployed should be considered. It also reveals the large scale of informal employment in the Kyrgyz Republic, which accounts for almost half of total employment. Informal employment was particularly prevalent in trade but also in agriculture and, to some extent, in the services sector.

The second sets of results concern the overlap between poverty and various labour market status. The data show that the traditional dichotomy between the non-employed and the employed has limitations. Accounting for the heterogeneous nature of jobs and characteristics of unemployment and

inactivity, one could see that income poverty varied greatly within groups of unemployed, inactive and employed. In the late 1990s, the highest poverty rates were observed among the registered and discouraged unemployed and among inactive women taking care of children. However, the incidence of poverty was also disproportionately high among informal jobholders and the self-employed.

Third, the incidence of poverty is found to be by far the highest in agriculture. In the absence of formal job creation and a functioning social safety net, agriculture appears to be providing a safety net for a significant proportion of the labour force as well as a buffer against the dramatic fall in living standards, which followed the 1998 Russian financial crisis. However, the low level of productivity (resulting from a massive influx of labour on very small plots) and extremely high poverty rates in agriculture point to the limitations of this coping mechanism for long-term poverty reduction.

Fourth, the results show that non-income dimensions of poverty in the workplace are an important challenge in the Kyrgyz Republic. Despite the recognition of a number of core labour standards in the Kyrgyz Labour Code, a large gap remains in practice and the real level of workers' protection is far below that which is stipulated in the Kyrgyz legislation. A very large share of employees was found to be working without a formal contract, with no social insurance coverage and no paid leave. Poor working conditions and high job instability have important human and economic costs, not only for workers and their families, but also for enterprises, in terms of lower productivity, and for the country as a whole, in terms of social cohesion and reduced opportunities for pro-poor growth.

Finally, the results point to the existence of multiple labour-related risks faced by specific groups. A key finding of this analysis is the extreme vulnerability of low-educated people and women in Kyrgyzstan, who cumulated a high risk of being unemployed, of remaining longer in unemployment, of being discouraged, and if employed, of being low-paid or working in precarious jobs. Other groups facing a high risk of exclusion, both from employment and within employment, were people with disabilities, individuals living in rural or depressed areas, the youth and internal migrants. The multiple aspects of vulnerability in the Kyrgyz labour market, in particular the large overlap between work and poverty, have important implications for the design of a comprehensive national poverty reduction strategy.

Keywords: household surveys, unemployment, employment, working conditions, poverty, wage determination, vulnerable groups

JEL numbers: I30, J15, J21, J81

1. Introduction

Despite obvious signs of economic recovery and overall poverty reduction in the Kyrgyz Republic in the past 5 years, the situation in the labour market has remained rather bleak. Formal job creation has remained very low, and this has been associated with widespread joblessness and a large incidence of precarious employment. How, then, have these circumstances affected household welfare?

Previous studies have shown a strong correlation between unemployment and income poverty, indicating the importance of job creation for the Kyrgyz national poverty reduction strategy. Less attention has been paid, however, to examine the welfare repercussions of informal employment. And even less attention has been paid to the non-income dimensions of poverty at work. Yet, extending the discussions on these issues is important to inform policy makers about the various aspects of vulnerability in the labour market, and to help design comprehensive policy measures that better address the complex nature of poverty and social exclusion.

The aim of this paper is to revisit the links between poverty and employment in Kyrgyzstan, including non-income dimensions of poverty at work, and to identify those groups at risks of poverty and social exclusion in the labour market. This analysis is undertaken using the Kyrgyz Poverty Monitoring Survey, which is the only survey to date that allows a comprehensive analysis of poverty and labour market outcomes. The period under investigation covers the years 1997-1998, for which data are available.

This paper is organized as follows. Section 2 reviews some recent labour market development in Kyrgyzstan, paying a particular attention to the nature of employment and non-employment. Section 3 investigates the links between income poverty and labour market status. The non-income dimension of poverty at work is addressed in Section 4. The correlates of poor labour market outcomes are then presented in Section 5. The last section concludes with a summary of the main findings and some suggestions for policy makers.

2. Recent Labour Market Developments

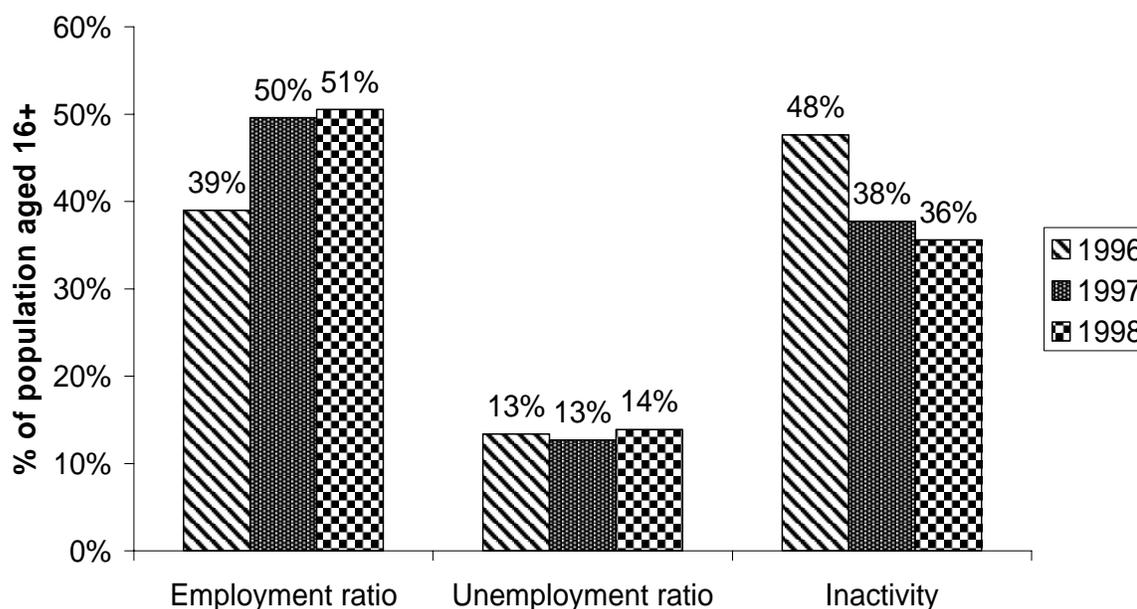
2.1 Trends in labour force status

Following a period of sharp economic decline between 1991 and 1995, the Kyrgyz economy began to experience a sustained period of economic growth as of 1996. In 1996 and 1997, GDP grew by 7 percent and 10 percent respectively (World Bank forthcoming (2002a), p.1). This growth was largely driven by a

sharp increase in agricultural production and the initiation of production at the Kumtor gold mine. The sharp increase in agricultural production was a result of a comprehensive structural reform of the agricultural sector centered on a large-scale land reform program, which saw the transfer of land from large state-owned entities, to small-scale private farms. Much of the land distribution took place between the end of 1995 and 1997.

These notable structural changes in the economy were mirrored by equally important changes in the labour market. As shown in Figure 1, between 1996 and 1997, the labour market saw a significant shift from inactivity into employment with the share of adults employed increasing from 39 percent in 1996 to 50 percent in 1997, while the share of those inactive fell from 48 percent to 38 percent. A closer look reveals that much of the growth in employment was led by an entry into the labour force of youth and especially old-age workers.

Figure 1: Changes in labour force status 1996-1998



Source: KPMS 1996, 1997, and 1998.

Note: Percent of population aged 16 and over

Table 1 reveals that employment ratios for workers above retirement age (57 years for females and 62 for males) almost doubled between 1996 and 1997. Similarly, the share of 16-25 year olds to be employed increased from 31 percent to 42 percent over the same period, while the share of those aged 26 to 'retirement age' increased by a much smaller proportion. Figure 2 shows that in fact the influx into employment for youth and old-age workers was almost

exclusively centered in agriculture. These figures, coupled with the fact that privatization resulted in very small-scale plots (the median plot size in 1998 was 0.13 hectares per capita) and that poverty rates were continuing to increase with more than half the population living below the poverty line in 1998, suggest that much of agricultural production is subsistence agriculture and that youth and old-age workers may have entered the labour market to ensure household survival.

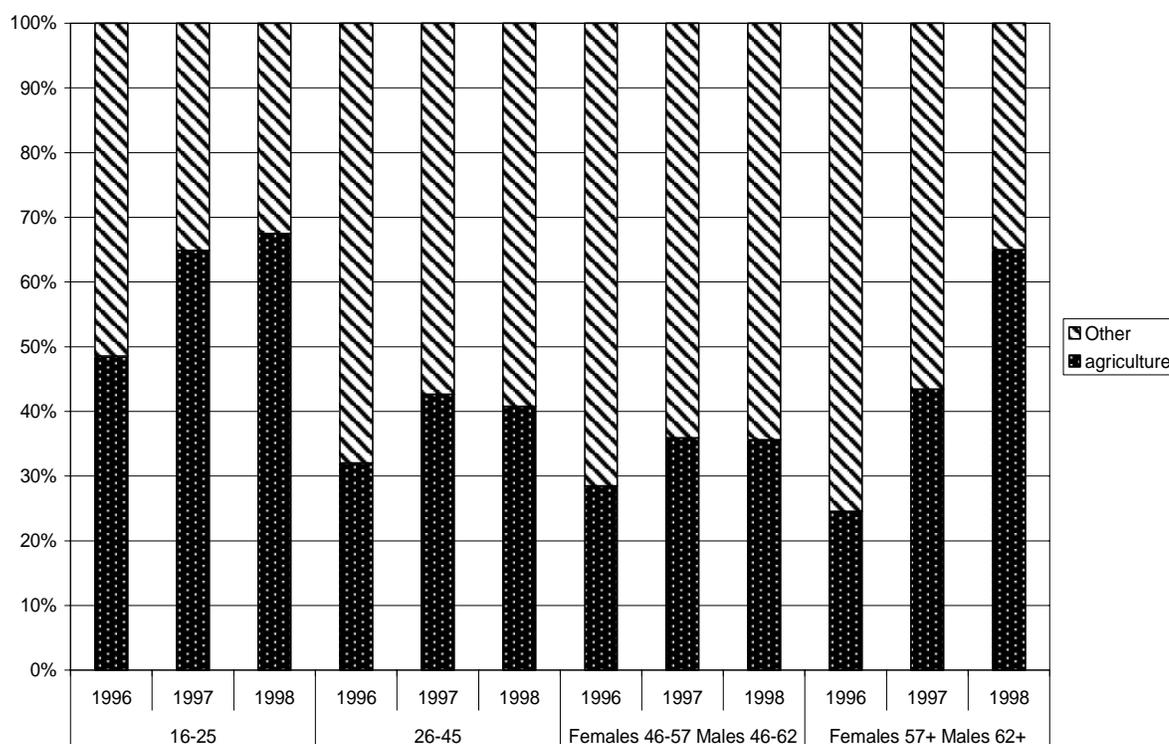
Table 1: Employment ratios by age group 1996-1998 (percent)

	1996	1997	1998
16-25	31.2	42.3	43.5
26-45	53.9	68.3	67.1
Females 46-57 Males 46-62	52.9	59.9	62.4
Females 57+ Males 62+	5.9	9.7	10.7

Source: KPMS 1996, 1997, and 1998.

