

Inequality in the era of the 2030 Agenda for Sustainable Development: North and Central Asia

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United Nations Publication
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Printed in Almaty, Kazakhstan

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I. Introduction

Owing to fall in commodity prices, inequality, which had earlier declined due to high export-led growth, has risen in recent years in the Russian Federation as well as countries of Central Asia and the Caucasus. Uneven access to quality education, decent employment and other public services have led to widening gaps among different social groups. If countries are to leave no-one behind, as enshrined in the 2030 Agenda for Sustainable Development, long-term economic growth will need to be coupled with a more inclusive development that fosters social stability.

This study considers the issue as well as its causes, based on multidimensional indicators that are now available. **Chapter II** defines key dimensions of inequality, given the history of these country and explains why inequality matters. **Chapter III** notes where these countries of North and Central Asia stand in terms of reducing both inequality of outcomes and opportunities through cross-country comparisons. Challenges surrounding inequality of opportunities for selected social groups, namely women, young and older people, rural population and migrant workers are examined, with support of internationally comparable data.

Several concerns come to light: (1) Women tend to be both underpaid and underrepresented in decision-making processes, even though they are economically active and educated; (2) Young people are more likely to be unemployed, which could lead to social displacement; (3) Aging population in selected countries could jeopardize current pension systems which currently cover almost all older persons; (4) a rural-urban divide in terms of access as well as quality of public services remain; and (5) working conditions of migrants are precarious.

Given the above, **Chapter IV** proposes a set of policy recommendations based on an expert group meeting on inequality held in Almaty, Kazakhstan, on 25 October 2017 as well as other initiatives. They call for (1) greater collection of data disaggregated by sex, age, income level, employment status, geographical location, as well as migratory, disability and ethnic status; (2) strengthened economic diversification through market integration, infrastructure development and financial inclusion under sound macroeconomic management; and (3) improved efficiency and effectiveness of social institutions such as education system, labour market and social protection scheme so that they reach the vulnerable social groups.

Finally, **Chapter V** provides information on the 2019 Asia and Pacific Forum for Sustainable Development, with the theme “Empowering people and ensuring inclusiveness and equality” which could provide an opportunity for countries to share policies, experiences and best practices at the regional-level.

II. Defining "Inequality in North and Central Asia"

Inequality is multi-dimensional. It is about opportunities as well as outcomes among people, whether they be individuals, households or demographic or income groups. The definition of inequality and ways that it is measured affect our understanding of the issue. The characteristics of the subregion also needs to be taken into account if we are to fully comprehend where these countries stand and why inequality matters for their economic development.

A. Inequality of outcomes and opportunities

For many decades, the measurement of inequality was undertaken with a single indicator, such as distribution in income or consumption levels across individuals or households. After Professor Amartya Sen's **capabilities approach** had been developed in his 1999 book "*Development as Freedom*", however, the focus of the measurement has shifted to whether a member of a certain society has capabilities to pursue her or his own wellbeing. Since such capabilities are, by nature, multidimensional and heterogeneous across individuals, several definitions and indicators have been proposed, including the United Nations' Human Development Index. In its 2018 publication "*Inequality in Asia and the Pacific in the era of thee 2030 Agenda for Sustainable Development"*, ESCAP also developed a conceptual framework to analyse multidimensional aspects of inequality in Asia and the Pacific. Therefore, this study applies this framework to analyse inequality in North and Central Asia with respect to *inequality of outcomes and opportunities* which are defined in the publication.[1]

Inequality of outcomes, or economic inequality, is disparities in material dimensions of human wellbeing among individuals. It is usually measured by monetary values such as the level of income, expenditure and wealth, though not solely in such terms. The GINI index is the widely-used indicator to measure such dimensions of inequality, calculated based on census and state-led household consumption surveys or estimated by compiling several fragmented assessments. It is important to note that the index has several limitations in measuring the reality of inequality such as data frequency, reporting and estimation errors and the issue of the highest income quantile.[2] Even though several proposals have been made to overcome such issues, this paper uses the GINI index for cross-country comparison to generally comprehend where this subregion stands.

Inequality of opportunities concerns unequal access to fundamental services and rights required for individuals to sustain and improve their livelihood. In the conceptual framework of capabilities approach, this type of inequality is considered as deprivation capability in pursuit of wellbeing. Granting all individuals equal access to opportunities levels a playing field for competition and results in economic outcomes determined solely by their efforts and choices. These opportunities may include, but are not limited to, education; good health and nutrition; access to utilities such as water, sanitation, electricity and heating; access to information and communications technology; access to social protection such as pension and unemployment insurance; access to financial instruments; and ability to participate in the life of the community. As discussed more fully in Chapter III, this paper employs the dissimilarity index, a GINI-index-type indicator for binary variables, to capture the overall level of accessibility to opportunities and then conducts in-depth capabilities

[1] ESCAP (2018) also defines *inequality of impact*, referring to the asymmetric impact of external shocks, such as natural disasters, on different social groups.
[2] Cobham, A., L., Schlogl, and A., Summer, 2015, Inequality and the Tails: The Palma Proposition and Ratio Revisited, DESA Working Paper No. 143, ST/ESA/2015/DWP/143

analysis in each dimension of inequality experienced by individuals belonging to different social groups.

Inequality of outcomes and opportunities are interlinked and mutually reinforcing. For example, less household income forces children to work for pay instead of enrolling in school. In turn, less subsequent educational attainment provides fewer opportunities for children to obtain better-paid and safer jobs in the future, leading to economic poverty persisting from generation to generation. In the long run, this intergenerational inequality creates prejudice, discrimination, social exclusion, as well as skewed power distribution, which further expands inequality in income and opportunities. Furthermore, locking the socially excluded at the bottom of society increases the likelihood of social instability, resulting in smaller gains from economic growth at the macroeconomic and individual level. To prevent such undesirable persistence of inequality which may damage sustainable development, this study is to assess the constriction in the capabilities of different members of society.

B. Unique historical setting

In the past, North and Central Asia formed part of the socialist system of the Union of Soviet Socialist Republics (USSR), previously known as the most egalitarian political system. Provision of income and public services such as education, health care and access to electricity and water were guaranteed for every single person in exchange for labour, regardless of gender. **This historical setting created a relatively lower level of inequality, of both outcomes and opportunities, compared to other regions.** We need to be aware of this historically-dependent aspect to discuss the degree of inequality.

Right after the dissolution of USSR in 1991, income inequality emerged and increased substantially: for example, the GINI index in the Russian Federation, estimated based on self-reported survey data, increased from 27 to 41 between 1989 and 1994.[3] Since then, this subregion has been transforming from centrally-planned to market-driven economies. This transition has been painful, especially for those who did not gain vouchers or assets from the privatization of state-owned enterprises.

As economic activities gradually resumed, coupled with the escalation in international oil prices, strong economic growth occurred in this subregion during the first decades of the twenty-first century: the economy of North and Central Asia grew annually at 7.7 per cent on average.[4] As a result, only Kazakhstan and the Russian Federation were defined as lower-middle-income countries in 1999, according to the World Bank classification, while the remaining countries in the region were in the low-income group. Today, all countries in North and Central Asia are classified as middle-income countries,[5] ranging from $1,100 in Kyrgyzstan to $9,720 in the Russian Federation in terms of GNI per capita (current, Atlas method, 2016). In turn, the poverty headcount ratio at $1.90 a day substantially dropped down: as the most successful case, Kyrgyzstan reduced the ratio from 42.2 per cent in 2000 to 1.4 per cent in 2016. Furthermore, reduction in the GINI index was observed in most of countries in this subregion, as shown in Figure 1 of Chapter III. **The economic success supported by the oil boom was translated into an improvement in living standards, reduction of extreme poverty and less income inequality**.

[3] Novokmet, F., T. Piketty, G. Zucman, 2017, From Soviets to Oligarchs: Inequality and property in Russia, 1905-2016, NBER Working Paper No. 23712

[4] Authors' calculation on World Bank World Development Indicator.

[5] For a purpose of comparison, the World Bank's Country Group by income level is employed throughout this paper. The World Bank defines middle-income countries with between $1,006 and $12,235 in GNI per capita (Atlas method, current United States dollars).

Economic growth, however, was interrupted by the Global Financial Crisis in 2008-2009, and slumps in international oil prices since 2014. Oil-exporting countries such as Azerbaijan, Kazakhstan and the Russian Federation experienced negative economic growth, which was transmitted to other countries such as Kyrgyzstan and Tajikistan due to decreased remittance flows from migrant workers. These economic disturbances seemed to most affect those in the lowest-income quantile: **there is thus a sign of growing inequality in this subregion**, which is measured in several indicators and analysed in Chapter III.

C. Inequality matters

Despite the subregion's better performance in major inequality indicators compared to others, the issue of growing inequality across people and social groups has become more pressing than ever in North and Central Asia.

First, growing inequality negatively impacts social cohesion and stability in the region and globally. Unemployment and dismal future prospects prevailing among the youth, especially in rural regions, may be potential catalysts for radicalism.[6] To response to such growing influence of extremist groups in this subregion, several countries have tried to tighten control over them by developing anti-terrorism laws.[7] In addition, high-level meeting of ministers from five Central Asian countries and the United Nations Secretary-General, held in Ashgabat in June 2017, adopted a joint declaration on strengthening regional anti-terror efforts, resolving to implement the United Nations Global Counter-Terrorism Strategy as well as the Secretary-General's Plan of Action to Prevent Violent Extremism.[8] However, the root causes of radicalization, such as inequality of opportunities, need to be fully addressed to realize social stability in a sustainable manner.

The sense of social unfairness, stemming from persistent inequality, also has economic consequences. It acts as a disincentive to invest in education and skill acquisition at the individual level, which results in lower productivity growth and lower rate of private investment and innovation at the macroeconomic level. This was not an issue in the resource-led economic development that North and Central Asia has experienced in recent years. However, as international prices of commodities are expected to hover below the pre-2014 levels, this subregion need to be apart from the previous model of economic growth and turned into more innovation-led economy. In this sense, equally accessible opportunities to strengthen individual capacities are crucial in enhancing effort and efficiency for more production, fostering new businesses for more economic diversification, and then achieving economic growth without any interruptions caused by external factors.

[6] ESCAP, 2018, Asia-Pacific Countries with Special Needs Development Report 2018: Sustainable Development and Sustaining Peace, pp.33

[7] Olcott, M.B., 2018, Terrorism, Religion and State Policy in Central Asia, https://doc-research.org/2018/02/terrorism-religion-state-policy-central-asia-2/

[8] http://www.un.org/apps/news/story.asp?NewsID=56962#.WUH0gut96Uk

III. Inequality in North and Central Asia: Trend and Cause

The trend of inequality situation in North and Central Asia is analysed in this chapter. In cross-country comparisons, this subregion performs better than the other countries in terms of inequality of outcomes and opportunities, measured by GINI index and the dissimilarity index. The paper also discusses the growing economic inequality in recent years and concerns related to the informal economy. Lastly, this chapter analyses key issues and the causes of inequality, with special reference to vulnerable social groups, namely women and girls, young and older people, rural population and migrant workers, based on available indicators and existing work.

A. Cross-country comparison of inequality of outcomes

North and Central Asia are economically less unequal than other countries in the world. Figure 1(a) provides cross-country GINI index in a simple 5-year average of available data between 2011 and 2015 in the descending order. Most of North and Central Asian countries are located in the bottom part, ranging from 26.8 in Kazakhstan to 31.8 in Azerbaijan,[9] while Georgia and the Russian Federation are located a little higher than the median country, indicating 40.3 and 39.8, respectively. Compared to high GINI index in African and Latin American countries in the upper part, North and Central Asia perform relatively well on this indicator. However, it is important to keep in mind that this GINI index does not include taxes and transfers, which can reduce economic inequality.

