



HUMAN DEVELOPMENT REPORT

UZBEKISTAN - 2005

**DECENTRALIZATION
AND HUMAN DEVELOPMENT**



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FOREWORD

Any democracy is built around its cornerstone - the individual. Progress of any society is measured not only by the magnitude of its economic potential, but also by the extent to which this potential is targeted toward the prosperity and harmonious development of each individual.

Bearing this in mind, national and foreign experts under the aegis of the UNDP have produced the sixth National Human Development Report for Uzbekistan, which is brought to your attention.

At the current stage of development, it has become clear that economic reforms alone are neither capable of improving the welfare of the population nor ensure fast-paced economic development. Rapid economic growth should be based on effective public administration which strengthens democratic institutions and ensures equal opportunities for all social strata.

The year 2004 can be considered as crucial for the country in attainment of this goal. The intensification of economic reforms, particularly the development of farm enterprises and the liberalization of commodity and currency markets, facilitated the acceleration of and created favorable conditions for economic growth. The country initiated implementation of a large-scale public administration reform, which calls for and strives to reduce the government's intervention in the economy. Decentralization is an important trend within this reform process, involving the delegation of certain functions from central to local government, and increased interaction with civil society institutions.

Decentralization affects broad spectrum of issues that influence human development, ranging from the provision of higher quality services to strengthening of macroeconomic stability. This in fact predetermined the theme of this report, which focuses on the issues of decentralization and its impact on human development.

The authors of the report have attempted to answer the following questions: Why is decentralization crucial for human development? What benefits and risks does it entail? The report emphasizes the fact that the extent of decentralization is noticeably broader in transition economies rather than in developed countries. Taking this into account, various aspects of economic decentralization are carefully examined in the Report. Opportunities to utilize decentralization for the promotion of human development include: capacity building in local governments, developing citizens' self-governing bodies, and increasing the role of non-governmental institutions.

We do hope that this Report will lay the foundation for extensive dialogue in the society and contribute to the understanding and further implementation of the reform aimed at democratic development, expansion of human potential, and achievement of sustainable human development.

Galina Saidova
First Deputy Minister of Economy
of the Republic of Uzbekistan



FOREWORD

Decentralization, the topic of this year's NHDR, is a goal that has been pursued by the developed countries in an effort to move decision making closer to the citizens. On the other hand, the CIS countries, carrying the heritage of a highly centralized command-and-control mentality, obviously have a much longer road to travel. Their struggle since independence from the former Soviet Union has been with the implementation of ever-widening reforms of decentralizing economic, social and political power to the entrepreneurs and citizens.

Fundamental to the decentralization efforts is a redefinition of the role of the State in the economy. In successful market economies, the State disengages from activities that markets and the private sector can perform more effectively, such as setting prices, allocating credit and other domestic resources and running commercial activities. Instead, the State concentrates on carrying out a few core responsibilities well, such as upholding the rule of law, providing reliable public services, maintaining prudent macroeconomic policies, and establishing a fair and transparent judicial/regulatory framework for a cohesive society within the nation. Of course, governments must also give their full attention to stamping out corruption in every form. These are all aspects of "good governance", which is an essential condition for sustainable human development.

Strong and sustained economic growth is a must if the CIS countries are to meet the Millennium Development Goals, the essential targets that will guarantee the future of these nations as healthy and active members of the community of nations. For economic development, almost all CIS countries have chosen the private sector to be their main engine of growth and job creation, which requires an enabling environment – still being established to varying degrees of success in a lot of those countries. The institutional framework that will give domestic and foreign entrepreneurs the confidence to invest is built on a few pillars whose effectiveness is proven the world over:

- Simple and transparent regulatory systems—so that businesses won't waste precious time and resources trying to find out what the rules are and how to comply with them; so that new firms can enter the market without complication or being driven underground; and so that foreign investors are encouraged to bring in their capital, technology, and skills;
- Effective legal and judiciary systems that protect property rights, enforce contracts, and help create an atmosphere of law, order, and personal security—so that domestic and foreign investors will expand their businesses and create new ones;
- Tax systems that are simple and broad-based, with limited exemptions and reasonable and uniform rates—so that companies and individuals will not be discouraged from trying to fulfill their tax obligations; so that taxes can be more easily enforced; and so that governments receive the revenues they need to carry out their basic responsibilities in such areas as health and education.

Experience shows that in order to make a decisive difference in the domestic economic climate, policies must be reasonably consistent and achieve a critical mass of reform, thereby convincing investors that reform is irreversible, and that the country is truly integrating into the international economy. Partial reform may not elicit much response if substantial impediments to economic activity remain in place.

Decentralization in the economic sphere provides strong support to decentralization of public administration so that economic growth through private sector activity can be effectively channeled to human development. As a vibrant market economy cannot co-exist with a centrally-managed public sector, devolution of power from the center to its branches, regions and to the community is a natural progression. Of course, the pace of decentralization has to be consequent with the conditions, such as the human resources capacity and the accountability framework that will support a smooth transition without destabilizing the entire country.

Decentralization is one of the key challenges that stand in the way of sustained progress to generate welfare for all citizens, establish good governance structures, empower men, women and children, as well as properly manage environment and natural resources... so that all of us live as responsible citizens of the global village and pass on to future generations a worthy legacy in which they too can flourish. In facing up to such challenges, the international community is ready to support serious reform efforts. UNDP's own program in Uzbekistan is funding initiatives to improve living standards, enhance economic reforms, good governance and environmental management, and remains ready to further support decentralization initiatives.

Fikret Akcura
UNDP Resident Representative



EXECUTIVE SUMMARY

The beginning and the middle of the 20th century were marked by the spread of the new ideology of communism. Strong authoritarian governments, ruling with the iron hand of central planning emerged in Russia, China, and many countries across Eastern Europe, Central and Southeast Asian countries. Yet the defining event of that century's final decade was not communism's triumph but rather the precise opposite: the collapse of the theory and practice of communist ideology in nearly all the aforementioned countries. Since then, these countries have entered a difficult period of transition from centrally planned to market economies. Uzbekistan is among these transition countries and, like other states that used to be the part of the USSR, it embarked on a colossal effort in 1991 to establish its own separate identity and to introduce market mechanisms into its economy.

This report examines the changes in human development in Uzbekistan over the period 2001-2003 and evaluates the country's progress in meeting the challenges set forth by the UN Millennium Declaration, including eradicating poverty, respecting the basic principles of human dignity and equality, and working toward sustainable development. In particular, the Report discusses the role of decentralization in promoting human development and the democratization of society.

As with previous Human Development Reports, this one is the result of a collaborative efforts by national and international experts, under the aegis of the UNDP. It focuses on Uzbekistan's achievements in promoting human development, while pointing out barriers to progress and the measures required to overcome them and to achieve the advancement of society as a whole.

The report attempts to analyze the success and challenges the government faces in its mission to implement political and socio-economic reforms. It also seeks to determine the "optimal mix" between central and local governments and between the private sector and civil society in order to address economic and social development issues.

Chapter 1. Human Development and Decentralization.

Decentralization has a strong, if at times ambiguous, impact on human development. The government can create an environment that facilitates development of human potential by delegating its powers and responsibilities to lower levels of authority—or to community organizations, civil society institutions, and the private sector—and by refraining from excessive intervention in the economy. Moreover, as decentralization stimulates interaction among all strata of civil society, more information about the real needs of the population reaches the government, enabling it to take more effective and relevant policy decisions.

It is equally important to note that the converse is also true: human development facilitates decentralization as well. Only the development of human potential can create the capability and the drive for reducing the concentration of power in the center and diminishing government's intervention in economic activities of entrepreneurs.

In recent years, many countries have moved toward decentralization of functions, powers, and responsibilities from central to local governments. These states increasingly see decentralization as a way to involve communities in social program development and public administration and thus further advance overall human development.

In transition economies, the issue of decentralization is intertwined with the

Decentralization is considered as an instrument for involving communities in the design and funding of development programs increasing efficiency in public administration, and, consequently, for promoting human development

Along with providing opportunities for human development, decentralization poses certain risks

collapse of the Soviet system and its highly centralized public administration. And for this reason decentralization in these countries is seen in much broader context rather than in developed Western countries. In transition economies the achievement of a greater freedom of economic choice, that exists in democratic countries for a long time, is considered as a major factor of human development and one of the directions of decentralization. The first chapter outlines various aspects of economic decentralization (i.e. privatization, demonopolization, deregulation, etc.), while the following chapters explore the impact of alternative forms of decentralization on human development.

Along with providing opportunities for human development, decentralization poses certain risks. In the absence of a clear legal framework, strong political will, and effective coordination among authorities, economic decentralization can produce macroeconomic instability, further complicate access to resources, and increase polarization of the population by widening the gaps in income and living standards.

Considering the ambiguous impact of economic decentralization on human development in Uzbekistan as well as the country's current stage of transition period, decentralization in economic and political spheres should be carried out in line with the following principles:

- consistency and gradualism in top down transfer of functions and interlinkage of various stages of decentralization;
- comprehensiveness of measures at each stage of reforms;
- involvement of population and community organizations within decentralization process.

By bearing in mind these principles and peculiarities of economic reforms, the government will be far more likely to avoid running risks inherent in the decentralization process, and to utilize all of its advantages towards sustainable human development.

Chapter 2. Decentralization and Economic Growth. The strategy of a gradual transition to market economy adopted by Uzbekistan has managed to ensure largely positive results of economic growth. It has subsequently reaped the benefits of strong economic growth and more favorable trend in human development. The life expectancy index rose from

0.737 in 1996 to 0.777 in 2003 while the education index rose from 0.913 to 0.917 and the overall human development index from 0.717 to 0.747.

However, the economic growth rate in 1996-2003 remained moderate, especially when measured in per capita terms. If this rate remains unchanged, living standards of population will double in 20 years and it creates urgent need for the country to accelerate economic growth rate by a factor of at least 1.5-2.¹ Within this context, Chapter 2 examines the opportunities for fostering economic growth through reducing state intervention into entrepreneurial activity, development of private sector and creating favorable environment to private investments – in other words, by reducing the state intervention in the economy.

Currently the private sector is emerging through privatization of public property, establishment of private farms. Business support measures are undertaken aimed at stimulating development of private firms and small and medium enterprises

However, despite the emphasis on private sector development the level of government intervention in the economy still remains high. The state control over entrepreneurial activity is heavy, especially considering that Uzbekistan is aiming for fast economic growth through private sector development.

Hence, state intervention on private sector should be reduced by introducing mechanisms of accountability of local authorities to representative bodies and population, broad utilization of corporate governance methods, reduction of barriers to entrepreneurial activity and maintaining of market mechanisms to regulate activity of enterprises.

Chapter 3. Public Administration and Social Development. Economic growth creates a baseline for the growth of employment and incomes, as well as for the development of such sectors as health care and education. Chapter 3 looks at whether the opportunities provided by these factors are effectively used as well as reviewing recent trends in these areas. The on-going reform process encompasses almost all areas of social sphere and creates a solid bases for achievement of country-specific development goals. And attaining the aforementioned objectives has to involve not just government structures but also private sector and civil society organizations.

¹ In 2004 GDP growth rate was 7.7%. If this rate retains, the standard of living in the country will double in 10 years.

It is obvious that the government alone is unable to solve all social problems without the support of civil society. For those sectors concerned with the development of human capital, the central authorities should concentrate only on strategic development issues. They cannot, and should not, interfere in the resolution of day-to-day problems. These should be the responsibility of the local authorities, private sector, civil society institutions and families themselves. Decentralization of decision making in social sphere is gaining greater significance for promoting welfare of the society.

Most of the issues related to preschool and secondary education, and those of primary health care could be easily transferred to local authorities. Decentralization of services in these spheres and their financing are deemed as tools that bring about quality and targeted effect.

Considerable experience has already been accumulated for assessing the advantages and disadvantages of decentralization in the aforementioned spheres. One positive example is a pilot health reform project in Ferghana region that granted independent legal status to rural health care facilities while funding their activities on per capita basis from the local budget. This led to more efficient use of resources, leaving significant savings to be spent on expanded preventive health care.

It is also possible, however, that decentralization could increase regional inequality in access to social services. Uzbekistan was part of the USSR for seven decades and inherited not only the mentality of the centralized management system, but also significant regional variations in the level of socio-economic development. This resulted in considerable disparity of the human development index across regions which increased from 1.11 in 2000 to 1.16 in 2003. Indeed, while the national human development index increased from 0.740 to 0.747, regional indicators decreased in the Karakalpakstan, Jizzakh, Namangan, Syrdarya, and Ferghana regions.

In order to contain development disparities among regions, government policy should guarantee certain redistribution of resources among regions, with the aim of ensuring equal access to public services and social benefits. At the same time, it is crucial to build up the economic capacities of the regions and to boost the interest of local governments in increasing local revenues and their ef-

ficient expenditure. In this regard, fiscal decentralization is increasingly seen as a way to improve the efficiency and quality of public services: by bringing them closer to the people, and by entrusting local authorities with the responsibility of determining the level and structure of taxes and public expenditures.

At first glance, health care and education in Uzbekistan are almost fully funded (87%) from local budgets. However, a closer look reveals that funding comes from national taxes and government transfers. In other words, the funds are simply redistributed by the central government. In fact, as in many transition economies, the decentralization of expenditure authority exceeds by far the decentralization of the power to raise taxes. Yet economic theory and international experience show that decentralization can enhance the quality of services if the transfer of expenditure authority from central to local government is backed by adequate financial resources and the devolution of the power to raise and use tax revenues at the local level.

Intergovernmental transfers, which can be used to redistribute resources among the budgets of various state entities and between richer and poorer regions, are an important way to kick-start the process of fiscal decentralization. A system of intergovernmental transfers should aim at vertical levelling (among various budgets) and horizontal leveling (equalizing regional disparities in provision of public services). At the same time, incentives for conducting efficient and effective fiscal policy should be maintained. The system should also motivate the regions toward financial self-sufficiency, with the ultimate goal of reducing subsidies to regions.

Chapter 4. Public Administration Reform for Human Development. Chapter 4 discusses decentralization in a more traditional sense, i.e. as a transfer of functions, powers and accountability from central government to local governments, sectoral governance bodies and civil society organizations. Indeed, opportunities for promoting human development through decentralization can be increased by reducing the number and transformation of functions of the central government, building capacities of local authorities, expanding the powers of community organizations, and broadening the role of civil society organizations.

Decentralization is one of the components of public administration reform,

Fiscal decentralization is increasingly being seen as a way to improve the efficiency and quality of public services: by bringing them closer to the people, and by entrusting the local authorities with the responsibility of determining the level and structure of taxes and public expenditures

NGOs serve as partners of government agencies and community organizations, working in such fields as health care, education, physical and spiritual training, human rights protection and assistance for the socially vulnerable

initiated in 2004. Within this process functions of all public administration bodies have been re-examined, and some of them abolished or delegated to “lower levels”.

When assessing the potential of decentralization to promote human development, it is necessary to distinguish between two forms of local administration that are quite frequently, but mistakenly, merged into one concept. First, there are local governments representing executive public authorities in regions,² cities, towns and *raions*. Second, there are community organizations—assemblies of village, settlement, and *makhalla* residents, and the *kengash* of the people, which are not in the system of public administration and represent community organizations.

In the course of reorganizing the central bodies of public management, many of their functions were transferred to local government. These are mainly functions associated with licensing and controlling, providing social services, and monitoring their quality. In turn, at the local level there is a clear distribution of functions among provincial and raion levels of government, allowing the latter to take local character and peculiarities into account, to accelerate the completion of their tasks, and raising their efficiency, and in the long run, to improve living standards of local population. In turn, local governments hand over some of their functions to private sector in order to improve the quality of services as well as to involve community organizations and NGOs in their delivery.

One particular example is Uzbekistan’s experience in decentralizing social assistance allocation. Since 1999 makhallas are responsible for distributing benefits to unemployed mothers with children under age 2. Since makhallas are better informed about the living standards, needs and demands of the local population, this approach turned out to be very effective in earmarking limited government resources for the poorest and neediest people.

Non-government organizations serve as partners of government agencies and community organizations, working in such fields as health care, education, physical and spiritual training, human rights protection and assistance for the socially vulnerable.

Experience has shown that the decentralization process does not automatically

guarantee progress in human development. In order to build up capacity and reap the full benefits of decentralization, central governments should create appropriate legal, economic, and organizational frameworks. In particular, there is a need for close coordination of interaction among government institutions at all levels, as well as with community organizations and various civil society organizations, whose capacities still remain under-utilized.

Building and expanding capacities of community organizations requires granting them a status of full legal entities and providing with sufficient financial resources, while their accountability, as well as their technical capacity, must be significantly improved.

Chapter 5. E-Government for Improving the Efficiency of Public Administration. The need for the introduction of e-government into the system of public administration is indisputable. It would be of particular value in the following areas:

- upgrading the technological capacities of civil servants leading to increased productivity, decreased costs and better organization of their performance;
- contributing to the refinement of analytical techniques resulting in improvements in drafting documents and making administrative decisions;
- improving inter-departmental interaction allowing quick and effective decision-making through information exchange;
- simplifying the delegation of authority, power and resources to those actually working in the field (decentralization of public administration);
- improving the quality and efficiency of public services provided to citizens and businesses.

Introducing information and communication technologies (ICT) into the system of public administration requires a certain level of readiness on the part of both the government and society. In recent years, a number of steps has been taken in this direction. In particular, favorable customs regulations for the import of hardware and spare parts were established; educational facilities were equipped with computers; creating state electronic information databases was initiated; legal frameworks for electronic document flow, e-commerce, and digital signature are be-

² Excluding Karakalpakstan, where legislative and executive bodies hold a unique position.

ing elaborated in the country. However, a clear-cut strategy for introducing ICT into the public administration system is yet to be developed. Efforts should be taken for formulation and popularization among civil servants of a common ideology and general understanding of the benefits of e-government. Within this, focus is to be made on enhancing public administration through introduction of electronic governance and accessible information databases; on improvement of relations

between the government and business and civil society through on-line access to services.

Obviously, introduction of ICT alone will not automatically result in increased effectiveness of public governance. This process will yield the desired results only if it is a part of broader process of public administration reform aimed at decentralization, transparency and accountability of state authorities as well as wider involvement of public into decision-making processes.

HUMAN DEVELOPMENT AND DECENTRALIZATION

Thanks to the initiative and colossal efforts of the United Nations, the concept of human development is now widely recognized throughout the world, among both politicians and ordinary citizens. Although the concept might seem simple at first glance, it embodies a fundamental principle: that the main objective of development should be individual well-being. Governments of all countries should organize their societies and implement domestic and foreign policies with that aim in mind.

Any country, be it rich or poor, can demonstrate its adherence to the concept of human development through policies which strive to:

- create favorable conditions for economic growth and increased productivity;
- create conditions for social cohesion and stability;
- ensure the rights and opportunities for people to benefit from freely chosen activities, income generation, social protection and conditions for development;
- increase the involvement of citizens in decision-making.

The concept of sustainable human development emphasizes the initial motive for all productive human activity: the development of each individual person. For, in essence, production is not a goal in and of itself, but is rather a means for achieving individual prosperity and well-being. At the same time, the converse also holds true: the higher living standards grow in the society, the higher goes the level of economic productivity in the country. **Thus, the progress of a society is evaluated not only on the basis of a country's economic growth and potential, but also by the extent to which this potential is used to achieve the prosperity and harmonious development of each individual.**³

While economic growth is clearly one of the main prerequisites for the improvement of living standards and individual welfare, economic indicators alone—such as GDP per capita or the growth rates of the economy—are ne-

cessary but not sufficient when it comes to measuring a population's living standards. In fact, the Global Human Development Report for 2003 noted with concern that from 1991 to 2001, the Human Development Index in 21 countries declined—despite the positive economic growth achieved.

Certainly, there are other, non-economic factors essential for the promotion of human development. Chief among them are the observance and protection of human rights, democratic governance based on the broad participation of the population, and the separation of powers and responsibilities among public authorities. As individuals enjoy greater freedom of choice, they are better able to strive towards well-being.

Fundamental changes in the distribution of power have occurred during the recent years in global context. On the one hand, there has been a strong move towards the globalization of most national economies and the creation of supra-national bodies which have acquired the decision-making powers previously wielded only by nation-states. The European Union and the WTO are two clear examples of this trend. On the other hand, there is a tendency in many countries towards decentralization of functions, authority, and responsibilities from central governments to local governments and civil society institutions. In these states, decentralization is increasingly viewed as a means to involve communities directly in development of social programs, to increase the efficiency of the public administration system that, ultimately, lead to promoting human development.

Decentralization is an important factor for human development. To start with, decentralization entails a greater transfer of decision-making from the state to private firms (e.g. through privatization and reduced regulation), regions and local communities (through expansion of their functions) and individuals (e.g. through improved access to resources and services

³ Human Development Report. Tashkent, Uzbekistan, 1996, p.15.

The concept of sustainable human development emphasizes the original motive for all productive human activities: the development of each individual person

BOX 1.1. Decentralization and Poverty. Opportunities and Risks

The Development Center, based on a review of the experience of 19 countries, shows that the impact of decentralization on living standards is not straightforward. It divides the countries into 4 categories, according to the impact of decentralization on poverty reduction.

Positive	Somewhat positive	Somewhat negative	Negative
■ Bolivia	■ China	■ Paraguay	■ Guinea
■ Philippines	■ South Africa	■ Brazil	■ Mozambique
■ India (Western Bengal)	■ Mexico	■ Nepal	■ Malawi
	■ Ghana	■ Vietnam	■ India (Andrah-Pradesh)
		■ Egypt	■ India (Madyha-Pradesh)
		■ Sri Lanka	
		■ Ethiopia	
		■ Burkina Faso	
		■ Uganda	

The authors of the study suggest that in the most advanced developing countries, decentralization has had a positive impact, although in most cases (65%) decentralization has not resulted in mass poverty reduction. For example, in Bolivia, the Philippines and the Indian state of West Bengal, the process of decentralization was successful due to the high level of literacy—over 80% (compared with 50% in countries where decentralization did not result in poverty reduction); the high level of income compared with other developing countries; and the willingness and ability of the governments to carry out reforms, as well as the factors of transparency, participation and policy coherence.

In China, South Africa, Mexico and Ghana the process of decentralization did to some extent improve state management by increasing its efficiency and transparency. However, it is difficult to say whether it contributed to poverty reduction. These countries have high levels of literacy, per capita incomes, and unequal distribution of incomes (except for Ghana), compared to countries where decentralization has not resulted in poverty reduction. In most of these countries the decentralization process was largely driven by economic motives (deregulation and the need to reduce the budget expenditures of the central government) and led to only a partial transfer of functions from the central authorities to local governments.

In contrast, the process of decentralization in Brazil, Paraguay, Nepal, Vietnam, Sri Lanka, Ethiopia, Burkina Faso and Uganda has not led to a significant improvement in the living standards of the poor, although in some cases there were positive results. The failure of decentralization processes in these countries was mainly due to political instability as a result of wars and ethnic conflicts. In many cases, decentralization policies were aimed at preserving and re-establishing national unity, but not used as instruments for the democratization and development of human potential.

Finally, in Guinea, Mozambique, Malawi, and the Indian states of Andrah-Pradesh and Madyha-Pradesh, decentralization did not result in any significant improvement of living standards of the poor, even in particular regions. This was due to a badly planned decentralization process, low literacy rates (under 50%), the deplorable state of infrastructure and high levels of corruption.

The authors conclude that the crucial factor for a successful pro-poor decentralization process in any country is a well-designed policy which takes into account national characteristics.

Source: "Decentralization and poverty in developing countries: exploring the impact". OECD. 2004.

ticipation of the population in the life of society, while at the same working towards one of the major principles of human development: expansion of opportunities. Development should be both for and by the people. Decentralization enables citizens to participate in decision making that affects their lives - through involvement of local authorities, non-government organizations, and other civil society institutions. The increased participation of the population in decision-making improves the transparency and effectiveness of policy decisions and, in this way, ensures sustainability of incomes and opportunities for building human capacity.

Although there are clear advantages to decentralization, it is important to remember that it is not without risks. Decentralization in the absence of a solid legal framework, political will, coordination among various levels of government, and the development of institutional capacity can lead to macroeconomic instability, less egalitarian access to resources and widening gaps in income and living standards (Box 1.1).

There are other factors which act in favor of decentralization and help minimize the risks associated with it. In the history of almost all modern states (Box 1.2), one can observe periods of stronger and weaker central government at the expense of, or for the benefit of, local authorities.⁴

The strengthening of central government is typical in periods of social and/or economic instability and crisis, or military and political conflicts with other states, when the consolidation of a weak state is necessary. On the other hand, economic stability and prosperity make the central government more capable and willing to share some of its decision-making authority with local bodies and civil society organizations.

Decentralization as implemented in recent years in transition economies has taken place in the context of the collapse of the socialist system, which was based on a highly centralized public administration characterized by centralized decision making process concerning economic and social aspects of people's lives. As a result of this heritage, these countries have far more scope for decentralization beyond "traditional" Western understanding of the concept. One of the trends of decentralization in transition economies, ensuring ample opportunities for political and economic choice, is becoming

4 Here and in the rest of Chapter 1 we draw on material from: G. Saidova *Децентрализация как предпосылка местного самоуправления*, from the book *На пути к Хартии ООН о местном самоуправлении граждан: требования XXI века*, as well as from materials of the international conference organized by the Konrad Adenauer Foundation in cooperation with SECO and the International Center for Retraining Journalists, November 29, 2001, Tashkent, p.12.