Note: Percent of population within age group

Figure 2: Employment by age group and sector 1996-1998



Source: KPMS 1996, 1997, and 1998.

Note: Percent of employed population aged 16 and over.

Finally, it is important to note that these results, based on the analysis of household level data (KPMS) do not exactly reflect those observed in official statistics. In particular, the growth in employment ratios observed in the micro-data between 1996 and 1997 is not observed in the official statistics, which show stable employment ratios over this period (see World Bank forthcoming (2002b), p.2). These results must therefore be interpreted with caution particularly as they are based on data collected at one particular point in time (but same period in October and November) whereas the official data are based on annual averages. However, despite this discrepancy for 1996, the KPMS and official data produce very similar employment rates for 1997 and 1998.

2.2 The nature of non-employment

The section above revealed that whereas there has been a shift from inactivity into employment over the 1996-1998 period, the ratio of unemployed to the total adult population (over 16years) remained relatively stable around 13 percent. However both the scale and trend of unemployment vary considerably depending on which definition is adopted. Box 1 discusses a few alternative definitions and indicators of unemployment.

Box 1: Defining unemployment indicators

Registered unemployment: The ‘registered unemployed’ refers to individuals who are registered at labour offices as unemployed. This administrative approach reflects national rules and conditions and usually generates figures that are different from those resulting from surveys relying on the so-called strict “ILO” concept” of unemployment or on a very similar concept.

Strict ILO unemployed: The strict ILO concept is based on three criteria and defines as unemployed those people who are (1) without work, (2) available for work within the next two weeks and (3) have been seeking work for the preceding four weeks.

ILO Unemployed relaxed criterion: The ILO has an alternative definition of unemployment, which is more relevant for transition countries. It relaxes the third criterion to include the discouraged unemployed who have not been looking for work because they have lost all hope of finding a job.

Unemployment rate and unemployment-to-population ratio: The unemployment rate corresponds to the segment of the labour force (unemployed and employed), which is unemployed. A different indicator is the unemployment to population ratio, which refers to the overall share of the unemployed in the working age population (15 and above in Kyrgyzstan). The unemployment rate is less sensitive than the unemployment ratio to changes in inactivity, and the larger the number of inactive, the smaller the unemployment ratio relative to the unemployment rate.

Unemployment rates for the definitions discussed in Box 1 are presented in Table 2. These are expressed as a share of the labour force, rather than total population over 16 years as presented in Figure 1. As can be seen unemployment rates vary considerably depending on the definition adopted. Whereas the registered unemployed account for only 1.5 percent of the labour force in 1998, the ‘strict ILO unemployed’ (those actively looking for a job) accounted for 5.1 percent and if one also includes those who are not searching for a job because they are discouraged then up to 22 percent of the labour force can be considered to be unemployed (as per the ‘relaxed ILO unemployed’ definition).

The rate of registered unemployment is entirely unrealistic. Not only is the rate produced by the KPMS much lower than the registered unemployment rate produced by official statistics (1.5 percent versus 3.1 percent in 1998), but there is also evidence that a very small minority of the unemployed actually register. This is a result of the very low level of unemployment benefits and strict eligibility criteria, which create very weak incentive for registration. The minimum unemployment benefit was 150 som in 1999 (roughly 24 percent of the poverty line). Moreover, it was available for only 6 months per calendar year and only for those who paid social insurance and employment fund contributions during at least twelve months.

Many studies of poverty and the labour market in the CIS region have adopted the so-called ‘strict ILO’ definition of unemployment (World Bank 2001). According to this definition, the unemployed include only those who are without work and actively seeking work. However, in recent years the ILO has recognized that in the context of transition and developing countries, the third criterion may not be relevant given that the lack of job creation means that many unemployed ‘give up’ looking for work as they believe that there is no work to be had (ILO 1983, par.10). This indicator is probably a much more accurate reflection of the reality.

Table 2: Unemployment rates by different definitions 1996-1998 (percent)

	1996	1997	1998
Registered unemployed	2.5	0.9	1.5
Strict ILO unemployed	10.1	6.9	5.1
ILO unemployed relaxed criterion	25.8	20.4	22.0

Source: KPMS 1996, 1997, and 1998.

Notes: Percent of labour force (employed and unemployed). Uses working age population (16-57 for females and 16-62 for males).

Table 2 also shows that whereas the ‘strict ILO unemployment’ rate halved between 1996 and 1998, the ‘relaxed rate’ decreased by only 15 percent. This suggests an increase in the proportion of discouraged unemployed, which will be confirmed by our findings below.

Finally, it is important to note that even the relaxed ILO unemployment rate does not provide an entirely accurate picture of the labour resources left unused in the Kyrgyz economy. A large number of persons are hidden unemployed (formally employed but not working) or underemployed (effectively not working because on forced holidays, working part-time or short-time hours involuntarily, or available and searching for additional work). It can be argued that these people are in fact incorrectly classified as employed. Table 3 presents estimates of various indicators of hidden unemployment and underemployment. Looking at these figures we see that the ILO relaxed unemployment rate (22 percent in 1998) does indeed underestimate the labour resources left unused in the economy. Adding the hidden unemployed and the underemployed we find that in 1996, 37 percent of the labour force was left unused and that by 1998 this figure decreased to 29 percent.

Table 3: Hidden Unemployment and Underemployment (percent)

	1996	1997	1998
Hidden unemployed	2.4	1.0	0.6
Underemployed			
Involuntary reduced hours	10.0	3.6	3.8
FT employed searching for additional job	1.2	1.1	0.9
Forced administrative leave	n/a	1.6	2.6
Total	11.2	6.3	7.3

Source: KPMS 1996, 1997, and 1998.

Notes: Percentage of the labour force. Uses working age population (16-57 for females, 16-62 for males). Hidden unemployed: individuals of working age who (1) are employed, and (2) worked zero hours. All categories are mutually exclusive.

Table 4 presents reasons for non-employment. Overall, just over one quarter of the non-employed is unemployed, while three quarters are inactive. Although the share of unemployed remained relatively stable between 1996 and 1998, a closer look at the distribution of unemployed by reason for unemployment reveals a very worrying trend. Whereas the share of those not working and looking for a job (the strict ILO unemployed) fell by almost 50 percent between 1996 and 1998, that of the ‘discouraged unemployed’ (those not working and

not searching for a job because they have no hope of finding one) has increased from 66 percent to 78 percent. Moreover, breaking down those not working by whether or not they have ever had a job, reveals that those who never had a job and are discouraged actually doubled during this period. These results are worrying as they imply that the majority of the unemployed, and particularly the new entrants into the labour market, are at serious risk of long-term unemployment and social exclusion.

Among the inactive, one fifth are students, two-fifths are pensioners or old-age persons and about 17 percent are out of the labour market because they are caring for children. It could be argued that women on maternity leave (approximately 3 to 4 percent of the inactive) could be considered part of the underemployed as there is considerable evidence both in the Kyrgyz Republic and in many other countries in the CIS, that instead of laying workers off, extended (unpaid) maternity leave is used as means of dealing with falls in demand.

Table 4: Reasons for non-employment 1996-1998 (percent)

	1996	1997	1998
All non-employed	100.0	100.0	100.0
Unemployed	28.5	25.1	28.1
Inactive	71.5	74.9	71.9
All Unemployed	100.0	100.0	100.0
Not working, searching for job	32.2	28.9	18.9
Not Working, not searching because there are no jobs	65.8	69.1	77.8
Registered Unemployed	2.0	2.1	3.3
All inactive	100.0	100.0	100.0
Student	11.1	20.5	19.6
Caring for children	16.4	17.1	17.4
Old-age	36.9	42.0	43.8
Disabled	6.1	6.5	6.2
Don't want to work	4.1	1.7	1.5
Maternity leave	n/a	4.4	3.5
Other	25.6	7.8	8.0

Source: KPMS 1996, 1997, and 1998.

Note: Refers to population aged 16 and over. Uses ILO relaxed unemployment definition.

Table 5 presents unemployment by duration. The results are particularly worrying. Three quarters of the unemployed have been unemployed for more than twelve months. This finding, coupled with our previous findings that three quarters of the unemployed are also ‘discouraged’ and are no longer looking for a job, raises serious concerns of the risks of permanent labour market and social exclusion of a significant portion of the population. Indeed, evidence from around the world has shown a strong negative correlation between the probability of finding a job and the time spent unemployed, indicating that the long-term unemployed are at a higher risk of permanent labour market exclusion. Moreover, Table 7 shows particularly high unemployment rates for youth, with 29 percent of 16-25 year olds unemployed in 1998. As a significant share of the discouraged unemployed are indeed first time entrants into the labour market, the risk of long-term labour market exclusion of youths could have very damaging implications for the social and economic development of the country.

Table 5: Unemployment by duration (percent of all unemployed)

	1996	1997	1998
12 months or less	20.0	20.4	24.5
More than 12 months	80.1	79.6	75.6
Total	100.0	100.0	100.0

Source: KPMS 1996, 1997, and 1998.

Notes: Uses working age population (16-57 for females, 16-62 for males) and ILO relaxed unemployment definition.

Unemployment in the Kyrgyz republic also has an increasingly regional dimension, a phenomenon observed in all transition countries engaged in industrial restructuring. As shown in Table 6, the regions that had the highest levels of relaxed ILO unemployment were Talas, Naryn and Issy-Kul. Interestingly, these are three regions (particularly the first two) that have amongst the highest incidence of poverty in the country (see World Bank forthcoming (2002a)). Indeed, living in Talas or Naryn has been found to be amongst the most significant determinants of poverty (World Bank 2001, p.7). In contrast, relaxed ILO unemployment rates are particularly low in the capital, Bishkek, and in Osh, the country’s most important urban and industrial centers. What is remarkable is that the regional dimension of unemployment differs greatly depending on whether or not the discouraged unemployed are included. In fact, without taking account of the discouraged, the number of unemployed people looking for a job is the highest in Bishkek but lower in Naryn and Talas. This suggests that in regions with very low job opportunities, the unemployed give up looking for a job.