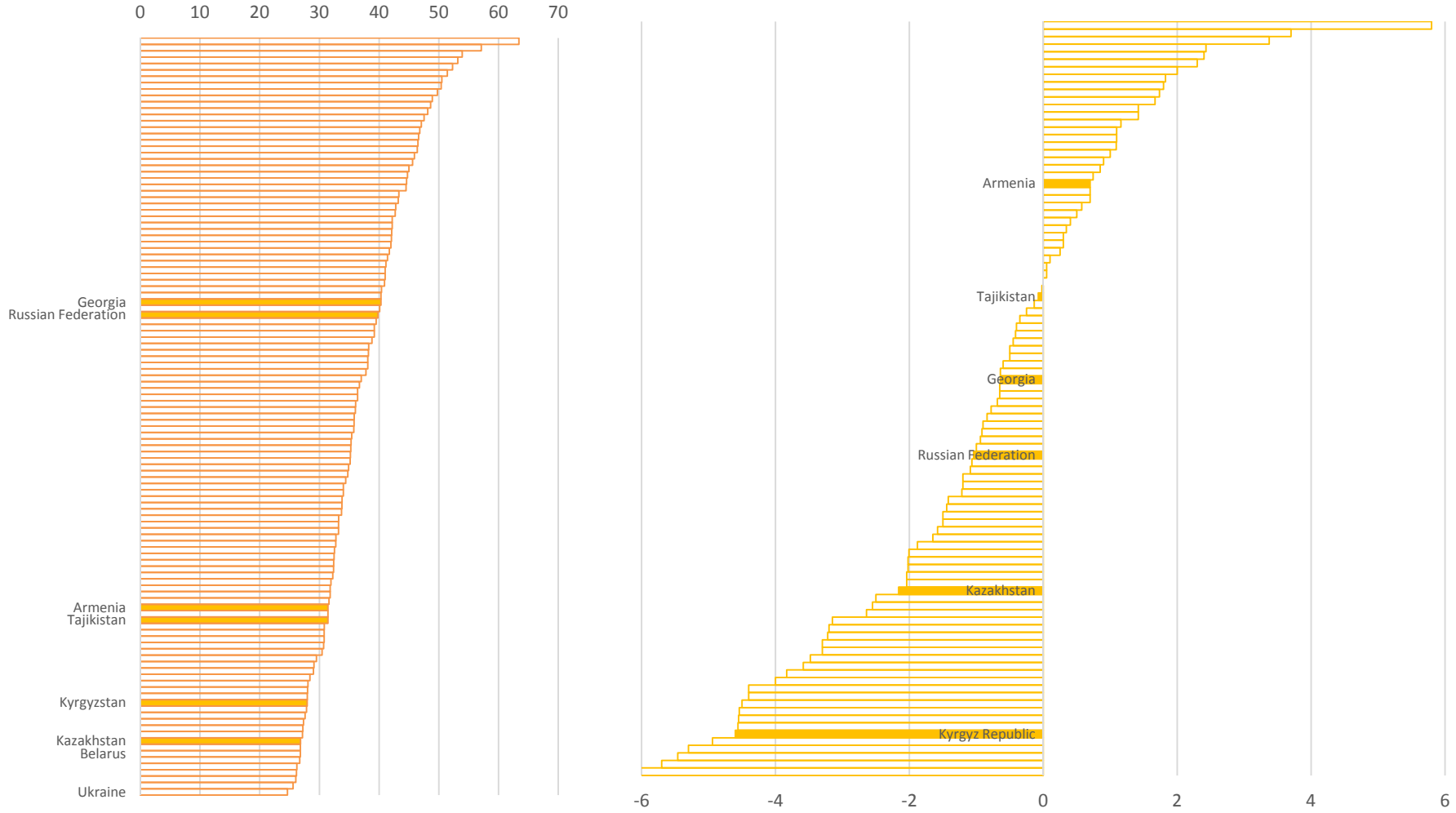
Lower GINI index in this subregion can partly be attributed to the legacy of the former social system since other former USSR countries such as Ukraine and Belarus also report lower values, 24.66 and 26.82, respectively. As mentioned in Chapter II, inequality did not exist in theory under the socialist system. This is the history-dependent aspect of inequality in this subregion, regardless of the drastic surge of inequality right after the collapse of the system.[10]

In the medium-term trajectory, inequality has decreased in this subregion, except Armenia, among other countries. Figure 1(b) provides difference in average GINI index from the period between 2006 and 2010 to the period between 2011 and 2015. Kyrgyzstan reduced 4.6 points in GINI index, followed by Kazakhstan (-2.16), Russian Federation (-1.04) and Georgia (-0.64). In these countries, improvement in business environment took place after 2011 through economic reforms such further privatization of state-owned enterprises, deregulation, opening markets, creating jobs, and growth of small- and medium-size enterprises. For example, the accession of the Russian Federation to the World Trade Organization in 2012 seemingly led to more agricultural export, from $21 billion to $24 billion (constant to 2011) between 2010 and 2012.[11] This partly explains unprecedented annual value-added growth of the agricultural sector in 2011 by 14.21 per cent, contributing to improvement in the living standards of farmers. Strong economic growth supported by high oil price in the 2000s may also be another factor that helped reduce inequality through enhanced consumption by the rich for domestic goods and services in other parts of this subregion.

[9] For Azerbaijan, the 2008 value is used to complement the lack of data in the specified period.
[10] Novokmet, F., T. Piketty, G. Zucman, 2017, From Soviets to Oligarchs: Inequality and property in Russia, 1905-2016, NBER Working Paper No. 23712
[11] Data are retrieved from the World Bank World Development Indicator.

Figure 1. GINI index

(a) Average GINI index between 2011 and 2015 (b) Change in average GINI index from 2006-2010 to 2011-2015



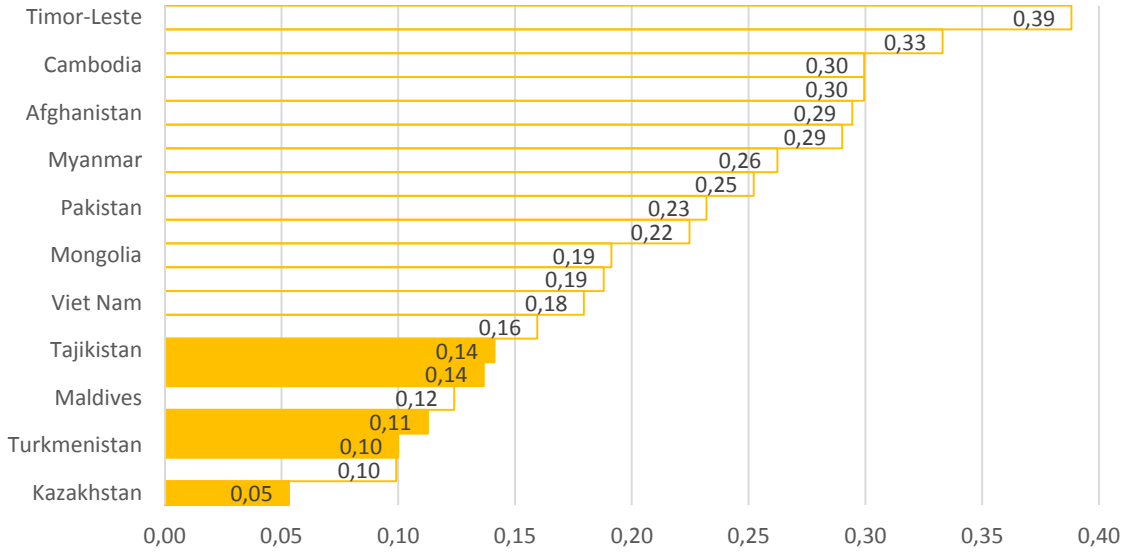
Source: World Bank World Development Indicators

B. Cross-country comparison of inequality of opportunities

Inequality of opportunities is natural to assess in a multidimensional framework, covering such diverse attributes of human functional capabilities from access to education to taking part in the life of the community. This makes direct cross-country comparison difficult since some countries do well in some fields but not in the others. **The Dissimilarity Index**, known as D-index, measures the degree of access to an opportunity, such as access to secondary education, among different social groups.[12] The index can be interpreted as a weighted-average of differences between the group-average and the population-average. When the index values zero, it implies that all groups in the country have equal access to one aspect of opportunity. As it gets higher, inequality of a certain opportunity expands.

To take a snapshot on where North and Central Asian countries stand in terms of inequality of opportunities, **ESCAP recently has developed "average Dissimilarity index" for Asian and Pacific countries.**[13] Based on household surveys available in several Asia-Pacific countries, it is calculated as a simple average of thirteen Dissimilarity indexes for; (1) attainment of secondary education for ages 20 to 35; (2) attainment of higher education for ages 25 to 35; (3) prevalence of stunting for ages 0 to 5; (4) women's access to modern contraception; (5) women's access to professional help during childbirth; (6) access to full-time work; (7) household's access to safe drinking water; (8) household's access to basic sanitation; (9) household's access to electricity; (10) household's access to clean fuels; (11) household's access to a mobile phone; (12) household's access to ownership of a bank account; and (13) household's access to all the basic opportunities above. **In terms of average D-index, North and Central Asia performs better than other Asia-Pacific countries**: Armenia, Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan are ranked in the bottom and report almost zero value of the index, ranging from 0.05 in Kazakhstan to 0.14 in Tajikistan (Figure 2).

Figure 2. Average Dissimilarity Index



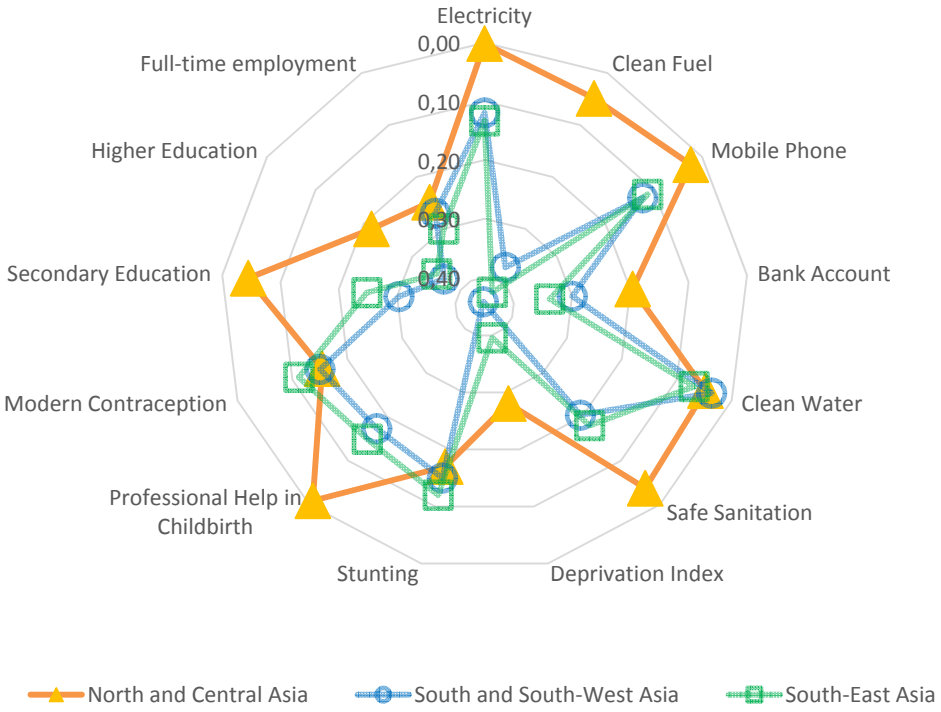
Source: ESCAP (2018) Inequality in Asia and the Pacific in the era of the 2030 Agenda for Sustainable Development

[12] The dissimilarity index is calculated with the formula of $D = \frac{1}{2\bar{p}}\sum_{i=1}^{n}\beta_i\,(p_i - \bar{p})$ where n is the number of groups; β_i is the proportion of individuals/households in group i to the sampled population so that $\sum_{i=1}^{n}\beta_i = 1$; $\bar{p}$ is the sample-average of binary variable, e.g. whether an individual or household has access to electricity; p_i is the average value of the binary variable in group i. Depending on the variable used, the number of groups change. In the case of secondary education attainment, samples are sorted into eight groups by high/low income, rural/urban resident and woman/man.

[13] ESCAP, 2018, Inequality in Asia and the Pacific in the era of the 2030 Agenda for Sustainable Development, forthcoming

Figure 3 provides factors contributing to, or limiting, equal opportunities for all people. Basic public services such as electricity, clean fuel and safe sanitation are more equally accessible among social groups compared to other subregions. Tools in modern life such as mobile phones and bank accounts are used more among individuals in this subregion. Thanks to the former political system, education is also a contributing factor to support equal opportunities for children and adolescents. On the other hand, **this subregion lags a little behind other subregions in access to better nutrition among children and modern contraception among women. Employment as a source of inequality continues to be a subregional concern, in light of the higher D-index value.**

Figure 3. Dissimilarity Index in thirteen opportunities



Source: ESCAP (2018) Inequality in Asia and the Pacific in the era of the 2030 Agenda for Sustainable Development

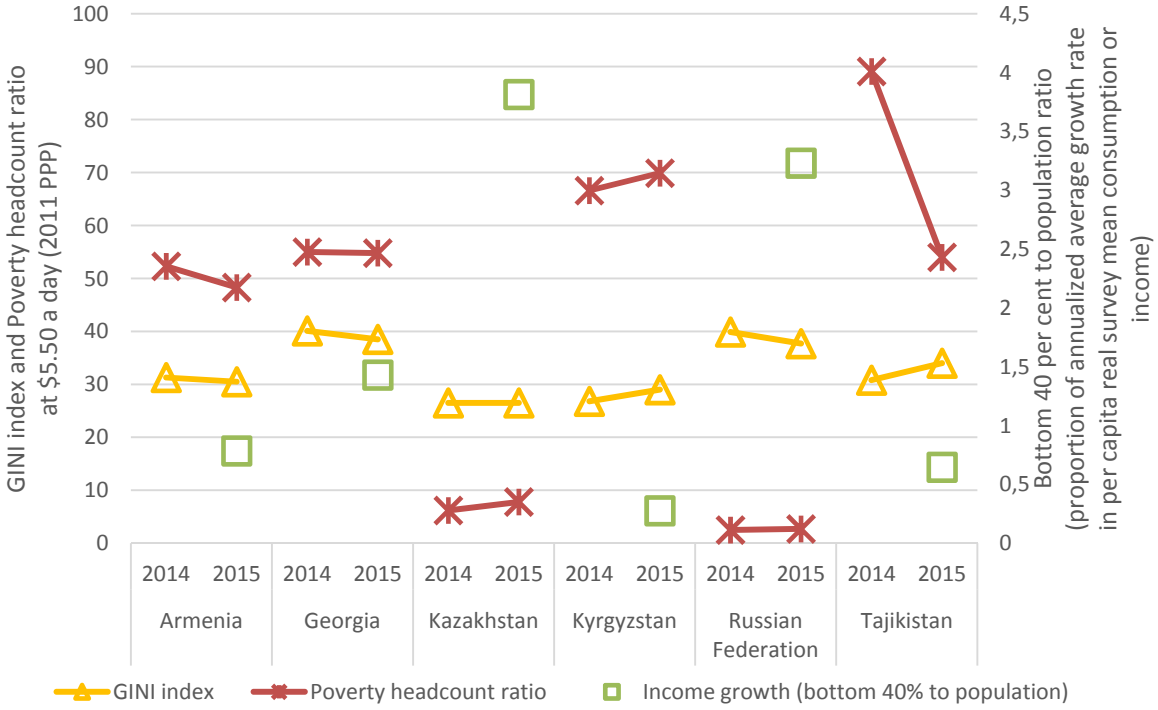
North and Central Asia achieves near-universal completion of primary and secondary education. Tertiary enrolment rates in Armenia, Georgia, Kazakhstan, Kyrgyzstan and the Russian Federation are also higher than the global average. However, pre-primary and quality education, often offered outside the public education system, is not equally accessible even though it is the critical factor that accounts future success and higher income.