Decentralization brings government bodies closer to those who are being governed, thereby ensuring the provision of more appropriate and better quality services to the population

and involvement in social management). This should lead to faster economic growth and, consequently, to a rise in the incomes of the population. Higher family income usually helps reduce the poverty and improves access to health care and education services.

Today, it is widely recognized that the decentralization of government functions often improves the supply of services offered by the state, helping to raise the level of human development. Decentralization brings government bodies closer to those who are being governed and improves the information flow concerning the real needs of local communities, thereby ensuring the provision of more appropriate and better quality services to the population. Local governments and communities are the most effective institutions for solving the local problems of people, having better knowledge of their needs and priorities.

In this way, decentralization facilitates the promotion of democracy and the increased par-

an increasingly important factor for human development.

Taking all of this into account, decentralization in this report is regarded as an instrument that can promote human development by the following means:

1. Decentralization of economic decision making process from the state to private sector that calls for reducing state intervention in the economy. This involves:

- reducing the share of productive assets owned by the state, through large-scale privatization;
- limiting the power of state bodies to intervene in the activities of private enterprise, through deregulation;
- restructuring the management of state-owned enterprises by introducing “hard budget constraints”, price liberalization, and corporate management.

2. Decentralization of decision-making from the state to the households by:

- removing any regulatory or other obstacles to the participation of household members in economic activities;
- facilitating their economic activity through variety of measures (such as broadened access to credit, training, etc);
- empowering them with a greater sense of self-reliance, to reduce the apathy and sense of dependence on the state inherited from the Soviet period.

3. Decentralization of executive power and some of tax functions from central to local government.

4. Decentralization of the planning, financing and execution of some public programs from (central and local) government to non-government organizations,

5. Public administration reform (within local and central government) to reduce regulations and the duplication of functions, and to improve work incentives.

For transition countries, given their central-planning heritage, the reduction of government intervention in the economy (i. e. points 1 and 2 above) plays a central role in accelerating reforms, expanding individual freedoms and maintaining a sustainable path to human development. International experience provides several different models for government intervention in the economy (Box 1.3). The choice for a particular model for a given country depends to high extent on its history, level of economic development, local traditions, current economic trends and political situation.

Depending on the given mix of political and external and internal factors, a high rate

BOX 1.2. The Historical Roots of Government Decentralization

In modern Europe the history of decentralization goes back to the Middle Ages. At that time, local self-government was embodied in church, village and town communities, while governance of sectoral activities was assured by trade guilds. In France, trends towards government centralization and decentralization replaced each other several times over the last 200 years, until 1982 when the last large reform was carried out. Its foundation was the Law “On the Rights and Freedoms of the Communes, Departments and Regions”.

Japan, which has always been noted for a strong central government, adopted the law “On Decentralization” only in 1995, 50 years after the end of World War II. The law sets deadline of 5 years for decentralization of the government.

On the contrary, in Germany, Federal Republic, and to a greater extent Switzerland, decentralization did not take place by transferring powers “top down”, but rather, i.e. “bottom up”, through the voluntary transfer to central government of those functions that local governments and local communities could not perform themselves.

By the beginning of the 21st century, the majority of the world’s developed countries had experienced half a century of steady growth and social stability, which resulted not only from the effective functioning of the market economy but also from the strengthening of the state. The growth of the economy and the evolution of the respective roles of the state and market institutions created the conditions for an increasingly more sophisticated development approach. These countries can now count on a multi-level and multi-functional system of public-private relations and high standards of living. In this sense, the revival of the “decentralization” concept is a logical outcome in the historical evolution of the role and nature of the state in these countries.

BOX 1.3. Models of State Participation in Economy

Maximum participation of the government in the economy has been typical for countries with different political and economic systems: for example in the 20th century, the USSR, Germany (in the pre-war period when the centralization of the government was at its peak, and to a lesser extent in the first post-war years), pre-war and post-war Japan, modern China, North Korea and Cuba.

Moderate participation of the government in the economy is peculiar to many modern developed countries of Europe: Sweden (which redistributes more than half of its GDP through the state budget), France,* Germany and many Asian countries.

Minimum participation of the government in the economy has been advocated at different times, for example by the Reagan administration in the USA or Thatcher in Great Britain.

* There are also different viewpoints. For instance Curt Bideknopf believes that “France, which represents the example of a highly-centralized state, has made efforts to weaken its centralization in recent years. But this decentralization is based on the decision of the central government, which can change its decision.” From Федерализм и социально-экономическое развитие. Мировая экономика и международные отношения. 2001, No.7, p.40.

of economic growth and human potential can be achieved both with active involvement of the government in the economy and with its minimal intervention as well. Nevertheless, no economy can exist today without government regulation (Box 1.4).

For Uzbekistan, the main issue in this regard can be formulated as follows: Which model of state intervention in the economy is most appropriate for the country in its current historical stage—in order to accelerate its growth rate, promote employment and income generation, and provide the best possible conditions for improvement in human development?

In early years of reform, creating a strong centralized state was an objective necessity: to address complex problems faced by society in the initial years of transition, to create an independent statehood and to accelerate economic reforms. However, currently, more stable, stage of development, many of the functions initially assumed by the central government have now become unnecessary. Furthermore, there are signs that some elements of the government and public administration are actually hinder-

Decentralization in the absence of a solid legal framework, political will, coordination among various governance levels, and the development of institutional capacity can lead to macroeconomic instability, less egalitarian access to resources and widening differentials in incomes and living standards

BOX 1.4. The Role of the State in the Economy

In Western democracies, the role of the state in the economy is inspired by certain broadly agreed principles that guide specific decisions about what to keep in public hands and what to privatize. Competitive markets represent the most efficient way to organize production. However, even the 'libertarians' (i.e. those who aim at reducing to a minimum the role of the state) agree that the state should intervene in the economy through subsidies, direct production or regulation for reasons of both **efficiency** and **equity**.

With regard to efficiency, in a few well-specified cases the free play of market forces generates sub-optimal results. This is true in all the cases of 'market failures,' i.e. when the market does not lead to optimal outcomes. This occurs for instance when conditions of imperfect competition (monopoly, oligopoly, monopsony, etc.) prevail in the market, leading to artificial increases in prices, declines in production below the level that is socially desirable, and—as a result—negative impacts on human welfare. In such cases, the intervention of the government through regulation or direct production is both efficient and necessary. The market fails also when there are informational asymmetries between contracting parties which give one of them an undue advantage, thereby violating one of the conditions of perfect competition. Market failures arise also in the case of broadly defined 'public goods'. These can be divided into: 'pure public goods' (national security, currency stability, enforcement of contracts and of property rights, etc.) i.e. goods that benefit simultaneously all citizens of a nation; 'merit goods' (such as education) i.e. goods that have special merits that are not always correctly perceived by all individuals and that must be consumed in minimal amounts by all, regardless of individual choice, as they contribute to higher human development; and 'goods with large externalities' (such as health), i.e. goods that generate benefits external to the person who consumes them. For example, in the case of vaccination against an infectious disease, immunization not only saves the life of the person being vaccinated but also contributes to reducing the spread of contagion among the population.

From this it follows that privatizing firms that produce 'private goods' or reducing regulations in sufficiently competitive markets makes a lot of sense, but that privatizing entities (such as hospital and schools) that produce 'public goods', 'merit goods' or 'goods with large externalities', or deregulating monopolistic markets, makes little sense. In practice, this means that state enterprises that produce "**private goods**" or "**mainly private goods**" are to be gradually privatized. But it means also that a different approach is required in the case of "**public goods**". For instance, while the state traditionally plays the role of 'financer and provider' of public goods, this approach can be modified by assigning to the state only the role of 'financer' of the service, while the material provision of the service can be subcontracted to private firms or NGOs.

Another approach to reducing the inefficiencies in those sectors that must remain in public hands consists in changing the rules concerning public administration. For example, if the main reason for the poor performance of health or education workers is their abysmally low wages, then raising the latter to a minimum acceptable level can help improve their performance. Other measures could be the introduction of greater work incentives and sanctions, changes in the duration of work contracts, greater competition among branches of public administration, etc. In extreme cases, the state can opt to be just a 'regulator' of the qualitative and quantitative standards for the services provided to the population by private firms so as to ensure universal service coverage of the poor at low prices. This latter solution, however, is not yet practical in many countries, including Uzbekistan.

Finally, the state can intervene in the free play of market forces for equity reasons. This is necessary whenever the distribution of income generated by market forces is less egalitarian than what is socially acceptable. In this case the state taxes the middle and upper classes and redistributes these funds to the poor via subsidies in kind or in cash, so as to generate a post-tax, post-transfers distribution of income that is more egalitarian than the pre-tax, pre-transfers distribution. While the concept of 'socially acceptable distribution of income' varies considerably from country to country (e.g. between highly egalitarian Finland and socially polarized Brazil), in all cases the state intervenes by taxing incomes, wealth and consumption and by redistributing a portion of these taxes to the poor with the objective of improving their human development.

BOX 1.5. Creation of a Two-House Parliament: Objectives and Perspectives

The objectives that we set in creating the two-house parliament can be formulated as follows:

First — the creation of a system of checks and balances necessary for the parliament to use its powers efficiently and make informed decisions.

Second — the need to improve the quality of the law-making procedures followed by the parliament, with the knowledge that the Lower Legislative Chamber will work on a regular (permanent) basis.

Third — the achievement of a balance between national and regional interests, with the knowledge that the Upper House – the Senate – mainly represents local Kengashes, and will represent regions and fulfill public relations functions.

Fourth — the expansion of people's involvement in the social and political life of the country, by appointing a number of deputies from local regional, city and raion representative bodies to the Upper House.

Source: Report of the President of Uzbekistan I. Karimov at the joint meeting of the Legislative Chamber and the Senate of Oliy Majlis.

ing reforms, resisting any limitation or elimination of their authority that might be necessary on the way towards market economy.

This is why, **in the second half of 2003 the government initiated a public administration reform program, launching its wide-scale implementation in 2004.** Decentralization is one of the key features of this reform which is to incorporate country specifics and peculiarities while finding optimal balance in distribution of functions, such as between "center—regions", "government—private sector", and "government—civil society".

Decentralization of certain state functions within this framework is a precondition for further liberalization of all spheres of social life. In addition, the formation of a democratic civil society requires a balanced distribution of power among independent legislative, executive, and judicial branches. One step in this direction was the creation of a bicameral parliament in Uzbekistan. In accordance with the Constitutional Law of the Republic of Uzbekistan "On the Results of the Referendum and the Main Principles of Government Organization" the *Oliy Majlis* of the Republic of Uzbekistan now consists of two chambers—the Legislative Chamber (Lower House) and the Senate (Upper House) (Box 1.5).

Against the background of economic reforms currently being implemented in Uzbekistan, it is expedient to continue the process of decentralization in the economic and political sectors while observing the following principles:

- consistency and gradualism in top down transfer of functions and interlinkage of various stages of decentralization;
- comprehensiveness of measures at each stage of reforms;
- involvement of population and community organizations within decentralization process.

It is essential to bear in mind that decentralization in its "purest form" is hardly possible in any country. Even in Western countries with advanced democratic systems, local governments remain under dual supervision: by executive structures of higher governmental bodies, central ministries and agencies, and by locally elected bodies.

Development of the decentralization model in Uzbekistan required consideration of the following specific factors:

- National traditions and customs based on collectivism principles, and dominating collectivism over individualism;
- Specific respect to the government, acknowledgment of its primary role both in political and economic life of society;

■ Remnants of the Soviet period dependence psychology evident in passive expectations on part of population for social equity and access to social goods and services provided by the state;

■ Psychology of the planned economy inherited from the Soviet past lacking business-minded spirit and private property as well as scanty experience of engagement into political life.

Currently implementation of the decentralization strategy should be brought in line with the following peculiarities of ongoing reform process in the country:

■ Current transition to market relations has not been completed yet. Evidence of this can be found in presence of a great number of legislative norms that describe and regulate even the minutest details of economic performance of firms, the significant interference of government in the day-to-day activities of enterprises, the low level of corporate management in many enterprises and the non-market behavior of many economic agents. Under these circumstances, reduction of government intervention in the economy must be accompanied by strengthening of market mechanisms that promote independence and responsibility among enterprises.

■ The government's share in the capital of large enterprises remains substantial, especially in such strategic sectors as exploration, extracting and processing gas and oil products, mining, chemical industry and all natural monopolies. Privatization and FDI could considerably increase efficiency of these sectors and their competitiveness.

■ The provision of social services has been strongly supported by the government all these years. Despite this, further development of those services require additional injection of financial resources. This is particularly true in terms of education and health care services in which there is a clear need to enhance tech-

nical capacities and provide better financial incentives to people employed in these sectors. Private education and healthcare services may supplement government services rather than substitute them in these crucial spheres of human development.

Provided that principles mentioned above and the country-specific conditions are taken into account, it would be possible to pursue decentralization without incurring any of the typical risks of the process, such as the loss of manageability of society or the dominance of local interests over the interests of society as a whole. Decentralization policies have to ensure that a balance is maintained among the interests of all civil society actors and its structures. At the same time:

central government officials should learn to use and implement new administrative methods and to perceive local government officials not as subordinates but as partners;

owners of enterprises should adopt modern methods and techniques of corporate management;

local administrations and their executive organs should learn to consult with and seek for advice from people on the most acute issues in the regions, and to extensively use outreach strategies for information dissemination on perspectives for socio-economic development via mass media;

citizens of the country should also learn how to live under these new conditions. They should tackle their own local and immediate problems by participating in the activity of local representative and community organizations, and by exercising public control over state administration and local government bodies. At the same time within the process of decentralization it is important for the state to make efforts on creating legislative, institutional and financial conditions for enhancing participation of citizens in policy formulation especially in regions.

It should be possible to pursue decentralization without incurring any of the typical risks of the process, such as the loss of manageability of society or the dominance of local interests over the interests of society as a whole

DECENTRALIZATION AND ECONOMIC GROWTH

2.1. DECENTRALIZATION STRATEGY AND SUSTAINABLE ECONOMIC GROWTH

Uzbekistan differs from other transition economies in its choice of economic reforms which calls for an evolutionary strategy in achieving economic decentralization. Since the beginning of the reform process, the country's strategy can be separated into three distinct phases:

- 1991–1995: a period of economic recession, accompanied by deep social crisis and high level of government intervention in both the economy and the social sector. The main role of the government was to initiate market reforms, moderate the consequences of the recession and provide social protection to the population;
- 1996–1997: a period of recovery and a short-term economic boom driven by accelerated privatization and first steps toward economic liberalization;
- 1998–2003: a period of macroeconomic stability and moderate economic growth. During this period, the government closely regulated the macro-economy and activities of large enterprises in key industries while simultaneously stimulating the development of private business.

Throughout these years, foreign observers, particularly experts from international financial institutions, have criticized the Uzbek government's gradual approach to reform and its high level of administrative regulation of the economy. At the same time, a number of international experts have consistently supported the national government's decision to adopt a model of economic decentralization and transition to market economy.

No one can deny that during the period 1991–2003, Uzbekistan achieved the best records in aggregate economic indicators among the CIS countries and was the first one among them to surpass the pre-reform GDP level, in 2001. The strategy of decentralization and transition to market economy adopted in Uzbekistan at the early stages of transition provided largely

positive results in economic growth and human development. The country's economic growth also impacted favorably on trends in human development. The life expectancy index rose from 0.737 in 1996 to 0.777 in 2003, the education index from 0.913 to 0.917, and the overall human development index from 0.717 to 0.747.

However, the economic growth rate in 1996–2003 remained moderate, especially when measured in per capita terms. If this rate remains unchanged, living standards of population double in 20 years and it creates an urgent need for the country to accelerate economic growth rate by a factor of at least 1.5–2.⁵ Achievement of this goal requires the implementation of extensive market reforms and further liberalization of the economy, banking and finance reforms, promotion of private property rights and autonomy of entrepreneurship.

2.1.1. Towards Decentralized Public Administration

As was pointed out in Chapter 1 economic decentralization is closely linked both directly and indirectly with all major aspects of human development. This chapter looks at the impact of decentralization on economic growth as the most important avenue for improving human development.

At first glance, it seems clear that economic decentralization is the most effective factor in ensuring economic growth in transition economies since it includes a wide range of reforms aimed at devolution of political, social and economic decision making functions to private sector, local governments, community organizations and non-governmental organizations. But closer look reveals that the situation is not as simple as it seems. Theoretical research and

⁵ In 2004 GDP growth rate was 7.7%. If this rate is retained, the standard of living in the country will double in 10 years.

experience in transition economies, including Uzbekistan, show that economic decentralization alone is not a panacea that can guarantee sustainable growth and progress in all areas of human development.

It is for this reason that the question of how economic decentralization impacts growth has become an important one in the theory and practice of economic development in developing countries and transition economies. Economists, politicians, and scientists agree that there is no simple answer that quantifies the extent to which economic decentralization affects economic growth.

Their results are often controversial and ambiguous, sometimes because of differences in research methodologies. It could also be explained by complexity of links between decentralization and economic growth, with the former influencing the latter in several direct and indirect ways. Supposedly, large-scale economic decentralization prerequisites sustainable growth. However, there are no apparent proofs for the fact that decentralized public expenditures better stimulate economic growth rather than centralized ones. Indirect impact of decentralization on development could be seen through the prism of reducing corruption, abuse of power by public officials, and broadening opportunities and equitable distribution of resources.

Consequently, **it is crucial to have a weighted approach to the formation of a national decentralization model in countries with transitional economies.** The capacity of the government and society to shape clear and consequent model of decentralization of post soviet economy warrants an avoidance of failures in economic growth strategy formulation and promoting sustainable human development.

2.1.2. Uzbekistan Model of Economic Recovery

The model of incremental transition to market relations enabled Uzbekistan to ensure higher records in cumulative growth and achieve the following important outcomes (Table 2.1). First, the country managed to avoid any serious civil disturbances or social, ethnic or military conflicts sparked by the negative social consequences of the reforms. Many other transition countries were not so fortunate. In addition, it preserved the growth potential of its agricultural sector—the most important sector for employment and income generation. Third, it managed to achieve macroeconomic balance in a relatively short time through appropriate fiscal and monetary policies. Since 1997, the

budget deficit has remained below 3% of GDP, while the inflation rate has not exceeded 25% per annum since 2000; in 2003, it fell to 3.8%. Finally, Uzbekistan became self-sufficient in energy resources and wheat, two commodities that comprised a significant share of all imports before 1991.

The short-term macroeconomic instability of 1991–1995 was caused by supply-demand imbalances inherited from the economic stagnation of the 1970s and the unsuccessful reform of the Soviet economy in the 1980s. Long-term macroeconomic instability rooted in industrial structural disproportions also had an effect. Particularly damaging was the low level of technological development in major sectors, which were rendered uncompetitive due to high energy and resource consumption. This period was characterized by high inflation and a relatively high budget deficit.

While short-term disequilibria could have been stabilized through macroeconomic and financial policies, ending the long-term recession required more time and financial resources for modernization of the production capabilities of all the country's enterprises.

Thus, in the period of 1991–1995 the overall macroeconomic imbalance hindered economic growth and led to a relatively deep economic recession and deterioration in living standards.

It is important to emphasize that even during that period the state intervention into economy was reduced. In three years of reform, Uzbekistan managed to liberalize prices (except for essential food products, utility services, fuel

The capacity of the government and society to shape clear and consequent model of decentralization warrants an avoidance of failures in economic growth strategy formulation and promoting sustainable human development

TABLE 2.1

Real Economic Growth GDP per capita in CIS Countries for 1991–2003

(2003 as % of 1991)

Countries	GDP	Industrial Output	Agricultural Output	GDP per capita (\$PPP) (2002 as % of 1991)*
Armenia	108.2	77.0	137.0	130.0
Azerbaijan	80.1	40.0	80.0	...
Belarus	105.4	120.0	82.0	125.2
Georgia	57.1	27.0	104.0	68.1
Kazakhstan	106.2	80.0	82.0	138.4
Kyrgyz Republic	81.2	45.0	116.0	87.4
Moldova	51.0	55.0	53.0	55.4
Russia	83.6	72.0	73.0	101.5
Tajikistan	54.0	58.0	...	56.0
Turkmenistan
Ukraine	58.8	85.0	61.0	74.0
Uzbekistan	111.3	151.0	120.7	112.1
Average in CIS (estimate)	82.0	74.0	75.0	...

* Source: UNICEF Innocenti Research Centre. Social Monitoring "Innocenti", 2004.

Source: CIS Interstate Statistics Committee.

Since late 1990s inadequate liberalization of economic actors' activity, particularly in agriculture, hampered with SME development thus resulting in moderate economic growth rate

and cotton), privatize residential housing, trade, services and small industries, introduce national currency (in July 1994), establish economic and trade relations with countries outside of the CIS (by 1995 Uzbekistan was one of three CIS countries⁶ with a positive trade balance), and raise by seven times the production of oil and by four times that of grain. At the same time the government introduced wide-scale social programs designed to protect the most vulnerable sections of the population from the effects of high inflation.

Initiated in 1994, when the national currency was introduced, consistent monetary and fiscal

policies allowed for a gradual decrease in the inflation rate and for the economic growth that began in 1996 (Table 2.2, Box 2.1).

In contrast to other former socialist countries, Uzbekistan in the first years of reforms refrained from adopting a policy of "shock therapy" consisting of such measures as: the restitution of various types of assets to their former owners; the privatization of strategic industries, including oil and gas, non-ferrous metals and chemicals (as in Russia and Kazakhstan); the privatization of land (as in the Baltic and Eastern European countries); the complete liberalization of energy prices (as in the Baltic states and some Eastern European countries); the complete removal of production subsidies for enterprises affected by the severance of supplier-buyer contacts and loss of market share due to high inflation (the majority of transition countries); and the mass bankruptcy and closure of enterprises (the countries of Eastern Europe, the Baltic region and Trans-Caucasus).

2.1.3. Reducing Barriers to Economic Growth

The heretofore successful model of economic decentralization described above began to lose some of its luster as the 1990s drew to a close. The favorable effects of macroeconomic stability on growth began to fade in the late 1990s and the rate of GDP growth, which had increased significantly in 1997, slowed considerably and did not exceed 3.8–4.4% in subsequent years (Figure 2.1).

This acceptable but moderate growth was primarily the result of the inefficiently-structured economy, particularly its high resource consumption and relatively low domestic demand. Limited liberalization, especially in agriculture was also obstacle to foster economic growth.

From the early stages of reform until 1998, the government's growth strategy relied mainly on large enterprises in strategic sectors, newly created industrial production, the creation and modernization of transport infrastructure, and large agricultural enterprises, considering them as potential "engines of growth".

However, these newly-created enterprises could hardly compensate for the decline in production output which stemmed from the market reforms. At the same time, the new private sector accounted for only a small share of output, since existing legislation was not conducive to private entrepreneurship.

⁶ The other two were Russia and Turkmenistan.

TABLE 2.2
Macroeconomic Indices at various stages of Economic Development, 1991–2003
(as % of the previous year)

Indicators	1991	1992	1993	1994	1995	1996	1997
GDP	99.5	88.9	97.7	94.8	99.1	101.7	105.2
GDP per capita	97.4	86.9	95.5	92.9	97.3	99.8	103.3
GDP Deflator, %	190.7	811.1	1179.4	1339.2	470.9	181.5	166.1
Industrial Output *	101.5	93.3	103.6	101.6	100.1	102.6	104.1
Gross agricultural production	98.9	93.6	101.3	92.7	102.2	94.4	105.8
Annual inflation rate using the retail price (as % of the level of December of the previous year)	169.2	907.5	884.9	1117.0	98.5	64.3	27.6
Annual interest rate	8-12	8-17	40	225	—	60-125	36
Government budget deficit as % of GDP	-3.4	-10.9	-3.0	-4.1	-2.7	-1.9	-0.7

END OF TABLE 2.2

Indicators	1998	1999	2000	2001	2002	2003
GDP	104.3	104.3	103.8	104.2	104.0	104.4
GDP per capita	102.6	102.8	102.4	102.9	102.7	103.0
GDP Deflator, %	139.1	144.1	147.3	145.2	145.5	124.3
Industrial Output *	103.6	105.7	105.9	107.6	108.3	106.2
Gross agricultural production	104.1	105.6	103.1	104.2	106.1	107.3
Annual inflation rate using the retail price (as % of the level of December of the previous year)	26	26	28.2	26.6	21.6	3.8
Annual interest rate	36	36	32.3	26.8	34.5	27.1
Government budget deficit as % of GDP	-0.5	-0.6	-0.7	-0.3	-0.2	-0.4

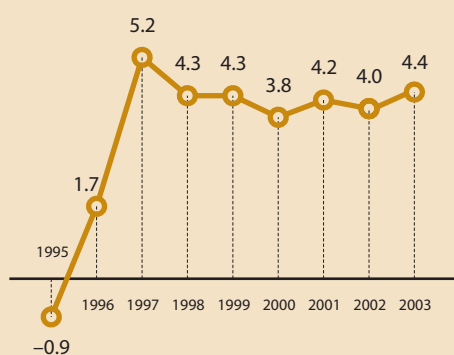
* The method for measuring the industrial output at constant prices used by the statistical agencies of Uzbekistan exaggerates the indicator compared to internationally recognized methods. The real growth of industrial output calculated according to the value added and the actual GDP is much smaller. For example, 101.3% in 2000, 102.7% in 2001, 103.4% in 2002, and 103.0 in 2003.

