

INCOME INEQUALITY, POVERTY, AND GROWTH IN TRANSITION ECONOMIES: THE CASE OF KYRGYZSTAN

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ABSTRACT

This study deals with the relations among growth, income inequalities, and poverty in the context of transition process, examining the experience of Kyrgyzstan. Income distribution and poverty has always been significant issues of macroeconomics and lead not only to economic but also to socio-cultural and political problems. Specifically, these are among the big challenges faced by transition economies.

Experiences of transition economies show a positive relation between growth and inequalities and a negative relation between growth and poverty. With the growth in GDP after the big recession in the beginning of transition process all the transition countries have become more unequal eventhough there was a wide diversity among countries and at times

Generally, a negative relationship between growth and income equality has been observed for all economies. Transition economies experinced a sharp decline in production and income accompanied by a distortion in income distribution. Even after recovery an increase in inequality has been accompanied to increases in GDP. It can be concluded that decreasing inequalities, and poverty level and improving investment climate are the most important challenges faced by transition economies.

Key words: Income Distribution, Kyrgyzstan, Poverty, Transition Economies, Investment Climate

JEL Classification: D31, D63, O53, P36

GEÇİŞ EKONOMİLERİNDE GELİR EŞİTSİZLİĞİ, FAKİRLİK VE BÜYÜME: KIRGIZİSTAN ÖRNEĞİ

ÖZET

Bu çalışmada, geçiş ekonomileri açısından, büyüme, fakirlik ve gelir eşitsizlikleri arasındaki ilişkiler ele alınmaktadır. Gelir dağılımı ve fakirlik, her zaman, makroiktisadın önemli konuları arasında olagelmışlerdir ve yalnızca iktisadi problemlere değil, aynı zamanda, sosyo-kültürel ve siyasi problemlere de yol açmaktadırlar. Bu konular, özellikle, geçiş ekonomilerinin karşılaştıkları büyük problemler arasındadırlar.

Geçiş ekonomilerinin tecrübeleri; büyüme ve eşitsizlikler arasında pozitif, büyüme ve fakirlik arasında ise negatif bir ilişkinin varlığını göstermektedir. Geçiş sürecinin başlangıcındaki büyük depresyonun ardından, GSYİH'deki artışla birlikte, ülkeler ve dönemler arasında farklılıklar olmakla beraber, bütün geçiş ekonomileri daha eşitsiz hale gelmişlerdir.

Genel olarak, bütün ekonomilerde, büyüme ve gelir adaleti arasında negatif bir ilişki gözlenmektedir. Geçiş ekonomileri üretim ve gelir seviyelerinde keskin düşüşler yaşamışlar ve buna gelir

dağılımında bir bozulma eşlik etmiştir. Büyüme sağlanmaya başladıktan sonra dahi GSYİH'deki artışlara eşitsizliklerde bir artış eşlik etmiştir. Sonuç olarak denebilir ki, eşitsizliklerin ve fakirliğin azaltılması ve yatırım ikliminin iyileştirilmesi, geçiş ekonomilerinin karşı karşıya oldukları en önemli problemlerdir.

Anahtar Kelimeler: Gelir Dağılımı, Kırgızistan, Fakirlik, Geçiş Ekonomileri, Yatırım İklimi.

JEL Sınıflandırması: D31, D63, O53, P36

Introduction

Income distribution and poverty which are among the most important issues of macroeconomics hold onto their relevance in today's globalized world. An increase in inequalities in income distribution leads not only to economic but also to socio-cultural and political problems. In this respect, as one of the most important reasons for poverty and as the issue with multidimensional relations with growth, socio-political stability, and transition, inequality in income distribution needs to be analysed with greater attention.

As a result of their multi-dimensional characteristics, poverty and income inequality are also seen as among the main sources flourishing reactionary and critical views against globalization, being accepted as related with the results of economic globalization.

Furthermore, as an unsolved big challenge facing developing countries, poverty is on top of the list of the problems transition economies struggled with in their way toward achieving structural change, recovering from transition depression and improving their economic performance.

This study deals with the relations among growth, income inequalities, and poverty in the context of the transition process, examining the experience of Kyrgyzstan.