Table 6: Unemployment rate by location 1996-1998 (percent)

	1996	1997	1998
National Average	25.8	20.4	22.0
Urban	22.6	21.0	22.9
Rural	27.8	20.1	21.4
Bishkek	n/a	13.1	11.9
Issyk-kul	n/a	30.2	49.5
Djalal-abad	n/a	15.6	18.2
Naryn	n/a	33.5	34.4
Osh	n/a	15.5	15.3
Talas	n/a	45.9	44.4
Chui	n/a	21.7	25.7

Source: KPMS 1996, 1997, and 1998.

Notes: Percentage of the labour force. Uses working age population (16-57 for females, 16-62 for males). Uses ILO relaxed unemployment definition. The 1996 KPMS is based on a smaller sample and does not allow disaggregation at the regional level.

Surprisingly, there are no apparent differences between urban and rural unemployment rates when the relaxed concept of unemployment is considered. But this masks a higher level of discouragement among the unemployed in rural areas. In fact, whereas 8 percent of the labour force is unemployed and actively looking for a job in urban areas, the figure is only 3 percent in rural areas.

Unemployment also varied across individuals with different characteristics. Table 7 shows both the composition of the unemployed and the incidence of unemployment among different groups in 1998. As concerns the composition of the unemployed, the data show a relatively strong gender bias, with females representing almost 56 percent of the unemployed. The age distribution of the unemployed is also relatively biased toward the young, with 40 percent of the unemployed aged 25 and under, and an additional 47 percent aged 45 and under. As concerns the distribution by level of education, the results show that higher education is associated with lower levels of unemployment. Thus whereas 72 percent of the unemployed have secondary education or lower, only 58 percent of the employed do so. In contrast, 32 percent of the employed have a high technical education or higher education compared to only 18 percent of the unemployed. The large majority of the unemployed are ethnic Kyrgyz, although a significant share are also ethnic Russian (15 percent) and Uzbek (12 percent), more or less reflecting the general ethnic make-up of the country as a whole.

Table 7: Unemployment by individual characteristics 1998 (percent)

	Share among all the unemployed	Unemployment rate
All	100.0	22.0
Female	55.8	24.3
Male	44.2	20.1
Age 16-25	40.2	29.4
Age 26-45	46.5	18.8
Age 46-55	11.2	19.1
Age 56+	17.1	17.1
Kyrgyz	64.4	22.5
Russian	14.8	19.5
Ukrainian	1.3	29.3
Uzbek	11.7	22.7
Kazakh	0.5	16.9
Byelorussian	0.9	20.0
Tadjik	1.7	56.8
Tatar	0.9	19.0
Dungan	0.5	9.3
Other	4.1	21.6
No education	1.6	16.8
Incomplete secondary or less	12.8	29.3
Complete general secondary	57.7	25.5
Complete technical secondary	9.5	24.4
Higher technical	12.5	17.5
Higher education	6.0	9.3

Source: KPMS 1996, 1997, and 1998.

Notes: Percentage of the labour force. Uses working age population (16-57 for females, 16-62 for males) and ILO relaxed unemployment definition.

As regards the incidence of unemployment among different groups, the same Table 7 shows that unemployment rates for females are slightly higher than those of males. Almost one quarter of economically active females are unemployed compared to one fifth of males. Moreover, there are large disparities by age with a high incidence of unemployment among youth aged 16 to 25 (29 percent) compared to rates of 17 percent to 19 percent for those aged

26 and over. The incidence of unemployment also varies considerably between different ethnic groups. Compared to ethnic Kyrgyz (23 percent), the rate is more than two and a half times as high for Tadjiks (57 percent), but lower for Russians (20 percent) and Kazakhs (17 percent). Other ethnic groups are represented by very small frequencies in the sample, making it difficult to draw any meaningful conclusions on their unemployment rates. Finally, the incidence of unemployment is much higher for those with secondary general or technical education (24 percent to 29 percent) compared to those with higher general education (9 percent), but also to those with no education (17 percent) and those with higher technical education (17 percent), again suggesting that there may be considerable returns to education in the Kyrgyz Republic.

2.3 The nature of employment

Table 8 presents the characteristics of employment for the period 1996-1998. The structural reforms, which took place in 1996 particularly in the agricultural sector, are clearly visible in the labour market data. Between 1996 and 1998, there was a major shift from wage employment into self-employment, which was to some extent mirrored by a transfer of labour from urban to rural areas. As can be seen in the same table, in the agricultural sector it was reflected by a massive shift from wage employment into self-employment, as the share of wage employed among agricultural workers halved between 1996 and 1998. These changes were largely a result of the destruction of jobs in all sectors, but particularly in manufacturing and services and the creation of jobs in agriculture as a consequence of the large-scale land privatization program in 1996-1997. However, as discussed above, land distribution resulted in the creation of extremely small plots, suggesting that agricultural employment may be limited to subsistence farming rather than dominated by small farms producing for profit. Indeed, in 1999, production for self-consumption accounted for well-over one half of all agricultural production in the Kyrgyz Republic (World Bank 2000a, p.7). Moreover, as discussed above, there has been a doubling of employment ratios for individuals above retirement age accompanied by a shift of this group from employment in trade into agriculture, suggesting that small-scale agricultural production may also be a survival mechanism for pensioners unable to meet basic needs with very low pensions.

What is particularly worrying is the decreasing share of trade in total employment, which may be a result of the considerable barriers to private sector development. Previous studies have highlighted numerous constraints including overwhelming entry regulations, widespread corruption, complex tax regulations, restrictive access to credit and barriers to exit (see USAID-ARD 2000; World Bank 2000b). These restrictions have the effect of pushing enterprises into the informal economy. However it would be misleading to attribute the growth of the informal economy simply to excessive regulation and

corruption. Evidence from both the Kyrgyz republic and other countries in the CIS region shows that many workers are pushed into small scale informal jobs such as petty trading, not so much from a desire to evade regulations or taxation but from the necessity to meet basic needs (see Bernabè, Sabine 2002; EBRD 2000; Kuznetsova 2002; OECD 1997). Informal employment will be discussed in more detail below, however Table 8 already reveals that the informal sector accounts for almost one half of total employment.

Table 8 also provides some insight into the nature of wage employment. Wage employees are almost equally distributed between the private and public sectors and this distribution has remained stable over the period 1996-1998 despite the structural changes taking place in the economy. However, the proportion of wage employees to be underemployed fell by more than half during this period. The scale of underemployment in 1996, when one quarter of all wage employees were either on involuntary reduced hours or searching for an additional job, is quite astonishing. However this proportion more than halved by 1997 as workers shifted into agricultural employment as a result of the land reform program.

The proportion of wage employees with second jobs is also shown in Table 8. However anecdotal evidence suggests that these figures are very likely to underestimate the actual scale of secondary employment. In 1998 only 2 percent of wage employees reported having a secondary job. Most had a primary job in services, manufacturing or agriculture and a second job in services or agriculture. Interestingly, 57 percent lived in rural areas, as did 59 percent of the underemployed, suggesting that the under-utilization of labour resources is a particularly serious problem in rural areas.

Table 8: Characteristics of Employment 1996-1998 (percent)

	1996	1997	1998
All employed	100.0	100.0	100.0
Wage-employed	73.5	61.9	59.3
Self-employed	26.5	38.2	40.7
Urban	40.4	37.9	35.8
Rural	59.6	62.1	64.2
Informally employed	54.5	51.4	45.3
Formally employed	45.5	48.6	54.7
Agriculture	35.4	47.5	47.3
Mining	0.9	1.1	1.1
Manufacturing	9.4	5.2	5.4
Electricity, gas, water supply	2.4	1.8	1.6
Construction	3.5	3.3	4.2
Trade	9.9	6.3	7.6
Transport	6.4	4.6	5.1
Financial services	1.8	1.5	1.9
Services	30.4	28.6	25.9
All wage employed	100.0	100.0	100.0
Public	48.8	49.4	47.7
Private	51.2	50.6	52.3
Share underemployed or hidden unemployed	25.2	11.1	11.4
Share with second job	2.7	3.0	1.9
All employed in agriculture	100.0	100.0	100.0
Wage employees	66.0	40.0	32.0
Self-employed	34.0	60.0	68.0

Source: KPMS 1996, 1997, and 1998.

Notes: Percentage of working age population (16-57 for females, 16-62 for males). Underemployed and hidden unemployed comprise: (1) individuals employed and working zero hours, (2) individuals involuntarily on reduced working hours, and (3) full-time employed searching for an additional job. Informal employment is defined as per Box 2.

Box 2: Defining informal employment

In the past few years the informal sector in countries in transition has increasingly become the focus of research, public policy and the media. The term 'informal sector' has been used to describe an extremely wide spectrum of activities, which do not necessarily have much in common, such as tax evasion, corruption, money laundering, organized crime, bribery, subsistence farming, barter, petty trade, and the stealing of state property. This is problematic for the design of public policy as these activities may raise very different (and conflicting) policy issues.

Bernabè (2002) presents a framework with which to analyze these different types of 'hidden' activities, which builds on the concepts and definitions of the System of National Accounts (SNA 1993) (Commission of the European Communities - Eurostat, International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations, and World Bank 1993). The conceptual framework distinguishes between four types of 'hidden' activities:

Informal activities, which are undertaken 'to meet basic needs' and are within the SNA production boundary (e.g. petty trade, household agricultural production, ambulant street vending, undeclared paid domestic employment, etc.);

Underground activities, which are deliberately concealed from public authorities to avoid either the payment of taxes or compliance with certain regulations (e.g. most cases of tax evasion and benefit fraud);

Illegal activities, which generate goods and services forbidden by the law or which are unlawful when carried out by unauthorized producers (e.g. production of narcotics, smuggling, prostitution, and unlicensed medical practice);

Household activities, which produce goods and services for own-consumption and are outside the SNA production boundary (e.g. household cleaning, dwelling maintenance and repair, preparation and serving of meals, care for the sick or elderly, etc.).

In order to analyze the extent of informal employment, this definition must be operationalised and assumptions must be made as to what types of activities can be considered to be undertaken to 'meet basic needs'. For the purposes of this paper, informal employment in the Kyrgyz Republic can be defined by the following operational typology: (1) non-regular wage employees (employees without a written agreement), (2) non-agricultural self-employed in household enterprises (own-account workers and employers in enterprises consisting of less than 5 persons –as per ILO definition (ILO 1993)), (3) self-employed in subsistence agriculture (self-employed on less than ½ the national median size of land).