Source: State Committee of the Republic of Uzbekistan on Statistics.

BOX 2.1. Main Factors of Economic Growth during 1996–1998

- a sharp fall in the inflation rate and government deficit that allowed the achievement of a certain degree of macroeconomic stability and the establishment of the national currency and an independent monetary policy;
- a relatively high level of public investment in new sectors, especially in the field of fuels, non-ferrous metals, transportation and telecommunications;
- the maintenance of relatively stable production levels in agriculture, which constitutes almost a third of GDP;
- a generally stable political and social environment.

FIGURE 2.1

Rate of GDP Growth in Uzbekistan in 1995–2003

Source: State Committee of the Republic of Uzbekistan on Statistics.

In any country, investment represents the most important source of economic growth. The relatively low level of domestic savings between 1996 and 2000 contained the expansion of domestic investment (Table 2.3). In developing countries having managed to ensure high economic growth rate the level of domestic savings constituted 30% of GDP and higher. In particular, during 1996–1998 in Singapore this index constituted 51.2–52.2% of GDP, in South Korea – 33.7–42.3%, in Hong Kong – about 30%.

In Uzbekistan effective mobilization and distribution of savings has been limited by scarce opportunities of financial sector. In spite of on-going liberalization and restructurization process in financial sector the banking system continued to function under conditions of insufficient transparency, relatively high concentration and segmentation.

Considering the limited capacity of the private sector to attract investments in the early stages of reform, the government set itself the aim of maintaining a relatively high rate of investment to the economy (Table 2.4). The share of budget-financed investment hovered between 23% and 30% of total investment from 1995 to 2003, 95–97% of which went to state owned enterprises. In addition, another 14–30% of total investment came from FDI and foreign loans, most of which were, until recently, guaranteed by the government.

Direct support to the economy through the use of budget resources stimulated aggregate demand and significantly contributed to economic growth in 1996–1997 and, again, in 1999–2001. At the same time, this required special measures in order to accumulate budgetary funds, which could be generated only by high tax burden to the

TABLE 2.3

Trends in the Gross Investment Rate and Saving Rate, 1995–2003

Indicators	1995	1996	1997	1998	1999	2000	2001	2002	2003
Gross domestic investment (as % of GDP)	24.2	23	18.9	20.9	17.1	19.6	21.1	21.8	20.8
Total domestic savings (as % of GDP)	27.1	22.7	18.7	19.9	17.3	19.4	20.0	22.4	26.7
Deficit (excess) of savings (as % of GDP)	2.9	-0.3	-0.2	-1.0	0.2	-0.2	-1.1	0.6	5.9
Investment-savings ratio, %	89.3	101.5	101.3	105.1	99.1	100.8	105.6	97.4	77.9
Growth rate of capital investment (as % of the previous year)	104.0	107.0	117.0	115.0	102.0	101.0	104.0	103.8	104.5

Source: State Committee of the Republic of Uzbekistan on Statistics.

TABLE 2.4

Structure of Investment by Source

(as % of total investment)

Source of investment	1995	1996	1997	1998	1999	2000	2001	2002	2003
State Budget	22.9	24.0	25.3	22.8	28.3	29.2	21.5	23.9	16.8
Enterprises	46.9	46.6*	42.4	31.5	26.6	27.1	31.1	41.2	43.9
Bank loans	9.6	7.3	7.8	7.2	7.8	6.8	8.1	2.4	2.2
Non-budget funds	—	—	—	0.4	0.7	1.3	0.1	0.2	0.2
Resources of the population	6.6	6.0	6.8	18.1	13.6	12.0	10.3	11.4	10.2
Foreign Investment and loans	14.0	16.1	17.4	19.7	22.8	23.2	28.0	20.1	25.9
Other borrowings	—	—	0.3	0.3	0.2	0.4	0.9	0.8	0.8

* In 1996 the resources of the enterprises including other borrowing resources.

Source: State Committee of the Republic of Uzbekistan on Statistics.

major sectors of the economy. As a result of it and inflation's erosion of the real value of their floating assets, firms suffered a decline in their capacity to accumulate investment potential. The share of private investment (from enterprises and the household sector) dropped from 53.5% of total investment in 1995 to 41.4% in 2001. The majority of enterprises practically exhausted their depreciation deductions, which could have potentially become a source for investment.

A persistently high share of public expenditures for investment in construction of large industrial enterprises required high tax burden. Such a policy resulted in a decrease in economic growth, while at the same time exerting a negative influence on private sector development.

When the state syphons off the savings to public sector, private sector cannot grow and economic development is retarded.

The government is recasting its current investment policy to reduce public investment and create an environment for private investment in the national economy.

The ongoing stage of banking reforms is aimed at further improvement the monetary policy tools; increasing financial sustainability and capitalization of banks; enhancing transparency of the banking system.

When the state syphons off the savings to public sector, private sector cannot grow and economic development is retarded

It is crucial to stimulate growth by reducing the role of the government in the economy, expanding the private sector and encouraging private investments

The current process of economic reform and decentralization entails curbing state regulations and eliminating excessive administrative barriers in entrepreneurial activities

Economic growth is also contained by the following factors: a large gap between the low levels of economic development and income—typical of the most of developing countries—and high level of literacy, which is comparable to that of the most of developed countries. A large gap also exists between the relatively high level of the population's accumulated wealth, which takes the form of privately owned housing, consumer durables and, in many cases, household plots, and the low level of average income, which fuels financial insecurity for a significant section of the population.

These gaps create a contradiction between fairly well-articulated spiritual and material needs of the people on the one hand and the insufficient financial resources to satisfy them on the other hand. For instance, a large pool of qualified people employed in the social sectors of education, health care and science possess sufficient knowledge and expertise to provide services in these sectors; yet they suffer from the lack of sufficient financial resources. This fact seriously jeopardizes the quality of the services provided. Financial instability and, sometimes, poverty affect highly-educated people (including state officials and members of the intelligentsia) who are unable to adapt to the new market conditions.

BOX 2.2. Banking system reform in Uzbekistan

The banking sector in Uzbekistan remains rather centralized and concentrated around few major government supported commercial banks. The segmentation inherited from the former Soviet Union has deepened during the first years of independence upon creation of new specialized banks for fostering development of certain economic sectors. This resulted in dominating position of several banks such as the National Bank for Foreign Economic Activity (export-import), Uzpromstroybank (industry and construction), Galla Bank, Pakhta Bank (agriculture), Halk Bank (savings), Asaka Bank (automobile industry) with the share of the state or state-owned enterprises and organizations. Currently 5 largest banks preserve such position, while the National Bank for Foreign Economic Activity alone accounts for more than 50% of the country's total banking assets.

High monopolization of the banking system considerably impedes development of competitive environment and improvement of financial mediation efficiency.

State interference prevents the development of banks in a capacity of effective financial mediators. They mainly distribute state resources and perform non-typical functions such as tax collection. Initially this could prevent cutting down tax payments to the budget, however, currently this undermines trust to the banking system and restrains investment and economic growth accordingly.

Bank clients are often unable to receive cash at first request although the legal acts that favored such practice have already been repealed. Despite adoption of the Law "On the Bank Secrecy" commercial banks do not ensure the secrecy of performed activities.

In 2005 the government initiated a new wave of reforms aimed at deepening liberalization of the banking system. The Decree of the President of the Republic of Uzbekistan "On measures towards further reform and liberalization of the banking system" as of April 15, 2005 outlines the priority directions and specific measures towards fostering reforms in the banking sector. In particular, they anticipate strengthening money circulation, increasing sustainability of the national currency and exchange rate, developing full-fledged banking and leasing services market, establishment of joint banks, encouraging bank deposits, strengthening sustainability of commercial banks and promoting full privatization, improving monetary policy instruments, and expanding investment portfolio of the banks.

As per priorities outlined, it is expected to improve the legislation on establishment of commercial banks, initiate privatization of Asaka Bank and the National Bank for Foreign Economic Activity, as well as grant preferences, privileges and create other favorable conditions for establishment of commercial banks with foreign capital, etc. Along with to enhancing competitiveness, these measures are also to address financial sustainability and capitalization of banks.

2.1.4. Promoting Decentralization for Sustainable Growth and Human Development

Economic growth and sustainable human development can be effectively stimulated by reduction of the government's role in the economy, the private sector development and encouraging private investments. Due to incomplete nature of market reforms, future growth will depend on institutional changes, including, market transformations in key economic spheres.

The improvement of Uzbekistan's model of economic development by strengthening the decentralization and liberalization of the economy should encourage economic growth and human development by promoting long-term factors. These include capital accumulation, more efficient use of existing resources, promotion of scientific and technological innovations aimed at the gradual shift to a "knowledge-based economy".

Economic decentralization should also influence favorably the short-term determinants of economic growth, i.e. an increase in the income and consumption of households, private investments, optimal use of public expenditures and improved export capacities.

The current process of economic reform and decentralization entails curbing state regulations and eliminating excessive administrative barriers in entrepreneurial activities.

But while the issues of the private sector development are top policy priorities in Uzbekistan, the level of government intervention still remains high.

The concept of sustainable human development considers the development of private entrepreneurship as the best opportunity that allows people to enjoy a freedom of choice for economic activity.

To this end, the Order of the President "On Measures to Achieve a Fundamental Increase in the Share of the Private Sector in the Economy of Uzbekistan" (2003) and subsequent resolutions of the Cabinet of Ministers⁷ called for designing and adoption of measures aimed at development of private entrepreneurship and promoting privatization.

The economic decentralization spelled out in these government documents pre-

⁷ The decree of the President of the Republic of Uzbekistan "Program on the Withdrawal of the Government from the Economy and Privatization of Enterprises for the Years 2005–2006" of March 14, 2005, the decree of the Cabinet Ministers of the Republic of Uzbekistan "Program on the Withdrawal of the Government from the Economy and Privatization of Enterprises for the Years 2003–2004" of April 17, 2003 and the decree of the Cabinet Ministers "Actions for the Advancement of Corporate Management in Privatized Enterprises" of April 19, 2003.

supposes the introduction of additional measures for the protection of entrepreneur's rights and reducing the direct involvement of the state in their activity.

Best practices in other countries demonstrate that the optimal methods for abolishing various forms of administrative pressure on business are as follows:

- **require local government agencies to report to local representative bodies and the local population;**

- **introduce and utilize corporate governance methods,** which raise the role and responsibility of owners in the management of enterprises;

- **simplify financial legislation, primarily tax legislation, predominance of preventing rather than punishing for violations.** Practice has shown that the dearness fines to which entrepreneurs are subjected even for minor involuntarily violations "stimulate" corruption among tax officials and other controlling agencies and sharply raise risks for business;

- **reduce sharply the number of business regulations,** the majority of which do not contribute to better enterprise management but only encourage attempts to circumvent them. There are so many regulations in Uzbekistan today that respecting all of them has become impossible;

- **reform the banking system and eliminate its use for tax administration purposes** and financial control over enterprises. In such a system, entrepreneurs suffer from heavy transaction costs while carrying out currency operations;

- **endorse the exclusive use of market-based instruments to regulate entrepreneurial activity,** including that of farms, and a provision calling for adequate forms of governmental support to improve competitiveness on domestic and foreign markets.

Another important factor for the development of small businesses and private entrepreneurship consists in lowering the risks associated with their activity. To achieve this goal, the following measures are necessary:

- 1. Reduce the risk of loss of private property rights.** An appropriate legislature should be adopted that assigns private property rights for a limited amount of land attached to or occupied by a house (e.g. 0.04–0.06 hectares). Households that reside on the land could be offered the right to redeem this land voluntarily at any time and at the market price at the moment of purchase. Redemption of this land should be obligatory when concluding an agreement for sale of the house, registering the house

BOX 2.3. Microfinance Development in Uzbekistan

In 1998 UNDP initiated microcredit program in Uzbekistan through launching two pilot projects in Kashkadarya and Karakalpakstan aimed at establishment of three NGO-MFIs. These projects provided legislative basis for fostering microfinance development in the country through adoption of the Decree of the Cabinet of Ministers # 309 "On Measures towards Development of Microfinance in the Republic of Uzbekistan" as of August 30, 2002.

Microfinance services are currently provided by commercial banks, 20 credit unions, 14 NGO-MFIs as well as through off-budget funds and resources of international finance institutions. Banks are playing a dominating role in microfinance accounting for more than 80% of the total volume of microcredit. Microcredit and, to a lesser extent, micro-leasing prevail among microfinance services.

Microfinance enables solving problems in cases where official government programs are ineffective: small retail trade, business and agriculture (especially cattle-breeding), and services. On average, entrepreneurs involved in microcredit programs attract 2-3 family members. Microfinance stands for more than 70,000 clients, thus ensuring employment generation for more than 200,000 individuals.

Microcredit is more efficient in enhancing sustainability and profitability of micro-business. Using MFI microcredit programs 71% of clients have managed to increase turnover, 60% - profitability, thus creating opportunities for forming middle class of owners.

Microfinance is establishing new segment on financial market speeding up spread of microfinance mediation in the country. Analysis shows that 14% of entrepreneurs have no relations with banks while carrying out their business activities, 38% of respondents have not referred to banks during the last two years. In the nearest future microfinance will satisfy considerable demand for small credits to appear as a result of institutional reforms in agriculture and ongoing decentralization process.

At the same time, microfinance in Uzbekistan is at the initial phase of development. The total volume of microcredit provided by all types of microfinance institutions constitutes only 0.71% of GDP, while all finance institutions cover only 9.2% of demand for microfinance resources. Due to a low number of MFIs and certain obstacles for their development, geographical coverage and MFI penetration extent remain low even if compared with regional neighbors. Altogether this is reflected by a low 9% coverage level. Coverage of low income population deemed as another important indicator is estimated at less than 0.6% which is lower than the average regional level (2%).

The efforts of UNDP in information and analytical support to the process within the framework of the Year of Microfinance serve as an important impulse. For instance, microfinance Internet portal was created, the process of wide-scale sociological survey and preparation of the Report on Microfinance Development was initiated. The materials collected have laid a basis for preparation of draft decree of the Cabinet of Ministers "On Further Development of Microfinance in the Republic of Uzbekistan". The law "On Microcredit" is at the stage of development.

Development of adequate legal framework, sustaining preferential taxation regime, open access of MFIs to new sources of credit, development of new microfinance products through implementation of pilot projects, and strengthened information support to microfinance process by the government would serve as effective measures for further microfinance development in Uzbekistan.

as collateral, or renting the house and the adjacent land (or only the adjacent land). A certain methodology has to be developed for calculating the market value of land attached to private housing facilities.

- 2. Reduce the risk of loss of business due to shortcomings in the performance of the goods and service markets.** Existing limitations on the trade activities of wholesale, intermediate and retail firms should be abolished. That would enable them to sell the products of small and micro-firms on domestic and foreign markets. In addition, illegal restrictions on entrepreneurs' access to and management of the financial resources in their bank accounts should be eliminated.

- 3. Reduce the risk of business failure resulting from administrative interfer-**

An important factor for the development of small businesses and private entrepreneurship consists in lowering the risks associated with their activity

ence by government bodies. To achieve this goal it is necessary to simplify business legislation and make it transparent; to shift the focus away from the predominantly punitive methods of control based on “the catch-and-punish” principle and use preventive methods based on “the teach-and-warn” principle; to reduce sharply the size of penalties/fines, to reduce the controlling functions of the government and administrative bodies; and to eliminate completely the negative intervention of *khokimiyats* in the activity of entrepreneurs.

4. Mitigate the risk of bankruptcy for small and micro-enterprises. This requires providing incentives for the creation of co-operatives of small producers, replacing the existing and out-dated “Law on Cooperation” with a new law on cooperative unions of small producers, attracting grants for the organization of pilot projects aimed at establishing new cooperatives of small producers. An effective outreach strategy will have to be maintained for disseminating lessons learned as well as active replications of best practices throughout the country.

2.2. PRIVATE SECTOR AS THE ENGINE OF GROWTH

Decentralization of economic decision-making process and greater entrepreneurial freedom significantly effect economic growth, employment generation, increasing household incomes and living standards.

The share of “non-public” property in the total amount of registered enterprises in Uzbekistan amounted to 90% in 2004, with more than 80% accounted for by private enterprises, *dekhkan* farms and farmers. The share of the non-public sector of the economy accounted for almost one third of GDP (Figure 2.2.)

In the current period, the private sector is emerging through privatization of public property, creation of private farms. Business support measures are undertaken aimed at stimulating the development of private firms and small and medium enterprises (Box 2.4).

1. Privatization of public property. Uzbek approach to privatization differed from the programs adopted in most other transition economies in several ways. To start with, there

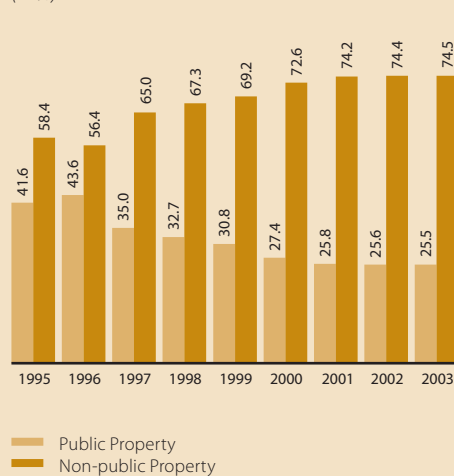
was no recourse to voucher privatization. In addition, privatization followed a step-by-step approach, with the government retaining controlling stock in several enterprises, especially in those branches deemed strategic, though it steadily reduced its share in the capital of privatized enterprises.

In 1992 and 1993, the government launched a so-called “small privatization” process (involving housing, trade facilities, catering, small industrial enterprises, etc.). From 1994 onwards, this process began to include large-scale industries, and privatization was extended to most state-owned enterprises. At the initial stage, privatization had the following objectives: the formation of emerging class of proprietors (by selling public property to them); demonopolization; the development of a competitive market environment; and the generation of budgetary funds through the sale of public property and subsequent use of this rev-

FIGURE 2.2

The Share of Public and Non-public Sectors in the Production of GDP

(in %)



Source: State Committee of the Republic of Uzbekistan on Statistics.

BOX 2.4. Private Property in Uzbekistan

The following legal forms of private entrepreneurship exist in Uzbekistan:

- Private incorporated individual enterprises, consisting of an individual's assets and pursuing productive activity making use of hired workers and aimed at realizing a profit at the individual's own risk;
- Private incorporated micro-firms, with ownership shared among several individuals;
- Unincorporated individual entrepreneurship, not using hired workers for its activities;
- Incorporated family farms making use of the labor of farm household members and relatives, and producing for the market on land received from the state on the basis of a long-term lease arrangement;
- *Dekhkan* Farms, i.e. incorporated or unincorporated farms, making use exclusively of the labor provided by household members (i.e. without using hired workers) in the farm plot attached to the house, which is given by the state to the head of the family for life-time use.

Source: The Law of the Republic of Uzbekistan “On Private Enterprise” of December 11, 2003; the Law “On Guarantees of Freedom in Entrepreneurial Activity”, May 25, 2002; the Law “On Farms” of 30 April 1998; the Law of the Republic of Uzbekistan “On *Dekhkan* Farms” of April 30, 1998.

enue to finance socio-economic programs promoting entrepreneurial development.

In the first stage of privatization, employees were offered the right to buy shares of their enterprises for part of the profit, depreciation deductions and income from the sales of enterprise assets which legally belonged to the workers. To provide them with adequate social protection, the state offered employees of privatized enterprises various benefits in the form of delayed long-term payments for the purchase of state assets and the opportunity to buy such assets at their nominal price. The government also gave back 25% of the privatization profits to the privatized enterprises in the form of post-privatization support.

In 1998, the government launched the privatization of large enterprises and banks, in some cases allowing the involvement of foreign investors. In the process of privatization, investors were given the opportunity to use combined forms of payment. For instance, the selling price of assets not sold for 2 years would be reduced but the eventual owner would be required to inject new funds into the privatized firm. Alternatively, the firm could be transferred on a competitive basis to a management trust with the right to redeem it in the future. In addition, the foreign exchange and equipment acquired by the new enterprises, as part of their obligations to invest in privatized firms, were declared exempt from taxes.

In spite of all this, demand for shares in many joint-stock companies remained low, mainly because of the companies' financial conditions and the population's low purchasing power. In 2002, only 1,988 (48.3%) joint stock companies distributed dividends for an amount of 57 billion soums, including 4 billion soums to stock holders. On average this amounts to 3,490 soums a year per share-holder (a value that does not compare favorably with the 36% average interest obtainable from financial savings on bank deposits).

The presence of a considerable quantity of public assets that had long been on the block without a buyer in addition to new assets being put up for sale (with a value of more than 500 billion soums), combined with the limited liquidity of domestic investors, forced the government to reconsider its policy of setting share prices for what were often unattractive state-owned enterprises and facilities.

As a result, the government in 2003 decided to allow the authorities responsible for the privatization of state assets to gradually reduce prices for assets that were difficult to sell.⁸ They were allowed to reduce the sales price of the assets below book value on condition that they be

sold on a tender basis and that the new owners invest heavily in such firms. In extreme cases, state assets were sold through public tenders at a zero price in exchange for commitment by new owners to invest new funds in the privatized enterprise.

The government has since taken a series of actions aimed at accelerating and deepening the privatization process and creating favorable environment in which a new class of private owners can develop. It has sought to make it easier for owners to invest in enterprise restructuring, realize profits and raise employees' wages, giving better opportunities thus improving their living conditions.

The Privatization Program for 2005–2006 envisages radical changes in the structure of property, a drastic reduction in the government's share of the statutory capital of those enterprises, and a significant increases in the private sector's share of the economy as a whole.

Practice has shown that enterprises in the non-government sector have considerable advantages over state-owned enterprises (SOEs) in terms of labor productivity and financial sustainability. Labor productivity in these enterprises is 2–3 times higher than that of state-owned or state-controlled enterprises.

At the same time, although privatization was meant to widen the participation of the entire population in the ownership of privatized SOEs, giving them the chance to receive dividends and raise their incomes, it must be noted that only 105.6 billion soums (6% of the total)⁹ were received by the private sector out of a total value of 1791.3 billion soums' worth of shares issued for privatized SOEs. A significant part (1201.5 billion soums or 67%) is not tradable in the stock market, as the government has saved 913.5 billion soums (or 51%) and contributed an additional 288.0 billion soums (16%) to the endowment funds of various economic conglomerates. As a result, institutional investors that manage the investments of private households can count on only 30 billion soums (or 1.1% of the total), an insignificant volume of funds.¹⁰

8 The Cabinet of Ministers of the Republic of Uzbekistan approved a "Resolution on the Sale of Low-Profit, Unprofitable, Economically-Insolvent Public Enterprises and Illiquid Facilities at a Zero Redemption Price on a Competitive Basis with the Condition of The Investors' Acceptance of Investment Obligations" and a "Resolution on the Procedure for a Step-by-Step Reduction of the Price for Public Assets of Privatized Enterprises" of August 26, 2003 as well as a "Resolution on the Procedure for Selling Public Assets at a Price Lower than the Nominal" of July 16, 2003. Altogether the above legislative acts have created the foundation for the full cycle of selling the public assets of privatized enterprises.

9 The share of the government in the charter fund of stock societies in China is 31%, in Poland 30%, in Russia 14.7%, and in Germany 6%.

10 The same indicator is 8.1% for Russia, 9% for Poland, 28.7% for China, and more than 30% for the industrialized countries.

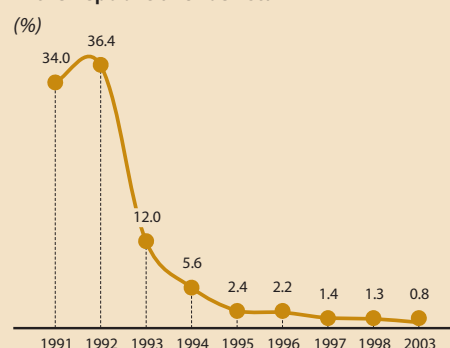
The Privatization Program for 2005–2006 envisages radical changes in the structure of property ownership, a drastic reduction in the government's share of the statutory capital of those enterprises, and a significant increase in the private sector's share of the economy as a whole

Further privatization in order to achieve the program's final goal—efficient management of enterprises, an increased role for property in the structure of household assets, and improvement in the quality of life of the population—will require taking the following measures:

- improving legislation to protect the rights and interests of owners of both large and small stock (shares) portfolios in the fixed capital of enterprises;
- reassessing the approach used in the development of privatization plans, which lay the foundation for newly privatized enterprises based on private ownership;
- reducing government shares in privatized SOEs and increasing the stock market turnover of high liquidity enterprises' shares for circulation on the secondary market;
- holding more auctions and other competitive methods of privatization, including selling marginally profitable or completely unprofitable, insolvent enterprises (bankrupt or showing signs

FIGURE 2.3

The Change in the Share of the Public Sector in Gross Agricultural Output in the Republic of Uzbekistan



Source: State Committee of the Republic of Uzbekistan on Statistics.

of bankruptcy) and other facilities (unused buildings and sites) at a zero redemption price on condition that buyers accept investment obligations in order to restore the old or create a new business;

- transferring enterprises on a long-term leasing basis to a trust management company with a future possibility of redemption;
- organizing, in accordance with international standards, issues of privileged shares (having no voting right but with fixed dividend profit) in highly profitable enterprises;
- setting up investment funds in the regions which, according to the experience of foreign countries, help investors decrease risk and increase profits by allowing them to diversify portfolios that are then managed by professional institutional investors. The statutory capital of such institutional investors should comprise shares of highly liquid and profitable joint-stock companies, and these funds should be tasked with placing portions of these shares solely among private households so as to facilitate the formation of low-risk and stable-profit savings portfolios among the population;
- creating an information system to provide data for potential investors on the economic activity of joint stock companies, prices for stocks and values of dividend payments.