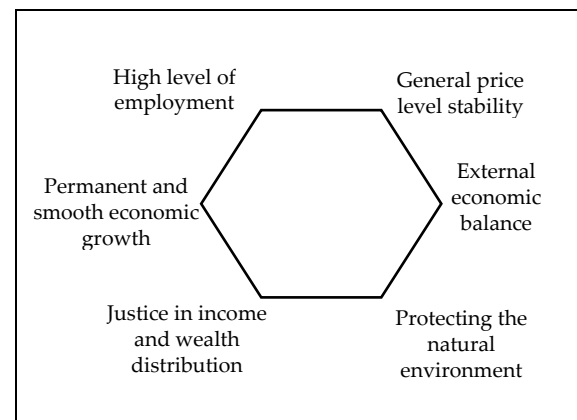
1. Inequality in Income Distribution and Poverty

The degree of justice in the distribution of national income in an economy takes its

rightful place in the list of main macroeconomic problems. What should be understood in terms of income distribution in an economy is how the income created in the economy is distributed by economic units. But, it must be kept in mind that income distribution is not simply an issue of division, but rather, an issue of production, welfare and social peace.

Although income distribution is an economic issue it is influenced by growth and distribution of population, socio-economic structure of society, and society's approach to concepts of equality and justice. Therefore, the increase in total welfare and use of the created income by all segments of the society are very important with regard to realizing social peace and social justice. In this term, if the groups taking a relatively small share from national income have a big share in the population, than these groups will get a lesser benefit from the main services such as education, health, and nutrition provided by the social welfare state. As a result, the country fails to improve

Figure 1: Magic Hexagon of Economic Policy



Source: (Mussel, 2000: 53)

quality of its human resources and this forms a limitation to the efforts of growth and development. For this reason, achieving a just income and wealth distribution is one of the six main targets of economic policy (Figure 1).

Since income distribution is related with total population it is a wider concept than poverty. There is no consensus on the definition of poverty and existing definitions vary in time and according to different social structures with different values. The dominant approach to define and measure poverty is the absolute poverty line approach based on income/consumption expenditures. In this approach poverty means the situation in which people do not have enough resources to meet their needs or they cannot achieve a minimum absolute welfare level (Senses, 2006: 62, 63). Accordingly, being under the average welfare level of society can be defined as relative poverty.

Because of its multidimensional character, poverty can be defined in different ways. It can be defined as deprivation of income enough for individuals and households to reach an acceptable level of satisfaction (subjective poverty) as well as deprivation of income enough to meet basic needs required by a minimum standard of living (income poverty).

World Bank's definition of poverty encompasses not only material deprivation (lack of an appropriate level of income or consumption) but also deprivation of government services such as education and health. This notion of poverty also includes vulnerability and exposure to risk and lack of a voice in decision-making, hence powerlessness. According to this broadened approach of the World Bank, income and health vulnerability is the risk that a person or a household will be subjected to in income or health poverty over time. But

vulnerability also includes probability of being exposed to some additional risks such as violence, crime, and natural disasters.

Moreover, recently, in measurement of poverty it is stressed that achievement in resources and in public and semi-public goods and services and notions of autonomy, self-respect, and honour should be taken into account (Aktan-Vural, 2002). Consequently, the notion of *poverty in terms of human development* came into prominence. According to the definition of UNDP poverty in terms of human development is the deprivation of the right to "lead a long, healthy, creative life and to enjoy a decent standard of living, freedom, dignity, self respect and the respect of others." (UNDP, 1997: 15). Additionally, there are also some other types of poverties such as rural poverty and urban poverty.

The more the income distribution is unjust in an economy the higher the number of people living in poverty. Therefore, factors determining income distribution are, at the same time, determinants of poverty. The main factors determining income distribution can be summarized as follows (Türk, 2001: 320-322)

- ***Distribution of labour:*** Labour can differ substantially in terms of qualities and this accounts for the main reason of wage differentiations. The way to get qualified labour is through education and giving equal chance of education to every citizen will increase labour supply in jobs and occupations providing high level of wages. In different economic systems different labours encounter different levels of demand as well as wages not being the only factor determining labour supply. Since factors such as the special feature of a job or difficulty of gaining the skill required for the job also have an effect on labour supply even if barriers to obtain

various features of jobs is removed differences between labour incomes can sustain.

- ***Distribution of wealth:*** Distribution of wealth with an important effect on income distribution is more unequal in comparison with the distribution of qualified labour. As a result it can be said that wealth incomes are scattered more unequally compared to labour incomes.

