

1.2 Summary of the Action

The overall objective of this Action is to contribute to support the transition towards an inclusive green economy that benefits the well-being of the Kyrgyz population.

The overall objective is pursued through three specific objectives: 1. Integrate environmental, social and private sector issues into the development of evidence-based employment-oriented green economy policies; 2. enhance capacities of Micro, Small and Medium Enterprises (MSMEs) in the supported intervention areas to employ economically, socially and environmentally beneficial green economic practices; and 3. increase capacity of associations, public institutions, non-governmental organisations (NGOs), universities, media institutions in the Kyrgyz green economy in advanced communication for social and behavioural change (CSBC) to promote products and services, greener lifestyles, pro-environmental behaviour amongst promising selected target groups.

The intervention is directly linked to Priority Area 3, Green and Climate-Resilient Economy in the MIP for Kyrgyzstan 2021-2027. The Action will contribute to its specific objective 2, supporting the development of green business and economy holistically via state-building, private sector development and consumer awareness-raising.

Considering the emphasis on promoting an inclusive green economy, the Action will serve the Agenda 2030. In particular, it focuses on SDG 12 that calls for responsible consumption and production, but also builds synergies with other SDGs, including decent work and economic growth (SDG 8), climate action (SDG 13) and gender equality (SDG 5). The Action contributes significantly to DAC markers Aid to environment and gender equality and women's and girl's empowerment, and all RIO Convention markers: biological diversity, combat desertification, and climate change mitigation and adaptation.

The Action will be co-funded by the Federal Ministry for Economic Cooperation and Development of Germany (BMZ) and Swiss Agency for Development and Cooperation (SDC). For the joint goal and action, the EU, Germany and Switzerland, will mobilise their resources and build synergies on their long-term expertise in and experience with working with the public and private sectors as well as with the civil society and non-governmental organisations in Kyrgyzstan to support private sector development, and environmental and climate actions.

2. RATIONALE

2.1 Context

Kyrgyzstan is a lower-middle income country with one of the lowest gross domestic products among Central Asian countries. Economic growth averaged 4.2% over 2015–2019 but was subject to fluctuations. The COVID-19 pandemic had a stronger impact on Kyrgyzstan than on other Central Asian countries and led to a sharp recession in 2020 with a decline in GDP of 12.7% compared to 2019, public debt rising annually by 16.5 % of GDP to 68 %, and the Kyrgyz Som depreciating by 19 % against the US Dollar. The economy was able to recover in 2021, with GDP growth in that year reaching a level of 3.6%, mainly due to the service and industry sectors. Nevertheless, results of the first quarter of 2022 again showed a significant reduction in economic growth due to Russia's war of aggression against Ukraine. The economy is projected to contract by 5 percent largely due to a projected 33 percent decline in remittance inflows and a fall in investment spending. Inflation is projected to remain high at about 18 percent by the end of 2022 but is expected to moderate to 8 percent by the end of 2024. Macro-economic stability was preserved thanks to the prioritised spending of the Kyrgyz government and the support of the international community. In early 2022 the Kyrgyz government created an anti-crisis committee alongside an anti-crisis response plan for 2022-2026 which according to current estimates foresees expenditures of 126 billion Soms (over EUR 1.5 billion) amongst others for support to the private sector and measures to diversify imports of essential goods. However, it became clear that Kyrgyzstan will not be able to cope with another external shock of this magnitude, as the remaining economic and fiscal counter measures of the government are limited.

In the medium to long term, the main challenge for Kyrgyzstan is to create sustainable jobs for about 65,000 new jobseekers annually and to reduce labour out-migration. However, this will require deep structural reforms to transform the economy from a reliance on remittances to more diversified and private sector-driven growth that is