2. Economic decentralization and the formation of private farms. In Uzbekistan, 65% of the total population lives in rural areas. Therefore, the living standards of the population are to a great extent determined by the level of agricultural development.

The state has taken a gradual approach to introducing economic decentralization in the agricultural sector and creating private farms. Between 1993 and 1998, state farms were almost completely liquidated and were replaced by farm cooperatives. By 1996, this had led to a sharp reduction in the share of state enterprises

BOX 2.5. Comparative Data on the Efficiency of Shirkats and Farms in 2003*

Indicators	Shirkats	Farms	Comparison (+/-)
Share of unprofitable enterprises, %	37.2	3.9	-33.3
Share in total agricultural losses, %	94.3	5.7	n. a.
Costs to grow one ton of:**			
■ raw cotton (thousand soums)	201.0	190.5	-10.5
■ grain (thousand soums)	48.4	41.8	-6.6
Costs per 1 hectare to grow:**			
■ raw cotton (thousand soums)	445.5	354.3	-91.2
■ grain (thousand soums)	169.4	141.3	-28.1
Labor productivity (output per worker, in thousand soums)	778.1	980.6	202.5

Sources: * Based on the data of State Committee on Statistics, Ministry of Agriculture and the Committee for Economic Insolvency of Enterprises.

** Estimate.

BOX 2.6. Voices of Farmers

"Land should be allocated to farmers. No one worked well in shirkats, therefore labor productivity was low. Shirkats should have been liquidated long ago and their land—distributed among the people."

— An entrepreneur, Gallaaral Raion.

"At the meeting the regional khokim said that the production cost of shirkats and farms differed by 100 times. Every year shirkats lose millions. The state gives them subsidies, and never—to farmers. Just think, the state helps insolvent entities, but when it concerns farmers some officials do everything possible to hurt them."

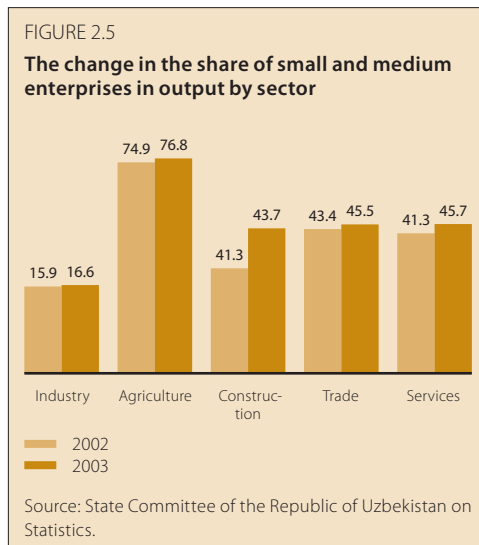
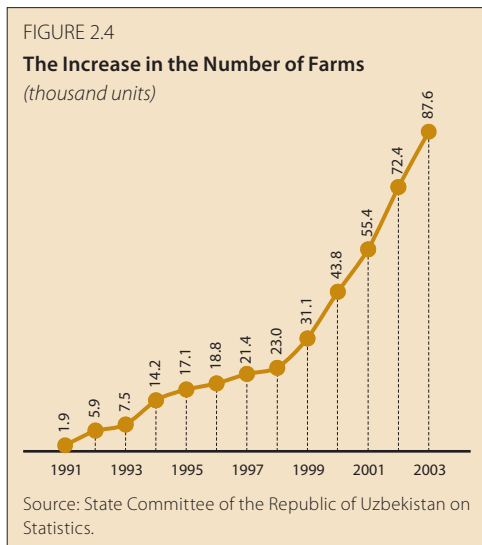
— A farmer, Gallaaral Raion.

BOX 2.7. Activities of Associations

Survey results show that 51% of small- and medium-sized enterprises were members of professional associations in 2002, up from 39% in 2001.

The largest number of firms are members of the Chamber of Commodity Producers and Entrepreneurs (22% of all respondents) and of the Association of Dekhkans and Farmers (26%). Of the remaining respondents, more than 40% said that the main reason for not becoming members of these associations was the perceived absence of membership benefits. Moreover, almost 14% of respondents did not know that such business and professional associations existed in Uzbekistan.

Source: "Business environment in Uzbekistan: Opinion of representatives of SMEs" *Biznes Vestnik Vostoka*, February 12, 2004. No.6.



It is obvious that by granting rural workers with an opportunity to choose their production techniques, the state has enhanced agriculture's growth potential, a key step for accelerating the overall pace of development, while also improving living standards and the quality of life in rural areas

The creation of a market infrastructure and a reliable legal protection system plays an important role in the promotion of private and small enterprises

in agricultural output. In 2003, the state share was reduced by an additional 1% (Figure 2.3).¹¹

From 1998 to 2002, the main sources of agricultural output were the *shirkats* (farm co-operatives), which in practice maintained the management structures of the state farms they replaced. The inefficiency of the majority of *shirkats* led the government to shift focus in 2002 to the creation of private farms (Box 2.5). Of the 377 *shirkats* reorganized between 1998 and 2003 to form farmer households, 178 (53%) were reorganized yet again in 2003.

From 1991 to 1998, the reforms led to the creation of only 23,000 farms. But over the next five years, more than twice as many—64,500—were created. As a result, the number of farms reached 87,500 by 2003 (Figure 2.4).

The rise in the number of farms increased their share in the use of land resources and volume of agricultural output.

Issues pertaining to the increase in production output and real incomes in agriculture are closely related to farm development. The efficient work of a significant number of farmers leads to improvements in the living standards of a quarter of the countryside's population, whose livelihoods are directly linked to farming.

It is obvious that by granting rural workers with an opportunity to choose their production techniques, the state has enhanced agriculture's growth potential (Box 2.6), a key step for accelerating the overall pace of development, while also improving living standards and the quality of life in rural areas.

On the other hand, private farm creation has generated certain problems as well. For instance, in regions where most agricultural enterprises were reorganized, local governments must now create employment opportunities for those excess laborers who were no longer needed after reorganization. Also, these local

authorities have had a hard time breaking old habits, and official interference in private farms remains high.

The process of reorganizing *shirkats* into farms is incomplete, and up until 2004 it presented serious financial challenges. The new owners of reorganized *shirkats* are struggling with serious financial problems, as many have inherited the *shirkats*' liabilities, including the obligation to carry out unfinished production (including sowing winter crops).¹²

3. The development of small entrepreneurship. Creation of legal and economic environment and incentives for entrepreneurial development should help the people make their own choices about whether to become an entrepreneur or remain a hired worker; and whether to invest money in production and services, or use it for personal consumption.

At the beginning of 2004, the number of registered entrepreneurial firms and individuals in the republic reached 283,900, 78.3% of which are still active. As a result, the share of small business and private entrepreneurial contributions to GDP grew from 34.6% in 2002 to 35.5% in 2003, though the share falls to 26.8% if *dekhkan* farms are excluded. In turn, in 2003 small enterprises generated 16.6% of industrial output and 76.8% of agricultural output. The total share of such enterprises in capital investments was 27.4% and in construction 43.4% (Figure 2.5).

The development of small business and private entrepreneurship in 2003 created 375,400 new jobs, an increase of 101.7% compared to 2002. The share of workers employed by small businesses grew from 53.5% to 57.0%. Income from business activity is becoming more significant in the structure of the population's income.

11 For details see the CER Policy Paper "Reorganization of Agricultural Enterprises (*Shirkats*) into Farming Entities", 2004/02.
12 Ibid.

BOX 2.8. Tasks of the Chamber of Commerce and Industry

- Providing assistance for the development of entrepreneurship;
- Providing assistance in making contact with foreign partners and investors, development of cooperation with the Chambers of Commerce and Industry and other organizations in foreign countries;
- Providing consulting, information and marketing services;
- Defending the rights and legal interests of entrepreneurs, including in their relationships with state organs;
- Supporting the development of the educational system and training for entrepreneurs.

Source: The Decree of the Cabinet Ministers of the Republic of Uzbekistan "On Measures Ensuring the Functioning of the Chamber of Commerce and Industry of Uzbekistan" of July 22, 2004.

BOX 2.9. Measures to Support Entrepreneurs

As a result of the reforms undertaken by the government of Uzbekistan:

1. There is now a fairly developed market infrastructure that includes the republican commodity exchange, the agricultural commodity exchange, the real estate market, the fund for dekhans and farms, the Madad insurance agency, Konsauditinform (the agency which provides entrepreneurs with consulting, auditing and information services), the centers for information support to entrepreneurs, a network of engineering and leasing firms and companies, staff training centers, a network of small wholesale shops, etc. There are also 23 business incubators, comprising 437 small enterprises that employ 3,382 workers;
2. The Ministry of Justice has created a system of legal protection for entrepreneurs. In 2003 the Ministry carried out 2,700 enquiries and issued 842 warnings. In addition, 4,261 officials were given disciplinary punishment, while 590 of them were removed from their positions. The local level courts examined 8,823 crimes committed against small enterprises. Fines for 31.3 million soums were levied on officials and channeled to 6,287 dekhans, farmers and entrepreneurs;
3. A number of ad hoc foreign credit lines have been opened and are being utilized. Among them, a credit line from the European Bank for Reconstruction and Development (EBRD) for USD 170.4 mln, one from the Asian Development Bank (ADB) for USD 94.5 mln; a third from the German Bank KfW for USD 28.3 mln; a fourth from IFC for USD 31.7 mln. and, finally, a credit line from OPEC for USD 5 mln. The total volume of foreign credit lines for the development of SME amounts to USD 719.4 mln, of which USD 389.3 mln have already been invested. In 2003, the volume of loans issued in national currency to SMEs reached 211.0 billion soums, which is 1.1 times greater than the amount of loans issued in 2002. Of this amount, 36.9 billion soums were used to provide micro-credits to entrepreneurs;
4. The adoption of the Law "On Credit Unions" in 2002, led to an expansion of non-bank credit provision to firms and individuals. Presently, there are 14 credit unions working in various regions of the republic, which provide services to their members (issuing loans, providing consulting and informational services, etc.);
5. Non-budget funds provide annually no less than 50% of the credit resources allocated by commercial banks to credit lines targeting the provision at favorable interest rates of starting capital to micro-firms and small enterprises, farmers and dekhans (with the legal status of a firm);
6. The access of small businesses to financial-technical resources is being facilitated by the introduction of a single electronic trading system in all regions of the republic, which provides equal access to the resources by all enterprises, regardless of their territorial location and property form, and the regular organization of special auctions for the sale of financial-technical resources to SMEs;
7. Efforts are being made to provide entrepreneurs with technical premises, unused and uninstalled equipment. In 2003 alone, the entrepreneurs acquired on a rental or leasing basis 12,500 facilities costing 9.6 billion soums. In 2002, less than 6,000 units were sold;
8. The government has provided significant privileges to entrepreneurs, including private entrepreneurs;
9. The decree of the President of Uzbekistan of January 1, 2004 granted preferential treatment to a wider scope of small enterprises that operate in the production sphere by perfecting the classification system and raising the criterion (the average number of employees), according to which an enterprise is classified to be small;
10. The Resolution of the Cabinet of Ministers "On the Improvement of the Procedures for Registering Entrepreneurial Activity" has led to the adoption of a simplified mechanism for registering entrepreneurial activity and obtaining the official documents necessary to start an entrepreneurial activity;
11. The government provides support to the development of the system of training, re-training and improving the skills of small private entrepreneurs. In 2003, more than 40,000 people were educated in the public training centers dealing with development of market infrastructure. Furthermore, the centers for information and consulting support under the Chamber of Commerce have so far trained over 22,000 people;
12. The special "help lines", set up in the khokimiyats, authorized ministries and agencies, as well as "The Controller Registration Books", distributed to entrepreneurs at the time of registration, play an important role in protecting entrepreneurs and preventing illegal intrusions in their activities.

BOX 2.10. Entrepreneurs' Evaluation of their Activities

Between 2000 and 2004, "Ijtimoiy Fikr", Center for Study of Public Opinion, conducted a series of surveys of entrepreneurial activities. These surveys suggest a trend toward a positive evaluation of business activities. Some 9.4% of all entrepreneurs and private farmers interviewed rated the results of their activities as "excellent". About half (49.1%) thought their activities were "good", 32.9% "satisfactory", and 7.7% gave a negative evaluation. In 2004, more than half of the respondents (67.7%) claimed that their work produced concrete results (achieving the planned profits, etc.), while 28.7% expressed the opposite opinion.

Source: Sociological Opinion Polls conducted by the Center for Public Opinion Study "Ijtimoiy Fikr" in 2000–2004.

BOX 2.11. Voices of Entrepreneurs

According to one survey, 73% of the respondents are sure that without influence of relatives and friends it is impossible to get involved in business activities. 63% of the respondents think that unpredictable changes in the legal system can push entrepreneurs into bankruptcy. Half of the respondents claimed it is more convenient to bribe government officials than to register their business and pay taxes.

Source: Report on the results of the research in Djizzak region of the Republic of Uzbekistan. Training and participation component of the Living Standards Strategy for 2004–2006 and period up to 2010, Project of ADB, 2003.

The creation of a market infrastructure and a reliable legal protection system plays an important role in the promotion of private and small enterprises. Government and non-government organizations representing the interests of entrepreneurs play a key role in resolving these and many other issues (Box 2.7).

Due to lack of experience, the first public unions and non-commercial organizations in Uzbekistan were created with the active support of the government. For instance, the Chamber of Commodity Producers and Entrepreneurs, a non-governmental and non-commercial organization operating on the principles of self-management, was created in 1998 to represent the interests of the emerging private and small business sector. However, while this organization should have functioned according to the principles of economic and organizational independence and self-management, it could not avoid relying on administrative approaches.

In July 2004, the Chamber of Commodity Producers and Entrepreneurs underwent essential reorganization, with the aim of de-bureaucratizing its procedures and aligning its activities with the goals, tasks and functions of a non-commercial organization. It was replaced by the Chamber of Commerce and Industry, whose goal is the protection of the rights and interests of entrepreneurs (Box 2.8).

The state has also provided considerable support for new entrepreneurs. Some of the measures the government has taken recently to promote small private businesses are the creation of market infrastructure, the provision of training, the granting of various benefits, the simplification of legal procedures for enterprise registration and the establishment of restrictions on bureaucratic intrusion (Box 2.9).

The findings of the sociological survey completed by the Center for Public Opinion Study "Ijtimoiy Fikr" show that these measures will lead to the creation of a more favorable environment for entrepreneurial activities, which will be reflected in the results of their activities and their profits (Box 2.10).

There are still barriers to equal opportunities for running a business, violating one of the most important component of human development—ensuring equal opportunities. The solution to this problem will require considerable decentralization and significant reduction of government regulation.

The existing excessive regulations and administrative barriers to the spread of entrepreneurial activity create a breeding ground for the abuse of power. This situation is further aggravated by a lack of accountability mechanisms, mutual dependence and an unclear division of tasks among the legislative, judicial and ex-

ecutive branches of power. There is also lack of effective sanctions against public officers who infringe upon the rights of entrepreneurs. Despite the government's efforts to reduce controls, licensed entrepreneurial activities are still subject to costly checks and complicated regulations, while the interaction between public officials, entrepreneurs and individuals is still complicated by a high level of corruption (Box 2.11).

At the local level, business owners do not always comply with the complicated existing registration procedures, largely because the state has not eliminated all the bureaucratic barriers that frustrate entrepreneurial activity. After registration, an entrepreneur has to obtain more than 10 authorizations from local government, and provide more than 50 documents at a cost of, on average, 1.5 million soums. These requirements are far too complicated and expensive, especially because many small businesses still lack access to bank accounts. This means small businesses are still seen as a high risk for potential investors.

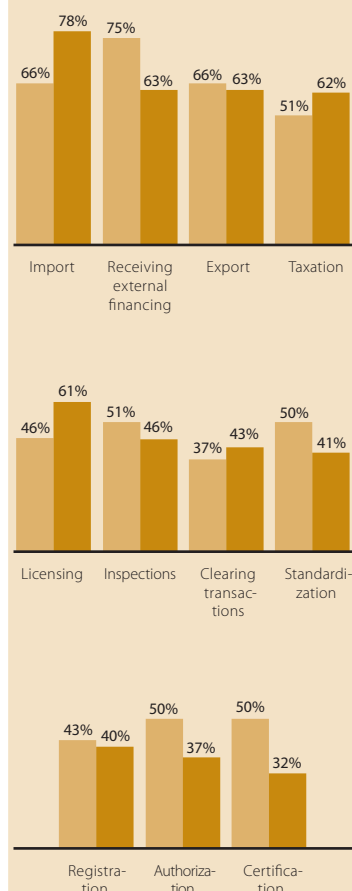
For most enterprises, a considerable hindrance to their development is limited access to financial resources on their own bank accounts. This contributes to the perception by investors of small entrepreneurial activity as a risk-prone area.

In today's highly competitive economy, it is difficult even in developed countries for small private businesses to mature independently. Therefore, it is essential that the government of Uzbekistan provides consistent support to small business and entrepreneurial development. Analyses of various types of incentives and support to small and private enterprises in developed countries have found a number of methods that could be effectively applied in Uzbekistan to improve the business environment. These include:

1. A mechanism to provide private and small enterprises whose annual turnover is below a certain amount (depending on the form of ownership or specialization) with a lump sum subsidy when the enterprise creates new jobs. This will not only provide employment but will also stimulate the entrepreneurs to develop their activity and consequently increase tax revenue;
2. A provision for a mandatory minimal level of government contracts that large firms are required to channel to small businesses;
3. Full respect for the right of entrepreneurs to access their assets in banks, including withdrawing cash from their accounts;
4. Controls on government intervention in entrepreneurial activity and limits on the right to suspend business licenses through the courts.

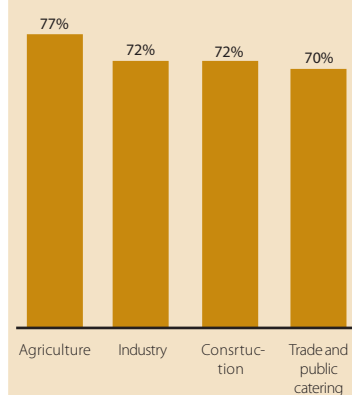
Results of the survey on complexity of administrative procedures for small and private entrepreneurship actors

(the share of respondents pointed that the procedures were "quite complicated" and "highly complicated", %)



Problems in receiving cash

(the share of respondents experienced difficulties during receiving cash, %)



Source: Business environment as seen by small and private entrepreneurship representatives/Presentation for the State Steering Committee on Promoting Small and Private Entrepreneurship Development, June 3, 2005. — IFC.

Most households in Uzbekistan employ their assets for income generation. More than half of families have tried at least once to use household property in order to generate revenues, though not always successfully

In addition, after more than ten years of reform, it seems that the entrepreneurial potential of the country would be enhanced by genuine, as opposed to formal, privatization of those large and medium industrial, transport and construction enterprises in which the government has long held a controlling stake in those enterprises. The entrepreneurial capacity would also be strengthened through expansion of the new farm sector, the elimination of the central-

ized distribution system for all major raw materials used as inputs by private business, and the simplification of taxation of small enterprises, as well as the substantial limitation on the government's controlling functions in the activities of private enterprises. While, as noted, measures in these areas began to be implemented in the late 1990s, there is a need to accelerate this trend toward greater liberalization and decentralization over the next few years.

2.3. HOUSEHOLDS' CAPACITY FOR INCOME GENERATION AND ECONOMIC GROWTH

Economic growth can originate from neglected sectors that make little use of centralized go-

vernment resources.¹³ The household sector, for instance, has the capacity to generate income and accumulate capital. It is therefore important to assess how greater economic decentralization can influence growth at the furthest point from central government: private households.

Value and structure of household assets. The total value of the assets owned by the households in the country is estimated at around USD 35 billion.¹⁴ The largest share in the structure of household assets is made up of housing (Table 2.5 and Box 2.12).

While most households own their houses, those that own production assets are much fewer in number (Table 2.6).

Use of household assets for income generation. Most households in Uzbekistan employ their assets for income generation. More than half of families have tried at least once to use household property in order to generate revenues, though not always successfully (Table 2.7).

The analysis shows that only 4.1% of available family assets, expressed in terms of their total value, are being utilized. Housing, which usually accounts for the largest share of family assets, is the most infrequently used resource. This is not surprising, because there are only a handful of ways to use houses that are not adapted for commercial purposes (e.g. renting urban apartments or using a few rooms as a tailor's studio, mini-workshop or trading shop with a window to the street). With regard to other types of assets, households appear to operate logically: they employ only those types of assets that are designed to generate income, such as machines, agricultural machinery and vehicles. TV sets and other home appliances do not represent productive capital for families, whereas more than 30% of the funds invested in cattle generate revenue.

TABLE 2.5

The Structure of Household Assets

(%)

	Share of households holding assets	Shares of total family assets
Main housing	100.0	78.35
Other housing and cottages	3.5	1.49
Household out-buildings	71.4	2.00
Domestic cattle and poultry	61.9	3.17
Savings	41.4	1.70
Agricultural machinery and equipment	19.7	0.68
Freight and passenger transport	25.7	6.86
TV sets, audio and video equipment, computers	100.0	4.32
Home appliances (ovens, stoves, refrigerators, sewing machines)	90.0	1.32
Machines, construction equipment, diagnostic, medical and cosmetic equipment	6.5	0.10
TOTAL:	—	100.00

Source: CER Policy Paper "Family Assets Mobilization", 2004.

BOX 2.12. Results of the Household Budget Survey

According to the 2002 Household Budget Survey, 71.7% of households live in separate houses and 26.7% in apartments. The average numbers of rooms per household is 3.7. The majority of low-income households (85%) live in separate houses, while more affluent families live in houses and apartments. The overwhelming majority (92.9%) of the rural population lives in separate houses. Practically all households (95.3%) own the houses in which they live, with the poor having a slightly higher ownership level than the rich, i.e. 95.7% compared to 93.7%.

The majority of apartment blocks were built in the country in the period 1979–1990. At the same time almost one quarter of poor households and all households located in rural areas live in relatively new accommodation, i.e. houses built after 1992.

Some 5.4% of households are owners of another private house suitable for living, an unfinished private house, an apartment, a habitable country house, or part of another house or apartment. The percentage of households with a second house or apartment is higher in urban areas (6%) and among richer households (6.8%).

In addition, 17.4% of households have a garage, 1.4%–greenhouses, 19.4%– a warehouse and barn, 56.9%– a place for keeping cattle, and 36.4%– a hen house. The average size of family constructions are 30–50 m², and their average value is 80,000–100,000 soums.

The Household Budget Survey results suggest that 33.3% of poor households have piped water, 74.2% natural gas, 25.5 % an indoor toilet, 8.6% central sewage, and 6.6% central heating. The share of richer families with these facilities is notably higher, since these services are far more accessible in cities in comparison with rural areas and in apartment blocks in comparison with private houses.

74.3% of households have access to land plots. In poor households this share rises to 87.3% (or 1.7 times more than in rich households), and the average size of the plot is 1,690 sq. meters. In rural areas, the share of households with access to land is 96.7%, and the average size of land is 2,740 sq. meters.

The size of land plots in the regions where the survey was taken are not that high. The biggest plots (10–15 hectares) are those of farmers and those rented out by private individuals. Enclosed plots are on average about 500 sq. meters and usually do not exceed 1,500 sq. meters. Plots rented by organizations are not so large (about 2,000 sq. meters) and, as a rule, are used by employees of these organizations for the production of the food consumed by the household.

Source: Household Budget Survey of State Committee of the Republic of Uzbekistan on Statistics. 2002.

13 Hernando de Soto "The Mystery of Capital. Why Does Capitalism Triumph in the West and Fail Everywhere Else?" Moscow, "Business Olympus", 2001.

14 CER Policy Paper "Family Assets Mobilization", 2004.

TABLE 2.6

Household Ownership of Production Assets*(% of total households)*

Production Assets	On average	Including			
		1 st quintile	5 th quintile	Urban	Rural
Wagon/cart	8.8	10.1	6.3	5.0	11.9
Truck	0.7	0.9	0.9	0.5	0.9
Tractor, mini-tractor	0.8	0.9	0.9	0.2	1.3
Stationary engine, generator, motorized machines and equipment	0.3	0.3	0.6	0.2	0.3
Incubator	0.1	0.1	0.1	0.1	0.1
Mill	0.5	0.4	0.5	0.2	0.7
Equipped greenhouse	0.5	0.4	0.8	0.2	0.7

Source: State Committee of the Republic of Uzbekistan on Statistics.