- ***Factor Prices:*** With a given distribution of wealth and labour, changes in prices of production factors such as wage, rent, interest, and profit alter the income distribution among economic units.

Additionally, some other factors such as growth rate, unemployment, inflation, high interest rate policy, rent economy, budget deficits, domestic borrowing, unjust and ineffective tax system, tax evasion, monopolization of markets, unfair protections and subsidies, population pressure, features of households, migrations, climate, environmental conditions, and natural disasters also contribute to unjust income distribution and poverty.

The use of social and economic indicators is needed to understand all dimensions of poverty and achieve the efficiency in policies and programs aimed at overcoming poverty. These can be listed as the indicators of standard of living, the indicators determining the degree of poverty, the indicators used to determine the depth of poverty, the indicators of relative poverty, social indicators, the indicators concerning the poverty of capabilities, and the indicators of being exposed to poverty risk.

To measure the position of the poor according to poverty line income and the level of inequality among them some measures were developed. These consist of minimum calorie consumption approach; basic needs approach, half of the average income approach, method of decomposition of

consumptions to food groups, and human development index. They are all used to observe the development of poverty and to compare the poverty level of countries.

2. Growth, Inequality, and Poverty in Transition Economies

Experiences of transition economies show a positive relation between growth and inequalities and a negative relation between growth and poverty. With the growth in GDP after the big recession in the beginning of transition process all the transition countries have become more unequal even though there was a wide diversity among countries and at times

According to the literature on this issue the main sources of inequalities in transition can be listed as follows (Mitra-Yemtsov, 2006: 11-15):

- ***Wage decompression and growth of the private sector:*** Transition brought about a private sector in which wages are more tightly linked to productivity and consequently wage differentials became an important driver of inequality.

- ***Restructuring and unemployment, reverting to subsistence economy:*** As resources are reallocated to more productive uses together with the closure and restructure of existing firms and entry of new firms such developments in the labour market as open employment, lower labour force participation, and low productivity employment (like subsistence agriculture or informal sector activities) have emerged. These developments varied across households, regions, and countries feeding the inequalities in transition economies.

- ***Changes in government expenditure and taxation:*** Low level of social transfers in formerly socialist low-income countries with fiscal problems was an important factor behind the increase in inequality in these countries.

- Price liberalization, inflation and arrears: When prices were liberalized in transition economies, they went up rapidly and high rates of inflation had a strong negative redistributive effect. In some countries, arrears on pensions and social benefits payments concentrated in the bottom part of the distribution resulted in a cut in real wages, leading to more inequality.

- Asset transfer and growth of property income: During transition many publicly owned assets transferred to private agents in an unequal manner. A small number of people achieved most of those assets and this led to a permanent and negative distributional effect.

- Technological change and globalization: Transition economies experienced inequality stemming not only from privatization and economic transition but also from the technological change associated with globalization that is common to all countries. There has been an increase in inequality all over

the world in this new era of globalization because of that there is a rise in the income of skilled labour and a relative decline in wages of unskilled workers.

Generally, a negative relationship between growth and income equality has been observed for all economies. Transition economies experienced a sharp decline in production and income accompanied by a distortion in income distribution. Even after recovery an increase in inequality has been accompanied to increases in GDP. For instance, rapid growth in China has been accompanied by a sharp increase in the Gini coefficient. Value of this coefficient increased by 2 percentage points between 1990 and 2001 and consequently, Gini coefficient in 2003 became nearly 50 percent higher compared to that in 1981. Other formerly socialist countries also experienced the same development (Mitra-Yemtsov, 2006: 4).