Source: Bernabè (2002)

Table 9 takes a more detailed look at the characteristics of formal and informal employment in the Kyrgyz Republic. The definition of informal employment adopted here is based on the conceptual and operation framework discussed in Box 2. The large majority (78 percent in 1996, 1997 and 62 percent in 1998) of the informally employed are non-regular wage employees, or employees working without a written contract specifying their wage. In fact, one half of all wage employees are employed without a written agreement and the incidence of informal labour contracts is most common amongst wage employees in agriculture and trade. These figures are shocking as workers without a written agreement are not registered and therefore have no access to a wide range of benefits and are not protected by labour and other legislation. The self-employed in household enterprises, or enterprises that are not constituted as separate legal entities independently of the households, make up about 14 percent of informal employment. Examples include street traders, informal taxi drivers, and home based micro enterprises such as hairdressers. Finally, the share of self-employed in subsistence agriculture (on less than ½ of the national median size land) more than tripled between 1996 and 1998, as a consequence of the land reform program. We argue that given the extremely small size of the median plot of land (0.08, 0.15 and 0.13 hectares per capita in 1996, 1997 and 1998 respectively), employment on such plots is ‘subsistence agriculture’ undertaken to meet basic needs.¹

Table 9 also shows that informal employment is concentrated in agriculture, services and trade, although other sectors such as transport, construction and manufacturing are also important. Finally, the share of rural informal employment has increased over the period mirroring the increase in the share of subsistence agriculture.

1 Note that the Kyrgyz Ministry of Labour considers that anyone employed on a plot of land smaller than 0.18 hectares per capita should be considered unemployed.

**Table 9: Characteristics of formal and informal employment 1996-1998
(percent)**

	1996	1997	1998
All formally employed	100.0	100.0	100.0
Wage employed	73.7	55.3	67.1
Self employed	26.3	44.7	32.9
Urban	42.3	28.5	34.1
Rural	57.7	71.5	65.9
Part-time	3.8	3.9	4.3
Full-time	96.3	96.1	95.7
Agriculture	29.3	52.1	39.2
Mining	0.7	1.1	1.3
Manufacturing	9.7	3.9	8.0
Electricity, gas, water supply	3.7	1.5	2.0
Construction	4.3	2.4	4.4
Trade	6.1	4.5	4.3
Transport	8.5	5.5	6.4
Financial services	2.5	1.6	3.4
Services	35.2	27.4	31.0
All informally employed	100.0	100.0	100.0
Non-regular wage employed	77.9	78.8	62.0
Non-agricultural self-employed in household enterprises	14.2	12.3	14.1
Self-employed in subsistence agriculture	7.9	8.9	24.0
Urban	38.7	52.3	42.9
Rural	61.3	47.7	57.1
Part-time	3.8	5.2	5.3
Full-time	96.3	94.8	94.7
Agriculture	35.9	33.8	45.7
Mining	1.0	1.3	1.1
Manufacturing	9.7	7.2	3.8
Electricity, gas, water supply	1.5	2.4	1.4
Construction	3.2	4.7	4.8
Trade	13.4	8.9	12.1
Transport	5.3	4.9	4.8
Financial services	1.4	1.7	0.7
Services	28.6	35.2	25.7

Source: KPMS 1996, 1997, and 1998.

Notes: Using working age population (16-57 for females, 16-62 for males). Non-regular wage employees: employees without a written agreement specifying wage. Non-agricultural self-employed in household enterprises: own-account workers and employers in enterprises consisting of less than 5 persons. Self-employed in subsistence agriculture: self-employed on less than ½ the national median size of land. Median land size (hectares per capita): 0.119 (1996), 0.1237 (1997), 0.115 (1998).

Formal employment consists mainly of wage employment, although the share of self-employment increased considerably between 1996 and 1997. At the same time, the share of rural employment increased. Both these trends are a reflection of the shift into agricultural employment, whose share of formal employment increase from 29 percent in 1996 to 39 percent in 1998. Employment in services was also important, accounting for approximately one third of the total. It is interesting to note that although trade made up 12 percent of informal employment in 1998, it accounted for only 4 percent of formal employment. In fact, 75 percent of all employment in trade is informal. This is indeed very worrying as it is an indication of the lack of formal small business development, which was expected to be one of the main sources of employment and economic growth during the transition period.

3. Income Poverty and Labour Market Outcomes

3.1 Poverty incidence and labour market characteristics

Poverty in Kyrgyzstan, like in most countries in the world, is strongly related with labour market status. Table 10 presents poverty rates, based on consumption, by different labour market characteristics for 1997 and 1998. Despite the limited time frame, some interesting patterns and trends emerge. Taking the labour market as a whole, it is clear that the unemployed have the highest poverty rates. In 1998, 67 percent of the unemployed had a consumption level below the poverty line, compared to 59 percent of the employed and 56 percent of the inactive.² However, aggregate unemployment figures mask a complex reality. There are dramatic differences in poverty rates between different types of unemployed. Whereas the unemployed who are searching for a job have a poverty rate of 41 percent, which is well below the population average, 73 percent of the unemployed who are not looking for a job because they are discouraged (the so-called ‘relaxed criterion unemployed’) are poor.

This finding is very significant as it highlights the precarious situation of a group, which is often overlooked by official statistics. Many studies of poverty and the labour market in the CIS region have adopted the so-called ‘strict ILO’ definition of unemployment, which excludes the discouraged unemployed. However, in recent years the ILO has argued that in many transition and developing countries, the lack of job creation means that many unemployed ‘give up’ looking for work as they believe that there is no work to be had (ILO,

2 Unless otherwise specified, all unemployment rates are based on the ILO definition of unemployment using the ‘relaxed’ criterion (i.e. including discouraged unemployed who are not actively looking for a job because they have lost hope of finding a job).

1983 #4, par.10). In 1998, unemployment rates can be as low as 6 percent of the labour force if the most restrictive definition is used (World Bank 2001, p.11) and as high as 22 percent if the 'discouraged' unemployed are included. Finally, the same Table 10 shows that the registered unemployed, who only make up 3 percent of total unemployment, have the highest poverty rates with 84 percent living below the poverty line. This could be an indication that only those who have no other means of subsistence are registered as unemployed.

Similarly, the low poverty rates for the inactive in Table 11, mask considerable discrepancies between types of inactive. Whereas students have poverty rates well below the adult average at 42 percent, individuals (mostly women) who are inactive because they are caring for children or because they are on maternity leave have particularly high poverty rates, with 67 percent-68 percent living below the poverty line. The first could be an indication that studying beyond the age of 16 may be becoming a luxury that only the non-poor can enjoy, in contrast to the past when education was widely available. The latter could be explained by the fact that, as noted elsewhere (World Bank 2001, p.10), women have suffered a greater negative impact in terms of their position in the labour market. As in many other countries in the region, women may be forced to stay out of the labour market due to the breakdown in childcare facilities, which were previously widely available. Also, extended maternity leave has been widely used as a substitute to laying workers off to deal with reductions in demand.

Evidence from the KPMS also reveals the existence of pockets of extreme vulnerability amongst the employed, which cannot be identified by a simple comparison of poverty rates between the unemployed and the employed. In fact employment does not necessarily offer protection from poverty. This echoes the evidence observed in other transition economies (Kolev, 2003). As can be seen in Table 10, poverty rates for those employed in agriculture are even higher than those of the unemployed, with 78 percent of those working in this sector living below the poverty line. Contrary to expectations, those self-employed in agriculture have much higher poverty rates than the wage employed. Thus, whereas 73 percent of the wage employed in agriculture lives below the poverty line, 81 percent of the agricultural self-employed is poor. This surprising discrepancy may indicate that the majority of wage employed in agriculture are still working on collective farms and may be paid low but positive wages, whereas the self-employed engage in largely subsistence agriculture on very small-scale plots. In the absence of formal job creation and a functioning social safety net, agriculture appears to be providing a safety net for a significant proportion of the labour force as well as a buffer against the dramatic fall in living standards, which followed the 1998 Russian financial crisis. However, the low level of productivity (resulting from a massive influx

of labour on very small plots) and extremely high poverty rates shed doubt on the possibility of this sector to reduce poverty in the long run and beg the question as to whether in the Kyrgyz Republic agriculture has become a poverty trap?

Self-employment in the Kyrgyz Republic is limited to agriculture and trade, which accounted for 79 percent and 11 percent of total self-employment in 1998. Given the high poverty rates in agriculture, we are not surprised to find that the self-employed face a risk of poverty almost twice as high as that of wage employees. However the reality is more complex than the self/employed wage/employed dichotomy would lead to believe. In fact, there are significant discrepancies amongst both the wage-employed and the self-employed. As can be seen in Table 10 informal wage employees (employees without a contract) face a much higher risk of poverty than do formal wage employees, whether in the public or private sector. At the same time, among informal jobholders, those in non-agricultural self-employment (mainly in trade) have poverty rates, which are well below the adult average. This is an indication that informal employment in Kyrgyzstan is mostly – but not exclusively – low-paid.

The vulnerability of the informally employed, and particularly that of wage employees without a contract, can be seen from the considerable increase in poverty as a result of the 1998 financial crisis. Between 1997 and 1998, poverty rates for informal workers increased from 46 percent to 62 percent, while formal workers saw a much more subtle increase from 52 percent to 57 percent. As can be noted in Table 10, amongst informal workers, both non-agricultural self-employed and wage employees were much more vulnerable to the crisis than were those employed in agriculture, who could maintain their subsistence levels through consumption of own-production.

All in all, these results show that an understanding of poverty and vulnerability in the labour market requires a more holistic approach, which goes beyond the monitoring of trends and duration of unemployment, and identifies vulnerable groups within the employed, unemployed and inactive. As suggested in the 2001 OECD Employment Outlook, low-paying and precarious jobs better characterize the experience of some poor households than does continuous exclusion from the labour market (OECD 2001).

Table 10: Poverty rates by labour market characteristics (percent)

	1997	1998
<i>Population 16+</i>	46.3	59.0
Labour market status		
Inactive	43.5	56.5
Unemployed*	51.7	67.4
Employed	48.0	59.4
Unemployment duration*		
0-12 months	56.4	68.1
12 months+	50.4	67.2
Type of unemployed		
Searching for job	30.9	41.4
Discouraged	59.9	73.0
Registered	65.1	84.5
Type of inactivity		
Student	32.4	42.5
Caring for children	47.5	66.9
Pensioner	41.4	54.3
Disabled	46.9	56.5
Don't want to work	29.1	41.2
Maternity leave	58.4	68.0
Other	48.2	62.4
Type of employment		
Nature of employment		
Wage employed	39.4	49.0
Self-employed	61.6	74.1
Formal	51.6	56.5
Informal	45.7	61.8
Public	29.6	43.3
Private	55.7	65.6
Type of formal employment		
Wage-employed public	35.6	45.6
Wage-employed private	48.1	40.9
Self-employed	62.1	81.0
Type of informal employment		
Non-regular wage employed	37.6	54.1
Informal non-agricultural self-employed	23.2	48.3
Informal agricultural self employed	77.6	77.7

(Table 10 cont.)