Like education, **key indicators in health care coverage continue to remain high in North and Central Asia**: the share of births attended by skilled health staff, the share of pregnant women receiving prenatal care and measles immunization rate are close to 100 per cent. Since out-of-pocket expenditures constitute more than 40 per cent of total health expenditures of a household in most of countries, however, access to quality health care is limited for people with sufficient income. On the other hand, the gap between female and male life expectancy in this subregion is larger than other countries, stemming from the gender difference in consumption of alcohol and tobacco.

C. Expanding inequality of outcomes

In cross-country comparisons, North and Central Asia seems less unequal in terms of outcomes and opportunities. In the latest indicators, however, there is a sign of expanding economic inequality. From 2014 to 2015, the GINI index has increased by 2.2 in Kyrgyzstan and by 3.2 in Tajikistan with income growth below the bottom 40 per cent quantile less than the national average (Figure 4 orange line for the GINI index; markers with secondary axis for income growth). In the same period, poverty ratio at $5.5 per day rose by 1.6 in Kazakhstan and by 0.2 in the Russian Federation, implying that those on the relative poverty line was hit by recent economic disturbances and fell into poverty (Figure 4; red line). In Armenia, income growth in the lowest 40 per cent income quantile is slower than the population-average in 2015, potentially leading to income inequality. Therefore, **inequality situation in this subregion has not substantially improved, or may even have worsened in recent years.**

Figure 4. Recent GINI index, poverty headcount ratio and income growth



Source: World Bank World Development Indicators Note: Data for Azerbaijan, Turkmenistan and Uzbekistan are not available in 2014 and 2015. Income growth for Georgia is in 2016.

Another concern is the existence of vast informal economy in North and Central Asia: the size of informal economy was estimated to account for 30 to 40 per cent of total GDP in this subregion.[14] As a result, large population have limited access to social protection and public services, which cannot be observed in official statistics. For examples in 2015, Armenia reported that 52.1 per cent of total non-agricultural employees are working as unregistered or in small-sized and family-run businesses.[15] Vulnerable employment also consists of more than 50 per cent of total employment in Azerbaijan and Georgia, followed by Armenia (41.9 per cent), Kyrgyzstan (37.2 per cent) and Kazakhstan (25.6 per cent). This "hidden"

[14] Abdih, Y. and L. Medina, 2013, Measuring the Informal Economy in the Caucasus and Central Asia, IMF Working Paper, WP/13/137

[15] World Bank World Development Indicator

inequality of outcomes and opportunities persists and this represents a policy challenge for achieving the goal of leaving no one left behind in this subregion.

D. Inequality of opportunities in selected social groups

The principle of "no one left behind" is cross-cutting in the 2030 Agenda for Sustainable Development. Sustainable Development Goal indicators require data disaggregation by sex, age, income level, employment status, geographical location, as well as migratory, disability and ethnic status, to better identify socially vulnerable groups, with a view to empowering them to catch up with the rest of society by taking necessary affirmative actions. This approach to reach the furthest behind first is central to the implementation of the 2030 Agenda, to realize inclusive development over the world.

One significant use of the capability analysis is that it permits the identification of individuals belonging to specific social groups who have constricted capability sets relative to others in society. This is, in fact, the procedure for identification of vulnerable segments of the population, including in the subregion.

Like other parts of the developing world, **women and girls** in North and Central Asia are identified as vulnerable. Regardless of high participation in economic activity and high educational attainments, this gender group in the subregion is characterised by lower pay and under-representation in parliaments and corporate boards, as revealed below. Social norms on the role of women in the family, for example early-age marriages, prevent them from investing more time and effort into their career development, resulting in less economic independence from men, thereby leaving such women more vulnerable to capability deprivation.

Youth are also vulnerable in this subregion. As discussed below, Participation of young people aged 15 to 24 in the labour force constantly increases but unemployment in the same age group is still high: for example, 35 per cent of young people were jobless in Armenia in 2017. Women tend to be less likely than men in this subregion to be working outside the home in this age group, partly because of the traditional customs and norms, leading to greater dependency of young women on families. The high suicide rate, especially in the working age, is reportedly high in several countries, which shows partly the vulnerable situation of youth in North and Central Asia.[16]

Older people are potentially another vulnerable group in society. Even though the pension system covers 80 per cent of the current older population on average in this subregion, it is not sustainable based on the current ageing trend in the population: percentage of older people over 60 years old in the total population has grown by 1 to 2 per cent in all countries from 2012 to 2017 and is predicted to reach more than 30 per cent in Armenia, Georgia and the Russian Federation.[17] Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan will also face a rapidly ageing society with more than 20 per cent of the population over 60 years old. At some point in the future, the life of older people may become more precarious, and this constitutes a subregional challenge that needs to be addressed.

[16] Suicide mortality ratio (per 100,000 population) is high in Kazakhstan (27.5 per cent) and the Russian Federation (20.1 per cent) in 2015. Between 2010 and 2015, suicide rate increased in most of North and Central Asian countries except Azerbaijan, Kyrgyzstan and the Russian Federation. Based on World Bank World Development Indicator and WHO Mortality Database, accessed 4 June 2018.

[17] United Nations, Department of Economic and Social Affairs, Population Division, 2012, Population Ageing and Development 2012 and United Nations, Department of Economic and Social Affairs, Population Division, 2017, World Population Prospects: The 2017 Revision, Key Findings and Advance Tables. Working Paper No. ESA/P/WP/248.

More than 35 per cent of population on average resides in **rural** areas of this subregion, ranging from 25.9 per cent in the Russian Federation to 73.1 per cent in Tajikistan in 2016.[18] The economic disparity between rural and urban residents has shrunk, but there persists unequal access to basic and quality public services, as well as to various types of social and physical infrastructures. In light of the regional trend of urbanization, the universal delivery of public services and calls for further examination.

Migrant workers remain vulnerable in the face of a significant phenomenon of migration in the North and Central Asia subregion. Diminished social protection, as well as limited respect for the basic rights of migrants, account for the precarious living conditions of migrant workers in destination countries. Families left behind in the home country by their young male migrant workers working abroad, also tend to render vulnerable the families without labour sources and safety from male family members. Data on the life of migrants and their families are limited, this study is still able to reach some definitive conclusions in this regard based on the existing literature on migration prepared by ESCAP and other international organizations.

Understanding other social groups such as **persons with disabilities and members of ethnic minorities** are also of importance for inclusive development, but these issues are beyond the scope of this present study due to limited data availability in the subregion. For example, persons with disabilities accounted for 3.6 per cent of the entire population in Kazakhstan, according to the administrative data from the Ministry of Labour and Social Protection.[19] In her visit to Kazakhstan, the Special Rapporteur on the rights of persons with disabilities urged the Government of Kazakhstan to include the set of questions proposed by the Washington Group on Disability Statistics and the UNICEF-Washington Group module on child functioning in the next census, scheduled to be held in 2020. In addition, a sample survey was conducted in 2014, covering five per cent of the social group, to capture their quality of life, and will be repeated in 2020. Upon deeper development of such data, we will be better positioned to further understand the life of persons with disabilities, with a view to eventually designing policies to better integrate them into society.

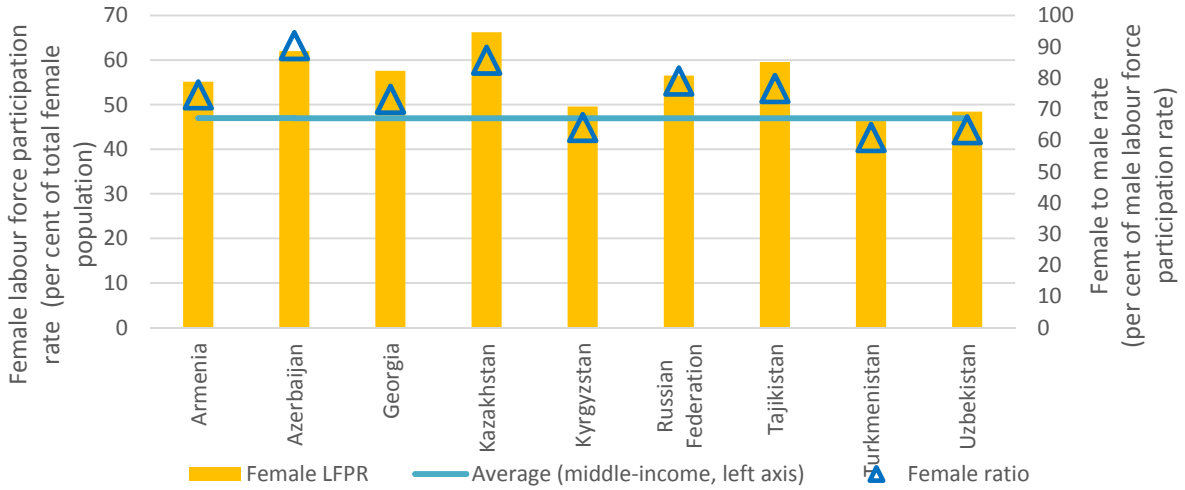
1. Women and girls

Women in North and Central Asia are more economically active compared to those in other middle-income countries: more than half of women participate in the labour force (Figure 5). However, women are less likely to participate in labour markets than men in countries such as Kyrgyzstan, Turkmenistan and Uzbekistan (Figure 5, markers with right axis).

[18] World Bank World Development Indicator

[19] United Nations Special Rapporteur on the rights of persons with disabilities, 2018, Report of the Special Rapporteur on the rights of persons with disabilities on her mission to Kazakhstan, A/HRC/37/56/Add.2

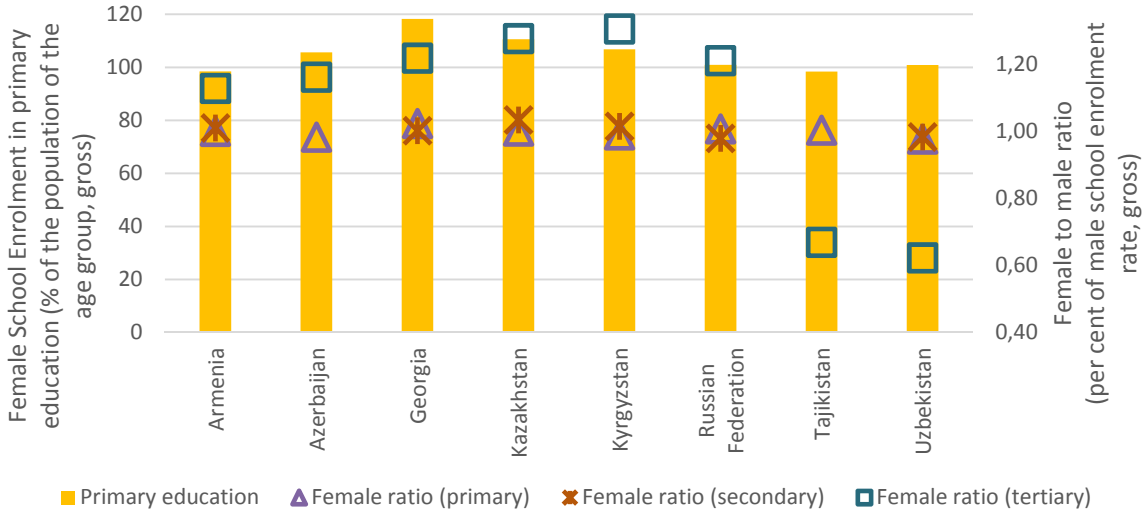
Figure 5. Female labour force participation



Source: World Bank World Development Indicators Note: Data are estimates by ILO in 2016. The ratio of female to male labour force participation rate is calculated by dividing female labour force participation rate by male labour force participation rate and multiplying by 100.

Universal enrolment in primary education for girls has been achieved as a legacy of the Soviet Union, showing 100 per cent of school enrolment in primary education (Figure 6). The gender gap of school enrolment in primary and secondary education is minor, implying that girls in North and Central Asia are granted equal educational opportunities (Figure 6, markers with right axis). Women are more likely to enrol in universities and similar high-education institutions than men in this subregion.