Table 1. Gini Indices for Per Capita Incomes from "Official" Sources

	1987-1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Armenia	0.269									0.570		0.537		0.428
Azerbaijan	0.345					0.440						0.373		
Belarus	0.233				0.280	0.253	0.244	0.249	0.253	0.235	0.247	0.245	0.246	0.249
Bulgaria	0.245		0.344		0.340	0.384	0.357	0.366	0.345	0.326	0.332	0.333	0.370	0.351
Croatia	0.251								0.333					0.29*
Czech Rep.	0.197		0.228		0.270		0.258	0.230	0.239	0.212	0.232	0.231	0.237	0.234
Estonia	0.240		0.395		0.350		0.370	0.361	0.354	0.361	0.389	0.385	0.393	0.402
Georgia	0.313						0.430							0.469
Hungary	0.214			0.231		0.242	0.246	0.254	0.250	0.253	0.259	0.272	0.267	0.268
Kazakhstan	0.297				0.330		0.35							
Kyrgyz Rep.	0.308			0.353				0.470	0.411	0.399	0.414	0.377	0.382	0.342
Latvia	0.240				0.310			0.326	0.321		0.327		0.358	0.379
Lithuania	0.248				0.350		0.347	0.309	0.332	0.343	0.355	0.354	0.357	0.318
Macedonia	0.349						0.369	0.367					0.34*	0.34*
Moldova	0.267			0.365	0.360			0.420			0.437	0.435	0.436	0.411
Poland	0.255	0.265	0.274	0.285		0.320	0.328	0.334	0.326	0.334	0.345	0.341	0.353	0.356
Romania	0.232				0.290	0.312	0.302	0.305	0.298	0.299	0.310	0.353	0.349	0.352
Russia	0.259	0.260	0.289	0.398	0.409	0.381	0.375	0.381	0.398	0.399	0.394	0.396	0.398	0.404
Slovenia	0.220	0.227	0.282		0.250		0.302	0.305	0.298	0.299	0.310	0.353	0.22*	0.22*
Slovak Rep.	0.186						0.237	0.249	0.262	0.249	0.264	0.263	0.267	0.299
Tajikistan	0.334									0.470				
Turkmenistan	0.308				0.360									
Ukraine	0.240									0.282	0.288	0.290	0.277	0.271
Uzbekistan	0.351				0.330									

* Data are from Eurostat and rely on an OECD per equivalent equivalence scale.

Source: (Mitra-Yemtsov, 2006: 6)

As seen from the table above all transition countries experienced an increase in inequality. This increase was rapid in the

countries that composed the USSR, but relatively gradual in the new members of the European Union.

Table 2: China: Increases in Gini Coefficients for Per Capita Incomes from Various Studies

	Data	Rural			Urban		
		1988	1995	2001-2	1988	1995	2001-2
Ravallion and Chen (2004)	SSB	0.297	0.334	0.365	0.211	0.283	0.323
Wu and Perloff (2004)	SSB	0.300	0.338	0.343	0.201	0.221	0.269
Li (2000)	SSB	0.301	0.323		0.230	0.280	
Khan and Riskin (1998, 2004)	CASS	0.338	0.416	0.375	0.233	0.332	0.318
Gustaffson and Li (1999)	CASS				0.228	0.276	
Wagstaff (2005)	CHNS	0.395*	0.419*				
Meng (2003)	CASS				0.234	0.282	

Note: SSB-State statistical bureau based on household budget survey, CASS-Economics Institute of the Chinese Academy of Social Sciences Survey * All China, 1989 to 1997.

Source: (Mitra-Yemtsov, 2006: 34)

Experiences of transition economies show that the enormous decline in national output caused a significant increase in poverty while the reverse effect is not that clear. In only half of the six countries in the table below has economic growth been accompanied by a reduction in poverty. To explain it one should look at the ways growth has impacted on poverty. In this respect in the countries growth has led to a decline in the poverty level. There are some additional factors rather than mere economic improvement and for the countries, growth has not led to a fall in poverty the explanation can be that growth has not occurred in high-productivity sectors. In Tajikistan and Uzbekistan, for

example, economic growth has been driven by an expansion in agricultural sector where the increase in the amount of labour has led to a decline in productivity, resulting in a fall in income and an increase in poverty. In Kyrgyzstan although growth was based on mainly the expansion of production in the industrial sector as a result of the expansion in Kumtor gold-mine it did not result in a decrease in poverty, at least immediately, because of that it was not sufficiently a labour-intensive production. The decline in poverty after 1999 may be seen as the fact that growth led to a decrease in poverty after a time lag (Torm, 2003: 31).

Table 3: Summary of Growth, Poverty, Unemployment and Wage Trends

	Resumption of Growth	Poverty	Unemployment	Manufacturing Wages (Real)
Armenia	1994	Falling	Rising	Rising
Kazakhstan	1999	Falling	Falling	Rising
Kyrgyzstan	1996	Rising	Falling	Rising
Moldova	2000	Falling	Falling	Rising
Tajikistan	1997	Rising (?)	Rising	Rising (?)
Uzbekistan	1997	Rising (?)	Rising (?)	