Sector of employment		
Agriculture	69.6	78.4
Mining	23.0	43.7
Manufacturing	21.0	43.1
Electricity, gas, water supply	24.4	37.8
Construction	25.6	55.2
Trade	22.9	44.5
Transport	38.3	41.7
Financial services	20.3	30.2
Services	30.2	41.2
Employed in agriculture		
All employed in agriculture	69.5	78.0
Self-employed	73.2	80.5
Wage-employed	63.9	72.8

Source: KPMS 1997, 1998.

Note: Unless otherwise indicated, rates are based on population of working age (16-57 for females and 16-62 for males). Poverty rates are based on per capita consumption below the World Bank poverty line of Som 4,647 in 1997 and Som 4,945 in 1998.

*Unemployment rate according to ILO relaxed criterion definition.

3.2 Composition of the poor

Table 11 reports the labour market composition of the poor. Although the one-year time frame does not permit any real analysis of trends in the composition of the poor, the table shows some interesting consequences of the 1998 financial crisis. In particular, the relative share of the unemployed among the poor increased slightly, as did the share of the discouraged amongst the unemployed. This mirrors the increase in the share of discouraged unemployed observed in the labour market as a whole. There is also a significant reduction in the share of students amongst the inactive poor, compensated almost entirely by an increase in the share of individuals (mainly women) caring for children. The large increase in the share of women caring for children should be a cause for concern given the high, and increasing poverty rates faced by this group. Moreover, whereas women taking care of children account for only 12 percent of the non-poor inactive, this group represents 21 percent of the inactive poor, further suggesting that women who are out of the labour market are at higher risk of being poor.

Among the poor unemployed 84 percent were discouraged compared to only 64 percent of the unemployed who were not poor. In contrast, the proportion of unemployed looking for a job was three times higher among the non-poor

unemployed than it was among the poor unemployed, indicating that poverty may be associated with the discouraged unemployed, while those able and willing to search for a job are less likely to be poor.

However the majority of the poor are the working poor. As reported in Table 11, in 1998, 57 percent of the poor were employed, while 25 percent were inactive and 18 percent were unemployed. The majority of these working poor are in the informal sector and most are wage employees without a contract or self-employed in agriculture on very small plots of land.

Among the informally employed, those worse off are the self-employed in agriculture working on less than half the national median size of land. Not only do they have much higher poverty rates than other categories of informally employed, but they also represent 45 percent of the informally employed poor, despite the fact that overall they account for only 24 percent of total informal employment. This is in contrast to the informal wage employed (or wage employed without a contract) who account for 46 percent of the informally employed poor but up to 62 percent of total informal employment.

However not all the working poor are informally employed. In 1998, 44 percent worked formally and almost half of these were self-employed (mostly in agriculture). In fact, overall the self-employed are considerably over-represented amongst the working poor compared to the non-poor. Whereas 51 percent of the working poor were self-employed, this group accounts for only 26 percent of the non-poor. Nevertheless, among the poor who were formally employed, the wage employed in the private sector fared the worst as their share increased from 17 percent to 33 percent of the formal working poor, whereas those employed in the public sector fared much better as their shares fell from 29 percent to 20 percent.

Finally, the most significant discrepancy in labour market composition between the poor and the non-poor relates to the sector of employment. As much as 65 percent of the working poor are employed in agriculture, compared to only 25 percent of the non-poor. This suggests again that in the Kyrgyz Republic, agricultural employment may be a survival activity to which those with no alternative means of income generation turn in the absence of formal employment opportunities and an adequate system of social security.

**Table 11: Composition of the poor by labour market characteristics
(percent)**

	1997	1998
All working age adults	100.0	100.0
Inactive	26.2	24.8
Unemployed*	16.0	18.2
Employed	57.9	57.0
All Unemployed	100.0	100.0
0-12 months	22.7	25.1
12 months+	77.3	74.9
All unemployed	100.0	100.0
Searching for job	17.3	11.6
Discouraged	80.1	84.3
Registered	2.6	4.1
All inactive	100.0	100.0
Student	24.0	15.1
Caring for children	15.5	21.1
Pensioner	42.4	43.0
Disabled	6.0	6.4
Don't want to work	2.1	1.2
Maternity leave	3.1	4.3
Other	6.9	9.1
All employed	100.0	100.0
Wage employed	50.9	49.0
Self-employed	49.1	51.0
Formal	41.4	44.2
Informal	58.6	55.8
Public	81.2	79.2
Private	18.8	20.8
Agriculture	69.1	62.4
Mining	0.5	0.8
Manufacturing	2.3	3.9
Electricity, gas, water supply	0.9	1.0
Construction	1.8	3.9
Trade	3.0	5.7
Transport	3.7	3.6
Financial services	0.6	1.0
Services	18.0	17.9

(Table 11 cont.)

All formally employed	100.0	100.0
Wage-employed public	29.2	19.7
Wage-employed private	16.7	32.6
Self-employed	54.1	47.7
All informally employed	100.0	100.0
Non-regular wage employed	54.3	45.9
Informal non-agricultural self-employed	5.2	9.3
Informal agricultural self employed	40.5	44.8
All employed in agriculture	100.0	100.0
Self-employed	63.1	70.2
Wage-employed	36.9	29.8

Source: KPMS 1997, 1998.

Note: Unless otherwise indicated, rates are based on population of working age (16-57 for females and 16-62 for males). Poverty rates are based on per capita consumption below the World Bank poverty line of Som 4,647 in 1997 and Som 4,945 in 1998.

4. Non-Income Dimensions of Poverty at Work

The previous section addressed the relationship between the income dimension of poverty and the labour market. It revealed that a traditional analysis of unemployment and employment does not adequately capture the heterogeneity of the labour market and showed that amongst groups of employed, unemployed and inactive, there are large discrepancies in poverty rates. Thus it is not so much having a job, but more the type of job, which is associated with poverty reduction. This section complements the analysis of income poverty and the labour market by exploring working conditions, one of non-income dimensions of workers' well being. The importance of working conditions should not be overlooked as the impact of poor working conditions on the well being of workers and their families can be as detrimental as that of inadequate earnings. Moreover, as with inadequate earnings, poor working conditions often result in low labour productivity, which at the aggregate level can lead to high poverty and reduced opportunity for economic growth.

4.1 Labour standards: principles and reality

Like in many countries of the CIS, in Kyrgyzstan, the Labour Code has long ensured the protection of workers' rights. In particular, the Labour Code stipulates that all employees have a right to paid vacation of no less than four working weeks and that all employees should have access to paid sick leave (Government of Kyrgyzstan Decree no. 380 & 34 1995; Labour Code of the

Kyrgyz Republic 2002, art. 172, 173). However, there is concern that the lack of an effective enforcement and monitoring system has meant that there is a considerable gap between these principles and the reality. In fact, the KPMS data reveals that a significant proportion of workers have no protection whatsoever.

Table 12 provides some insight into this issue. It presents several indicators of working conditions and job quality across sectors of employment in 1998. The first indicator is the incidence of “work without a labour contract”. As in many other CIS countries, in the Kyrgyz republic it is illegal to employ workers without a written agreement (Labour Code of the Kyrgyz Republic 2002, art.95). The absence of an employment contract is a good proxy for informal wage employment, for workers who have not signed an employment contract are not protected under the labour code or any other relevant legislation. Moreover, employment that is not based on a written agreement is not registered and therefore employers will not pay any of the taxes and social security contributions required by the law. As can be seen in Table 12, one half of all employees in the Kyrgyz republic are employed without a written employment contract. This figure is shockingly high and it is even more surprising if one looks at the incidence of informal labour contracts by sector. Informal contracts are most common amongst wage employees in agriculture and trade, where they account for 70 percent and 63 percent of wage employment. In contrast only 20 percent of employees in financial services and 34 percent of those in manufacturing are employed without a written agreement. Not only are workers without a written agreement not protected by labour legislation but, as we have seen in the previous section, they face a much higher risk of poverty than those with a formal agreement and are more vulnerable to external shocks, as their rights are more easily abused.

Two other important indicators of the quality of employment are access to paid vacation and to paid sick leave. As mentioned above, both of these benefits are guaranteed by the labour code. However, as can be seen in Table 12, more than one third of all employees lack access to both of these. Once again, there are considerable discrepancies between sectors. Whereas employees in agriculture, trade and construction have the highest proportion of employees with no access to these benefits, those in mining, financial services and energy supply have the lowest.

A fourth indicator of the quality of employment is job stability, which, to some extent, can be captured by job tenure. This indicator must be treated with caution, however. On the one hand, longer tenure, which refers to longer continuous spells of employment, is often considered a desirable aspect of a job given the positive links between tenure and earnings, and between tenure and

job satisfaction. On the other hand, long job tenure may also reflect low outside job opportunities rather than a strong level of satisfaction with the current job. Moreover, in the context of transition economies, very long-job tenure can also mean being stuck in a declining sector, while shorter tenures may be associated with new sectors and opportunities. From Table 12, one can see that overall job tenure is relatively low in the Kyrgyz Republic compared with other countries from the Soviet Union, with employees having on average been in their current job for only 7 years. There are also significant differences between sectors, with employees in trade having the lowest tenure, having been in their current job for an average of about three and a half years, while those in manufacturing, and in energy supply have the highest tenure, with an average of about eight and a half years.

Table 12: Selected non-income measures of job quality among the employed by sector 1998

	No contract (percent)	No paid vacation (percent)	No paid sick leave (percent)	Average job tenure (years)
All age employees	50.2	35.9	37.7	7.1
Agriculture	70.3	76.4	76.2	5.5
Mining	42.0	9.4	7.7	7.9
Manufacturing	34.0	12.7	14.9	8.8
Electricity, gas, water supply	39.8	6.9	12.2	8.3
Construction	42.8	45.0	46.8	6.1
Trade	63.2	68.6	67.5	3.7
Transport	39.0	18.5	22.6	7.8
Financial services	20.0	6.1	13.6	6.0
Services	44.7	16.4	18.9	5.5

Source: KPMS 1998.