TABLE 2.7

Economic Assets of Households *

Economic Assets	Share of households having assets, %	Share of households willing to use their assets to generate income, as % of families having the given type of asset	Share of households that have ever tried to use the asset to generate income, as % of households having the given type of asset and willing to generate income from the use thereof	Including successful attempts, % **
Land	80.40	42.65	58.30	86.10
Housing	100.00	32.73	8.50	60.00
Other housing	3.50	13.75	40.90	88.80
Economic facilities	71.40	21.15	11.40	92.30
Domestic cattle	47.90	49.27	67.60	87.80
Agricultural product processing equipment	2.40	17.60	66.70	100.00
Truck and passenger vehicle	25.70	100.00/41.55	40.00/50.00	100.00/59.40
Home appliances	90.00	12.94	19.40	78.60
Machines	6.50	54.16	76.90	80.00

* According to the research material of the Center for Social Research "TAHLIL" in October–November 2003.

** It should be noted that this indicator does not provide the full picture, as a share of the respondents could stop their activities in this kind of business for various reasons, including involvement in a more profitable business.

Source: CER Policy Paper "Family Assets Mobilization", 2004.

The economic conditions of households, as well as the employment and incomes of the population, are strongly influenced by the overall macroeconomic environment. **In general, the macroeconomic environment is more favorable to business at the moment than in any previous period:** inflation is low, the exchange rate is unified, and, after many difficult years, world prices for Uzbek exports have become more favorable.

According to survey results, more than half of the families who have tried to employ household assets in business believe their efforts were successful. In addition, 40–50% of families who say that they are willing to capitalize their assets indicate that they do not need any means to do so. Despite this, many families still do not use productive assets for income generation. This means that a favorable macroeconomic environment is not enough to convince households to use their assets in business activities. For in-

stance, **among the families analyzed, there were at least twice as many families who said they were willing to start a business on the basis of their assets than there were families who have already done so.** Financial issues are among the most important factors that prevent households from fully employing their assets: most families in the sampling would like to use their assets to generate additional income, but they lack financial resources.

The household survey showed that, in order to use its assets for business generation, each family has to invest an average of about USD 945, a value equivalent to 15% of the aggregate average wealth. Only 5.4% of all families possessed such an amount of financial savings, while 44% of all families did not have any savings at all.

It should be noted that international financial institutions and other organizations have **in recent years helped remove this obstacle by developing various programs of financial**

The economic conditions of households as well as the employment and incomes of the population, are strongly influenced by the overall macroeconomic environment

BOX 2.13. Credit Unions: a New Form of Small Business Financing

Credit Unions, a recent type of non-bank financial institution designated solely to promote the mobilization of household assets, were able to begin operations after the adoption of a national law in April 2002. Within a short period, 2 credit unions per region were established in Andijan, Bukhara, Namangan, Samarkand, and Tashkent regions, while one credit union per region was established in Djizzak, Navoi, Syrdarya and Ferghana. The creation of credit unions was supported to a significant extent by various international organizations, including ADB, USAID, and WOCCU.*

The total membership of these credit unions comprises 131 legal entities and 6,520 individuals. The overall assets of these credit unions is not large—slightly over 1 billion soums, out of which 84% is used to provide credit to union members for the purchase of fuel, lubricants, fertilizers, fodder, crates/packaging, young pedigree cattle, poultry etc. The loans are guaranteed by mortgages or letters of guarantee of individuals and legal entities, and so far the loan repayment ratio has been 98%.

The short experience of credit unions shows that most of their new members are individuals with a certain amount of savings, willing to mobilize these savings in business through credit unions as a legal option for doing so. However, poor households almost never join credit unions as they lack the resources to pay the membership fees.

* International organization of credit unions.

Source: CER Policy Paper "Family Assets Mobilization", 2004.

assistance targeted at family businesses. These include micro-credit schemes, credit unions (Box 2.13) and various group-lending schemes.

In 2003, small businesses were supplied with micro-credits worth 40 billion soums, of which 28 billion were provided using commercial banks' resources. The remainder was covered by credit-lines, non-budget funds, foreign loans and grants. The largest share of micro-loans was provided by Pakhtabank (27.6%), followed by NBU (17%), Uzjylsberbank (15.6%) and Promstroybank (12.5%). The Business Fund also issued micro-credit loans worth 5.5 billion soums, while the Employment Support Fund under the Ministry of Labor and Social Protection made available 6.8 billion soums for such activities. According to IFC estimates, NGOs' total portfolio of micro-credits amounts to USD 1.4 million, while the Credit Unions' portfolio is worth USD 600,000.

Mobilizing household resources and providing families with financial services also makes it possible to provide assistance to the poor. In this regard, the decentralized nature of such schemes is especially useful, as local communities are well placed to identify the families in need of credit and to monitor whether their income grows as a result of the loans received.

However, the main obstacle to the use of household assets as start-up capital for entrepreneurial activities is the underdevelopment of market relations and institutions. Especially in rural areas, settlements and small towns, the real estate markets are characterized by a small volume of transactions and low sale prices, which makes the potential value of household property too low to be used as collateral. Likewise, trade restrictions, the limited amount of cash in circulation and the persistence of administrative and licensing barriers to starting a business have kept the market for goods and services underdeveloped. Additionally, the capital market, which is especially important for the financing

of the emerging micro-credit sector, is also weak. Moreover, legislation is not sufficiently clear and does not protect adequately the private property rights of households. Administrative interference in the economic activity of entrepreneurs is still common and has the effect of raising the risk of enterprise failure and the subsequent loss of all invested funds and prior efforts.

To increase the efficiency of interactions between households and financial institutions, it is necessary that:

- policy is aimed at strengthening resource mobilization for the purpose of investing in private business and expanding credit for the poorer strata of society while ensuring, at the same time, the long term financial viability of banks, credit unions and micro-credit agencies;
- the efficiency of the existing financing systems are improved;
- access to funding is extended and all forms of discrimination against credit applications be eradicated;
- transparency and accountability are ensured, with financial transactions modeled on ethically acceptable principles and subjected to effective legal and regulatory mechanisms;
- comprehensive and detailed property rights legislation are introduced, when appropriate, while the right of redemption of mortgaged property and household assets offered as collateral is enforced to create favorable conditions for the development of the private sector;
- the private sector is encouraged to mobilize its resources to satisfy its various needs;
- credit transactions are decentralized whenever possible, including to the private sector, so as to facilitate concrete access to credit, especially in rural areas;
- various programs that extend access to capital, land, technology and information are encouraged, so as to allow households to increase their income and to improve their household living standards and social status.

The social sector in any country is arguably the sphere of human development in which the state plays the most crucial role. Spheres of social sector tangibly affect living standards, and can be the source of considerable suffering for some sections of the population when subjected to market transformations.

Since the early years of independence, a strong social policy has been a fundamental priority of the Government. Despite the complexities of transition, this policy has enabled the country to maintain a high level of public services in education, health care, culture, and sports. As it was mentioned in previous chapters, the principal reasons behind the country's slow growth in per-capita income are limited financial opportunities and the highly centralized economy, as well as the incomplete nature of market reforms. The question also arises as to why, given the high priority which the government attaches to the development of the social sector, this sector still experiences problems. Several areas of concern need to be examined in this regard:

- Despite the attention and financial support given to education and the high enrollment rates for all age groups, the quality of education in many of the country's educational institutions is still far from the satisfactory. Moreover, in some areas, such as natural sciences and engineering, the quality has actually declined.
- Formerly popular extra-curricular activities such as scientific, technical and thematic societies and book-lovers' clubs have disappeared.
- Book shops are ill-stocked, while the population is reading fewer books and visiting libraries less frequently.
- The qualification of many education and health care civil servants does not permit the provision of quality social services, making a negative and irreversible impact on human development.

■ Until recent government concern, sports clubs outside of Tashkent and regional sports centers were disappearing and stadiums and playing fields being abandoned.

■ Despite the attention paid by the state to the development of culture, the values of young people are becoming influenced by low-grade movies which well on violence, debauchery and horror scenes, or present extremist religious views.

These issues derive from a preference for state paternalism in social issues, reflecting the idea that only the state can and should resolve social problems, in contrast to the commonly accepted view that the support of civil society is beneficial.

Still opportunities of population in obtaining social and spiritual goods are limited due to low incomes. In this case the state bears liabilities in social sphere. However income increase allows to satisfy certain part of population needs independently from the state. They do not expect provision of public goods and services but participate in the process of solving social problems. The concept that the state should bear full responsibility for social development is detrimental, as it promotes an attitude of dependency on the state and prevents the population from participating in the resolution of its own problems.

The state should concentrate on strategic issues of development in the sectors relevant to the formation of the country's human capacity, rather than involve itself in everyday social problems. These should be the responsibility of the local authorities, civil society institutions and families themselves. In other words, the decentralization of the decision making process within the social sphere is increasingly becoming a hot issue for the welfare of society.

Spheres of social sector tangibly affect living standards, and can be the source of considerable suffering for some sections of the population when subjected to market transformations

3.1. THE UN MILLENNIUM DECLARATION AND HUMAN DEVELOPMENT

All states bear responsibility for progress in human development. This was specifically stipulated in the United Nations Millennium Decla-

ration that was adopted in 2000. By adopting this historic document 189 heads of states and governments has taken unequivocal commit-

The Millennium Declaration of the United Nations, adopted in 2000, committed leaders of 189 countries, including Uzbekistan, to strive achieving the eight key human development goals

ments to ensure the achievement of 8 key human development goals, which are:

- 1.** eradicate extreme poverty and hunger;
- 2.** achieve universal primary education;
- 3.** promote gender equality and empower women;
- 4.** reduce child mortality;
- 5.** improve maternal health;
- 6.** combat HIV/AIDS, malaria and other diseases;
- 7.** ensure environmental sustainability;
- 8.** develop a global partnership for development.

The Goals are based primarily on a need for comprehensive development of human potential and improvement living standards of people.

The main way to the achievement of the Millennium development goals (MDG) is only through coordinated efforts of developing and developed countries, international organizations and donors, that have taken commitments towards their realization. Each country is responsible for establishing its own country-specific goals, and the process of their formulation should be based on participatory approach involving civil society, business community and population.

Formulation of country-specific goals, as well as targets and indicators for monitoring their achievement, has already begun. The first version of the "Baseline Report on Millennium Development Goals in Uzbekistan" has become a product of collaborative efforts of national experts, and experts from UN and the Asian Development Bank. The report sets out preliminary proposals for human development targets and indicators at the national level, in particular:

MDG1: to improve living standards and reduce malnutrition. Uzbekistan's MDG target by 2015 is to halve the proportion of people living in poverty.

MDG2: to improve the quality of education in primary and secondary schools. The country's target is to improve by 2015 the quality of primary and general secondary education while maintaining universal access.

MDG3: to promote gender equality and empower women. The country's targets are to: **a)** achieve gender equality in primary and general basic secondary and vocational education by 2015 and **b)** improve gender balance in higher education by 2015.

MDG4: to reduce child mortality. Uzbekistan has adapted its national target to be achieved by 2015, which is to reduce by two thirds the mortality rates among children aged from 0-5 years. Uzbekistan has also undertaken measures to adopt the internationally accepted WHO live birth definition.

MDG5: to improve maternal health. The national target is to reduce maternal mortality by one third.

MDG6: to combat HIV/AIDS and tuberculosis. The national targets to be achieved by 2015 are to: **a)** reverse the spread of HIV/AIDS and tuberculosis and **b)** have them halted by 2015.

MDG7: to ensure environmental sustainability. The national targets to be achieved by 2015 are: **a)** to make sure that the country policies and programs protect the environment for today's and tomorrow's generation and reverse the loss and environmental resources; **b)** increase the share of rural and urban population with access to an improved water source and sanitation by 2015.

MDG8: To strengthen Uzbekistan's global partnerships for development. The national targets for Uzbekistan are being finalized and are still a matter for discussion. Tentative targets are to: **a)** ensure partnership with regional neighbors and other countries by joining efforts to promote regional peace and stability; **b)** expand trade including regional and cross-border trade and transport; **c)** attract foreign direct investment; and **d)** rationalize water and energy management.

Most of the measures in this direction are at the stage of implementation. Reforms that create appropriate conditions for the achievement of the MDGs are being actively conducted in all social areas:

■ **Education:** the National Program of Personnel Training is being successfully implemented; the Secondary Education Development Program, adopted in 2004 (to be fully implemented by 2009), provides for the renovation of the technical capacities of schools, development of curriculums, textbooks, the improvement of teachers' professional skills and increasing their compensation and wage packages.

■ **Public Health care:** the reform program aims to strengthen primary health care services; create or strengthen systems of emergency aid, maternal and child health services; reduce child and maternal mortality rates. Private medical services are also being actively developed.

■ **Public utilities:** programs are being implemented to expand the access of the population to drinking water supplies (2003–2009) and natural gas supplies (2003–2005) in rural areas, through centralized supply systems.

■ **Preventive Health:** programs of physical training development are being prioritized, with precedence being given to the development of children's sports.

Since 1996 Uzbekistan has successfully implemented special annual programs, including "Realization of Human Interests", "Healthy Generation", "Mother and Child", "Year of the Makhalla" and in 2004, "Kindness and Mercy" that have made a considerable contribution to the social sphere development in the country.

Based upon obligations assumed in the Millennium Declaration, the government together with the Asian Development Bank (ADB) developed a Strategy for improving living standards of the population, that sets the following targets, to be completed by 2010 or in some cases, 2015.

It is assumed that the most efficient and soonest way to implement the Strategy within decentralization process would be the close collaboration among and involvement of government structures, the private sector and the civil society actors.

3.2. DEMOGRAPHY, EMPLOYMENT, INCOME AND LIVING STANDARDS

“Target 1: To reduce by half the proportion of people living on less than a dollars a day, during the period from 1990 to 2015.”

Millennium Declaration

Trends of demographic development.

Uzbekistan has over 26 million people, with 36% living in urban areas and 64% in rural areas.

During the period from the 1960s to 1990s, a high birth rate (30–40 per thousand per annum), requiring large expenditures on the creation and maintenance of social infrastructure, resulted in a lack of employment opportunities for much of the growing labor force, thereby rendering impossible any achievement of high rates of growth in per capita terms.

The Soviet policy of promoting a high birth rate was carried out in the interests of the USSR as a whole. Its main goal was to maintain the defense capability of the country through a steady rise in the share of army recruits from the Central Asians republics, including Uzbekistan.

Since independence, demographic policies have shifted towards the real needs of the people. As a result of the measures taken, the annual increase of the population over the last five years fell to 400,000, compared with over 500,000 in the mid-1990s. Moreover, in 2003, the birth rate was 19.8 per thousand, i.e. 1.7 times less than in 1991.¹⁵ During the period from 1991–2002, the annual population growth rate fell from 2.2% to 1.2%.

The population structure is currently dominated by the working-age group (women of 16–54 years and men of 16–59 years), which represents 56% of the total, while children and teenagers under 16 years of age account for almost 37%. The average age of the population is 25.5 years (24.1 years in rural areas and 27.9 in urban areas), meaning that Uzbekistan can be considered, according to international demographic classification, a country with a young population.

Slowing rates of population growth are also influenced by outward migration, reflected in a net negative migration balance of 84,700 people a year recorded over the last three years. Despite the increase in emi-

grants from 78,000 to 83,000 people in 2001–2002, the extent of emigration has slowed down in comparison to the late-1980s and early-1990s, when it reached 180,000 people a year (Box 3.1).

Over the mid- and long-term perspective, Uzbekistan will be able to count on a significant labor potential. However, this means that there will be a need to create almost one million new jobs in 2005–2006, which will require significant acceleration of economic growth, especially in the industry and service sectors.¹⁶

Employment and the labor market. The official unemployment rate in Uzbekistan is only 0.4–0.5%. However, the rate computed

In 2005–2006, there will be a need to create 970,000 new jobs, which will require significant acceleration in the pace of economic growth

¹⁵ The small increase in the birth rate—from 20.4 per thousand in 2001 to 19.8 per thousand in 2002, was due to the entrance into the fertile age group of women born during 1985–1986, when the birth rate peaked at 37.4 per thousand in 1985 and 37.9 in 1986.

¹⁶ The territorial job creation program for 2005–2006. The following factors were taken into account during the calculation of the need for jobs: increase in economically active labor resources; labor saving due to structural changes, including transformation of shirkats into farming enterprises; and the unemployed population at the beginning of 2005.

BOX 3.1. Population Growth: the Mid-term Forecast

By the end of 2005, the population of the Republic of Uzbekistan will have increased to 26.3 million people, which is 6.1% more than in 2000; the urban population will increase to 9.5 million people and the rural population will reach 16.8 million people. During the 2003–2005 period, the population will have increased by 921,000 people or 3.6%. Average annual rates of population growth during the period until 2006 will equal 1.19%. The share of rural population will remain constant at 64% and the share of men and women in the structure of the population will remain roughly equal. The mid-term perspective suggests that the highest population growth rates will be observed in the Kashkadarya, Surkhandarya and Khorezm regions, and the lowest in the Republic of Karakalpakstan, Navoi region, Tashkent region and the city of Tashkent. By the end of 2010, the population will increase to 27.9 million, or by 12.5% in comparison with 2000. This includes an increase of 1.6 million people in 2006–2010, or an annual average increase of 1.18%. The urban population in 2006–2010 will increase by 303,000 persons or 3.2%, while the rural population will rise by 1.282 million or 7.6 %. In an even longer perspective (from 2025 to 2050), the steady long-term slow down of population growth will intensify.*

* According to the forecasts of the UN (see World Population Ageing 1950–2050. United Nations, New York, 2002, p.466–467), the average annual population growth rate of Uzbekistan will decrease to 0.9 % in 2025 and 0.5% in 2050. The population will equal 34.2 million people in 2025, and 40.5 million people in 2050. The share of the population in the 0–14 year age group will be 24.4% in 2025 and 19.9% in 2050 as against 36.3% in 2000. At the same time, the share of the working age population (15–59 years old) will increase to 63.9% by 2025 but will decrease to 57.8 % by 2050. The number of elderly people (above 60 years of age) will increase and will constitute 11.7% of the overall population in 2025 and 22.3% in 2050, i.e. more than doubling in relation to the present time.

Source: Ministry of Labor and Social Protection of the Population of the Republic of Uzbekistan.

according to ILO methodology on the basis of employment surveys is estimated at 3.5–4.5%¹⁷ according to the Ministry of Labor and Social Protection, and at 6% according to the World Bank.¹⁸

Although in international perspectives this is not a high rate, for a country which used to enjoy full employment, the problem of unemployment is not only new but also highly sensitive. In fact, the population perceives unemployment to be even higher, due to a large proportion of people being employed on a part-time basis (either incomplete working week or working day), on compulsory unpaid leave, in seasonal or temporary work, relying on casual weekly or daily earnings. These problems as well as non registered migration of labor force are not reflected in the unemployment data. Low wages in certain organizations and agriculture also strengthen the perception of under-employment.

A number of factors will directly affect employment and the labor market in Uzbekistan:

1. The continuation and strengthening of growth trends, accompanied by the creation of new workplaces, particularly in small businesses. With a GDP growth rate of 4–6% over the last few years, overall employment

rose by 2.7%, and by 7–9% in small businesses. These employment elasticities are compatible with those experienced by market economies and are the natural result of economic growth;

2. Structural transformation in the economy and the rationalization of administrative personnel numbers, together with an increase in the supply of labor (225,000 workers were laid off due to structural transformations in 2003);

3. The active transformation of *shirkat entities* into farms, where the labor input per unit of output is, on average, 8–10% lower than in *shirkats*;

4. A decrease in employment generation through the establishment of new *dekhkan* farms. In 2003 the growth of employment in *dekhkan* farms was 24,500, whilst in 1999–2000, the annual growth rate of employment in this sphere averaged 34,800 people;

5. The growth of the labor force: in 2003, it grew by 416,000 as a result of the inflow of an estimated 637,000 new entrants into the labor force and exit of an estimated 221,000 (101,000 due to retirement and 120,000 due to physical inability, death and migration);

6. The more rapid growth of the not-in-labor force (which grew in 2003 by 4.3%) than the economically active population (which grew by 2.7%), caused mainly by an increase in the duration of schooling (after 2003, a new program of 12-year secondary education commenced);

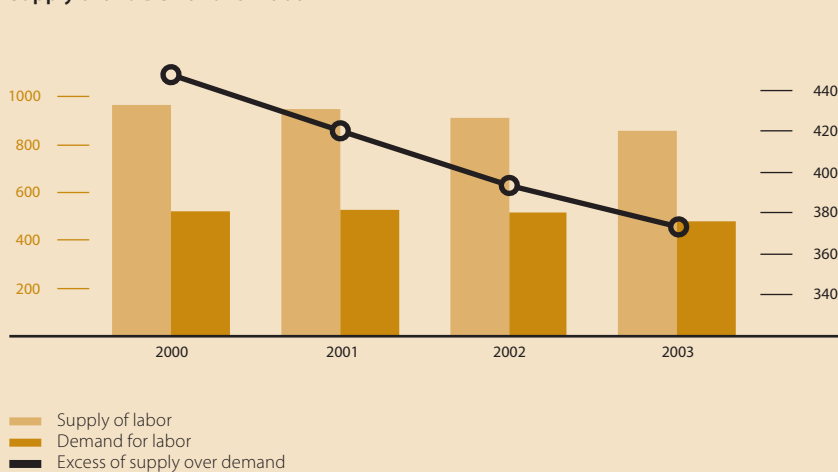
7. Migratory outflows: in 2003 the migratory balance was negative by approximately 93,000 (11.6% more compared with 2002), more than half of which were working age people;

These factors have led to the present employment and labor market situation, characterized by the following features:

- Aggregate labor supply outstrips demand. In 2003, aggregate supply totalled 855,200, due to an increase in labor force, laid-off workers and the number of unemployed. As a result of the implementation of labor market support programs in 2000–2003, aggregate demand in 2003 was 482,000. The unemployed population looking for a job decreased from 462,800 in 2001 to 430,500 at present, which is 4.5% of the economically active population (Figure 3.1).

FIGURE 3.1

Supply of and Demand for Labor



Source: Ministry of Labor and Social Protection of the Population of the Republic of Uzbekistan.

BOX 3.2. The Voice of the People

According to the results of a survey conducted in Djizzak region, 12% of the respondents claimed that at least one of their family members left in the course of 2003 for another location seeking temporary employment. Migration is higher among urban residents: in 26% of urban families some family member left to find employment. A third of working migrants went to Tashkent for employment, 29% did not leave Djizzak region, 15% went to other regions of Uzbekistan, and 23% left for Kazakhstan and Russia.

Source: Report on the Results of the Study in Djizzak region of the Republic of Uzbekistan. Training and participation component of the Living Standards Strategy for 2004–2006 and period up to 2010, Project of ADB, 2003.

17 Without considering seasonal and part-time employment.

18 Differences in assessment of unemployment are stipulated by methodological approaches. In particular, WB does not consider such types of employment as occasional jobs, labor out-migration and other.

■ A high level of employment in the informal sector, in which 4.6 million people or 48.2% of all labor force were employed at the end of 2003.¹⁹ No significant trends of reduction in this sphere are currently observable.

■ An increase in the rate of withdrawal from the domestic labor market, in the form of illegal migration abroad. The number of people working abroad during peak seasons rises from 120,000 to 187,000 (Box 3.2).

■ The persistence of “hidden unemployment”, as in the case of workers employed in enterprises that are clearly unprofitable or bankrupt. In 2004, only 300 workers were laid off from 228 such enterprises. However, the quarterly number of workers on compulsory unpaid leave is approximately 66,600 or 2.5% of the workforce. In industry the proportion is over 8.3% and in construction companies, 7.9%.

With further liberalization of the economy, the spheres of employment and the labor market should be regulated by market mechanisms, including:

1. Creation of an efficient labor market.

There were 430,000 jobs created in 2003, of which 253,400 went to newly hired employees and 176,600 to released workers.

Another 169,700 new jobs were created in the sphere of individual businesses, although these are characterized by instability and inefficiency. The implementation of local investment and manufacturing programs has not yet had any effect on the creation of new jobs, as their main goal was to support and re-equip large operating plants and capital-intensive projects, rather than labor-intensive ones.

Local employment programs for the period 2005–2007 have been developed and approved. The programs estimated the demand for jobs in all regions, paying particular attention to the employment of women (Box 3.3).

The development of regional employment programs was made possible through the involvement of local governments and community organizations. Cooperation between the Ministry of Labor and Social Protection, its regional structures and local authorities and community organizations meant that the number of jobs created within the community coincided with the number of unemployed women in that area. It was possible to ascertain resource requirements in order to provide micro-credit to women for the development of family-owned businesses, especially in remote and mountainous areas with undeveloped market infrastructure.

To ensure higher employment, greater emphasis must be placed on job creation

BOX 3.3. Women’s Employment Needs

In August–September 2004, a special households survey was carried out in each raion of the republic to determine the number of women in need of employment. As a result, 1.2 million households were surveyed. Exact calculations of the labour market status of women and of the number of women in need for employment suggest that only 184,000 or 3.7% of all women can be considered as economically active.