Figure 6. Female school enrolment in education

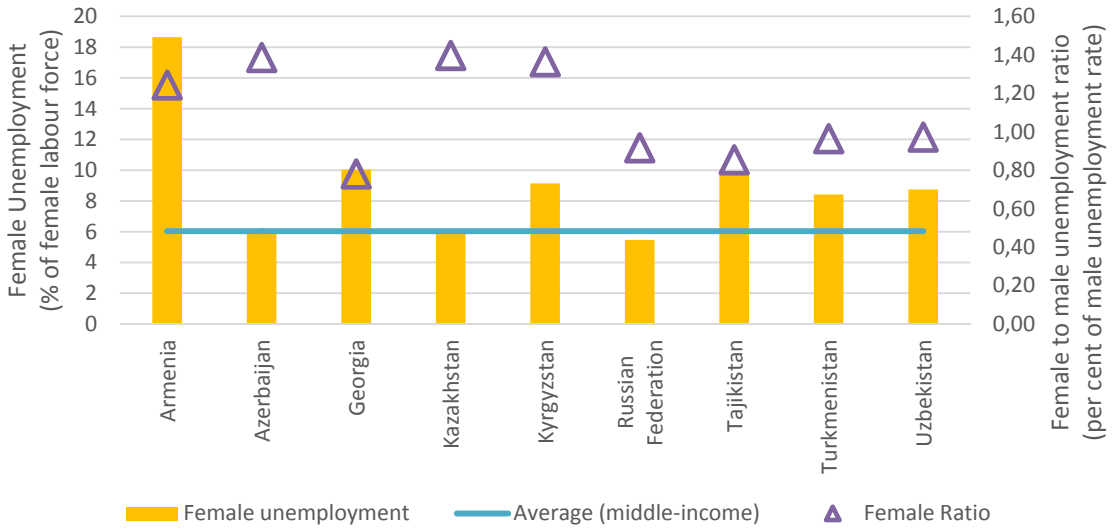


Source: World Bank World Development Indicators Note: 2015 Data for Turkmenistan are not available. Female school enrolment in pre-primary education for Georgia is not available. School enrolment ratio in secondary education for Tajikistan is not available.

Despite active female participation in the economy and higher educational attainments, the **unemployment rate of female labour in North and Central Asia is higher than, or equivalent to, the average of middle-income countries** (Figure 7). Almost one fifth of Armenian economically active women did not have a job in 2016. Compared to men, the unemployment situation among women is much more severe: women in Armenia,

Azerbaijan, Kazakhstan and Kyrgyzstan are 40 per cent more likely to be jobless than their male counterparts (Figure 7; markers with right axis).

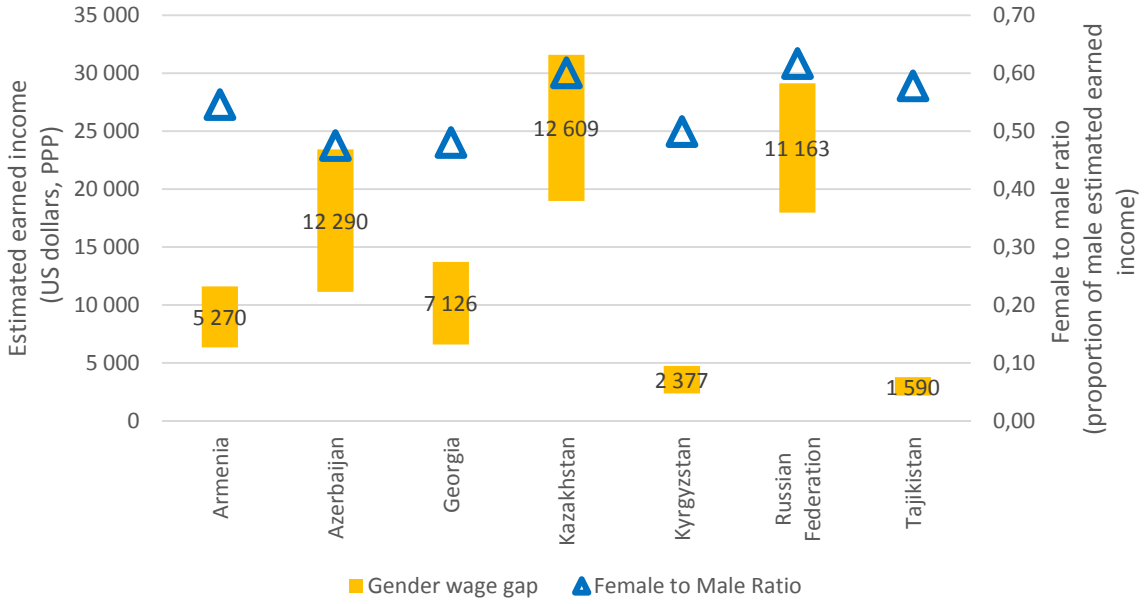
Figure 7. Female unemployment



Source: World Bank World Development Indicators Note: 2016 Data.

Gender wage gap is also huge, ranging from $1,590 (Tajikistan) to $12,609 (Kazakhstan) in annual estimated income (Figure 8), implying that working women receive 40 per cent less income earned by men (Figure 8; markers with right axis). This may stem from the gender difference in occupations: women tend to work in sectors with lower pay, such as education and medical services. Furthermore, there are less women employed in industry with a relatively better salary than in agriculture and services.

Figure 8. Gender wage gap

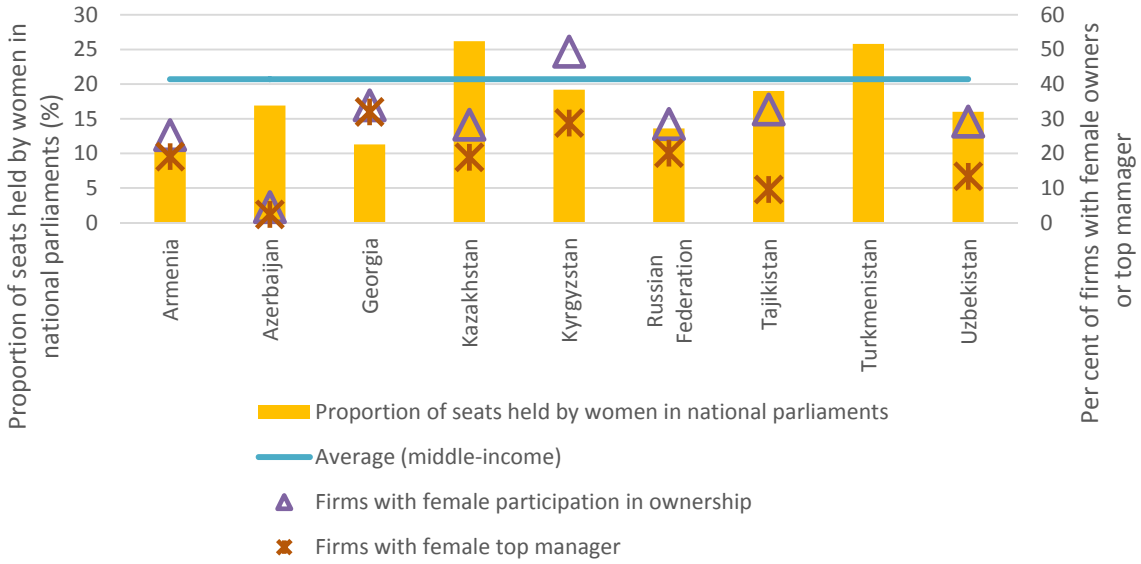


Source: World Economic Forum, The Global Gender Gap Report 2017 Note: Data for Turkmenistan and Uzbekistan are not found.

Another issue is that **voices of women tend to be less valued** in decision-making at the political and corporate level. The proportion of female representatives in national parliament in this subregion is lower than the average of middle-income countries, ranging from 26.2

per cent in Kazakhstan to 10.7 per cent in Armenia (Figure 9).[20] In addition, female workers are less likely to be involved in making decisions at the corporate level: the percentage of firms managed or (partly) owned by women is around or less than 30 per cent in the subregion (Figure 9, markers with right axis). Data disaggregation by the size of enterprise will show less female ownership or management in larger enterprises. For an example, Azerbaijan's low corporate representation by women can be attributed to its industrial structure characterised by a concentration of large oil firms. Meanwhile, the high female ownership of enterprises in Kyrgyzstan is observed due to its economic structure with small-sized enterprises in agriculture or service sectors.

Figure 9. Female participation in decision-making at the political and corporate level



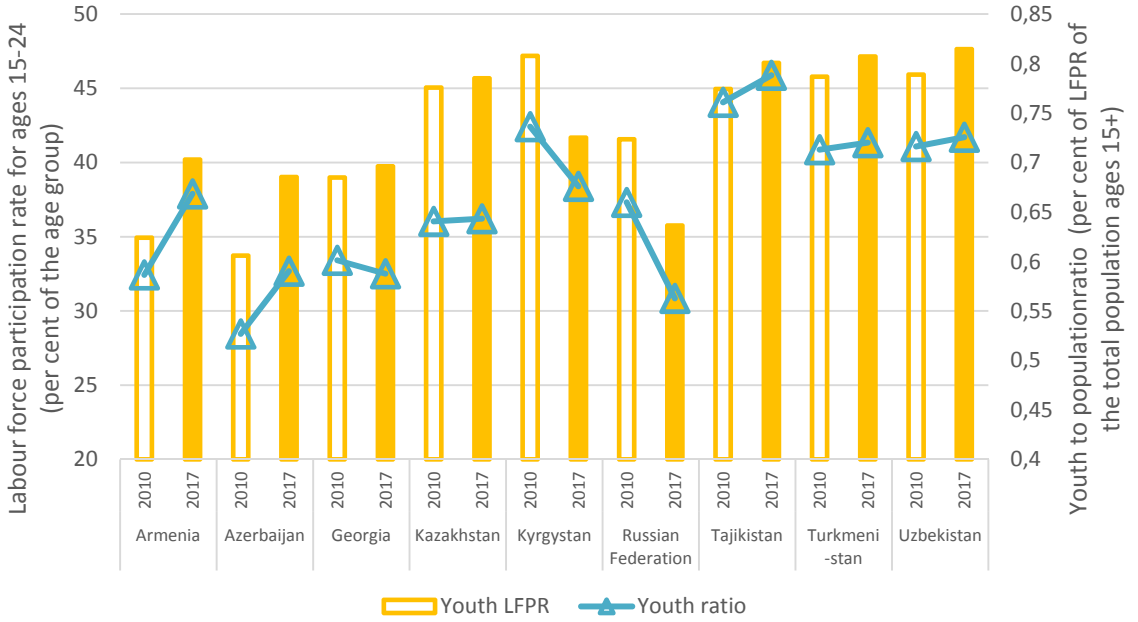
Source: World Bank World Development Indicators
Note: Proportion of seats held by women in national parliaments are reported in 2015, while other indicators are reported in the latest available year. The latter indicators are not available for Turkmenistan

2. Young people

In cross-country comparison, **young people, in the age cohort 15 to 24, in North and Central Asia are more economically active**: youth labour force participation rate is higher than, or equivalent to, the average of middle-income countries, 40.1 per cent, in 2017 (Figure 10). The subregional unemployment rate among the young is also comparable to the average of their counterparts, 14.3 per cent in 2017, with some variations: Kazakhstan reports that the lowest 5 per cent of the young labour force are unemployed, while in Armenia and Georgia the share is more than 25 per cent (Figure 11).

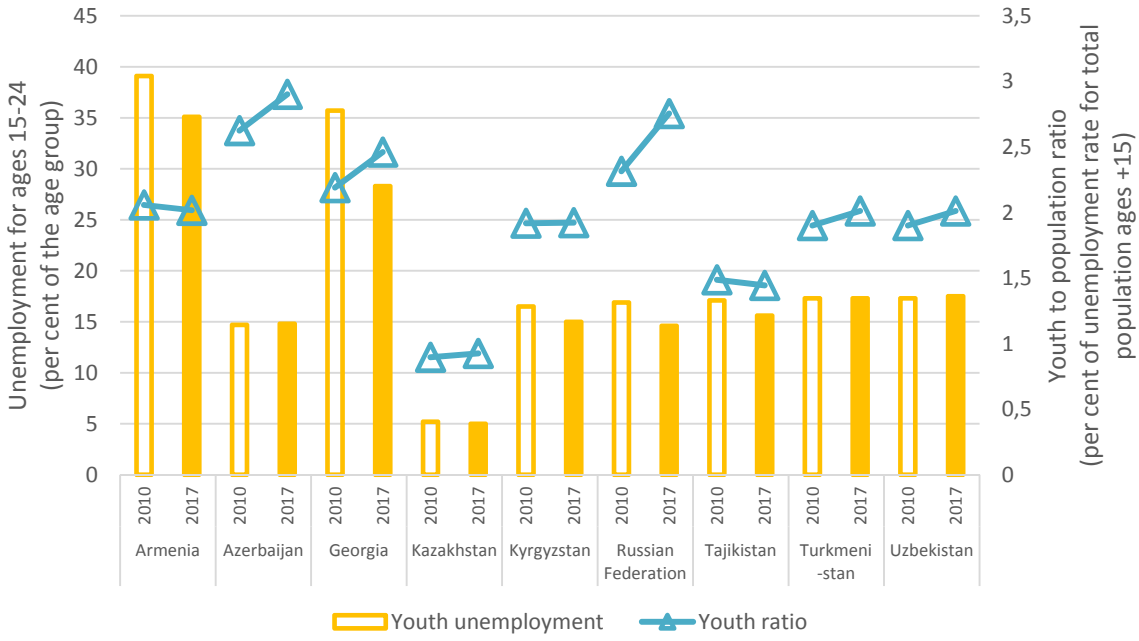
[20]Note that high female representation in national parliament is achieved only in Rwanda (63.8 per cent) and Bolivia (53.1 per cent) in 2015.