Note: Rates based on wage-employed population of working age (16-57 for females and 16-62 for males).

4.2 The nature of precarious work

The previous results have shown that direct measures of working conditions in Kyrgyzstan varied a great deal across industries. The question asked here is to what extent poor working conditions are concentrated among informal jobs. Table 13 sheds some light on this question by providing correlation coefficients between types of wage employment and various measures of working conditions. There is a positive and significant, although not exceptionally strong, correlation between informal wage employment (employment with no contract), on the one hand, and lack of access to paid vacation and sick leave on

the other. Moreover, there is a negative and significant correlation between job tenure in current job and informal wage employment indicating that a longer period of employment is less likely to be associated with informal employment.

To sum up, these results show a large violation of basic labour rights in the Kyrgyz Republic. The real level of workers' protection seems to be far below what is stipulated in the Labour Code and other regulatory framework. Poor working conditions were also particularly – but not exclusively – evident in the informal sector. Considering that there are strong incentives to avoid compliance, especially in the informal sector, only a gradual and flexible approach is likely to lead to substantial improvements of working conditions. While efforts should be undertaken to enhance the enforcement of labour regulations, there is also a need to make formal social protection more affordable for small and medium enterprises. Payroll taxes are indeed already high in Kyrgyzstan, and this may prevent the development of small and medium enterprises (SMEs) in the formal sector.

Table 13: Correlation coefficients between various measures of job quality and informal employment 1998

	No contract	Contract
No paid vacation	0.367**	-0.367**
No paid sick leave	0.342**	-0.342**
Average job tenure	-0.104**	0.104**

Source: KPMS 1998

Note: ** means significant at the 1 percent level. Coefficients based on wage-employed population of working age (16-57 for females and 16-62 for males).

As a preliminary step, it might be desirable to carry out a cost-benefit analysis of enforcement and effective monitoring. This means estimating the incremental administrative costs needed for stronger compliance, and assessing the risk that the costs of labour regulations may be too heavy to bear and prevent the development of SMEs that are crucial for job creation. It also requires reviewing the economic costs of improving working conditions against the economic and non-economic costs of not improving them. The latter includes the human and financial costs carried by workers exposed to an unhealthy and poor work environment, as well as by their families; the economic costs to enterprises, in terms of lower productivity; and eventually the overall national costs in terms of lower growth and higher morbidity and mortality.

5. Identifying Vulnerable Groups and the Nature of their Risks

The previous sections have looked at the links between labour market status and income poverty. Our understanding of poverty was also complemented by a review of working conditions, which are important non-income dimensions of poverty in the workplace. The aim of this section is now to examine the determinants of poor labour market outcomes, and identify these individuals at risk of non-employment, low-paid work and poor working conditions. Answering these questions is essential to better understand the diverse needs of specific groups in the labour market and to design targeted policies that have a higher chance of reducing poverty and social exclusion.

5.1 Correlates of unemployment, long-term unemployment and discouragement

Table 14 presents the respective contribution of various individual and local labour market characteristics on the probability of being unemployed, where unemployment is defined using the ILO relaxed criterion. This probability is estimated on the whole sample of labour market participants (the employed and the ILO relaxed unemployed). To further distinguish which particular groups, among the unemployed, are at a higher risk of experiencing long-term unemployment and of being discouraged, the probabilities of being a long-term unemployed and a discouraged unemployed are then regressed on the restricted sub-sample of the unemployed. These results are presented in the same Table 14.

The group with the highest risk of being unemployed is individuals living in regions affected by widespread unemployment, individuals with general or technical secondary education, people from Uzbek and Tadjik origin, and the youth. Other groups at risk, but to a lower extent, are women, people living in urban areas, and people with some disability/chronic illnesses.

Among the jobless, the group with the highest risk of remaining without a job for more than a year is individuals living in depressed areas, women, people with some disability/chronic illnesses, and the least educated individuals.

As regards the probability of being discouraged, the results show that those jobless individuals who lost any hope of finding a job were disproportionately concentrated among individuals living in depressed regions and in rural areas. Another group with a high probability of being discouraged were women and older individuals, and the least educated individuals.

Table 14: Marginal Impact of selected characteristics obtained from Probit estimates of the probability of being unemployed, long-term unemployed and discouraged

	ILO relaxed unemployed	Long-term ILO relaxed	Discouraged unemployed
Individual characteristics			
Male (reference)	-	-	-
Female	0.061***	0.127***	0.045***
Age 16-25	0.138***	0.033	-0.055**
Age 26-45	0.031**	0.007	-0.057**
Age 46+ (reference)	-	-	-
Kyrgyz (reference)	-	-	-
Russian, Ukrainian, or Uzbek or Tadjik	-0.005	0.022	-0.117***
Kazakh	0.172***	0.013	0.038
Tatar	-0.045	0.152	-0.008
Other	0.020	0.131	-0.300**
Never migrated (reference)	-0.009	0.065	0.034
Migrated less than 2 yrs ago	-	-	-
Migrated between 2-5 yrs ago	0.042	0.008	0.002
Migrated more than 5 yrs ago	0.073	-0.024	0.021
No propiska	-0.027*	0.009	-0.113***
Disability/illness	-0.026	0.112*	-0.058
Primary education or less	0.059***	0.085**	-0.093***
Less than secondary	0.037	0.153*	0.095**
General secondary	0.193***	0.002	0.075***
Technical secondary	0.192***	-0.020	0.087***
High technical	0.176***	-0.032	0.057*
High general (reference)	0.080***	-0.007	0.035
	-	-	-
Local labour market			
Rural	-0.088***	-0.027	0.156***
Regional unemployment rate	0.974***	0.456***	0.300***
Sample for estimation	Employed and relaxed	Relaxed unemployed	Relaxed unemployed
N	6377	1501	1501
Pseudo R2	0.1585	0.0507	0.1978

Source: KPMS, 1998.

Note: ***, ** and * means statistically significant at 1 percent, 5 percent and 10 percent levels respectively.

All in all, these results confirm that a wide range of policy measures should be undertaken to address the problem of unemployment. The very high impact of regional unemployment rates, that is far greater than the impact of any

individuals' characteristics, attests the importance of stimulating labour demand as the most effective way to reduce unemployment. Interestingly, previous studies (World Bank 2001, p.7) found that the regional poverty rate was also a stronger determinant of poverty than were individual characteristics. This emphasizes the importance of considering the regional dimension in job creation as part of the Kyrgyz national strategy for poverty reduction.

However, stimulating labour demand alone will not necessarily be enough to address the needs of specific groups with a high risk of unemployment, namely the youth, women, and people with low or inadequate skills. The Government of Kyrgyzstan has already launched a number of active labour market programs (see Box 3) to support the reintegration of the unemployed. There is a need, nonetheless, to carefully review the impact of these programs for further improvements and to continue with those that have the highest rate of return. Continuous efforts are also needed to reduce all forms of employment discrimination against women. The high incidence of long-term unemployment and discouragement among women is indeed an indication of large gender inequalities in Kyrgyzstan.

Box 3: Reviewing Active Labour Market Programs in Kyrgyzstan

In 2000, the World Bank commissioned a review of Active Labour Market Policies in Kyrgyzstan. The purpose of the study was to make an assessment of existing programs and make recommendations on which programs should be continued, reformed or cancelled. The following results emerged from this study:

Training and Re-training programs, targeted on the registered unemployed, have a moderate quality and moderate costs. These programs need to be much more demand driven in order to better match the needs of the market. The cost-effectiveness of these programs could be improved, in which case it would be desirable to increase the resources spent on them at the expense of other programs that have a low rate of return.

Public works are usually targeted on the unemployed who do not receive unemployment benefits, and other socially vulnerable individuals like the long-term unemployed, youth, some groups of the disabled, and former prisoners. These programs turned out to have a low quality and low cost. It was recommended to improve the monitoring of these programs, and to rely on local or international NGOs for their implementation.

Self-employment programs led to disappointing results. They tended to have a moderate quality but a high cost. To be cost-effective, these programs usually need to be targeted on those individuals with a high chance of success and cannot cover a wide range of the unemployed. It was recommended to reduce such activities and to reorganize them.

Micro-Credit programs were targeted on the registered unemployed living in rural or remote areas and in small towns. They had a very low rate of return and were among the most expensive programs. To be more cost-effective, these programs would need to be handed over to agencies specialized in micro credits and not ran by the Employment Services. Rigorous evaluation of these programs would need to be undertaken as to decide whether they should be continued.

Employment promotion companies had a high cost but were also among the most effective programs. These companies act as local NGOs and received funding to implement public work programs and other active labour market programs. It was recommended to give more flexibility to local Employment Services to develop projects with these companies, and to rely more on the latter for the implementation of public work programs.

Job placement activities such as youth brokerage, job clubs, and job cheque, had in general the lowest relative cost and the highest rate of return among all active programs. These programs would need to be expanded and regularly monitored as to allow continuous improvement.

Source: World Bank (2000c).

5.2 *The determinants of low-earnings*

Simultaneous-quantile regression analysis is used here to capture the impact of various factors that may affect labour income differently, depending on the portion of the earnings distribution that is examined. This technique allows a focus on the determinants of low earnings, as opposed to the determinants of mean earnings. Table 15 shows the results of the estimations of hourly earnings for the 25th, 50th, and 75th earning percentiles.

The basic estimates of the gender wage gap, measured by the coefficient of the female dummy variable, are all statistically significant, indicating that women face a clear disadvantage in terms of pay. The size of the gender earnings gap in low-paid jobs is about 14 percent. As regards ethnicity, there seems to be little difference between people from Central Asian origin, while Russian speakers tend to get higher earnings. Looking at the effect of age within a quartile, there does not seem to be correlated with the level of pay, although age is likely to affect which quartile an individual is in.

The data also show some evidence those individuals who recently migrated from other parts of Kyrgyzstan face a significant disadvantage in terms of pay that is particularly marked in low-paid activities. For instance, compared with individuals who never migrated, the earnings of new migrants – those who migrated less than 2 years before the date of interview - were on average 35 percent less in low-paid activities and 23 percent less in middle-paid activities. But the negative earnings effect associated with internal migration seems to disappear over time as migrants settle-down. More surprisingly, individuals with no residence permits tend to get higher earnings.

With respect to health status, the data show that poor health conditions are an important factor affecting negatively the earnings of low-paid individuals. But the health variable is no longer significant among high-paid workers. This indicates a greater vulnerability of low-paid workers to health risks.