In addition, the following factors were taken into account when ascertaining the job creation need for women over 2005–2007: first, the number of women who will enter the labour force within the forecasting period, which was estimated at 348,000 units; second, that of women made redundant by the structural transformation of the economy, which is estimated at 135,000, including 47,000 in agriculture.

As a whole, the total number of jobs required to employ all women seeking employment will equal 667,000. This number does not include the number of women employed in the informal sector, which, according to the routine monitoring surveys on employment status, already approaches 1.2 million.

Source: Local employment program for the period 2005–2007.

in labor-intensive sectors such as textile, fruit and vegetable processing, and processing of other agricultural products.

2. Rational sectoral and regional employment patterns.

This can be achieved through the accelerated development of service industries, especially in rural areas and raions dominated by a mono-industrial structure. International experience shows that in countries with sustained growth, the share of employment in the service sector makes up no less than 50%. This can be achieved by providing incentives to firms operating in the social and market-services sectors, and in that part of the industrial sector characterized by high labor intensity and steady increases in labor productivity. For instance, granting special 3 to 5-year incentives to entrepreneurs who set up businesses in remote rural settlements with high unemployment would be beneficial to the achievement of this task. The incentives provided could be in the forms of interest-free or concessionary loans, and partial or complete exemption from taxes, etc.

3. Balancing labor supply and demand.

The demand for skilled labor in leading industries remains unsatisfied and will increase significantly following the structural transformation of the economy.

Greater balance in the labor market should be obtained by improving the education of qualified specialists in secondary special, vocational, and higher educational institutions, who can easily adapt to the rapidly changing demands of the labor market.

¹⁹ The given category covers individuals not considered by official statistics. They carry out paid permanent, temporary, occasional and seasonal activities including individuals moving abroad; individuals carrying out their own business working beyond recruitment agreements with partners; individuals obtaining salary or income from legal but unregistered activity (for instance, pasture and cattle breeding, individuals providing services to sellers and buyers on dehkan and retail markets, individuals carrying out trade activities at non-stationary points of sale, rendering carrying services, etc.

Reform of the education and the system of advanced education of specialists who can meet the demand for skilled workers is becoming increasingly important.

Funding of vocational educational institutions based on the results and quality of their performance, and assessed against the formal criterion of successful job placement of graduates, should force them (educational establishments) to reorient their activities in line with labor market demand. Moreover, specialized educational institutions should be able to decide the type of education they offer independently, in accordance with the skills which are in demand on the labor market.

4. Further development of the labor market infrastructure. This entails encouraging local authorities to actively facilitate the interaction between local executive bodies and employers, in order to develop effective mechanisms to regulate the labor market and to facilitate the employment of young people, laid off workers and the socially vulnerable strata of the population. Special attention is to be paid to the organization of an information system that would promptly inform both the unemployed population and employers about situation at local labor markets.

Incomes and consumption of households. The economic growth which began in Uzbekistan in 1996 provided the basis for an increase in living standards. In 2002 and 2003 nominal monetary incomes grew by over one fourth and real incomes by almost 12%. Indeed, household consumption represents the most important component of aggregate demand. In addition to changes in investments, government expenditure and net exports, private consumption determines growth opportunities in GDP.

Despite the recent growth in incomes, poverty still remains a serious and challenging issue in Uzbekistan, as in many other transition countries (Box 3.4). Most of those living in poverty are from large families, families with disabled/invalid dependents who require constant and expensive medical care, and families where the working-age members have low-paid jobs.

The social policy pursued by the government is directed towards poverty reduction and the growth of incomes among vulnerable groups, particularly the poor in rural areas. This objective is being achieved by accelerating reforms in the agrarian sector, with the extensive development of private farms, higher procurement prices for agricultural products, and the creation of mechanisms to support agricultural producers. In addition, 2.2 million families (out of 5.1 million) benefit from various kinds of direct social assistance, including 1.1 million families receiving child benefits, 700,000 receiving childcare allowances for children under 2 years of age, and approximately 300,000 receiving social assistance benefits.

A unique system of social protection for vulnerable families has been established in Uzbekistan. In the absence of a system of obligatory income declaration, a mechanism for the identification of needy families provides targeted benefits and social assistance to families in need. A central role in this system is played by the makhalla, which is better aware of the social and financial situation of each family and makes decisions concerning the allocation of social benefits. This mechanism has received positive evaluations from international experts. Today about 6% of all state expenditures are channeled to needy families through the makhallas.

Certain groups of the population—including the disabled, single pensioners, elderly citizens without employment record to be eligible for pension, orphaned children and children from poor families—receive targeted social benefits and enjoy certain

BOX 3.4. Uzbekistan. Estimation of Living Standards

Thanks to recent growth, there has been a reduction in the incidence of poverty. The economic recovery has been accompanied also by a significant improvement in life expectancy, infant and maternal mortality rates and education enrollment rates. However, income poverty still remains a problem in Uzbekistan. Over a quarter of the population (about 27.5%) is estimated to be living in poverty, a third of whom can actually be described as living in extreme poverty.

Source: The World Bank Document. Uzbekistan. Living Standards Assessment, Volume 1, May 2003.

TABLE 3.1

Monetary and Aggregate Income per Capita in 2002

(in % of the country's average)

Regions	Money income	Total income
Republic Uzbekistan	100.0	100.0
Republic of Karakalpakstan	58.4	60.1
Andijan region	81.7	81.5
Bukhara region	113.5	128.6
Djizzak region	118.2	122.7
Kashkadarya region	105.8	106.9
Navoi region	150.1	144.3
Namangan region	93.7	95.4
Samarkand region	73.5	76.5
Surkhandarya region	87.9	96.7
Syrdarya region	67.3	65.2
Tashkent region	112.1	102.3
Ferghana region	88.4	87.0
Khorezm region	70.2	97.6
Tashkent city	178.8	154.7

Source: Estimate of Ministry of Labor and Social Protection of the Population of the Republic of Uzbekistan.

privileges. In particular, they receive subsidies to pay for housing, communal and transport services, free access to sanatoriums and other establishments, winter clothes, and free educational materials and supplies. Over 1.2 million citizens and their family members are estimated to receive these benefits.

The policy of providing primary assistance to the socially vulnerable and low income groups has led to a certain re-distribution and balancing of income among the population. The Gini coefficient (an indicator of the inequality of distribution of income), rose from 0.261 to 0.421 from 1991–1997, but then fell to 0.387 in 2003. At the same time, the ratio of the income share of the richest 20% of the population to the income share of the poorest 20% increased from 8.5 times to 13.2 times during 1991–1997, but decreased to 8.4 in 2003 (quintile coefficient). Despite this recent improvement, income differentials between the rich and the poor still remain high.

The regions with the highest average per capita income are Tashkent city and the Navoi region while those with the lowest are the Republic of Karakalpakstan and the Syrdarya region (Table 3.1).

The average monetary income of the households in the top quintile is 13.2 times higher than those in the bottom quintile, whilst for aggregate income (i.e. income in cash and kind), the ratio is 6.9 times (Figure 3.2).

Positive trends have been observed in the structure of aggregate income of the population: income from entrepreneurial activity rose from 26.9% to 32.1% from 2001–2003, while income in kind decreased from 20.8% to 17.6% (Table 3.2).

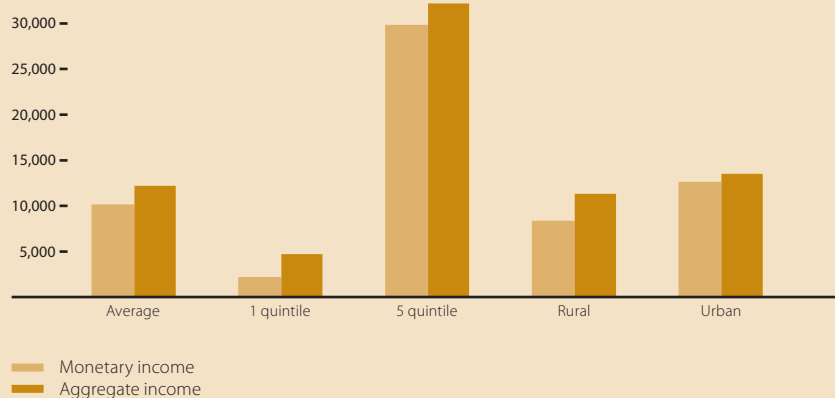
The main sources of aggregate income of households include wages, income from entrepreneurial activity, and social transfers. The structure of income may considerably vary between the rural and urban sector (Figure 3.3).

The proportion of wages in aggregate income is 28%. Despite the steady growth of the real minimum and average wage, the wage proportion has fallen by 1.7% over the last two years (Figure 3.3). Such a decline may negatively affect growth, as it could lead to shirking of labor among work hands. However, real average wages may be higher, as a significant part of the wages paid in the private sector are not declared by employers, in order to avoid taxation.

Income related to entrepreneurial activity. The income from entrepreneurial activity—including property income and income

FIGURE 3.2

Level of Monetary and Aggregate Incomes per Capita



Source: Household Budget Survey, State Committee of the Republic of Uzbekistan on Statistics.

TABLE 3.2

Structure of the Total Income by Income Type

(in %)

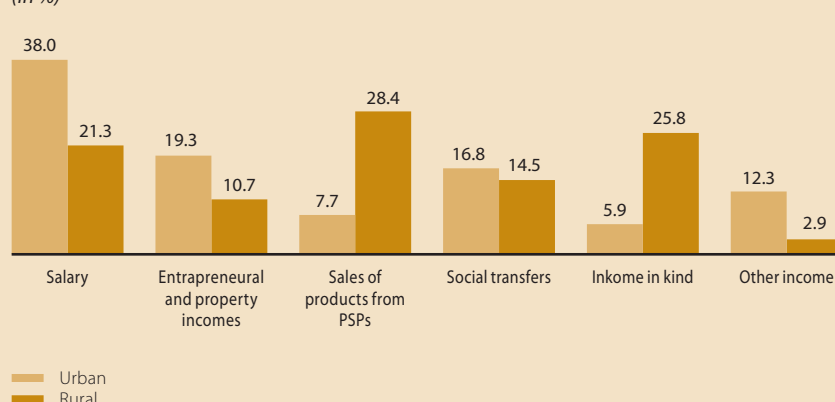
	2001	2002	2003	2003 in % of 2001
Structure of cumulative income, %	100.0	100.0	100.0	
Wages	29.9	27.9	28.2	–1.7
Income from entrepreneurial activity and property	10.7	14.6	14.3	3.6
Sales of PSPs (Personal Subsidiary Plots) Products	16.2	17.9	17.8	1.6
Social transfers	15.3	16.1	15.5	0.1
Income in kind	20.8	17.2	17.6	–3.2
Other income	7.2	6.2	6.8	–0.4

Source: Household Budget Survey, State Committee of the Republic of Uzbekistan on Statistics.

FIGURE 3.3

Structure of Aggregate Household Income in Urban and Rural Areas in 2003

(in %)



Source: Household Budget Survey, State Committee of the Republic of Uzbekistan on Statistics.

derived from the sale of produce from dekhkan farms—represents an increasing share of the overall income of the population and already exceeds wage income.

Pensions. The pension system is widely considered as an important aspect of social policy. The reform of the sphere that co-

The policy of providing primary assistance to the socially vulnerable and low income groups has led to a certain re-distribution and balancing of income among the population

vers an approximate amount of 3 million recipients of pensions and social benefits, is of high importance for the country. The demographic situation provides favorable conditions for the effectiveness of the pension system, with a dependency ratio of 0.3 (i.e. the ratio of the number of pensioners to the number of working people). This is considerably lower than in developed countries and ensures long-term financial sustainability of the Pension Fund. However, the existing pension system increasingly conflicts with market principles, which require that pensions are mostly regarded as an investment to financial sustainability.

Therefore, Uzbekistan is now confronted with the challenge of introducing a pension system based on the accumulation and capitalization. The Law of the Republic of Uzbekistan "On the Accumulation System of Retirement Insurance" was adopted by the *Oliy Majlis* (Parliament) at the end of 2004 and the new pension scheme was introduced in

2005. Government retirement benefits and the new individual accumulation system will complement each other, rather than act as alternatives. The opportunity to introduce this system is now greater than ever before, as the fall in inflation facilitates the protection of the real value of accumulated pension funds.

The accumulative pension scheme introduced to supplement the government pension scheme is based on the principle of personal savings, with citizens themselves now responsible for their retirement insurance. The legislation sets out mechanisms to ensure the protection and increase of citizens' pension savings, the rights and voluntary nature of premium payments, the terms for receiving accumulated pensions, and other details.

In other words, the new accumulative pension system will grant people with the right and opportunity to invest into their future financial sustainability and retirement insurance.

The key priorities for education system reform in Uzbekistan are to grant equal opportunities for education at all levels and to create conditions for maintaining the quality of education according to modern requirements

3.3. HUMAN DEVELOPMENT: EDUCATION AND HEALTH

3.3.1 Education

Progress in the development of education. The specific feature of Uzbekistan is its high literacy rate, which is 99.2% making it the one of the highest in the world (Figure 3.4).

The key priorities for education system reform in Uzbekistan are to grant equal opportunities for education at all levels and to create conditions for maintaining the quality of education according to modern requirements (Box 3.5).

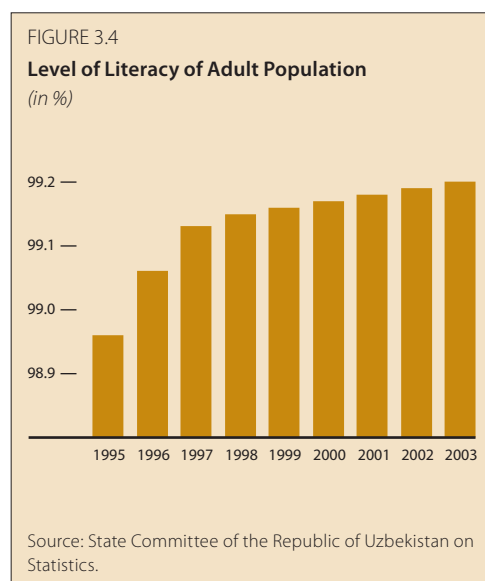
In accordance with the Law of the Republic of Uzbekistan "On Education" and

the National Program of Personnel Training, a transition to a system of free and obligatory 12-year education (including 9 years of general secondary education and 3 years of vocational training), is being implemented. Until the age of 6 or 7, children receive pre-school education in different types of establishments. General secondary school education consists of 2 stages: primary school education (Grades 1-4) and secondary education (Grades 5-9). Secondary special, vocational education is provided in academic lyceums and professional colleges and creates the basis for acquiring specific professional skills or for continuing study in institutions of higher education.

The pre-school system comprises of 153 "kindergarten/school" type complexes, 57 specialized pre-schools, 186 pre-school sanatorium-type institutions and 61 private pre-school establishments.

Pre-school enrollment of children decreased by almost half from 1990 to 2000, but over the last three years has increased from 18.2% in 2000 to 19.2% in 2003. In 2003 the overall enrollment of children in pre-school education constituted 31.6%.

There are over 6 million students studying in 9,800 secondary schools, which provide education in seven languages (Figure 3.5). They are taught by 454,000 teachers, an average ratio of one teacher per 15 pupils, which is good according to international standards.



BOX 3.5. The National System of Public Education

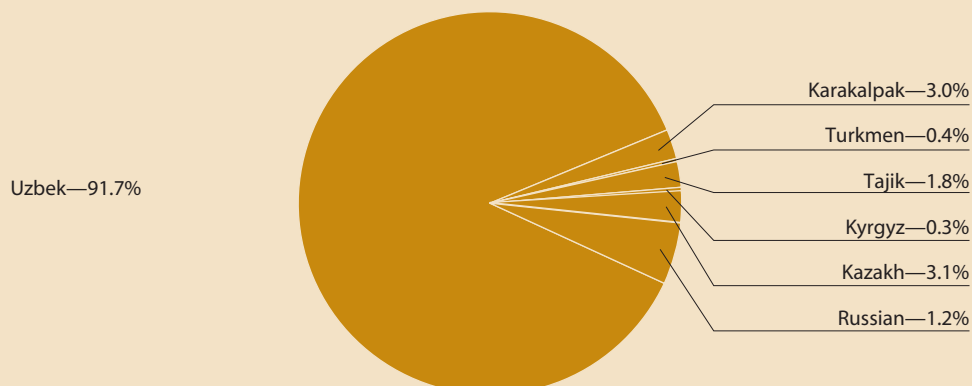
Age	Name of Scholastic Institution		Level of Education
31	<div>Doctoral studies (at least 3 years)</div> <div>Postgraduate study (at least 3 years)</div>		Post-graduate education
30			
29			
28			
27			
26			
25	<div>Professional higher education programs (medicine, up to 12 years)</div>	<div>Masters Decree (at least 2 years)</div>	Higher education
24			
23			
22			
21			
20			
19	<div>Academic lyceum (3 years)</div>	<div>Professional college (3 years)</div>	Secondary special, vocational training
18			
17			
16	<div>General secondary school (5 years)</div>		General secondary education
15			
14			
13			
12			
11			
10	<div>Primary school (4 years)</div>		
9			
8			
7			
6	<div>II-stage</div>		Pre-school education
5			
4			
3			
2	<div>I-stage</div>		

Compulsory education
 Non-Compulsory education

Source: "The Educational System of Uzbekistan (reforms in figures and facts)" ADB/UNESCO TA #2947-UZB "Monitoring of Implementation of Educational Reforms" project.

FIGURE 3.5

Distribution of Languages of Instruction Across Schools



Source: Ministry of Public Education of the Republic of Uzbekistan.

During the last 3 years, a major program of renovations have been initiated, with 236 new school buildings for 64,200 students. The number of schools connected to the piped-water system increased by 20%; the number with telephone

connections by 8%; those with cafeterias and catering facilities by 12%; and 632 schools (6.6%) were connected to the gas pipeline system.

The system of secondary special and vocational training involves more than 841

educational institutions which provide training to 688,400 people. During 1998-2002, 551 secondary vocational institutions were deployed, providing training for 383,000 students (including 54 academic lyceums with 33,300 students and 497 professional colleges with 349,600 students). 101 academic lyceums and 910 professional colleges, with 730,600 students, will enable the transition to 12-year secondary education. According to the program, these will be built in 2003-2009.

Finally, 63 institutions attended by 254,400 students are currently operating in the system of higher education, while the number of students is increasing (Figure 3.6).

In comparison with the beginning of the 1990s, the number of courses offered by higher education institutions has almost doubled. Multi-level programs of education have been introduced, including B.A. and M.A. degrees. Conditions for real competition among institutions of higher education have been created, and contacts with foreign institutions are being expanded. In recent years, more than ten institutions from other countries have opened affiliated institutions in Uzbekistan.

Teacher retraining and improvement of staff qualifications is being implemented in 2 specialized institutes, 15 centers and 22 faculties of qualification improvement.

A long-term plan has been developed to improve the qualifications of teachers, heads of higher education institutions, deans of faculties, heads of academic departments, chiefs of units and teaching departments, librarians, pedagogical staff of pre-school and out-of-school educational establishments, teachers of general secondary and secondary special and vocational training, and specialists from certain sectors of the economy.

Efforts are being made to introduce distance learning methods and to improve the

qualifications of teaching staff in educational institutions through extensive use of modern information technologies. Furthermore, seminars and conferences, both abroad and in Uzbekistan, have been organized for teachers and heads of educational institutions in cooperation with the Governments of Germany, Japan, Korea, and international organizations including UNESCO, ETF, ILO, ADB, and JICA.

Problems in education sector development are closely connected to the lack of material resources and inefficient mechanisms of funding this sector. In particular:

- Pre-school education: insufficient material incentives and stimulation of workers in kindergartens lead to rapid staff turnover, and unwillingness of the staff to improve their professional skills.

- General secondary education: in many cases the material-technical base does not allow the introduction of state educational standards into the educational process; the provision of students with textbooks and manuals is poorly organized; curricula and textbooks are imperfect; additional materials for students studying in the Latin alphabet are not available (e.g. in science and art); and the quality of retraining and qualification improvement of the teaching staff remains low (Box 3.7).

- Secondary special, vocational training: the interrelation and cooperation of vocational colleges and higher education institutions with enterprises are currently weak; the workshops of professional colleges are equipped insufficiently; curricula do not meet the market requirements.

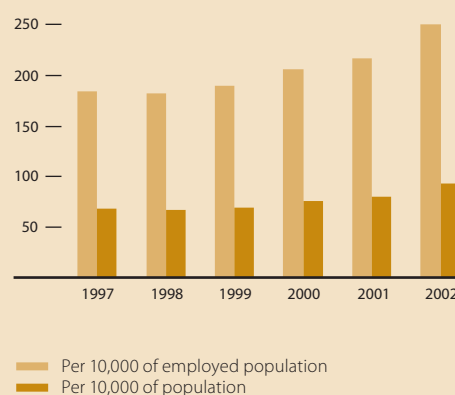
- Higher education: the skills of graduates do not fully correspond with those required by the labor market. Furthermore, there is a considerable discrepancy between the fees for education and income of people.

BOX 3.6. Implementation of the Formal Education Development Program

According to the program of school development, the construction of 325 new schools, reconstruction of 2,313 schools, and renovation of 3,769 schools is planned for the period until 2009. The majority of schools will receive new training and laboratory equipment meeting state educational standards. Each school will have at least one computer class. The total sum of funds foreseen for the realization of this program is more than 1 billion US dollars.

Source: The State National Formal Education Development Program for 2004-2009.

FIGURE 3.6
Number of Students in Higher Education



Source: Ministry of Economy of the Republic of Uzbekistan.

The national strategy for education development strives to yield the following results:

Pre-school education: to increase the professional level of teaching staff through improvements in training, retraining and qualification improvement systems; to continue the implementation of the program “Children of the Third Millennium” on preparation of children for school; and to develop a set of measures on organizing the production of didactic materials and toys designed to shape basic working and logical skills and meet the needs and interests of children.

Secondary education: to implement the “Program of Development of School Education for 2004–2009”, which will provide a set of concrete measures for:

- Improvement of the material base of secondary schools, including those located in remote and rural regions;
- Provision of all schools with educational and laboratory equipment, computer equipment, textbooks, teaching and methodical materials;
- Improvement of educational standards and curricula used in the educational system;
- Provision of secondary schools in rural area with qualified pedagogical staff; improvement of the quality of the teaching staff; the creation of an effective system of preparation, retraining and skills-improvement for teachers; and the improvement of incentives for teachers.

Secondary special and vocational training: to improve the educational, methodical and production base of the faculties offering courses in special subjects; to improve the quality of vocational training; to improve the technology for developing educational standards; to increase in the efficiency of education by creating a basis for the development of normative documentation and educational literature; to create information networks of teaching and systems of control of the educational process; to develop an efficient monitoring system to assess the quality of professional training, and enable certification of pedagogical staff and accreditation of educational institutions.

The system of training and qualification improvement of staff aims at the following:

- to create an effectively functioning network for staff retraining and qualification improvement; to strengthen its technical capacities, and to attract foreign partners and international financial organizations for providing grants and technical assistance;

BOX 3.7. Results of the Inventory Checks of the Secondary Schools

The controls and inspections of the material and academic basis of each school, of its provision with communal and sanitary services, sport facilities and playgrounds, carried out in the beginning of 2004, revealed that of all the secondary schools of the country:

- 61% are located in standard buildings;
- 7% function under emergency conditions in temporary makeshift premises;
- 50.7% completely lack sports facilities and equipment;
- 17% are not supplied with drinking water, and 14% of rural schools have no connection to the gas pipelines;
- well-equipped classrooms of physics, chemistry and biology are available in only 28–30% of the schools, while computers are provided only in 14.7% of the schools;
- for a few subjects there is no clear connection between the curriculum and the relevance of the teaching material;
- 19.4% of pupils are not provided with textbooks;
- 96.4% of the schools do not have teachers of either foreign languages, the native language and related literature, chemistry, history or geography.

Source: Ministry of Public Education of the Republic of Uzbekistan.

- to develop required normative, instructive, methodological and informational basis for staff retraining and qualification improvement; to introduce the criteria and parameters for assessing the level of professional skills and knowledge of employees and their certification;
- to enhance the network of staff retraining and qualification improvement through involvement of highly qualified teaching professionals, including leading experts from enterprises and higher education institutions;
- to develop and introduce labor compensation and incentive packages for teachers, instructors, and the employees of enterprises and organizations involved in staff retraining and re-qualification;
- to increase the interaction between enterprises, employers and educational institutions by strengthening the role of contractual arrangements.

Improvement of education and decentralization. International experience shows that issues related to pre-school, general secondary and secondary vocational education can be successfully managed by local authorities and civil society organizations. The central authorities can concentrate on coordination of key issues pertaining to general strategy and quality standards of education, development and production of textbooks. The issues of construction, capital and operational renovation of school premises, provision of equipment and its maintenance, human resource management, control over the quality and security of the educational process, development of extra-curricular activities, and functioning of libraries, sports facilities and clubs do not require the daily involvement of central authorities and should be managed locally.