Figure 10. Youth labour force participation



Source: World Bank World Development Indicators Note: Modelled ILO estimate

Figure 11. Youth unemployment



Source: World Bank World Development Indicators Note: Modelled ILO estimate

In terms of trend, labour force participation of young population has increased in North and Central Asia between 2010 and 2017, apart from Kyrgyzstan and the Russian Federation (Figure 10). In the same time frame, youth unemployment has decreased, or at least not worsened, in this subregion (Figure 11), implying that their labour markets maintained the job creation rate with a growing, young labour force. For example, Armenia and Azerbaijan record a more than 5 per cent point increase in the youth labour force participation rate, although unemployment among young people decreased by 4 per cent in Armenia or did not change substantively with 0.1 per cent point increase in the case of Azerbaijan.

However, **intergenerational inequality in employment is problematic**. As discussed in Chapter II, this subregion is under the influence of radicalism due to its geographical and religious proximity. Young men with diminished economic prospects for their future, especially in rural areas, are one of main recruitment targets of extremist groups. In most countries, young people are more likely to be out of job than other age groups since the ratio of youth unemployment to population unemployment is higher than unity in most of North and Central countries (Figure 11; markers with right axis). In addition, even though labour participation of young people outpaced the one for total population (Figure 10; markers with right axis), unemployment is growing among young at a faster pace than in total population in some countries such as Azerbaijan, Turkmenistan and Uzbekistan (Figure 11; markers with right axis).

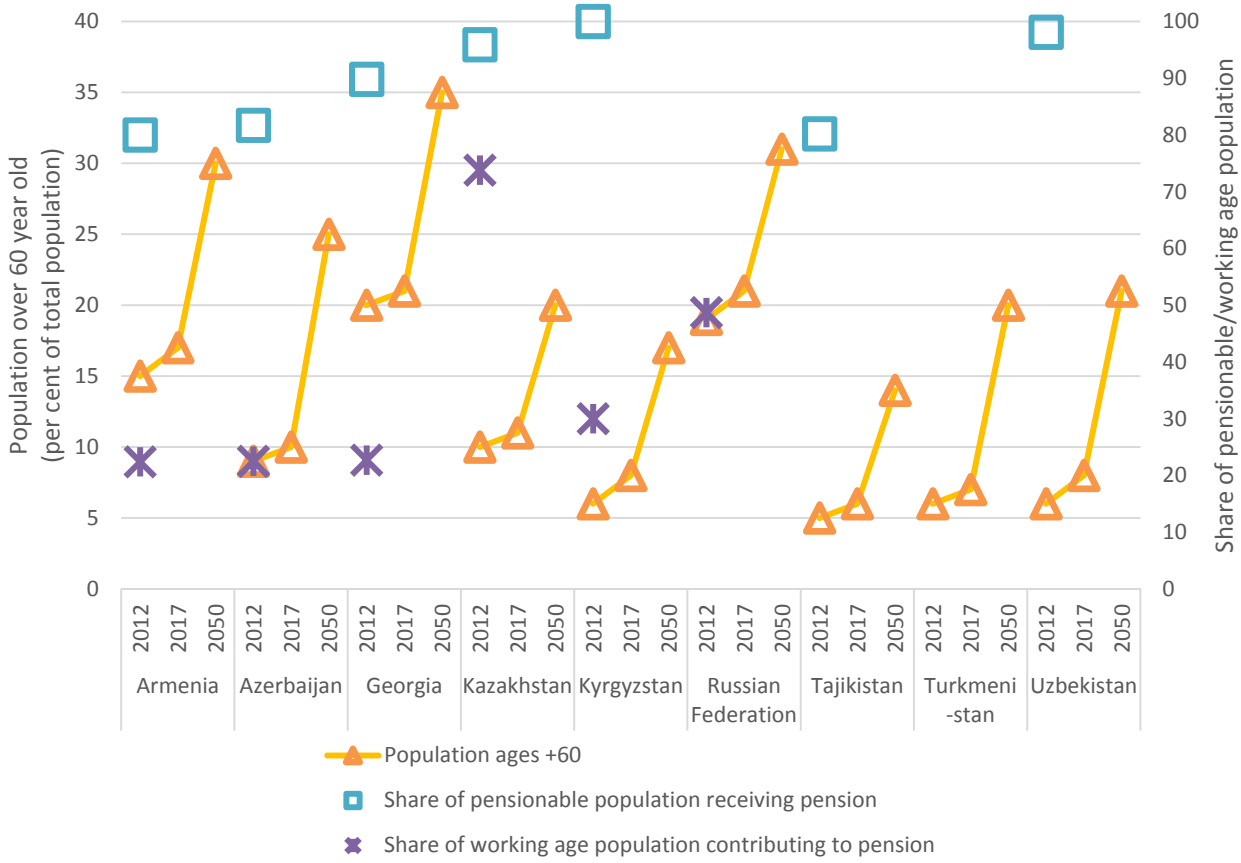
3. Older people

As with other parts of Asia and the Pacific, **North and Central Asia will experience population ageing at an unprecedented pace**, with lowering fertility rate and increasing life expectancy.[21] The working age population is shrinking, while the older population is expanding. In 2017, 12 per cent of the total population in North and Central Asia were over 60 years old on average. However, this number is estimated to increase to 24 per cent by 2050 – doubling the current older population. Based on this trend, the current pension system, covering around 80 per cent of the pensionable population in this subregion cannot be sustained to provide sufficient support for older persons, who tend to have less capacity to earn income, physically and socially.

The current situation of ageing varies across countries. In Georgia and the Russian Federation, 21 per cent of the total population are currently over 60 years of age and are expected to grow to 35 and 31 per cent by 2050, respectively (Figure 12). Armenia and Azerbaijan, where currently 17 and 10 per cent are older persons, will face rapid population ageing at a 13 and 15 percentage points increase between 2017 and 2050. This doubling in the proportion of older population can be observed in countries with larger young populations, such as Turkmenistan and Uzbekistan, while other countries will witness growing older population but on a smaller scale.

[21] ESCAP, 2017, Addressing the Challenges of Population Ageing in Asia and the Pacific: Implementation of the Madrid International Plan of Action on Ageing

Figure 12. Ageing population, pension coverage and contribution



Source: United Nations Department of Economic and Social Affairs (UNDESA) Population Division for population over 60-year-old and ILO Stats for the other two indicators. Note: Population over 60-year-old in 2050 is an estimate from UN DESA Population Division, 2012, Population Ageing and Development 2012. The other two indicators are reported in the latest available year (before 2012) and estimates by ILO.

Understanding the life of older persons in this subregion is challenging due to a lack of comprehensive surveys on the targeted age group. Generally, these people are covered by national pension systems: near universal coverage was achieved in Kazakhstan, Kyrgyzstan and Uzbekistan in 2011, while other countries report more than 80 per cent coverage (Figure 12: markers with right axis). However, the actual amount of pension received is not entirely clear – although quite meagre by most accounts – thereby leaving the quality of life after retirement quite precarious. Furthermore, older persons' access to other types of social protection, such as health care support, is reportedly limited in this subregion, resulting in lower expected years spent without disability after the age of 60 years.[22] In the era of prolonged life expectancy, this issue will become crucial, especially for those countries with more than 30 per cent of the total population over 60 years old.

Another issue in this subregion is that less than 50 per cent of the working age is contributing to their pension scheme except Kazakhstan (Figure 12: markers with right axis). In South Caucasus countries, remarkably, only about 23 per cent of the young generation contribute to the system. With the ageing trend coupled with a shrinking young generation, the financial imbalance in the current pension system, with high coverage but low contribution, will be expanding up to the unsustainable level of the system. **Consequently,**

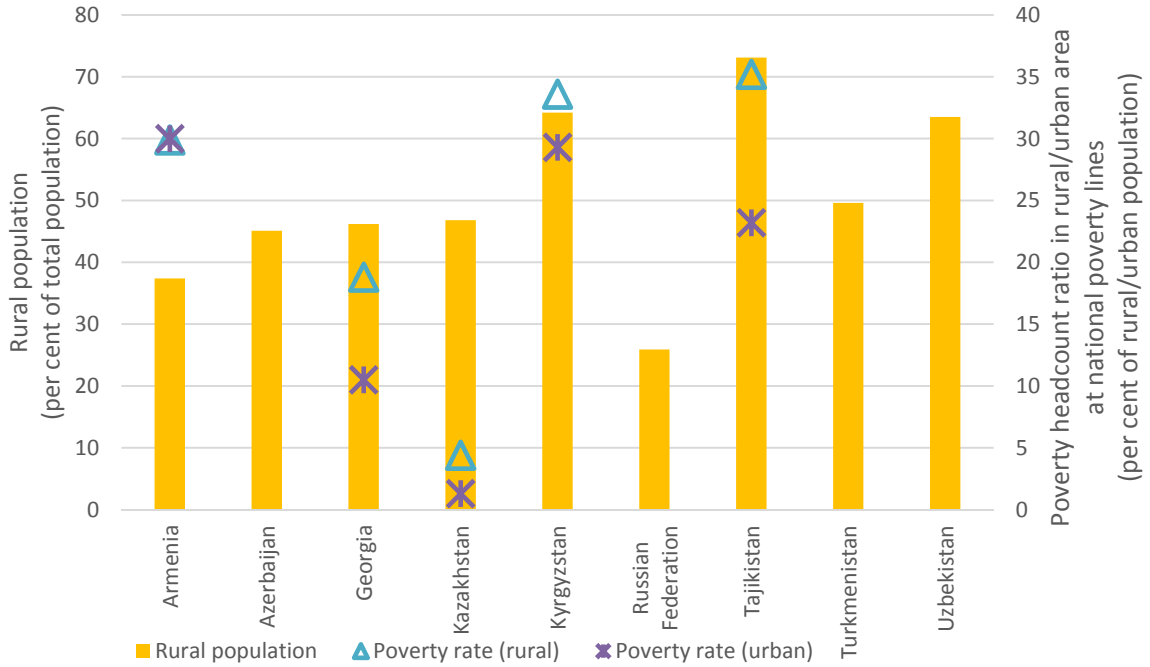
[22] ESCAP, 2017, Addressing the Challenges of Population Ageing in Asia and the Pacific: Implementation of the Madrid International Plan of Action on Ageing

the current social protection system will need to be considered for restructuring in the near future.

4. Rural population

More than 40 per cent of the subregional population are living outside urban areas (Figure 13). In particular, Tajikistan accommodates 73.1 per cent of its population in rural regions, followed by Kyrgyzstan with 64.2 per cent. **Even though the rural-urban gap in poverty levels has been converging, possibly through the migratory process from rural to urban areas, rural people are more likely to be poor than those in cities** (Figure 13; markers with right axis). This may stem from some historical contexts: there was only one industry, such as coal extraction, in each town under the Soviet production system and the economic situation of the town worsened as that particular industry declined.

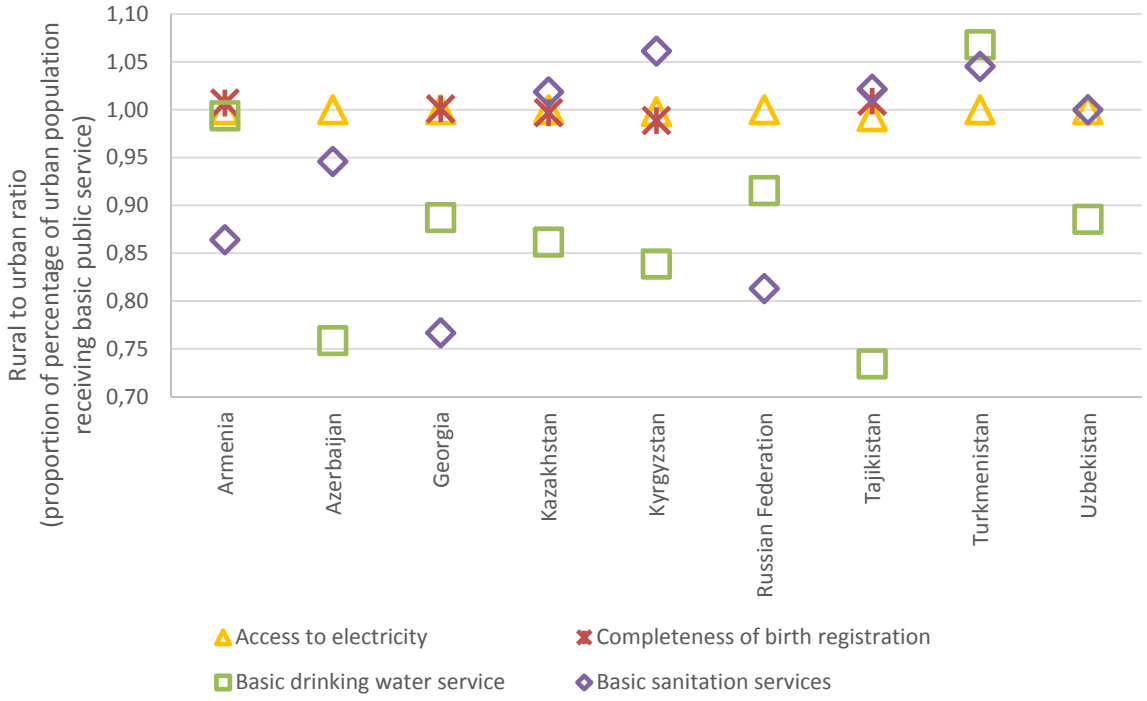
Figure 13. Rural population and poverty



Source: World Bank World Development Indicators
Note: Rural population is reported in 2016. Poverty headcount ratio are in 2015 except Armenia (2014) and Georgia (2012).