The same Table 15 shows that the type of education has a great influence on the level of earnings, and this is even truer among low-paid workers. Compared with individuals with higher general education, individuals with primary or no education earn 58 percent less in low-paid activities, 47 percent less in middle-paid activities, and 41 percent less in well-paid activities. A higher negative premium is also associated with technical secondary education (-40 percent in low-paid activities), than with general secondary (-32 percent).

The returns to job tenure are concave in low-paid activities, but job tenure does not play a significant role in high-paid activities. Among low-paid workers,

there is an increase in earnings up to an average of 20 years of tenure, and a decline thereafter.

With respect to job characteristics, the data indicate that in low-paid activities, individuals engaging in agriculture, services, and trade earn significantly less than those engaging in all other sectors. Trade is however no longer associated with lower earnings in better-paid activities. The latter likely reflects the heterogeneity of this sector, which may range from low-paid street trading and small-scale informal activities to well-paid activities linked with exports. What is also interesting is that agriculture is the sector with the lowest return in terms of pay at all level of the earnings distribution.

The nature of employment has also a substantial impact in terms of pay. Working as a self-employed and in the private sector is associated with higher earnings. Moreover, the returns to private sector employment, relative to public employment, are much higher in high-paid jobs than in low-paid activities. In low-paid activities, working in the private sector is associated with a wage premium of only 10 percent, compared with 19 and 27 percent in middle-paid and high-paid activities. In other words, private sector employment is providing relatively higher income opportunities than public sector employment, but this is truer in high-paid activities. What is also remarkable is that informal employment is associated with lower-earnings in both low and middle-paid activities, but not in high-paid activities. This indicates that for most workers in Kyrgyzstan, the informal sector resemble more as a survival mechanism associated with lower earnings. For a few better-off individuals, however, it is no longer associated with lower earnings.

With respect to local labour market conditions, the data show that individuals in rural areas face a substantial disadvantage in terms of earnings that is particularly marked in low-paid activities. The rural-urban earnings gap stood at about 20 percent in low-paid activities, compared with 16 percent in high-paid activities. Another interesting result is that regional unemployment exerts a strong moderating impact on earnings at the top of the earnings distribution. This suggests that growing wage flexibility is taking place in the Kyrgyz labour market in high-paid activities.

To sum up, the previous results have shown that the determinants of earnings and the size of their impact are not necessarily identical in all portion of the earnings distribution, reflecting a form of segmentation in the labour market. In low-paid activities, having health problems, having migrated recently, or holding an informal job resulted in lower earnings, while these events did not seem particularly significant in high-paid activities. Another difference is that the returns to private sector employment were more pronounced in high-paid

activities. Yet, in both low-paid and high-paid activities, lower earnings are observed for women, workers with little or inadequate skills, workers in agriculture and services, and individuals living in rural areas.

Table 15: Simultaneous-quantile regression estimates of log hourly earnings

Explanatory variables	25th percentile (coeff.)	50th percentile (coeff.)	75th percentile (coeff.)
<i>Individual characteristics</i>			
Male (reference)			
Female	-0.152***	-0.156***	-0.144***
Age 16-25	0.031	-0.041	-0.038
Age 26-45	0.060	0.023	0.031
Age 46+ (reference)	-	-	-
Job tenure	0.024**	0.013**	0.009
Job tenure square(×100)	-0.061*	-0.019	-0.010
Kyrgyz (control)	-	-	-
Russian, Ukrainian, or Byelorussian	0.158***	0.185***	0.191***
Uzbek or Tadjik	-0.100	-0.185	-0.121
Kazakh	0.138	0.137	0.244
Tatar	-0.212	0.095	0.116
Other	-0.653***	-0.287***	-0.167
Never migrated (reference)	-	-	-
Migrated less than 2 yrs ago	-0.439***	-0.264**	-0.038
Migrated between 2-5 yrs ago	0.050	0.082	0.144
Migrated more than 5 yrs ago	0.046	0.043	0.045
No propiska	0.372***	0.195*	0.375***
Disability/illness	-0.105**	-0.076*	0.015
Primary education or less	-0.877***	-0.644***	-0.528***
Less than secondary	-0.450***	-0.472***	-0.387***
General secondary	-0.397***	-0.326***	-0.283***
Technical secondary	-0.509***	-0.423***	-0.382***
High technical	-0.249***	-0.237***	-0.238***
High general (reference)	-	-	-

Source: KPMS 1998.

Note: ***, ** and * means statistically significant at 1 percent, 5 percent and 10 percent levels respectively. The percentage effects of a dummy variable X in semi-logarithmic equations of the form $\log(Y)=aX+b$ is $\exp(a)-1$, not a.

Attacking the problem of low-earnings in Kyrgyzstan would therefore require a mix of regional policies aiming at developing rural areas, sectoral policies that increase labour productivity in low-paid industries like agriculture, public sector reforms to allow an increase in public wages, in particular in services, and measure that ensure equity in pay by gender. There is also a need to work-out sustainable measures to enhance labour demand in the formal sector.

Table 16: Continued

Explanatory variables	25th percentile (coeff.)	50th percentile (coeff.)	75th percentile (coeff.)
<i>Job characteristics</i>			
Transport (control)	-	-	-
Agriculture and forestry	-0.871***	-0.778***	-0.694***
Mining	0.016	0.410**	0.304*
Manufacturing	-0.045	-0.073	-0.145
Electricity, gas, water	-0.117	-0.164**	-0.048
Construction	0.012	-0.032	0.116
Trade	-0.226*	-0.048	-0.064
Financial services	0.021	0.078	0.069
Services	-0.291***	-0.246***	-0.202**
Self-employed	0.458***	0.427***	0.695***
Private	0.095**	0.171***	0.242***
Informal	-0.124***	-0.099***	-0.064
<i>Local labour market characteristics</i>			
Rural	-0.235***	-0.172***	-0.177***
Regional unemployment rate	0.053	-0.139	-0.420***
N	2784	2784	2784
Pseudo R2	0.215	0.164	0.121

Source: KPMS 1998.

Note: ***, ** and * means statistically significant at 1 percent, 5 percent and 10 percent levels respectively. The percentage effects of a dummy variable X in semi-logarithmic equations of the form $\log(Y)=aX+b d$ is $\exp(a)-1$, not a.

5.3 Workers at risk of poor working conditions

Poor working conditions are other important non-income dimensions of poverty in Kyrgyzstan. A thorough understanding of who are the workers at risk of precarious employment is essential for the design of the Kyrgyz National Strategy for Poverty Reduction (NSPR). Table 17 sheds some light on this issue by presenting the result of multivariate analysis conducted on the sample of wage employed in order to isolate the respective contribution of individual and job characteristics to a poor work environment, as captured by (i) the lack of a labour contract, (ii) the non-payment of social security contributions by the employer, and (iii) the non-provision of paid annual leave. All these are labour rights that are mandatory according to the Labour Code.

As regards the lack of an official labour contract, the result show that individual characteristics, regardless of the sector of employment, do play an important role. Individuals at a greater risk of working under no contract were the least educated workers. There seem to be also some differences by ethnicity. Besides individual characteristics, the data also show that the wage-employed in agriculture, trade and services, and private sector employees had a higher probability to work without a legal labour contract. There were also important regional differences, with workers in the poorest region Naryn facing the highest risk of working without a contract.

Looking at the lack of social insurance coverage at work and provision of annual paid leave, one can see that the least educated workers are also at a greater risk. But the data also indicate that denial of these basic labour rights is particularly concentrated among the youth and internal migrants, and individuals with no registration permits. The latter echoes the growing concerns regarding social exclusion and the system of registration in Kyrgyzstan (see Box 4). Poor labour standards are also particularly more marked among workers in agriculture, trade, and construction, in private sector employment, and in the Bishkek labour market.

Box 4: The System of Registration and Basic Human Rights in Kyrgyzstan

The system of registration (propiska) in the Kyrgyz Republic very strictly ties the basic rights and freedom of citizens to the registration of citizens in the place of their residence, which contradicts international human rights standards as a whole.

Right to labour. One of the basic human rights, which is the right to labour, directly depends on the registration. The Labour Code prohibits any restriction of the labour rights or any preferences in relation to the place of residence or other circumstances which are not related to the professional qualities of an employee or performance and does not establish any restrictions due to registration in the place of residence. However, the Code of the Kyrgyz Republic on the administrative responsibility establishes the liability of officials who employ individuals without registration through an administrative fine. As a result, a citizen who is not registered in a place of residence properly has labour rights limited, which contradicts the Constitution and the basic rights and freedom of citizens.

Access to public social support. Access to social security is also closely linked to the problem of registration. In the area of labour, the law does not require registration in the place of residence as a criterion for being registered as unemployed. However, the Labour Code stipulates that unemployed citizens are registered in the place of their permanent residence by the employment services. The absence of registration in the place of residence becomes therefore a motivation for non-registration of citizens as unemployed. Increasing flow of internal migrants in Bishkek has resulted in the development of 22 new neighborhoods with the majority of residents unemployed. Many of them are also unregistered. In order to provide services to these unemployed, the Department of Labour and Employment established a Mobile Employment Service (MES) in August 1997 which registers the unemployed, regardless of their registration. But people without permanent propiskas who register through the MES would not be allowed to receive unemployment benefits, stipends while attending training, and financial assistance for starting self-employment. In the area of social assistance, eligibility for the Unified Monthly Benefit requires a permanent propiska. However, permanent residents of the newly built neighborhoods of the city of Bishkek in absence of a propiska, can apply for the benefits in their place of actual residence on the basis of a certificate from the neighborhood committee, subject to later verification.

Right to accommodation. The Housing Code of the Kyrgyz Republic of May 1983 established as a standard a housing space of 12 square meters per head that determined a permissible number of people to be registered in a house. Article 41 of the new regulation establishes a list of citizens (e.g. spouses, children) that can register regardless of the size of the dwelling. Moreover, to take into account the specificities of internal migrants, article 82 under the regulation of the passport system stipulates that in the newly built area, where houses are not notarized, the registration in the place of residence is granted for a period of not more than one year as long as the citizens have been allocated a land site and cancellation of their registration in the previous place of residence.

The right to vote. The right of the Kyrgyz citizens to vote is linked to the system of registration. According to article 21 of the Code on Election in the Kyrgyz Republic a citizen is included into a list of voters according to his/her permanent or temporary residence. Absence of registration in the place of residence deprives a citizen of his/her right to vote.

Right to education. Every citizen in the Kyrgyz Republic has the right to education regardless of a place of residence.

Right to health protection. Citizens of the Kyrgyz Republic have the right to health protection and use of a network of state health facilities free of charge. However, the rules of registration of the population with Family Group Practices (FGP) in the city of Bishkek generates exclusion in the absence of registration, as only those with permanent or temporary propiska have the right to get services in the Bishkek's FGP.