Note: (?) indicates that based on the available data it has not been possible to identify a certain trend.

Source: (Torm, 2003: 27)

One factor that prevents growth from leading to positive effect on poverty is

income inequality. If the degree of inequality is high then the benefits of

economic growth will be distributed unequally across the population, resulting in an increase rather than a decrease in poverty. Increased poverty will result in a vicious circle by leading to a low level of domestic demand, savings, and investment which, in turn, will lead to a lower growth and increased poverty (Torm, 2003: 14).

In Armenia, Kazakhstan, and Moldova a fall in poverty accompanied to growth can be attributed to the fact that economic growth was accompanied by an increase in employment with rising productivity and real wages. For instance in Kazakhstan, the resumption of growth was almost exclusively due to increase in oil-production in the high-productivity industrial sector, leading to increased employment and labour productivity and consequently higher wages and falling poverty. In Armenia, although growth has been relatively high and stable for more than half a decade, poverty has begun to fall by a noticeable amount following a considerable lag only after growth has picked up in the high-productivity industrial sector, implying a close link between higher growth, increased productive employment and poverty reduction (Torm, 2003: 32).

In this respect it can be added that the investment climate has a great impact on the developments in transition countries. These countries need increases of private sector investments in high-productivity industrial sectors. Taking into account vicious circle of low growth rate - poverty - low savings and investment - low growth rate foreign direct investments can lead to substantial positive changes in these economies. China would be a great example of it. According to World Development Report 2005 by World Bank improvements in the investment climate of China provided the most dramatic poverty reduction in history, lifting 400 million people out of poverty

over 20 years. World Bank's definition of investment climate in that report is "The set of location specific factors shaping the opportunities and incentives for firms to invest productively, create jobs and to expand" (World Bank-Oxford University Press, 2004: 3, 20). As stressed in the report government policies and behaviour has a strong influence on this climate through their impact on costs, risks, and barriers to competition.

For most of the transition economies suffering from a high level of inequalities, unemployment, and poverty lack of suitable investment climate is one of the remarkable features. Not only for the foreign investors but also for the domestic investors it is the main factor leading to obtain from investing in their countries. Because of the lack of political stability and security as well as bad investment climate groups taking large part of unequally distributed income in these countries do invest their wealth in foreign countries rather than investing domestically. For this reason, in these countries, political stability and legal security along with suitable economic environment have the greatest importance to attack and prevent poverty.

Regarding poverty and inequality remittances can play a positive role in transition countries. Remittances can reduce poverty, increasing household consumption and savings and fuelling investment. Surveys show that most of the remittances are used to finance consumption of food and clothing but that significant quantities are also used for education and savings (over 10%). Smaller amounts are spent on investments (less than 5 %) (Quillin et al, 2007: 64). However, either consumed or invested, remittances can contribute to economic growth simply because even if they are not invested but consumed they will create a multiplier effect leading to an increase in

national income. But, at the same time, remittances can lead to appreciation of the domestic currency and worsen export performance of the country, limiting expansion in production. The results of some studies suggest that remittances can reduce the domestic work effort. With respect to the impact of remittances on income inequality evidences provided by studies are mixed. Some found that remittances increased inequality while others concluded that in the long run income distribution becomes more equal (Quillin et al, 2007: 67).

3. Income Inequality, Poverty, And Growth In Kyrgyzstan

According to the Soviet Family Budget Survey, before independence, about a third of Kyrgyzstan's population lived below the then poverty line. After independence, as a result of transition depression, the number of people living in poverty increased and reached a high of 55.3 % in 1999 (Torm, 2003: 15). In this period the Russian crisis led to significant increase in poverty and rising inequality in income distribution also contributed to this trend. Head count ratio of poverty increased from 51.9 percent in 1996 to 64.1 percent in 1999. The poverty gap also increased from 20 percent to 25.0 percent during this period, in other words, not only were more people poor, but the depth of their poverty was greater. This increase in poverty was accompanied by a distortion in income distribution (World Bank, 2001: 5).

However, the following economic recovery resulted in a significant reduction in poverty. Between 2000 and 2003, GDP per capita grew by 3.2 percent, and between 2003 and 2005, 2.3 percent per capita. But private consumption growth exceeded GDP growth and was the main driver behind the economic growth. Consumption growth

was 9.0 and 8.6 percent respectively for the periods of 2000-2003 and 2003-2005.