The rural-urban divide in access to public services is more problematic. Basic services such as electricity provision and birth registration are almost universal across countries, but there is a gap in accessing basic water and sanitation services between rural and urban areas (Figure 14). In particular, accessibility to drinking water services in rural regions is systemically lower than in urban areas across the region, apart from Armenia and Turkmenistan. The difference in the quality of public services is another issue, but there is a lack of data to support this argument.

Figure 14. Rural access to basic public services



Source: World Bank World Development Indicators
Note: Data on access to electricity are in 2014, while data on water and sanitation services are in 2015. For completeness of birth registration, data in the latest available year are used.

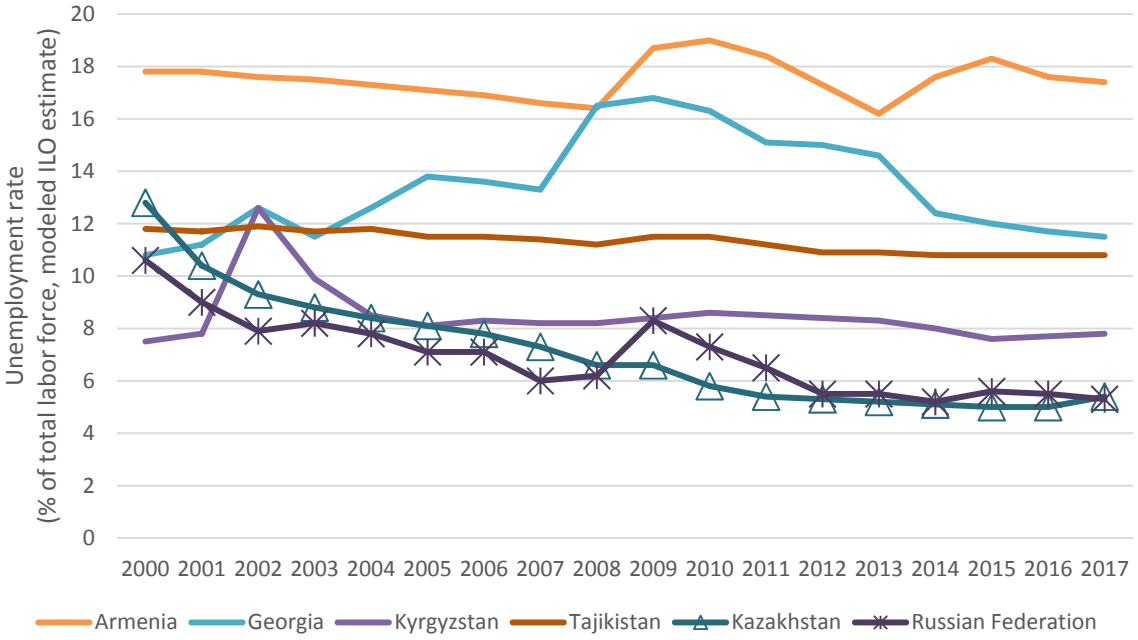
5. Migrants

Migration in North and Central Asia is a continuing phenomenon from ancient times. Long time ago, nomadic tribes moved freely across the steppe of Central Asia and the Caucasus, seeking grassland and water to feed their sheep and horses. Forming and disforming "Khanates", they had mingled and shared values, cultures and languages, creating a common ethnic sense as nomads. After the annexation of this subregion under the Russian Empire and its successor the Union of Soviet Socialist Republics, movement of people, educated in Russian under the common education system, was organized to support the socialist production system. This historical perspective largely explains the current migratory patterns in this subregion.

In this century, migration has been driven primarily by economic incentives. Better employment opportunities in the Russian Federation and Kazakhstan have attracted labour migrants – young, male and rural – from Armenia, Kyrgyzstan and Tajikistan, which reported higher unemployment rates than the former two countries in recent years (Figure 15). On the demand side, migrant workers tend to be more competitive than domestic workers. They are often employed without any written contracts and social benefits, so they are a flexible and cheap resource for labour-intensive industries such as construction and services. As a result, the flow of immigrants from other North and Central Asian countries into the Russian Federation reached a peak of about 600,000 people in 2015, after the 2010 drop to 200,000 people caused by the Global Financial Crisis.[23]

[23] The Federal State Statistics Service. General results of migration of the population (by flows)

Figure 15. Unemployment rate in selected countries



Source: World Bank World Development Indicators

Migrants are often discriminated against at and outside work, which causes economic inequalities.[24] Although studies do not provide evidence on increased unemployment of domestic workers in regions with more migrant workers, some people in the destination countries believe that migrants steal their jobs. In addition, jobs with a high concentration of migrant workers are considered undervalued and "3D" – difficult, dirty and degrading. Such beliefs are translated into discrimination against migrant workers: they are exploited, underpaid and left vulnerable. This remains even after these migrants attain the nationality of their destination country, leading to lower pay and a weaker position in labour markets.

Exploitation of migrant workers is widespread. For example, confiscation of migrants' legal documents such as passports and work permits is prevalent in the construction sectors: nearly one third of migrant workers in the sector do not have their own passport to hand. As a consequence, employers can transfer a group of migrant workers from one construction site to another, and even "sell" the group to another company, without asking their employees. This is another form of human trafficking and a violation of basic human rights. Another infringement of human rights can be found in their working conditions. Some workers without official contracts are forced to work overtime, live in poor conditions and wait for the delayed payment of their salary.

Migrant workers tend to be underpaid compared to their counterparts in the destination countries. Even though comprehensive surveys on pay differences between migrant and domestic workers are not currently available, several fragmented assessments provide anecdotal evidence of such a wage gap due to their migratory status: data for Tajik workers in the Russian Federation reveals that a wage gap amounts to approximately two thirds of the average wages of skilled Russian workers in the manufacturing sector; migrant workers in housing and commercial services tend to receive 1.5 to 2 times less than their Russian

[24] Hereafter, the analysis in this section is based on working papers presented in the Advocacy Forum on Facilitating Migration Management in North and Central Asia organized by ESCAP in Almaty, Kazakhstan, on 28 and 29 June 2016, available at https://www.unescap.org/events/advocacy-forum-facilitating-migration-management-north-and-central-asia.

counterparts; and 91 per cent of foreign migrant workers believe that they receive less than Russian citizens in the same positions doing the same amount of work, according to survey data. There is also a sectoral wage difference between sectors with a high concentration of migrant workers, such as construction, agriculture and services, compare to other sectors.

The vulnerability of migrants remains challenging. The Global Financial Crisis in 2008-2009 witnessed many layoffs of migrants, mainly irregular ones, to mitigate economic loss in the Russian Federation. Reportedly, there was increased employment of unregistered migrants during the period to replace these lay-offs with cheap and informal labour to maintain competitiveness. This fact indicates that migrant workers are used as a "buffer" in the event of such economic downturns, thus being very vulnerable to external shocks. In addition, migrant workers are not equally granted social protection as are domestic workers. In principle, foreign citizens have the same rights as nationals of the Russian Federation and Kazakhstan. Being recognized as a temporary resident, however, they are most unlikely to have access to social protection systems such as pension, social insurance and benefits and medical treatment as permanent residents.

Mismatching of highly-educated migrants to low-skilled positions is another issue. Even though more than 20 per cent of migrant workers have obtained tertiary or higher education in 2015, their first employment in the country of destination tends not to correspond to their professional experience and educational qualification in their home country: more than 40 per cent start working as an unskilled worker and only 25 per cent can gradually move to other sectors requiring more specialized skills. This situation may change as the Russian Federation and Kazakhstan have started prioritizing the attraction of high-skilled migrants for enhanced innovation to spur economic diversification in both countries.[25] In response, origin countries need to consider provisions of education and vocational training for skills required in the two countries in order to maximize the potential of migrant workers' well-being and success in the destination countries.

In other aspects of migration, **families left behind in a home country become dependent on remittances for consumption and investment**: at the macroeconomic level, Tajikistan and Kyrgyzstan are highly remittance-dependent, accounting for 41.7 and 30.3 per cent of their GDP respectively.[26] Thus, any disruptions of international money transfer may impact negatively on those left behind and leave them very vulnerable to economic disturbances. Another challenging issue is that of family reunification, especially for low-skilled migrant labour. In Kazakhstan, article 27 of the Law on Migration of the Population does not specify that migrant workers are among the immigrants for whom the right to family reunification is recognized, while in the Law on Foreign Citizens' Legal Status in the Russian Federation, this right is expressly specified only in relation to highly qualified foreign specialists. Furthermore, family reunification becomes more difficult because of lack of their access to childcare and educational services in the destination country. These issues could be addressed in the process of deepened economic integration, stimulated by the Eurasian Economic Union.

[25] For example, the State Concept of Migration Policy through to 2025 in the Russian Federation states that the attraction of highly-skilled migrants is a priority.

[26] World Bank, 2016, Migration and Remittances Factbook 2016: third edition, Washington, DC: World Bank. doi:10.1596/978-1-4648-0319-2. License: Creative Commons Attribution CC BY 3.0 IGO

IV. Policy Measures to Address Inequality

Inequality situation in North and Central Asia, in terms of both outcomes and opportunities, seems modest in the cross-country comparison. However, this study captures the recent trend of growing economic inequality and vulnerability specific to certain social groups in this subregion. Establishing an inclusive and equal society is of great importance to achieve social and political stability, leading to sustainable economic development. Governments need to react proactively to and prepare for potential inequality issues.

Inclusiveness of development is highlighted in implementation of **the 2030 Agenda for Sustainable Development**. At the regional level, **the Regional Road Map for Implementing the 2030 Agenda for Sustainable Development in Asia and the Pacific** places "leaving no one behind" at the top of thematic issues on which this region need to work.[27] The road map identifies opportunities for regional cooperation in

- Promoting analytical studies and policy advocacy to address inequalities, reduce poverty and enhance social protection, including for persons with disabilities, to build socioeconomic resilience;
- Continuing regional and subregional dialogues to support multi-sectoral policies, strategies and programmes to implement the 2030 Agenda, the Programme of Action of the International Conference on Population and Development and the Beijing Platform for Action, as well as to advance gender equality and women's empowerment;
- Addressing unemployment and underemployment among youth, including by improving the match between the knowledge and skills of youth and labour market demands;
- Facilitating regional and subregional dialogue on policies to address population ageing;
- Implementing the Incheon Strategy to "Make the Right Real" for Persons with Disabilities in Asia and the Pacific; and
- Strengthening the linkage between international migration and development, including through more effective management of migration.

At the national level, the respective **United Nations Development Assistance Framework** in five Central Asian and three South Caucasus countries explicitly emphasizes inclusiveness in most of their priority areas. This shows that addressing inequality is high on the priority list of the Governments' development policies and strategies. In the implementation stage, however, this issue tends to be less emphasized, sometimes muted, stemming from insufficient knowledge on life of vulnerable social groups and lack of policy experiences to address such issue due to the unique historical background.

In this respect, this chapter provides policy recommendations to address inequality, greatly borrowing from discussion in the expert group meeting on inequality in North and Central Asia, held in Almaty, Kazakhstan, on 25 October 2017.[28] The discussion benefited valuable inputs from experts from and outside this subregion, as well as observers from academic institutions and international organizations. Furthermore, this study showcases ESCAP interdisciplinary initiatives in support of eradicating multidimensional inequality in North and Central Asia.

[27] The road map was adopted by ESCAP member States in the fourth Asia Pacific Forum on Sustainable Development and endorsed by the seventy third session of the Commission in 2017

[28] The outcome report of the meeting is in Annex.

A. Data collection

Integrated methodology of data collection and processing

For international comparisons, **data need to be collected according to international standards and norms, as well as the globally agreed Sustainable Development Goal indicator framework.** The Regional Road Map for Implementing the 2030 Agenda for Sustainable Development in Asia and the Pacific proposes opportunities for regional cooperation in statistical development and capacity building to

- Promote the need for national statistical systems to be responsive to the requirement of users arising from the 2030 Agenda, and the needs to encourage investments in national statistical system that are adequate to meet statistical requirements and to support implementation of the Sustainable Development Goals as appropriate;
- Formulate and implement continuous, comprehensive and system-wide strategies for the development of statistics, including statistics for the 2030 Agenda;
- Provide and promote capacity-building support to national statistical systems to increase the availability of high-quality, accessible, timely, reliable and disaggregated data, including to develop integrated measurement frameworks for Sustainable Development Goal statistics that integrate data from multiple sources, including big data, in a coherent and consistent manner to support integrated analysis of sustainable development issues;
- Organize national statistical system business processes and modernize tools for strengthened quality, efficiency and effectiveness of statistical information management and exchange; and
- Build the skills of the staff and management of national statistical systems, including of relevant data producers, to enhance the human resources capacity for generating the statistical products and services required for monitoring of national development plans and the 2030 Agenda.

In this line, ESCAP stands ready to support member States in developing statistical capacity.