The above directions of decentralization in education are partially underway in

Most issues relating to pre-school, general secondary and secondary vocational education can be successfully managed by local authorities and civil society institutions

The introduction of per capita financing ensures for transparency of funds flow for all participants of the educational process

Uzbekistan. The State Nationwide School Education Development Program for 2004–2009 assigns functions related to and responsibility for the implementation of program activities to local governments. The program provides maps for each city and raion, which show the schools that are subject to demolition, reconstruction and complete overhaul. Specific restoration programs have been developed for each site. In addition, local authorities are assigned with the functions and responsibilities for the implementation of the program.

Local governments determine the number of general education schools to be built to replace those that have been demolished, together with those that require capital reconstruction, major and routine repairs, along with estimates of the amount of funds to be allocated for these projects.

Conditions and opportunities are being created for ensuring participation of enterprises and other organizations in funding and implementing this Program. For instance, a procedure has been introduced according to which donations to the Program by economic entities are excluded from the tax base when they file their tax returns.

Local authorities can and should transfer the majority of the above-mentioned tasks to civil society institutions. Moreover, each school should elect a voluntary board of guardians comprising the most active parents, schoolchildren, representatives of makhallas and enterprises located near the school. The board of guardians would be empowered to deal with a wide set of issues related to the day-to-day activity of schools, professional colleges and academic lyceums.

Furthermore, it would be advantageous to expand the self-governance of student bodies in schools, professional colleges and academic lyceums. Such student councils could be empowered to organize cultural and sports activities, (including those organized with the assistance of the administration and board of guardians, and local divisions of the “Kamolot” youth social movement) and other social activities for students. The involvement of students in these processes would facilitate the development of responsible civil attitudes and organizational skills, and enable the organization of various events promoting spiritual, moral, cultural and physical welfare of students. The student councils together with the boards of guardians could also be empowered to coordinate the quality and conditions of training at school with the school administration.

The financing of education and, in particular, the norms and standards of public financing, are a key factor in the improvement of the quality of services in this sphere. The state budget forecast, which also includes local budgets, uses the “base method”. For instance, the forecasting of education expenditures for the current year is based on the actual expenditures of the previous years. These expenditures are indexed, taking into account the expected inflation rate and, thus, the expected charges for all accounts are determined, except wages. The main problem with this approach is the absence of incentives to spend budget funds more efficiently. The recipients of budget funds are not interested in more efficient and thrifty use of resources, as the current year expenditure is the base for calculating the next year’s allocation. Thus, already at the planning stage, this method introduces inefficiency in the distribution and use of public funds.

The experience of countries reforming the financing of education shows that the most efficient financing method is the one using the per capita (per student) criterion. A good example is offered by the countries of Eastern Europe, where the number of students is the primary factor of determining the amount of public funding, with some adjustment for higher expenses in rural area. Thus, in Hungary, the municipalities allow schools to disburse their own budgets and allocate funds in accordance with specifications based on the number of students, resulting in considerable progress in improving local education.²⁰ Such an approach provides incentives for the management of institutions of secondary education to increase the enrollment of students and therefore, to improve the quality of education. Furthermore, the introduction of per capita budgetary financing provides transparency of financial flows for all participants of the educational process (including the management of educational institutions, teachers, parents and students).

3.3.2. Health Care

Reforms and progress in the development of public health services. The Constitution of the Republic of Uzbekistan, the Law “On the Protection of the Health of Citizens of the Republic of Uzbekistan” and the state program for reforming the system of public health services constitute the legal

20 CER Policy Paper “Optimization of Public Expenditures for Education”, 2002/02.

basis for the state strategy on the development of public health services.

The first stage of reforms in public health services envisaged the redirection of existing limited budgetary resources towards modern forms of primary health services, obstetric assistance, maternal and child health care, and to medical institutions addressing the problem of socially-dangerous diseases. The other medical services were to be gradually decentralized from the state budget and transformed into various forms of paid services. In this regard, special attention was drawn to the development of private health care services and medical practice.

Upon completion of the first stage of the program of reforming public health services the following had been accomplished:

Creation of a system of free emergency medical aid to the population.

The Republican Scientific Center of Emergency Medical Aid (RSCEMA) has been established, with 12 branches in the regions, 171 departments of emergency medical assistance in large urban and raion hospitals, and sanitary aviation and ambulance services, which together provide emergency medical aid to the population. The capacity of the country's overall emergency medical services is 8,240 hospital beds, of which 3,665 are in RSCEMA and its branches, and 4,575 in the structure of the central raion and municipal hospitals.

Reform of the primary health care system. From 1996 to 2003, 2,363 rural medical stations were opened, whilst over 3,100 nursing-obstetric offices (50% of the total) and over 500 rural medical ambulance stations (43.4% of the total) were closed down.

The implementation of the "Health-1" project, conducted in Ferghana, Navoi, and Syrdarya regions in accordance with the agreement between the Government of Uzbekistan and the World Bank, endorsed in 1998, was successfully completed in 2004. Under this project, primary health care was strengthened, general physicians and nurses were trained, the financing and management system of primary health care was improved and per capita financing of rural health facilities from regional budgets was introduced.

Strengthening professional skills in public health care facilities. State educational standards for higher and secondary vocational education were developed and adopted. In the system of higher education, the transition to a two-level professional training was completed. While the first level prepares general practice doctors, the

BOX 3.8. The Quality of Health Care Services According to the Public Opinion

71.5% of the respondents were completely or partially satisfied with the public health service in its current state. Urban residents were more critical than the rural population with regard to the level of development of public health services and were more demanding with regard to the quality of health services. Thus, 27% of urban respondents were dissatisfied with the level and quality of the services provided, as compared to 20.9% of the rural respondents.

Source: Center for Social Opinion Study "Ijtimoiy Fikr" results of the public opinion poll "Uzbekistan, 13 Years of Independence".

second level trains experts in specific fields with a duration of study of at least 3 years for clinical disciplines and at least 2 years for fundamental theoretical ones.

From 1999–2000, medical schools began admission to departments of high-skilled nursing and currently enroll 556 students. In 2002, 121 highly qualified nurses graduated and now work as heads of nursing departments in medical institutions, or as nursing teachers in medical colleges.

Public health care facilities employ 81,000 doctors. The ratio of doctors and mid-level medical staff to 10,000 inhabitants was 31.9 and 104.6 persons respectively in 2002 compared to 35.5 and 115.2 in 1991 (Table 3.3).

Financing of public health care services. Improvements were made as a result of the increased efficiency of budgetary expenditures on free medical services, and the development of various forms of mixed and private financing. The share of private financing in the general expenditures for public health services increased from 6.3% in 2000 to 8.6% in 2003.

Improved supply of drugs. The network of drugstores was decentralized and privatized. Budgetary allocations for the procurement of drugs by institutions of primary medical care are calculated taking into account the regional specifics, the number of the population, the incidence of diseases, and the needs of public health care facilities. Measures were strengthened to prevent the delivery of poor quality, non-standard and counterfeit medical products to the pharmaceutical market. The domestic pharmaceutical industry continues to develop. In 2003, Uzbek enterprises started production of 61 types of drugs. The share of domestic pharmaceutical consumption covered by national production has grown from 5–7% in 1990 to almost 30% currently. The demand for bandage materials, disposable intravenous injection systems, syringes, etc. is almost fully covered by domestic production.

Decentralization and development of the health care system. Decentralization of health care management and financing may better respond to the population's needs at the local level and lead to a more

Supply of resources for medical services is funded mostly by local governments. Raion and city budgets, i.e. the lowest tier of the budgetary system, finance 57% of all expenses for health care

efficient use of resources, thereby contributing to an overall improvement in service quality. However, decentralization may also lead towards unequal access to health care services in the regions. Taking into account the advantages and risks, a gradual process of decentralization is being implemented. The Decree of Cabinet of Ministers No. 18 "On Improvement of Health Care Manage-

ment in the Republic of Uzbekistan" of January 14, 1999 defines the major tasks of the Ministry of Health Care and functions of territorial health care departments (Boxes 3.9 and 3.10).

Health managers are authorized to take decisions on the remuneration of employees within the limits of the wage fund, although the total payment cannot be less than the wage under the unified tariff rate. Contract-based employment is being introduced. Supply of resources for medical services is funded mostly by local governments. Raion and city budgets, i.e. the lowest tier of the budgetary system, finance 57% of all expenses for health care. Specialized centers and national health care facilities are funded from the republican budget (Table 3.4).

When re-distributing responsibilities for financing the health care system, it was considered that local governments are better informed of the current state of the facilities and health needs in their particular area. As a result of restructuring of the primary health care services in rural areas, 50% of 2,363 rural health facilities were restructured, utilizing funds from local budgets.

An experiment was conducted in the Ferghana region, where rural health facilities were granted juridical status and their activities were financed from the regional budget based on per capita norm. This led to a more efficient use of resources, and allowed funds to be allocated for expanding preventive health measures.

However, the local ability to generate financial resources is rather limited, especially in the under-developed regions. Therefore, most of the local government expenditures are funded by means of allocation of a part of national taxes and of subsidies from higher-level budgets. In Uzbekistan, the proportion of local taxes in total local budgetary resources is still modest (approximately 17%) and it can be assumed that health care, as with other expenditures, is financed primarily from the national budget. Consequently, the problems persist on part of increasing efficiency in the use of public expenditures, ensuring transparency in their allocation and improving the funding of primary health care.

Second stage of public health care reform. The implementation of the second stage of reform began in 2003 aimed to create organizational, financial, economic and legal conditions for establishing specialized medical centers. In 2003 4 specialized Republican centers for urology, surgery, eye micro-surgery and cardiology were established.

TABLE 3.3

Resources in the Public Health Care System

Parameters	1991	2000	2001	2002
Number of hospitals	1388	1162	1159	1174
Number of hospital beds in them	258.8	138.6	140.1	147.0
Number of beds per 10,000 people	123.0	55.9	55.8	57.8
Level of hospitalization per 100 people	24.4	13.7	14.2	14.6
Average hospitalization period of a patient	14.9	12.0	11.6	11.3
Number of out-patient and polyclinic facilities	2,977	4,847	5,047	5,294
Capacity of out-patient and polyclinic facilities per 10,000 people	133.7	157.7	160.4	163.1
Number of visits in out-patient—polyclinic establishments per inhabitant in a year	7.2	8.8	8.7	8.8
Total number of doctors of all specializations (in thousands)	75.0	81.5	81.4	81.0
Number of doctors per 10,000 inhabitants	35.5	32.8	32.4	31.9
Number of mid-level medical personnel (in thousands)	246.9	259.7	263.1	265.9
Number of mid-level medical personnel per 10,000 people	115.2	104.7	104.7	104.6

Source: Statistical Collections "Basic Parameters of Development of Public Health Care in the Republic of Uzbekistan" for the periods 2000–2001 and 2000–2002.

BOX 3.9. Major Tasks of the Ministry of Health Care:

- implement government health care policy;
- ensure the level and quality of free medical care guaranteed by the government;
- organize and strengthen the system of emergency care for the population at all levels;
- create modern clinics that meet world standards, including those funded by foreign investments;
- train a skilled medical workforce;
- develop and introduce clinical standards in health care;
- improve the health-care financing mechanism by ensuring gradual transformation of some health facilities into institutions providing services for a fee;
- create a legal and regulatory framework for health care, develop targeted programs for the development of quality health services;
- develop strategies for the development of medical science;
- develop systems of higher and secondary medical education, drawing on world experience and standards.

BOX 3.10. The Functions of Territorial Health Care Departments

According to the latest regulations, territorial health departments fulfill the following basic functions:

- plan the basic health care development within their area;
- organize economic and financial activities, and exercise control over the use of budgetary funds;
- develop suggestions regarding the de-nationalization and privatization of health care organizations and facilities within their area, create conditions that stimulate development of a non-governmental sector in health care;
- take measures for the prevention of diseases within their area, develop primary health care services, emergency care, maternal and childcare services, and ensure that medical staff have the appropriate skills.

These centers are financed on a mixed basis through state budget funds, the centers' own income, and other sources (grants, sponsor funds, etc.). These centers are exempted from payment of all taxes and customs duties for imported medical equipment and instruments for 10 years.

In order to create incentives for the development of the private public health care sector, all newly created private medical institutions are exempted from taxes for the period of 2 years. Regional khokimiyats provide land and organize sale of non-residential premises for the establishment of private health care institutions. Credit lines are opened for financing the newly created private institutions (Table 3.5).

Health status of the population. After a period of decline during the first years of economic reform, average life expectancy began to rise since 1995 and by 2000 had reached 70.8 years, whilst the mortality rate decreased from 6.4 to 5.4 per 1,000 population. Infant and maternal mortality rates decreased from 35.5 per 1,000 live births in 1991 to 16.5 in 2002 and from 65.3 per 100,000 live births to 32 respectively (Figure 3.7).²¹ Disease incidence is decreasing, and certain success has been achieved in fighting infectious diseases.

Health care development problems. Despite significant attention paid to the development of public health care services, several trends in socially-significant diseases are of certain concern. The number of deaths from tuberculosis increased by 46.8% between 1995 and 2002, reaching 12.8 per 100,000 people. The number of cases of tuberculosis continued to increase, and in 2002 reached 79.0 per 100,000 people (Table 3.6). The number of people infected with HIV/AIDS has also increased, reaching 1,760 registered cases in 2002, the majority of which are drug users (25.6%).

A high incidence of diseases related to iodine and iron deficiency is also reported. Surveys of the northern and southern regions of the republic show that the incidence of iodine-deficiency-related diseases among children and teenagers is approximately 50%. Prevalence of anemia caused by iron deficiency in women of fertile age is approximately 60%. Furthermore, despite impressive successes in raising the immunization rate of children in their first year of life (more than 90%), full immunization has not yet been achieved, posing a serious threat to the health of children. Finally, diagnosis practices are insufficiently developed, with incorrect or inaccurate diagnoses still significantly lowering the effectiveness of treatment.

TABLE 3.4

Health Allocations From the Central and Local Budgets

Expenses	Central Government	Local Governments
Health Care	Republican Specialized Centers (cardiology, surgery etc.); Republican-level Hospitals; Emergency Care Centers; Institutions and their hospitals; Research Institutions and their hospitals.	Hospitals; Rural Health Care Posts; Feldsher and Obstetrics Post; First Aid and Emergency Care; Sanitary & Epidemiological Station; Blood Banks.

Source: The Report "Financial Viability of Local Governments in Uzbekistan" generated under the project "Creation of Networks of Local Self-Government Transformation", WBI/UNDP/LGI Initiative for Central Asia, 2002.

BOX 3.11. Problems of Rural Health Facilities

In recent years, most hospitals have been converted into rural health facilities (RHF), the majority of which has been furnished with modern equipment. But, because of frequent power failures, most of the equipment has broken down. Most physiotherapeutic apparatuses stand idle because there are no specialists to operate them. Telephone communication in the health facilities is in critical condition. Most health care facilities do not have telephone lines. There are only 1–2 ambulance stations equipped with 'Damas' vans that are totally unsuitable for use in rural areas, especially in desert zones.

Source: The Report of Social Factor and Poverty Analysis Component for ADB Project "Management of Water Resources of Amu Zang Canal Systems", 2003. Center for Social Research "TAHLIL".

TABLE 3.5

Development of Non-State Medical Services, 1999–2002

	1999	2000	2001	2002
Number of hospitals (units)	1,178	1,162	1,159	1,174
of which private ones	80	89	96	113
Number of hospital beds in hospitals (thousand beds)	138.1	138.6	140.1	147.0
of which private ones	1.9	2.1	2.2	2.5
Number of hospitalizations in hospital institutions (thousand people)	3,267.7	3,514.4	3,575.3	3,720.7
of which private ones	27.7	30.5	34.5	39.7
Number of out-patient and polyclinic facilities (units)	4,643	4,847	5,047	5,294
of which private ones	956	1,045	1,083	1,158
Number of visits to out-patient and polyclinic facilities by patients (thousand visits)	213,744.2	215,842.1	216,165.8	222,208.3
of which private ones	1,510.0	1,997.5	1,719.1	1,892.2
Number of rural medical ambulance stations (units)	1,015	848	733	607
of which privatized ones	13	18	22	23
Number of nursing and obstetric station (units)	4,098	3,800	3,521	3,114
of which privatized ones	25	36	44	46
Number of doctors of all specializations (thousand people)	81.2	81.5	81.4	81.0
of which granted licenses for conducting private practice (people)	3,092	3,340	3,615	3,862
Volume of fee-based medical services offered (million soums)	2,099.9	3,618.6	8,068.8	12,347.0

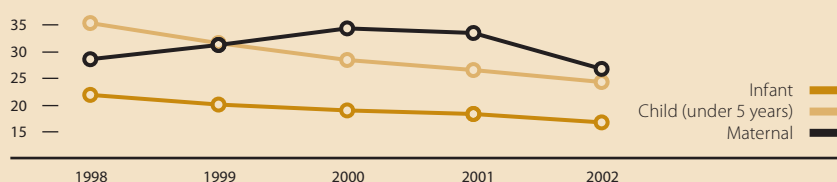
Source: State Committee of the Republic of Uzbekistan on Statistics.

It is alarming that "primary health care, which is the key component of free health care services, has been gradually becoming less attractive for patients".²² This is due to the lack of clarity on what specifically the

²¹ While underscoring the decrease in infant and maternal mortality in Uzbekistan, the World Health Organizations estimates higher values for both of these indicators for 2002.

²² Stanislav Altunyan. Reclaimed Patient Rights, "Pravda Vostoka" July 23, 2003.

FIGURE 3.7

Infant, Maternal and Child (under 5 years) Mortality Rates

Source: State Committee of the Republic of Uzbekistan on Statistics.

TABLE 3.6

Number of Cases of Tuberculosis, per 100,000 persons, by Region

	1996	2000	2001	2002	2002 as share of 1996
Republic of Uzbekistan	51.5	64.5	72.4	79.0	1.5
Republic of Karakalpakstan	98.2	127.7	149.9	183.0	1.9
Andijan region	53.5	69.7	76.7	82.8	1.5
Bukhara region	69.0	61.9	63.4	66.9	0.96
Djizzak region	54.0	61.2	63.3	66.6	1.2
Kashkadarya region	48.9	59.6	79.4	93.1	1.9
Navoi region	53.6	56.9	66.8	88.6	1.6
Namangan region	39.8	59.2	70.7	70.4	1.8
Samarkand region	38.9	45.4	47.9	54.9	1.4
Surkhandarya region	47.2	59.0	61.6	62.8	1.3
Syrdarya region	50.9	66.6	72.7	64.2	1.3
Tashkent region	44.2	58.3	64.3	69.3	1.6
Ferghana region	39.8	55.2	60.0	70.8	1.8
Khorezm region	43.6	55.8	68.7	75.7	1.7
Tashkent city	61.8	82.4	86.5	81.3	1.3

Source: State Committee of the Republic of Uzbekistan on Statistics.

BOX 3.12. Monitoring the Awareness of Patients' Rights

Results of the monitoring conducted by a coalition of competent medical workers and public opinion experts with participation of the Federation of the Consumer Rights Protection Society of Uzbekistan, the non-governmental Center for the study of public opinion "Ijtimoiy Fikr", and the USAID-financed Civil Action Support Program in 54 out-patient and polyclinic facilities in 7 regions of the country have shown that out of those health facilities studied:

- 48.2% do not provide any information to the population about the medical services offered;
- 96.5% do not provide any information about the list of medical services offered for free;
- 53.8% do not provide a list of those categories of the population and of socially-significant diseases for which medical assistance is offered free of charge;
- 99.5% do not provide information regarding the free provision of contraceptives to women;
- 94.8% do not provide information on the drugstores which supply medicines to those entitled to free medicine (with special prescriptions) and 45% have no contracts with drugstores for the provision of special categories of the population with free medicines.

Of all the telephone messages received via the "telephone hotline" for patients' rights organized by the Federation of Consumer Rights Protection, two thirds are complaints about polyclinic services, 20% concern problems with free drug supply, and 10% concern problems with obstetric aid.

Source: "Medical assistance: results of public monitoring". Biznes-Vestnik Vostoka, July 22, 2004, No.29.

BOX 3.13. Delegation of Health Care Management to Local Governments

The countries of the European Union approach the issue of delegation of health management and financing responsibility in different ways. In some countries, central government bodies and NGOs are in charge of the health care system. In others, responsibilities are distributed among insurance funds, various levels of government, and NGOs. Local governments play an essential role in health care management and financing mainly in Scandinavian countries. In these countries, regional governments are given almost complete responsibility, although most functions are fulfilled at the local level.

Source: Kennet Davey, Health care and local government reform: how to find the balance. Governance in Transition Economies, Spring 2003.

government covers and what clients should pay for. There is a need for transparency in, and proper regulation of the procedure for providing free health services in order to avoid violations of the patient's right to free medical aid (Box 3.12).

NGOs and mass media can help in addressing such problematic through informing people of rights granted to them by the government, educating them, and monitoring observance of these rights. NGOs are an important component in public monitoring of the health care system in all countries. International experience has shown that, despite various possibilities of distributing the responsibility and authority to manage health care in the absence of a clear role for local governments, NGOs are an essential component in this system.

Strategy for solving problems in public health care services should be directed primarily at:

- Preserving the system of free quality primary medical and sanitary services to the population; developing the emergency medical aid system and strengthening the institutions providing specialized health care services through modern equipment, transport vehicles and communication technology (including for remote areas); and improving the quality of training and retraining of public health care specialists;
- Implementing special programs aimed at disease prevention, including immunization of the population (primarily children), enrichment of food products with deficient elements, and intensive awareness campaigns promoting healthy life-style;
- Improving sanitary and epidemiological conditions through the implementation of a set of targeted measures and the involvement of civil society, primarily with community organizations (makhallas);
- Improving the system of financing public health services, through various forms of decentralization based on gradual transition from "budgetary estimate financing" to financing based on the volume of services rendered;
- Strengthening the network of medical centers for identification and treatment of socially significant diseases (including tuberculosis and HIV/AIDS);
- Strengthening the potential of institutions and improving the quality of aid offered to women in fertile age, and children. A 40 million US dollar project, financed via credit funds provided by the Asian Development Bank, is designed to address these issues;

■ Development of private health care in a capacity of possible form of decentralization. In order to allow the further development of private health care services and the introduction of a market for medical services, it is necessary to gradually privatize the existing facilities and prophylactic institutions providing specialized services; to create the

conditions for the privatization of premises of medical institutions formerly offering health care services (nursing and obstetric stations, rural local hospitals), under the condition that the privatized premises are used to provide private medical services; and to create new private health care institutions funded by duly registered founding entities.

3.4. REGIONAL DIFFERENCES IN ECONOMIC DEVELOPMENT AND LIVING STANDARDS

International experience points to a close, but ambiguous link between decentralization and the level of socio-economic development of the regions. A higher level of centralization can have a negative effect on regional economic development, as the center is unable to fully take into account the needs of the regions. Moreover, centralization often suppresses the activities and initiatives of local administrative and economic actors, thus hampering rapid regional economic development.

Decentralization alone, however, is unable to bring about more rapid development of the most disadvantaged regions of the country, and cannot eliminate the gaps between these and more advanced regions. Moreover, in the absence of a special program to intensify and sustain regional socio-economic development, the degree of regional differentiation will not only decrease, but may actually increase.

The problem of closing the development gap between regions is common to many countries. This is demonstrated by the availability of various and rather specific approaches to reducing regional disproportions. In China, the authorities have deliberately supported and promoted the creation of towns and townships (Box 3.14). Urbanization carried out in this manner was used as a way of bridging the gap between the developed Eastern part of the country and its less developed Western regions.

Uzbekistan was a highly centralized republic for many decades within the structure of the USSR, and inherited not only the experience and mentality of the system of centralized management, but also a high degree of regional differentiation in socio-economic development.

Factors contributing to regional differentials. Significant differentiation in the socio-economic development of Uzbekistan's regions began during Soviet times and some of the driving factors behind this still play a certain role. One such factor is the uneven distribution of strate-

gic raw materials, to which, according to decisions made by the central administration, extractive and processing industries were "tied". Consequently, the Navoi region, which is rich in gold and uranium, the Tashkent region which is rich in non-ferrous metals and coal, and the Bukhara region which rich in natural gas, have reached high levels of socio-economic development. In addition, Tashkent's relatively high level of development was determined by its status as capital, with all the benefits associated with this.

The socio-economic backwardness of the Republic of Karakalpakstan and Khorezm region are in many ways related to their natural conditions, climate, and in recent decades, ecological factors. Surkhandarya lagged behind due to its remote location and isolation from the country's main transportation routes, and over the past 25 years, to its proximity to war-torn Afghanistan. The Ferghana Valley fell behind because of limited land resources, which have prevented further expansion of agricultural industry. These regions were less attractive for investments, which led to their low levels of economic development. Differentiation in levels of economic development was re-

NGOs are an important component in public monitoring of the health care system

Decentralization alone is unable to bring about more rapid development of the most disadvantaged regions of the country and cannot eliminate the gaps between these and more advanced regions

BOX 3.14. The Role of Local Governments in the Economic Development of Regions in China

Local governments at various levels can play an important and decisive role in the socio-economic development and construction of towns and townships. China-specific type of urbanization, where community efforts drive the economy, has developed. One example is the Southern part of Jiangsu province (Sunan for short).