Sources: OSCE (2000); Ministry of Labour and Social Protection et al.(Ministry of Labour and Social Protection, Bishkek Mayor's Office, IOM, and GTZ 1998).

These results thus demonstrate that not all individuals are equally affected by the violation of basic labour rights, and that attacking the problem of social exclusion in the Kyrgyz Republic also means addressing the fate of workers exposed to an unhealthy and poor work environment. This is an important challenge in the Kyrgyz Republic and it cannot be addressed without an integrated approach to law enforcement, social protection and employment creation. Small businesses, usually in the informal sector, make a substantial contribution to generating employment, and their development needs to be strongly encouraged. At the same time, measures should be put in place to extend social protection to all and reduce vulnerability in the labour market.

Table 17: Multivariate correlates of selected poor working conditions obtained from Probit estimates (marginal impact in percent)

Explanatory variables	Wage employed with no	Wage employed with no social insurance contributions paid by	Wage employed with no paid annual leave
<i>Individual characteristics</i>			
Female	0.018	-0.037	-0.046*
Age 16-25	0.052	0.147***	0.165***
Age 26-45	-0.002	0.065***	0.082***
Age 46+ (reference)	-	-	-
Kyrgyz (reference)	-	-	-
Russian, Ukrainian, or Byelorussian	0.045*	0.068**	0.056*
Uzbek or Tadjik	-0.235**	-0.109	-0.170
Kazakh	0.208**	0.175*	-0.006
Tatar	0.064	-0.072	-0.080
Other	0.144*	0.213**	0.212***
Never migrated (reference)	-	-	-
Migrated less than 2 yrs ago	0.083	0.203***	0.143*
Migrated between 2-5 yrs ago	0.025	0.210***	0.213**
Migrated more than 5 yrs ago	0.041	-0.012	-0.019
No propiska	0.057	0.187**	0.181**
Disability/illness	0.037	0.043	0.042
Primary education or less	0.190***	0.392***	0.433***
Less than secondary	0.104***	0.129***	0.159***
General secondary	0.108***	0.169***	0.177***
Technical secondary	0.067*	0.085*	0.083*
High technical	0.056*	0.032	0.046
High general (reference)	-	-	-

Source: KPMS, 1998.

Note: ***, ** and * means statistically significant at 1 percent, 5 percent and 10 percent levels respectively.

Table 17: Continued

Explanatory variables	Wage employed with no contract	Wage employed with no social insurance contributions paid by employer	Wage employed with no paid annual leave
<i>Job Characteristics</i>			
Transport (control)	-	-	-
Agriculture and forestry	0.296***	0.340***	0.306***
Mining	0.127	0.037	-0.087
Manufacturing	0.002	-0.043	-0.064
Electricity, gas, water	0.078	-0.006	0.014
Construction	0.052	0.152**	0.122*
Trade	0.166**	0.372***	0.314***
Financial services	-0.159**	-0.129*	-0.060
Services	0.140***	0.06	0.064
Private	0.164***	0.470***	0.481***
<i>Location</i>			
Rural	-0.062*	0.088**	0.087**
Bishkek	0.216***	0.390***	0.364***
Issyk-Kul	-0.057	0.151***	0.100**
Jalalabad	0.177***	0.341***	0.291***
Naryn	0.419***	0.045	0.060
Osh	0.242***	0.311***	0.190***
Talas	0.284***	0.197***	0.339***
Chui (control)	-	-	-
N	2430	2430	2430
Pseudo R2	0.1332	0.5119	0.5119

Source: KPMS, 1998.

Note: ***, ** and * means statistically significant at 1 percent, 5 percent and 10 percent levels respectively.

5.4 The multiple aspects of vulnerability in the labour market

A summary of various poor labour market outcomes attached to different groups is provided in Table 18. What emerges from this table is the extreme vulnerability of individuals with narrow or inadequate skills, and women, who cumulated a high risk of being unemployed, of remaining longer in unemployment, of being discouraged, and if employed, of being low-paid or – for the least educated – of working under precarious conditions. Addressing the needs of these most disadvantaged groups would therefore require combining

pro-employment policies with education reforms and a better enforcement of gender equity measures.

Location also play an important role on the labour market outcomes of people in Kyrgyzstan, with a clear disadvantage faced by people living in depressed and rural areas. This calls for a more decentralized and regional approach that promotes local initiatives. Another group composed of individuals with disabilities and illnesses face a high risk of labour market exclusion or of being low-paid. Given the low level of formal job creation in Kyrgyzstan, the scope of reintegrating this group into decent employment may be limited, but adequate social protection measures should then be put in place to lift them out of poverty. The enforcement of the Labour Code regarding the provision of specific jobs for some categories of the disabled should also be closely monitored.

The youth face a somewhat different position, as their main problem is finding a first job and avoiding low labour standards once in employment. Internal migrants are also exposed to greater risks in the labour market, not so much in terms of unemployment, but more in terms of low-paid work and precarious work. Poor working conditions are also particularly marked among individuals with no legal residence permits and individuals from Slavic origin, while individuals from Uzbek and Tadjik seem to face a higher risk of unemployment.

Table 18: Summary of labour market outcomes and vulnerable groups

	Unemployed	Long-term unemployed	Discouraged	Low-paid	Poor working conditions
Low educated	X	X	X	X	X
Women	X	X	X	X	
Disabled	X	X		X	
Living in depressed area	X	X	X		
Living in rural area			X	X	X
Youth	X				X
Internat migrants				X	X
Russian, Ukrainian or Byelorussian					X
Uzbek or Tadjik	X				
No registration					X

Source: Based on the results displayed in Tables 14-17.

Note: X means correlations statistically significant at the 1, 5 or 10 percent level.

6. Conclusion

The aims of this paper were to identify the multiple aspects of vulnerability in the labour market, identify the groups at risks of poverty and social exclusion, and provide some guidance on the design of the Kyrgyz national strategy for poverty reduction. While there has been a visible improvement in economic conditions and a reduction in income poverty in the past five years, in the late 1990s, there was still a large fraction of the population facing high rates of income poverty and poor labour market prospects. The main findings are summarized below.

First, the paper highlighted the sensitivity of unemployment rates to the definitions used. In particular, it argued that including the discouraged unemployed, who are not actively seeking work because they have lost of hope finding a job, is essential to understanding the true nature of unemployment in the Kyrgyz Republic. Indeed, taking account of the discouraged unemployed, the unemployment rate quadruples. Moreover it showed that for a complete picture of the labour resources left unused in the economy, both the hidden

unemployed and the underemployed should be considered. It also revealed the large scale of informal employment in the Kyrgyz Republic, which accounts for almost half of total employment. Informal employment was particularly prevalent in trade but also in agriculture and, to some extent, in the services sector.

Second, in terms of income poverty, the data showed that the traditional dichotomy between the non-employed and the employed has limitations. Accounting for the heterogeneous nature of jobs and characteristics of unemployment and inactivity, one could see that income poverty varied greatly within groups of unemployed, inactive and employed. In the late 1990s, the highest poverty rates were observed among the registered and discouraged unemployed and among inactive women taking care of children. However, the incidence of poverty was also disproportionately high among informal jobholders and the self-employed.

Third, the incidence of poverty was by far the highest in agriculture. In the absence of formal job creation and a functioning social safety net, agriculture appears to be providing a safety net for a significant proportion of the labour force as well as a buffer against the dramatic fall in living standards, which followed the 1998 Russian financial crisis. However, the low level of productivity (resulting from a massive influx of labour on very small plots) and extremely high poverty rates in agriculture point to the limitations of this coping mechanism for long-term poverty reduction.

Fourth, the results show that non-income dimensions of poverty in the workplace are an important challenge in the Kyrgyz Republic. Despite the recognition of a number of core labour standards in the Kyrgyz Labour Code, a large gap remains in practice and the real level of workers' protection is far below that which is stipulated in the Kyrgyz legislation. A very large share of employees was found to be working without a formal contract, with no social insurance coverage and no paid leave. Poor working conditions and high job instability have important human and economic costs, not only for workers and their families, but also for enterprises, in terms of lower productivity, and for the country as a whole, in terms of social cohesion and reduced opportunities for pro-poor growth.

Finally, the results point to the existence of multiple labour-related risks faced by specific groups. A key finding of this analysis is the extreme vulnerability of low-educated people and women in Kyrgyzstan, who cumulated a high risk of being unemployed, of remaining longer in unemployment, of being discouraged, and if employed, of being low-paid or working in precarious jobs. Other groups facing a high risk of exclusion, both from employment and within

employment, were people with disabilities, individuals living in rural or depressed areas, the youth and internal migrants.

What emerged from this analysis is therefore the multiple aspects of vulnerability in the labour market and the need to address these issues through a comprehensive approach including (i) the promotion of job creation and labour mobility (ii) the design of inclusive and effective employment programs and policies (iii) measures that make work pay, and (iv) measures that will reduce vulnerability in the labour force. A thorough understanding of who are the groups at risks in the labour market is also essential as to better meet the needs of specific groups and improve the effectiveness of public policies.

Job creation and labour mobility

- Remove obstacles to enterprise development in order to create formal/off-farm job opportunities and thereby lift informal workers from a situation of mere survival to a stronger economic position;
- Address the regional disparities in job opportunities through a mix of policies that will facilitate labour mobility and contribute to the local development of depressed areas;

Designing inclusive and effective pro-employment programs and policies

- Continue with those active labour market programs that are most cost-effective and seek improvements in the financing mechanism, which is currently based on social security contributions, by considering financing these programs through the Republican budget.
- Improve the targeting of active labour market programs on vulnerable groups, namely individuals with low or inadequate education, women, youth and the disabled;
- Enforce anti-discrimination policies in hiring and firing, particularly with regards to gender and disability;
- Encourage female employment through the establishment of gender friendly work-arrangements, which permit the reconciliation of parental responsibilities with work;

Making work pay

- Address the problem of the working poor through sectoral policies aimed at increasing economy-wide productivity in order to raise earnings, particularly in agriculture where the overlap between work and poverty is most widespread;
- Continue with public sector reforms in order to deal with the issue of low wages in budgetary organizations;
- Address the gender pay gap;

Reduce vulnerability in the labour force

- Encourage formalization of employment by removing all barriers to the legal development of enterprises;
- Strengthen the social insurance system by making it more affordable for employers and by increasing the willingness to pay among employees through tightening the link between social contributions and benefits;
- Raise awareness of informal employers on the links between working conditions and productivity.

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