Data disaggregation

To deliver effective and efficient measures to mitigate inequality, understanding the life of people, especially the socially vulnerable, is essential. Through writing this study, authors find limitation of analysis on inequality without updated disaggregated data. The data on economic situation (income, saving, government transfer and remittance received) and access to public goods and services (use of roads and the Internet, contribution to and amount received from pension systems, health insurance and unemployment benefits) need to be disaggregated by sex, age, income level, employment status, geographical location, as well as migratory, disability and ethnic status. **Household-level, or individual-level, surveys can be conducted regularly**, possibly in every two or three years, to better capture the situation and root causes of inequality by taking into consideration peoples backgrounds through panel data analysis. This provides evidences for policy measures targeting specific households or groups to reduce inequality and vulnerability.

B. Macroeconomic strategies for pro-poor economic development

Reduction of inequality and poverty has been always accompanied with strong economic development in North and Central Asia. Thus, further strengthening economic fundamentals through structural economic transformation, together with appropriate redistribution systems of dividends from economic growth, is crucial to achieve inclusive development in North and Central Asia.

1. Macroeconomic stability

Sound macroeconomic management fosters enabling environments for Governments to focus on social issues**.** This subregion has occasionally suffered from hyperinflation, fiscal and financial crises due to macroeconomic mismanagement, leading to worsening inequality situation as some studies show.[29] Recently, governments and central banks in this subregion has taken actions to mitigate such risks by introducing inflation-targeted monetary policy, shifting to flexible exchange rate regimes and normalizing monetary policy measures. These policies need to continue toward further market and fiscal stabilization and could be transformed into more pro-poor policies as the poorest are most affected in the events of economic crises. As oil-exporting countries maintain sovereign funds form oil revenue, best practices in the use and management of these funds warrant further investigation and scrutiny.

2. Economic diversification

Structural economic transformation could be also accelerated toward economies with more diversified (exporting) sectors generating high value added. The high economic reliance of this subregion on natural resources (oil, natural gas and minerals) has proven to be associated with high vulnerability to external shocks in recent years. Most of national development strategies in North and Central Asia have clearly expressed their intention to transform their industries into more high-tech, service-oriented and productive ones with higher value-added. However, the progress is at a slower pace due to disruptions in the downturns of oil prices. Governments in this subregion now need to take further actions to add the momentum to economic diversification.

Market integration and physical infrastructure development

Except Georgia and the Russian Federation, seven countries in North and Central Asia are landlocked. This geographical disadvantage, among others, has constrained the integration of this subregion in the global economy, leading to economic structures with less manufacturing and service sectors. Without direct access to sea ports, North and Central Asia needs to cooperate with its transit countries in trading goods and services, especially in an intermodal way including dry ports. In 2016, ESCAP member States adopted the Regional Economic Integration and Cooperation agenda to promote regional cooperation for more integrated market and seamless infrastructure connectivity in Asia.[30] Now member States acknowledge the importance of reducing trade cost and time through the **Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific** and improving transport infrastructure in quality and coverage through the **Intergovernmental Agreements on the Asian Highway Network, the Trans-Asian Railway Network and Dry Port**. Figure 16 provides the ratification status of North and Central Asian countries in the ESCAP intergovernmental agreements on trade and transport facilitation. Further ratification by member States in this subregion is expected.

[29] Novokmet, F., T. Piketty, G. Zucman, 2017, From Soviets to Oligarchs: Inequality and property in Russia, 1905-2016, NBER Working Paper No. 23712

[30] E/ESCAP/72/5

Figure 16. Ratification status in ESCAP intergovernmental agreements

	Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific	Intergovernmental Agreement on		
		Asian Highway Network	Trans-Asian Railway Network	Dry Ports
Armenia	Signed	Ratified	Signed	Signed
Azerbaijan	Acceded	Ratified with declaration	Signed with declaration	-
Georgia	-	Approved	Approved	-
Kazakhstan	-	Approved	Signed	Acceded
Kyrgyzstan	-	Ratified	-	-
Russian Federation	-	Definitively Signed	Accepted	Approved
Tajikistan	-	Ratified	Approved	Approved
Turkmenistan	-	Acceded	Acceded	Acceded
Uzbekistan	-	Definitively Signed	Ratified	-

Source: United Nations Treaty Collection, accessed on 2 April 2018

Improvement of business climate

This subregion is constantly improving its business environment through simplifying tax regime, reducing red tapes, assuring property rights, as well as seriously tackling corruptions. In 2018, Georgia is the best performer from North and Central Asia in the ranking of Doing Business index compiled by the World Bank, placed at the ninth out of 190 countries, followed by the Russian Federation (35th), Kazakhstan (36th) and Armenia (47th).[31] This business-friendly environment through deregulation enhances the dynamics of corporations, entries and exits of small- and medium-sized enterprises (SMEs) and entrepreneurs, and leads to more innovation and quality improvement for such firms to differentiate their goods and services in competitive markets. Since SMEs and individual entrepreneurs comprise a substantive portion of economy and create most jobs available in this subregion**, improvement of business environment for SMEs** need to be targeted, leading to reduction of inequalities of outcomes and opportunities among the vulnerable as well as overall economic growth.

Financial inclusion in support of entrepreneurship

Financial markets are underdeveloped in North and Central Asia and need to be modernized and professionalized to enhance entrepreneurship. Banking finance is not equally accessible among SMEs and entrepreneurs even though it is the dominant financial option available in the society. The banking loans require high physical collaterals due to lack of banks' capacity to assess creditability of borrowers through reviewing their business plan or their intangible assets. In addition, recent monetary policies to contain inflationary pressures have increased official interest rates, making it more difficult for entrepreneurs to borrow financial resources from banks. Consequently, SMEs do not often use banking finance and depend on personal savings, retained earnings and borrowing from relatives and friends, which tend to be in a small scale not enough to invest into further business development. In this sense, **capacity building of private and central banks** could be prioritized.

Other types of financial tools need to be considered and installed. Use of **microfinance** is increasing in this subregion since differences in interest rates by microfinance institution and

[31] World Bank, Doing Business 2018: Reforming to Create Jobs

banks become smaller. Even though registration and management of such financial institutions are introduced in some countries, this type of financing could expand more as experience of other parts of Asia and the Pacific has shown in the first decade of this century**. Islamic finance** is another way to support SMEs and individual entrepreneurs which tend to have less collaterals and experiences since it often offers trainings and advisory services for further business development to mitigate default risks. In this sense, the establishment of the Astana International Financial Centre in Astana in 2017 added the momentum to mainstream Islamic financing as an alternative option. Governments in other countries could consider appropriate legislations and perhaps subsidies to support such momentum.

C. Tailored measures to empower vulnerable social groups

As we have seen in Chapter III, opportunities such as education, employment and access to public services are unevenly distributed across social groups. Affirmative action which may target such groups are crucial to empower them to catch up with the rest of society to achieve inclusive development in North and Central Asia.

1. Education system

North and Central Asia attains almost universal primary and secondary education coverage, regardless of sex. Moreover, some countries show higher female participation in tertiary education – university and professional education – compared to their global counterparts. However, higher educational achievements are not reflected in women's relative income. Women's involvement in the political and corporate world remains a challenge. This may stem mainly from social norms and values on the role of women in society as well as from uneven access to quality education.

Women may be treated more equally at work and in the home through **enhanced gender equality promotion**. Given the fact that more active participation of women in social and economic activities leads to economic growth, by incorporating their ideas in production, innovation and policy processes,[32] governments need to understand that women's empowerment in their political and economic life is an economic concept. Furthermore, women as mothers are one of main factors affecting the health and educational attainment of children, resulting in intergenerational inequality. Thus, any economic and social policies need to be gender-responsive, as the 2030 Agenda for Sustainable Development explicitly addresses.

Uneven access to quality education, including vocational training, is another issue. Existing fragmented data from international or domestic assessment suggests a declining quality of education at all levels in this subregion.[33] This problem lies in the lack of government resources to properly finance the education systems, reflected in the emergence of private secondary schools: in Georgia and Kazakhstan, for example, a considerable share of students are now studying in private schools which provide a more advanced education. This trend may lead to further economic inequality in the future decades. **Policies of systematic monitoring and evidence-based analysis on the outcomes of public education**, internationally and nationally, as well as strengthening the most important public sector, could be implemented.

In North and Central Asia, female university students are normally educated to become teachers and doctors, which tend to be less well paid than the market average. **Women's enrolment into Science, Technology, Engineering and Mathematics (STEM)** need to be further promoted for higher pay. In addition, preschool education for girls is not fully provided in this subregion: currently less than 50 per cent of female infants go to kindergartens on

[32] UN Women http://www.unwomen.org/en/what-we-do/economic-empowerment/facts-and-figures
[33] For example, OECD Programme for International Student Assessment.

average, ranging from 10.1 per cent in Tajikistan to 86.1 per cent in the Russian Federation.[34] A recent study shows that investment in preschool education has the highest return in children's later life.[35] Thus **a national preschool education system** could be introduced, as well as a scheme for capacity building for teachers in kindergarten could be implemented.

2. Labour markets

The inclusion of vulnerable social groups in labour markets is of importance for maintaining social stability and human dignity. **The minimum requirement for hiring socially vulnerable groups in public services, as well as in private sectors through the provision of subsidies,** is worth consideration and implementation. In this respect, the empowerment of municipal governments and community groups is crucial to identify the vulnerable seeking for jobs in cities and towns since the Soviet-style central management tends to miss signals from them. The local administration can work closely with and subsidize local private partners to ensure their decent working environment. Establishing national platforms to discuss such inequality issues among central, local and community stakeholders is the best practice implemented in developed countries and is worth emulating.

The employment situation and working environment of migrants stands in need of improvement. Since labour migration is an ongoing phenomenon, **governments in both host and source countries could develop long-term policies supporting migrant workers**. At the global level, platforms for negotiation and discussion is provided as the Global Compact for Safe, Orderly and Regular Migration.[36] At the regional level, ESCAP held the Asia-Pacific Regional Preparatory Meeting for the **Global Compact for Safe, Orderly and Regular Migration** in November 2017 to reveal and discuss migratory issues in Asia and the Pacific.[37] Given the continuing migratory flow from this subregion to the Russian Federation and Kazakhstan, bilateral and subregional negotiation on this issue are crucial in the process of economic integration such as **the Eurasian Economic Union**.

Some countries and people who sent family members for work abroad are highly remittance-dependent and thus the appropriate management and seamless transfer of remittance need to be considered. This funding source surpasses the total amount of foreign direct investment in some countries: an appropriate financial mechanism to save and direct personal remittance toward more efficient and economically reasonable investment, instead of merely consumption, is crucial. In this sense, **any disruptive barriers in international monetary transfer could be removed** to effectively predict and plan the financial flows in households' budgets.

Governments have tried to implement policy actions to improve labour market conditions and promote employment through introducing flexible labour legislations; reducing payroll taxation; formalizing informal enterprises; transforming education systems responsive to labour market's demand; managing labour migration; and increasing wages in public sectors. To protect vulnerable people from economic exploitation, **minimum wage** is legislated in most of North and Central Asian countries.[38] However, its implementation remains challenging due to less effective monitoring. In 2016, the International Labour Organization

[34] World Bank, World Development Indicator
[35] Heckman, J.J., 2006, Skill Formation and the Economics of Investing in Disadvantaged Children, Science, Vol.312, pp. 1900-1902
[36] A/RES/71/280
[37] E/ESCAP/GCM/PREP/6
[38] International Labour Organization, 2014, General Survey of the reports on the Minimum Wage Fixing Convention, 1970 (No. 131), and the Minimum Wage Fixing Recommendation, 1970 (No. 135).

launched an online policy guide, which provides best practices for setting, adjusting, enforcing and monitoring minimum wage.[39]

3. Social protection scheme

Social protection programmes to cover all older people in the society are costly. Making such programmes more socially targeted, especially toward targeting the poor and vulnerable, need to be considered. With data collection and enhanced coordination with local governments, identifications of people in the most need could be institutionalized.

However, targeting is a primary issue and can be switched to universal provision if it is difficult to implement.[40] In this light, the **Social Protection Floor Initiative** championed by the International Labour Organization, as well as the **Social Protection Toolbox** compiled by ESCAP, provide best practices across the globe for effective and efficient social protection.[41]

Unemployment benefits have yet to be legislated in some countries or may be insufficient to continue the life of beneficiaries, especially in the case of long-term unemployment. In the latest available data from the Russian Federation, for example, 2.8 per cent of the total expenditure of beneficiary households are covered by unemployment benefits or compensation.[42]

The current old-age pension system is not sustainable given the pace of declining fertility and population ageing. Governments may limit themselves to providing a minimum pension and encourage people to use private saving channels if people need more protection after retirement. In some countries, **the mandatory retirement age needs to be increased** to allow older people to work and opt out of receiving a pension until they decide to retire.

4. Improved access to public services and infrastructure

As discussed previously, there is a rural-urban divide in accessing basic and quality public services such as water and sanitation services. Moreover, access to roads, railways and aviation, as well as clean energy for cooking and heating, is uneven across each income quintile between rural and urban areas. Research on this subregion shows that improving access to public services brings about the reduction of within-country economic disparities.[43] Considering the trend of urbanization, Governments also need to assess wisely the cost-effectiveness of investment in and universal provision of public infrastructure in rural areas. The recent infrastructure development initiate at the subregional level, the **Belt and Road Initiative** spearheaded by the Government of China, could be translated into national infrastructure development strategies.