With the reduction in poverty income inequality also has improved as pointed out by a reduction in Gini coefficient between 2000 and 2005. However, unlike most societies, in Kyrgyzstan there are large changes in measures of income distribution according to household surveys. If this is not stemmed from the unreliable data but shows the actual situation it means that there are dramatic shifts in income. Between 2000 and 2003, it is observed that developments were similar across the board. But between 2003 and 2004, there were a dramatic increase in inequality in rural areas with a fall in agricultural output. But, in urban areas, inequality continued to fall. With the resumption in agricultural sector, in 2005, inequality began to improve again. (World Bank, 2007a: 22).

Although the economic growth was moderate (3.7 percent per annum, the Kyrgyz Republic has experienced a sharp decline in poverty) between 2000-2005. The rate of poverty fell from 63 percent to 43.1 percent and extreme poverty rate fell from 33 percent to 11 percent. This indicates the responsiveness of poverty to growth. The poverty – growth elasticity during this period was – 2.0 which means that every one percent increase in GDP per capita led to 2 percent decrease in headcount poverty (World Bank, 2007a: 24). This reduction in poverty was accompanied by an improvement in inequality and an increase in per capita consumption of the poor.

It can be said that there are, probably, positive interactions among growth, poverty, and income inequality. Given that investment expenditures are low and growth is based on the increase in consumption, any increase in the income of the poor leads to a rise in growth. In fact, in the case of Kyrgyzstan, remittances played an

important role in reducing poverty and raising GDP. Thus it can be claimed that any further improvement in income inequality would contribute to growth reduction in poverty. This is particularly important for the transition and developing countries having experienced a distortion in income inequality and poverty and suffering from the insufficiency of savings and investment. An improvement in income distribution will improve the business environment, thus reviving markets.

In the case of Kyrgyzstan, because remittances are mostly used for private consumption and the construction of housing rather than investment, the sustainability of poverty reduction is under risk due to the low level of investment and uncertainty of the stability and growth in foreign remittances. Specifically, in the contagious crisis environment it is not likely to maintain an increase in consumption and growth based on foreign remittances.

In this respect increasing investment is vital for Kyrgyzstan in that there is a limit for the growth based on consumption rise, foreign debt is high and the country does not have rich natural resources. To increase investment Kyrgyzstan should improve the business environment. According to a World Bank study the percentage of Kyrgyz firms that consider the business environment very problematic is higher than average of Eastern Europe and Central Asian transition countries: while less than half of the firms in these countries consider corruption, crime or anti-competitive behaviour to be a major obstacle; in the Kyrgyz Republic, at least three quarters of all firms find this a major problem to doing business (World Bank, 2007a: 37).

In Kyrgyzstan investment accounts for only 20 percent of GDP and foreign direct investments went almost exclusively to gold mining. Foreign remittances amounting

to about 19 percent of GDP has mostly channelled to consumption and insufficient to guarantee an adequate level of national savings to reach a stable and sufficient growth rate. As a result, poverty in Kyrgyzstan remains high despite extreme poverty being moderate (IBRD, 2007: 7).

Although Kyrgyzstan achieved important gains in reduction of poverty and inequality, these improvements are not likely to sustain without an increase in productivity and investment. Because of the lack of a sufficient level of national savings Kyrgyzstan needs to attract foreign direct investment for which improvement in the business environment is a must. Existing situation of Kyrgyzstan is not encouraging in this respect. According to the 2005 Business Environment and Enterprise Performance Survey (BEEPS), 59 percent of businesses cited corruption as a significant obstacle to doing business in Kyrgyzstan. This rate is the highest in the region and indicates a worsening situation compared to the 2002 survey. Kyrgyzstan also ranked at 142 out of 163 countries on the 2006 Transparency International Corruption Index (IBRD, 2007: 12).

Another problem for the Kyrgyz economy related with investment and growth is the fact that labour productivity is relatively low compared to the wage level. While growth in labour productivity has been positive, it remained behind real wage growth and the gap between real wage labour productivity growth has widened from 2000 on. This has led to reduction in international competitiveness of Kyrgyzstan and as a result, the Kyrgyz Republic ranks number 107 in total competitiveness, among the twenty lowest countries in the world. The poor quality of institutions, low level of technological readiness and the macroeconomic instability can be considered as the main factors pulling down Kyrgyz

Republic's average level of competitiveness. In fact, out of the 125 countries surveyed, only Chad and Venezuela have worse institutional frameworks than the Kyrgyz Republic (World Bank, 2007b: 15).

Looking beyond GDP for a broader definition of well-being the Human Development Index (HDI) can provide a composite measure of three dimensions of human development: living a long and healthy life (measured by life expectancy), being educated (measured by adult literacy and enrolment at the primary, secondary and tertiary level) and having a decent standard

of living (measured by purchasing power parity, PPP, income). Though the index is not a comprehensive measure of human development in the sense that it does not, for example, include important indicators such as gender or income inequality and indicators like respect for human rights and political freedoms which are more difficult to measure, it does provide a broadened prism for viewing human progress and the complex relationship between income and well-being (UNDP, 2007b).

Table 4: Kyrgyzstan's Human Development Index and Gini Index (2005)

HDI value	Life expectancy at birth (years)	Adult literacy rate (% ages 15 and older)	Combined primary, secondary and tertiary gross enrolment ratio (%)	GDP per capita (PPP US\$)	Gini index
1. Iceland (0.968)	1. Japan (82.3)	1. Georgia (100.0)	1. Australia (113.0)	1. Luxembourg (60,228)	Denmark (24.7)
114. Mongolia (0.700)	115. Kazakhstan (65.9)	16. Turkmenistan (98.8)	60. Jordan (78.1)	141. Solomon Islands (2,031)	Hungary (26.9)
115. Honduras (0.700)	116. Mongolia (65.9)	17. Albania (98.7)	61. Jamaica (77.9)	142. Comoros (1,993)	Bulgaria (29.2)
116. Kyrgyzstan (0.696)	117. Kyrgyzstan (65.6)	18. Kyrgyzstan (98.7)	62. Kyrgyzstan (77.7)	143. Kyrgyzstan (1,927)	Kyrgyzstan (30.3)
117. Bolivia (0.695)	118. Guyana (65.2)	19. Samoa (98.6)	63. Brunei Darussalam (77.7)	144. Gambia (1,921)	Kazakhstan (33.9)
118. Guatemala (0.689)	119. Russian Federation (65.0)	20. Italy (98.4)	64. Qatar (77.7)	145. Senegal (1,792)	Sierra Leone (62.9)
177. Sierra Leone (0.336)	177. Zambia (40.5)	139. Burkina Faso (23.6)	172. Niger (22.7)	174. Malawi (667)	Namibia (74.3)

Source: Formed by using data from UNDP (2007a) and UNDP (2007b)

As seen from the table 4, the HDI for Kyrgyzstan is 0.696, which gives the country a rank of 116th out of 177 countries with data. These indicators together with other economic and social indicators should be considered as components of an

undivided whole. As a result, a broader point of view including economic, social, and human factors is needed for Kyrgyzstan to determine the policies oriented towards solution of the poverty problem.

Conclusion

Unequal income distribution is a very important economic problem in Kyrgyzstan as in all countries in the world since it is one of the most important factors affecting the level of poverty and economic development negatively. Furthermore, levels of income inequality, poverty, and economic growth are closely related with each others. Any improvement in income distribution contributes to the war on poverty and economic growth. Additionally, the point of view of social stability it can be said that measures to improve income distribution have great importance to prevent conflicts in society.

For the Kyrgyz Republic with the poverty rate of over 40 percent what should be done to decrease poverty in an effective and sustainable way can be listed as follows:

- Struggle with poverty based on short, medium, and long term strategies and programs;
- A widened approach of poverty including its social, moral, ethical, and cultural dimensions;
- Elimination of deficiencies in legal infrastructure and setting up the rule of law;
- An effective governance;
- Sustainable economic growth and development;
- Giving priority to employment policies to reduce unemployment;
- Policies to improve income distribution;
- A developed social security system;
- Improving education system to use human resources effectively;
- An effective struggle with corruption;
- Public policies to eliminate regional unbalances.

Taking into account the insufficient level of income and savings required steps should be taken to improve business and investment environment and thereby to increase investment and reach a sustainable economic growth. This is particularly important in attracting foreign direct investment.

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