Converging digital divides is another priority as smooth transmission of information and knowledge is key to efficient economic and political decisions, leading to more inclusive development. In the urban areas of North and Central Asia, 4G connection with the Internet is provided, while it is not available, or limited, in rural areas. Across-country and within-country difference in use of the Internet persists in landlocked countries, apart from Kazakhstan and Azerbaijan, which have major contact points with the international network of fibre optic cables. **Regional cooperation to jointly develop border contact points,** as

[39] https://www.ilo.org/global/topics/wages/minimum-wages/lang--en/index.htm
[40] ESCAP/Development Pathways, 2018, Policy Guide: How to Design Inclusive Social Protection Systems
[41] Social Protection Floor Initiative at http://www.ilo.org/secsoc/areas-of-work/policy-development-and-applied-research/social-protection-floor/lang--en/index.htm and Social Protection Toolbox at http://www.socialprotection-toolbox.org
[42] World Bank World Development Indicators, accessed on 28 June 2018.
[43] Kathryn, A., R., Pomfret., 2004, Spatial inequality and development in Central Asia, Research Paper, UNU-WIDER, United Nations University (UNU), No.2004/36, ISBN. 9291906239

well as use of transit transmission, need to be enhanced. The **Asia-Pacific Information Superhighway (AP-IS)** has been promoted for enhancing connectivity in fibre optic cable infrastructure in Asia. In 2017, the seventy-third session of ESCAP adopted a resolution to urge member States to cooperate in implementation of the Master Plan for the Asia-Pacific Information Superhighway (Master Plan) and the Asia-Pacific Information Superhighway Regional Cooperation Framework Document.[44] On the demand side, affordability of access to information and communication technology networks, especially among the poorest income groups, may be achieved through implementing public-private partnership arrangements for infrastructure development.

[44] E/ESCAP/RES/73/6

V. Conclusion

The 2030 Agenda for Sustainable Development is a set of ambitious development goals, to which all member States of the United Nations are committed in the next decades, in transforming economies, societies and environment on this planet into more sustainable and inclusive ones. To achieve inclusive development, the principle of “no one left behind” continues to be central in this global agenda. As a first step in the implementation period, this study tries to identify “those in greatest need” of repairing their capabilities and undertakes an analysis their needs to catch up with the rest in their societies.

Inequality situation in North and Central Asia is complex and diverse. However, data and information are limited to capture all aspects of inequality, faced by various social groups, as mentioned in this study. The scope of data collection need to be expanded and deepened to further understand the life, and the quality of life, of the furthest, such as women, young and older people, rural population, migrant workers, persons with disabilities, and ethnic, religious, linguistic and sexual minorities.

A wide range of policies are recommended in this study to mitigate difficulties the vulnerable social groups are facing. With its initiatives to foster regional cooperation and consensus to accelerate the implementation of the 2030 agenda, ESCAP as a regional think-tank is standby to provide policy advisory services, capacity building and technical assistance to Governments. In 2019, ESCAP will organize **the sixth session of the Asia and Pacific Forum for Sustainable Development, entitled with “empowering people and ensuring inclusiveness and equality”**. Member States, regional and international organizations and experts will get together to discuss the progress in implementing inequality-dimensions of the Sustainable Development Goals and how to further proceed the implementation. North and Central Asian countries will be invited to share best practises and success stories in inequality eradication, contributing to regional and global attainment of the Sustainable Development Goals.

Annex. The outcome report of the expert group meeting on inequality in North and Central Asia on 25 October 2017

UNITED NATIONS **NATIONS UNIES**

ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

Expert group meeting on inequality in North and Central Asia

25 October 2017, Almaty, Kazakhstan

Report

In line with the theme study of the seventy-fourth session of the Commission "Inequality in Asia and the Pacific in the era of the 2030 Agenda for Sustainable Development", the Economic and Social Commission for Asia and the Pacific (ESCAP) prepared a study on inequality in Central Asia and the Caucasus. The study took stock of current situation and trend of inequality in North and Central Asia and Afghanistan based on available and internationally-comparable evidence, identified types of inequality in this subregion and their causes, as well as proposed policy recommendations for Government's actions.

The study found that the inequality situation in the countries of North and Central Asia is complex and diverse. The countries differ much on their level of economic development, post-conflict experience and resource endowments. This subregion performs well in some dimensions of equality such as quasi-universal access to basic public services, education and social protection for older. On the other hand, there are growing issues in most countries of this subregion, such as limited access to quality public services and to finance; women's underrepresentation in labour market, entrepreneurship and social and political life; low male life expectancy; and high unemployment rate among young people.

ESCAP convened an expert group to review the study and discuss possible causes and recommendations for the above-mentioned inequality issues in collaboration with KIMEP University. The programme of the meeting is attached in Annex I and the list of participants in Annex II.

Conclusions and recommendations

After the discussion in the meeting, experts agreed to the following conclusions and recommendations:

Macroeconomic management

1. Sound macroeconomic management is fundamental to create enabling environment to reduce inequality. Central banks' efforts to contain inflation and avoid financial crisis need to be enhanced. Best practices in the management of windfall revenue from natural resources, such as the Sovereign Fund, should be studied well.

2. Improvement of business and investment climate will provide opportunities for more people to establish social relief. Simplification of tax policies will improve business environment to support entrepreneurship. With a large population in this subregion self-employed, red tapes such as sanitary and phytosanitary controls by local authorities should be reduced and simplified.

Data collection

3. More data needs to be collected for identifying issues and causes of inequality. Looking at both quantitative and qualitative data will provide the depth of future analysis on inequality in this subregion.

Infrastructure

4. Public infrastructure has been developed and improved in recent years. Upgraded transport infrastructure will mitigate inequality in rural and urban living standards by reducing transport costs and boosting services sector such as tourism.

5. Access to information and education has been improved among people in remote and mountainous areas due to advances in information and communication technology (ICT). In this sense, ICT infrastructure deployment needs to be accelerated, especially in rural areas.

6. Financing for maintenance of infrastructure is a subregional challenge. Affordability of access to transport infrastructure by the low-income segment of population should be discussed. Public private partnerships also may provide an alternative form in managing infrastructure.

Finance

7. Governments needs to support microfinance, remittance transfers and personal saving. Given that remittance from workers aboard accounts for one third of GDP in some countries, Governments should properly manage this funding source for eradication of inequality.

8. Islamic finance is another way to reduce inequality since it can lend money and provide required trainings for those who do not have enough collateral and business experiences to borrow money from banks.

Education

9. Lack of quality education is one of causes of inequality in this subregion. Governments should increase the cost-efficiency of current education systems by monitoring the outcome of education. They also should pay attentions to pre-school education since investment in children aged between zero and four is most significant in education returns.

10. Uneven access to quality education is another cause. For example, children of political elites can more easily access higher education and opportunities to study abroad. Equality in opportunities need to be taken into serious consideration.

11. Professional or higher education need to be improved to create market-ready human capitals. Providing different types of education through governmental and commercial vocational trainings should be considered in close consultation with private sectors.

Labour market, health care and social protection

12. Labour-market-related policies such as unemployment benefits and minimum wages should be considered for legislation and implementation.

13. Access to quality health care services, including health insurance, should be universal regardless of residence location. Balance in public and private provision of such services should be addressed.

14. Social protection systems are less cost-effective in this subregion. Targeting is a primary issue and can be switched to universal provision if it is difficult to implement. Governments should consider utilizing the Social Protection Floor Initiative of the United Nations as a platform to learn best practices across the world, as well as the Social Protection Toolbox of ESCAP.

15. Pension programmes are not sustainable since they do not depend on the size of payers nor history of contribution. Government may limit itself to provide a minimum pension and encourage people to use private saving channels if people need more protection after retirement. In some countries, the mandatory retirement age needs to be increased to allow older people to work and opt out receiving pension until they decide to retire.

16. Universal pension systems financed by high payroll taxes are a major impediment to transform informal to formal employment. Financing the system should be based on income-tax or direct-tax.

Gender

17. Promotion of active female participation in labour forces will lead to greater economic growth. Measures to enable for women to work outside, such as better access to early education and child care centres, need to be introduced.

18. The levels of income in education and health sectors in this region are less than the market average. This is one of causes in gender inequality in income since these sectors are "female" sectors where more women tend to work as teachers or doctors. This situation should be resolved.

19. Promoting gender equality should focus on both women and men. Male-focused gender policy should be implemented at the same time. Given that life expectancy for men is lower than for women in this subregion, measures to change male unhealthy behaviour, such as alcohol and cigarette consumption, should be taken. This will reduce health care budget.

Social inclusion for vulnerable people

20. Protection of human rights is fundamental to addressing issues faced by various types of vulnerable people such people with disability, migrants as well as ethnic, religious, linguistic and sexual minority.

21. To enhance social inclusion for vulnerable groups, actors at the local levels such as municipal governments or community groups should play an important role since the Soviet-style central management tends to miss signals from the vulnerable. Empowering such local actors needs to be considered through establishing national platforms to discuss inequality issues among multi-stakeholders.

22. Governments may consider imposing obligations to hire the vulnerable, such as people with disability, to companies which are willing to participate in infrastructure construction and procurement.

23. Labour migration is a chronical phenomenon and labour migrants tend to be vulnerable in this subregion. Governments in both host and source countries should develop long-term policies supporting migrant workers.

Programme

Time	Agenda item
9:30 – 9:40	**Opening** Introductory remark by – **Mr. Hirohito Toda**, Head, Subregional Office for North and Central Asia, United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)
9:40 – 10:40	**1. Defining inequality in North and Central Asia** Moderated by **Mr. Le Dang Doanh**, Member, Committee for Development Policy of the United Nations Presentation by **Mr. Roman Mogilevskii**, Associate Director and Senior Research Fellow, Institute of Public Policy and Administration, University of Central Asia (10 minutes) Discussant: **Ms. Alma Kudebayeva**, Assistant Professor, Department of Economics, College of Social Science, KIMEP university
10:40 – 10:50	*Coffee Break*
10:50 – 11:50	**2. State and trend of inequality** Moderated by **Mr. Otar Antia**, Head, Enterprise Development Department, LEPL Enterprise Georgia Presentation by **Mr. Roman Mogilevskii**, University of Central Asia (10 minutes) Discussant: **Mr. Richard Pomfret**, Professor, School of Economics, University of Adelaide
11:50 – 13:30	*Lunch Break*
13:30 – 14:30	**3. Causes of inequality** Moderated by **Mr. Ben Slay**, Senior Advisor, UNDP Istanbul Regional Bureau for Europe and the CIS Presentation by **Mr. Roman Mogilevskii**, University of Central Asia (10 minutes) Discussant: **Mr. Le Dang Doanh**, Member, Committee for Development Policy of the United Nations
14:30 – 14:40	*Coffee Break*
14:40 – 16:00	**4. Existing policy measures and recommendations** Moderated by **Mr. John Cassidy,** Lecturer and Assistant Professor, School of Business University College Dublin Presentation by **Mr. Roman Mogilevskii**, University of Central Asia (10 minutes) Discussant: **Ms. Elena Sannikova-Cassidy**, Lecturer, School of Business, University College Dublin
16:00 – 16:30	**Closing** Summary of discussion by moderators Concluding remark by **Mr. Hirohito Toda**, ESCAP

List of participants

EXPERTS

Mr. Otar Antia, Head, Enterprise Development Department, Enterprise Georgia

Mr. Le Dang Doanh, Member, Committee for Policy Development of the United Nations, Board of the Institute of Business Management of the National Economic University

Mr. Shigeo Katsu, President, Nazarbayev University

Ms. Alma Kudebayeva, Assistant Professor, Department of Economics, College of Social Sciences, KIMEP University

Mr. Roman Mogilevskii, Associate Director and Senior Research Fellow, Institute of Public Policy and Administration, University of Central Asia

Mr. Nadeem Naqvi, Professor and Chair, Department of Economics, College of Social Sciences, KIMEP University

Mr. Richard Pomfret, Professor, School of Economics, University of Adelaide

Ms. Elena Sannikova-Cassidy, University Lecturer, Department of Management, School of Business, University College Dublin

Mr. Khojamakhmad Umarov, Professor, Faculty of Finance and Economics, Tajik National University

OBSERVERS

Mr. John Cassidy, Lecturer and Assistant Professor, School of Business, University College Dublin

Ms. Saule Emrich-Bakenova, Associate Professor, Public Administration Department, College of Social Sciences, KIMEP University

Ms. Zalina Enikeeva, Junior Research Fellow, Institute of Public Policy and Administration, University of Central Asia

Mr. Alberto Isgut, Economic Affairs Officer, Macroeconomic Policy and Financing for Development Division, United Nations Economic and Social Commission for Asia and the Pacific

Mr. Predrag Savic, Associate Social Affairs Officer, Social Development Division, United Nations Economic and Social Commission for Asia and the Pacific

Ms. Dina Sharipova, Assistant Professor and Research Director, College of Social Sciences, KIMEP University

Mr. Ben Slay, Senior Advisor, UNDP Istanbul Regional Bureau for Europe and the CIS

Mr. Dennis Soltys, Associate Professor and Chair, Public Administration Department, College of Social Sciences, KIMEP University

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Mr. Hirohito Toda, Head, Subregional Office for North and Central Asia

Mr. Nikolay Pomoshchnikov, Senior Officer, Subregional Office for North and Central Asia

Mr. Hiroaki Ogawa, Associate Economic Affairs Officer, Subregional Office for North and Central Asia

Ms. Lyazzat Palymbetova, Staff Assistant, Subregional Office for North and Central Asia

Mr. Zaac Brumelot, Intern, Subregional Office for North and Central Asia