Based on the experience of Sunan, the specific role of local governments in economic development can be summarized as follows. These authorities, first of all, determine major trends of development of enterprises and their staff policy; second, they coordinate relations with the external environment (higher and lower administrative levels, other businesses and economic units); third, they coordinate the use of local financial resources and help with access to credits; fourth, they allocate land plots and oversee tax collection, conduct confessional taxation policy; fifth, they coordinate their activities with those of higher authorities. It is these measures that ensured the rapid development of rural enterprises, especially, collective ones. Sunan has become the region with the largest rural enterprises thanks to the direct participation of local governments in this process. However, there are certain negative consequences of these processes, especially when only the interests of one given region are taken into account. This can result in a disregard for the territorial division of labor between communities, duplication in construction, and excessive interference into activities of enterprises in the period when the functions of local governments and rights of enterprises are not yet legally established.

Source: Urbanization of China: Trends and Development Problems. Problem and Topic Collection of ISISS of Russian Academy of Sciences. Moscow, 2000.

flected (although to a lesser extent) in social development, thus affecting the aggregate index of human development.

After independence, the government could not immediately initiate decentralizing and granting significant economic powers to the regions. Factors which did little to reduce regional socio-economic differentials in the past still remain: there is still a high level of centralization in regulating social and economic processes; investment programs and social projects are funded mostly by the state budget; there is still insufficient consideration of territorial factors and conditions (including geographical position, natural and climatic conditions, demographic characteristics, raw material and economic potential, and environmental burdens) in the development and implementation of the state's special programs and in the measures adopted for resolving social problems; local governance bodies are still insufficiently accountable to the population for the pace and character of social and economic development in the regions; due to their weak material base and financial opportunities (local budget and extra-budgetary funds), local authorities still show insufficient initiative in promoting measures fostering social stability and growth in their regions; there is no clear distinction of functions, tasks and responsibilities between central and local authorities, and among ministries and departments overseeing the management of social and economic processes in the country's regions; and there is a lack of objective and reliable information or a statistical database for conducting analysis, monitoring and forecasting of social processes in the regions.

The role of the state in reducing regional differences. Increasing regional differentials can lead to: migration of the unemployed to richer territories and intensified pressure on the labor markets of more buoyant regions; a decline of investment activity and reduced motivation to seek employment in the depressed regions, particularly amongst the poorer groups of the population; growing social tensions; mistrust towards the authorities and the emergence of social conflicts; a decline in real incomes and growing poverty; and restricted access to education, health services and other social benefits, due to lack of financial and other resources.

Throughout the period of economic reform, the government has attempted to align the levels of social and economic develop-

ment of the regions, and to avoid growing regional differentials in living standards, considering these efforts as a key factor in guaranteeing social stability and economic growth. With this in mind, the following measures have been introduced:

■ **Specially targeted social programs.**

Taking into account the needs of the less developed regions, social protection programs for the most vulnerable members of the population, reforms in the systems of education and health care, development of rural social infrastructure, and increased supplies of drinking water and natural gas to the rural population have been developed and implemented assuming an obligatory territorial focus. Consequently, after the implementation of the program "Gas and Water", the coverage of households with gas supply increased from 46.2% in 1991 to 79.8% in 2003, and the coverage of drinking water supply grew from 69.2% in 1995 to 81.8% in 2003. Inter-regional differentiation in gas supply was reduced from 5.5 times in 1991 to 1.5 times in 2003, and in drinking water supply—from 3.6 times in 1995 to 1.5 times in 2003. The program for the development of rural social infrastructure resulted in an increase in the number of rural health facilities in the regions from 645 units in 1997 to 2,363 units in 2003.

■ **State investments.** Large public investments were primarily allocated to the development of the regions that were relatively undeveloped and had an excess labor supply: hence the development of hydrocarbon (Kokdumalak) and potassium (Tyubetagan) deposits and the construction of Shurtan gas and chemical complex in Kashkadarya region; the Asaka automobile factory and a number of local production enterprises in Andijan region; an automobile factory in Samarkand region; construction of the Nukus soda plant in Karakalpakstan and the Bukhara oil refining factory in Bukhara region. Furthermore, major textile enterprises were established in these and other, less developed, regions.

■ **Transport infrastructure.** New transport corridors facilitating traffic and communications were created, connecting regions of lower socio-economic development to the center. Thus, Surkhandarya and Kashkadarya regions were connected via the Tashguzar-Baisun-Kumkurgan railway; Namangan region and all of Ferghana Valley via reconstruction of the highway through the Kamchik pass; and the Nizhneamudarya region via the Navoi-Uchkuduk-Sultanuizdag railway.

■ **Regional programs.** With the aim to provide state support to the poorest regions, territorial programs of social and economic development in Namangan and Khorezm regions were implemented, and incentives were given to promote small business development in the Republic of Karakalpakstan and Khorezm region.

Differences among regions. The steps undertaken by the government to reduce regional inequality and promote institutional and structural transformations throughout the country have helped to prevent further differentiation in the development of the country's regions. For example, while in Russia the difference of the value of gross regional product (GRP) per capita between the richest and the poorest region was 30 times,²³ in Kazakhstan this difference was 12,²⁴ Uzbekistan's indicator was only 4.2 in 2003. In the European Community countries, the difference between the maximum and minimum levels of development by region does not exceed 2.5–3.0 times.

However, it should be noted that these measures failed to ensure a significant decrease in the differentiation of territorial development. Indeed, as seen in Table 3.7, the level of differentiation did not decrease but actually rose in recent years, for most of the indicators.

The same trend can be seen in the human development indicators, where the discrepancy between the extreme values of regional distribution has increased in recent years. This is true for all three components of the human development index (HDI). It is worth noting that for several less developed regions there was a negative trend of either slow increase or even decrease of certain indicators, which activated the process of regional differentiation, as seen in Table 3.8, even though in general the HDI in Uzbekistan was increasing.

Differentiation in economic growth leads to disparities in human development, as reflected in the inter-regional differences in HDI given in statistical annexes of this report.

Growing regional polarization is primarily due to faster economic growth in Tashkent, where market relations have developed more rapidly than anywhere else and a more attractive environment for entrepreneurial activity and investment has been created. Another leading region is Navoi, which has rich resources and capacities for extraction and primary processing of minerals which can be sold on the world market. From 1991 to 2003, the share of total investment for

TABLE 3.7

Inter-Regional Differentiation of Social and Economic Development

(ratio of the value per capita of each variable between the best and the worst region)

Parameters	1991	2000	2003
Gross regional product	—	2.6	4.2
Industrial output	5.2	6.5	15.8
Output of consumer goods	8.1	8.2	7.5
Investments	3.5	5.8	6.5
Gross output of agriculture	2.1	3.6	3.3
Retail sales	2.9	6.0	5.0
Paid services	3.6	10.2	11.1

Source: Authors' estimates based on data from State Committee of the Republic of Uzbekistan on Statistics.

TABLE 3.8

Ratios between Regional Maximum and Minimum Human Development Indexes in Uzbekistan

Aggregate Index HDI		including			
		GRP Index		Education Level Index	
2000	2003	2000	2003	2000	2003
1.106	1.162	1.364	1.612	1.067	1.104

Source: Authors' estimates based on data in statistical table 20 of this report.

Tashkent rose from 4% to 24%, and for Navoi from 2.6% to 6.9%. These trends contributed to rising economic differentiation.

During the period 1993–2003, the per capita gross regional product increased only in Tashkent city, Tashkent and Navoi regions. In other regions its value (relative to the national average) decreased. Industrial production also grew in relation to the country's average in Bukhara, Kashkadarya, Tashkent and Ferghana regions.

There are regional differences both in terms of social and economic development. For instance the inter-regional difference of average per capita income of the population has grown from 1.3 to 5 times in 1991–2003. The social programs being implemented in Uzbekistan have contributed to a reduction in differentials in access to social infrastructure. However, they were unable to decrease the overall differentiation in social development. This is because there is a strong relationship between economic development and the welfare of the population (Table 3.9).

In this regard, there is a clear trend for increasing differentiation among regions by human development index from 1.11 in 2000 to 1.16 in 2003. Compared to the overall increase of human development index from 0.736 to 0.747, the index has decreased in the Republic of Karakalpakstan, Djizzak, Namangan, Syrdarya and Ferghana regions. In other 9 remaining regions the index has increased.

23 A. Polinev "Interregional Economic Differentiation", Moscow 2003, p.10.

24 A. Esintugelov "Basic Directions of the Development and Allocation of Production Forces of Kazakhstan", Almaty 2002, p.146.

TABLE 3.9

Typology of the Regions' Levels of Economic and Social Development in 2003

Level of economic development*	Region's rank	Level of social development**	Region's rank
High level		High level	
Navoi region	1	Tashkent city	1
Tashkent city	2	Bukhara region	2
Bukhara region	3	Navoi region	3
Tashkent region	4	Tashkent region	4
Average level		Average level	
Ferghana region	5	Ferghana region	5
Kashkadarya region	6	Andijan region	6
Andijan region	7	Syrdarya region	7
Syrdarya region	8	Khorezm region	8
Surkhandarya region	9	Namangan region	9
Djizzak region	10	Samarkand region	10
Low level		Low level	
Khorezm region	11	Kashkadarya region	11
Samarkand region	12	Republic of Karakalpakstan	12
Namangan region	13	Djizzak region	13
Republic of Karakalpakstan	14	Surkhandarya region	14

* The level of economic development is defined on the basis of per capita GRP.

** The level of social development is determined on the basis of per income, presence of social infrastructure, turnover of goods and paid services.

Source: Estimates based on data from State Committee of the Republic of Uzbekistan on Statistics.

BOX 3.15. Features of Inter-district Differences in Djizzak Region

The problem of unemployment in rural areas is becoming more serious because of the release of surplus labor from agriculture, due primarily to the transformation of shirkats into farms. At the same time, small and medium business are developing very unevenly. In small cities and city-type settlements the problem of poverty stands out even more sharply than in rural settlements. The main causes are less access to the land, difficulties in finding work outside the agricultural sector, and the poor state of infrastructure.

The quality of the land (salinity and the level of subsoil waters, condition of the drainage system in new and old irrigation zones) and location of rural settlements in the mountains, foothills and deserted zones and away from the main transport routes and industrial centers have a key influence on the living standards of the population.

The local authorities together with the makhallas are responsible for the normal functioning of social services, implementation of social programs and general makhalla life, but do not have the financial means to carry out these tasks.

Source: Report on the Results of a Survey carried out in Djizzak Region of the Republic of Uzbekistan, October 2003. Center for Social Research "TAHLIL".

BOX 3.16. Social Problems of Rural Raions

Studies of two raions (Pakhtakor and Gallayaral) show that health facilities are located erratically. Fifty percent of respondents in a settlement in Gallayaral raion indicated that there was no hospital or polyclinic in their community. In rural areas the problems related to the quality of health care services are crucial (30% of interviewees pointed this out in Gallayaral raion). As a result of these and other circumstances, morbidity per 100,000 people was 19,200 in 2002 in Gallayaral raion and 32,600 in Pakhtakor raion.

The vast majority of respondents would like their children to continue their education after secondary school; at the same time 56.6% of families do not have the means to provide their children with secondary vocational training. Lack of money is also the main reason why some children miss school (70% of respondents who miss school gave this answer). The quality of education is still strongly affected by the involvement of schoolchildren in agricultural work (over 1.5 months a year according to answers of more than 35% respondents).

Source: Report on Study Results in Djizzak Region of the Republic of Uzbekistan, October 2003. Center for Social Research "TAHLIL".

The balance between supply and demand for labor is an important indicator of social well-being in the regions. Studies have shown that the labor markets in the Republic of Karakalpakstan, Namangan, Samarkand and Ferghana regions are under the greatest pressure. These regions demonstrate the close relationship between the regions' economic development, labor market situation, and the living standards of the population.

Differences within regions. Inter-regional differentials in Uzbekistan are combined with discrepancies within each region, namely, at the level of rural administrative raions (*tumans*), cities and individual natural-economic zones. Per capita manufacture of industrial and agricultural products, consumer goods and investments indeed differ significantly among raions. Thus, the level of inter-raion differentiation of per capita industrial production is 742 in the Bukhara region, almost 200 in Ferghana, 80 in Kashkadarya, and 40 in Namangan. In turn, the level of inter-raion differentiation of investment per capita has reached the value of 386 in Djizzak region and 187 in Navoi.

There are significant differences in the development of small businesses and private businesses among raions. In Djizzak, Samarkand and Ferghana regions, there are raions with less than 2 small business actors per 1,000 people. Differentiation among raions based on the volume of production of small firms in the Republic of Karakalpakstan is 72 times, in Navoi region 20 times, in Tashkent region 17 times. Almost all raions of the country have potential reserves of labor resources, but use of these reserves is hampered by the weak development of industrial and social infrastructure, limited local budgets, and low efficiency of local authorities.

Raions located in mountainous and foothill territories, together with those in areas of reclaimed land, face difficulties. The reasons for limited social and economic development are transport problems, outward-migration, especially of youth, degradation of irrigated land, deterioration of the irrigation infrastructure, and insufficient development of the service sector. The results of a sociological study in Djizzak region provide evidence of this²⁵ (Box 3.15).

25 Report on the results of a survey carried out in Djizzak region of the Republic of Uzbekistan. Center for Social Research "TAHLIL". October 2003.

Disparities in social and economic development among raions lead to unequal access of the population to health care and education services, resulting in greater inter-regional differentiation in the social components of human development (Box 3.16). Consequently, the quality of labor resources decreases, and this in turn negatively affects labor productivity, and finally per capita GRP and the aggregate HDI.

Prospects for decreasing inter- and intra-regional disparities.

The increase in regional differentiation in human development has potentially serious negative consequences. Therefore, the elimination of such differentials should be considered not only as a socio-economic, but also as a socio-political objective.

The newly-announced course of administrative decentralization's being implemented within the framework of public administration reform, which is actively intensifying socio-economic progress, is unable to facilitate more rapid development in the less successful regions of the country and thus to eliminate gaps between these and the leading regions. Furthermore, in the absence of a special program to intensify and sustain such development, the degree of regional differentiation will not only fail to decrease, but might even increase. Under these conditions, there is a need

for a regional development strategy for each region. In 2004, the UNDP, under the "Sustainable Income Generation" Program, initiated the preparation of a Regional Development Strategy for Kashkadarya region aimed at improving the living standards, based on efficient use of available resources and opportunities. It is important the strategy is being developed through the active dialogue and involvement of local governments and public authorities, business structures, NGOs, and other civil society institutions. The strategy assumes identification of economic development trends in Kashkadarya region to be used as a basis for the elaboration of specific measures to create jobs, increase incomes, and strengthen the social protection and welfare of the population.

A set of carefully planned nationwide measures is necessary along with the Regional Development Strategy. When considering a concrete organizational and economic mechanism for addressing uneven levels of regional development, there is much to be learned from international experience. For example, the experience of the European Union, which facilitated rapid socio-economic progress in Ireland, Spain, and Portugal, by introducing measures to overcome development gaps between these and more developed countries.

3.5. FISCAL DECENTRALIZATION

In the context of economic, environmental, demographic, and other regional differences, state intervention is to assure reallocation of resources among regions in order to provide equitable access of the population to basic public services and social protection. Moreover, equally important are efforts to build up the economic potential of the regions and to increase incentives for local governments to raise revenues of local budgets and to use them more efficiently. These issues are often associated with fiscal decentralization, which means that the powers and responsibilities for making decisions on the level and structure of taxes and expenditure should be transferred from central to local government. Fiscal decentralization brings governance bodies closer to people and, if properly implemented, guarantees an efficient use of government resources, improves the quality of public services, accelerates economic development and creates incentives to reduce poverty, thereby promoting human development.

However, fiscal decentralization may have negative consequences. When implemented without mechanisms that ensure accountability, fiscal decentralization may increase disparities in the development of the regions, destabilize the macroeconomic situation, and aggravate corruption. Therefore, implementation requires a strategy which takes into account both the advantages and possible risks. Moreover, each country must decide the degree of fiscal decentralization which is appropriate to its circumstances.

Fiscal decentralization touches upon issues such as the clear delimitation of expenditure authority among various levels of government, the distribution of tax income and budget transfers. It is important to keep in mind that without a careful delimitation of expenditure authority, it is much more difficult to achieve stability in the distribution of tax income and to create an effective system of equalizing budget transfers.

Distribution of expenditure authorities and responsibilities.

In Uzbekistan Central government funds public services at the national level and is responsible for specialized services (such as specialized health facilities); while local governments are responsible for expenditures within their areas. Public services at the national level include defense, national security and justice, whereas public services at the regional level include general education and primary health care, etc.

Expenditure on sectors that are crucial for human development such as education and health care are usually made from local budgets (Table 3.10). In 2003, almost 87% of education expenditure, and 88% of health expenditure were covered by regional budgets and budgets of raions and cities.

Most expenditure responsibilities are divided between two levels of authority. An absence of precise restrictions and demarcations of responsibilities for expenditure results in disagreement about the responsibility for funding newly created

budgetary organizations, and blurs the responsibilities of authorities for using budgetary funds and rendering quality services to the population.

In accordance with the current system of expenditure responsibilities, the role of local budgets in the system of government financing and a clear structure of expenditures were defined. Expenditure on the social sphere and social protection make up the bulk (71% in 2002) of total spending of local budgets.

The share of local budget expenditures in total government expenditures and GDP is used to evaluate the degree of fiscal decentralization. However, despite the fact that this indicator is relatively high in Uzbekistan, it should be taken into account that the salaries of civil servants constitute a considerable part of local budgets' expenditures. As the salaries are set and controlled centrally, this is more of a de-concentration²⁶ case rather than decentralization.

According to fiscal federalism theory, it is most effective when elected bodies of local government autonomously make all decisions on their expenditures and cover them from local taxes.²⁷ Thus, the funding of the sectors mentioned above may be considered as decentralized if the expenditure responsibilities of local authorities are backed with corresponding financial resources and powers in the sphere of forming and using tax revenues (Box 3.17).

Responsibility for tax revenues.

Decentralization in the sphere of revenues provides incentives for local governments to develop an economic base and invest in their region, in order to increase tax revenues. Moreover, when local governments are given an opportunity to impose their own taxes and to follow their own tax policy, healthy inter-regional competition is promoted, leading to innovative ideas and increased efficiency.²⁸ As in the commodities market, healthy competition among producers of public services is an incentive to become more efficient by reducing prices and offering better quality.

However, when looking at the possibilities for granting tax powers to local

TABLE 3.10

Proportion of Expenditures of Various Budgets in Total Social Costs, 2002

(in %)

	State Budget	Republican Budget	Regional Budget	District/City Budgets
Social Sphere	100	17	24	60
including:				
Education	100	13	22	65
Health Care	100	14	29	57
Sport	100	12	30	58
Culture and Mass Media	100	92	6	3
Science	100	72	14	14
Social Welfare	100	63	18	18
Social Protection	100	2	23	75
including:				
Child benefits and social assistance benefits	100	0	5	95
Reimbursement for Rises in the Prices of Social Services Rendered to the People	100	2	94	5

Source: CER Policy Paper "Local Budgets in the Context of Liberalization: Strengthening of the Income Base and Improvement of Relations with the Central Budgets", 2003/01.

BOX 3.17. Experience of Fiscal Decentralization in Developing Countries

International experience suggests that if countries decentralize more expenditure responsibilities than revenue resources, service levels will fall or local governments will press for more transfers or more loans. One such case is the Russian Federation. On the other hand, if more revenues than expenditures are decentralized, local revenue mobilization may decline because of tax competition, and again macroeconomic imbalances may emerge, as in Argentina, Brazil, and Colombia. This risk is greatest when revenues are decentralized without adequate steps to ensure that local revenue mobilization is maintained and that local authorities are capable of carrying out the corresponding expenditure responsibilities. Even if both sides of the budget are decentralized in a balanced fashion, local governments may not have adequate administrative or technical capacity to carry out their functions.

Source: Jennie Litvack, Junaid Ahmad and Richard Bird. Rethinking Decentralization in Developing Countries. World Bank, Washington, District of Columbia, 2003.

26 De-concentration suggests that responsibilities are transferred to local governments which are fully accountable for decision-making to the central bodies.

27 Oates W.E. The Political Economy of Fiscal Federalism, Lexington Books, 1977.

28 Ebel Robert, Yilmaz Serdar (1999): "Intergovernmental Relations: Issues in Public Policy."

governments, it is important to envisage institutional mechanisms that would ensure the accountability of local governments both to higher authorities and to population. Transfer of discretionary tax-regulating powers to local governments under absence of such mechanisms may do more harm than good.

In Uzbekistan, the main sources of income for local budgets are local taxes and fees, tax allocations from national taxes, budgetary loans and subsidies from higher budget levels (Figure 3.8).

The property and land tax rates are set for the entire country by the Cabinet of Ministers. For other taxes, the Cabinet of Ministers sets the upper and lower limits. The authority to introduce these taxes, fix specific rates, grant tax privileges, etc., is delegated to local governments (Box 3.18).

In most regions, local authorities actively use these authorities, particularly those related to granting tax privileges. However, local taxes currently represent an insignificant source of income for local budgets (Figure 3.9).

The largest share of local budget revenues come from the allocation of national tax receipts (Box. 3.19).

The allocation norms for national tax receipts are set for each region within the framework of adopting the state budget parameters on an annual basis. The national taxes are distributed among regional and raion budgets under the same procedures.

Annual changes in the share of national tax allocations can lead to a partial redistribution of tax revenues between rich and poor regions. However, this approach can be a disincentive for local authorities to develop an economic and tax base in their areas, as they are clearly not interested in increasing tax collection. This means that there are less opportunities for developing financial plans and implementing economic and social development programs at the local level.

Most countries using the mechanism of distributing national taxes to various levels of local budgets have introduced distribution rates that are stable during a set period. Fixed norms for rates of national tax allocations to local budgets on a long-term basis creates incentives for local governments to improve economic development in their area and enhance their tax capacity. Moreover, the introduction of stable long-term distribution rates of national tax allocations is a necessary prerequisite for expanding the tax authorities of local governments.

FIGURE 3.8

Local Government's Revenue Sources



Source: The Law of the Republic of Uzbekistan "On the Budgetary System" of December 14, 2000.

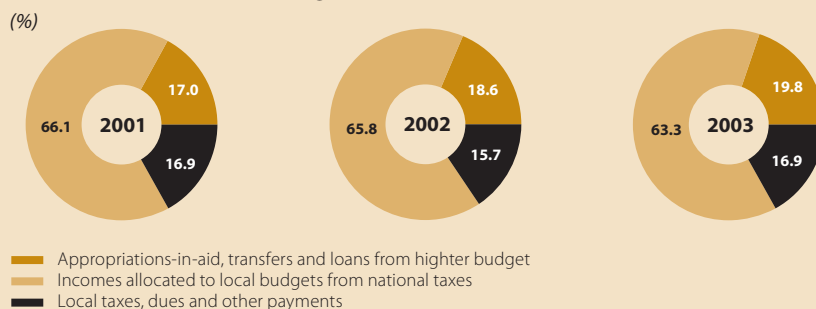
BOX 3.18. Local Taxes and Dues

1) property tax; **2)** land tax; **3)** tax on infrastructure development; **4)** fuel (gasoline, diesel, and natural gas for vehicles) tax imposed on individuals; **5)** trade tax, including licensing fees for the right to trade specific commodities; **6)** registration fees for legal and physical entities engaging in entrepreneurial activity.

Source: Tax Code of the Republic of Uzbekistan.

FIGURE 3.9

Structure of Income of Local Budgets (%)



Source: Ministry of Finance of the Republic of Uzbekistan.

BOX 3.19. National Taxes in Uzbekistan

National taxes include:

1) income (profits) tax imposed on legal entities; **2)** income tax imposed on physical entities; **3)** value added tax; **4)** excise tax; **5)** tax on the extraction of mineral resources from; **6)** environmental tax; **7)** tax on water resources use.

Source: Tax Code of the Republic of Uzbekistan.

Therefore, the structure of income of local budgets enables the assessment of authorities of local governments, which are limited to the regulation of local taxes accounting for approximately 17% of their total revenue. Most countries that have reformed inter-governmental budget relations and to certain extent introduced fiscal decentralization have encountered problems in expanding the financial opportunities for local authorities. International experience shows that some countries have, in addition to the common methods, developed their own specific approaches to expanding revenue sources locally and to assigning powers to local governments in the use of this revenue (Box 3.20).

Budget transfers. Demographic, environmental and economic factors have led to a significant differentiation in regional development in Uzbekistan. The GRP sectoral structure differs markedly across regions due to specialization assigned to them during Soviet times. This resulted in unequal regional tax bases and, consequently, in differences in per capita tax revenue (Table 3.11). Under these conditions, budget transfers are an important and necessary instrument that enables the redistribution of resources among budgets of various levels and among rich and poor regions. Without an effective

mechanism of resource redistribution, decentralization can only intensify existing imbalances, and lead to greater inequality in access to services, per capita income and living standards.

Subsidies are allocated from higher level budgets to the regions where tax allocations and local tax income do not cover planned expenses. 50% of the Republic of Karakalpakstan's and Djizzak's expenses, for example, are funded from subsidies from the national budget. Thus, budget transfers are crucial in some circumstances for an equitable decentralization (Box 3.21).

Apart from subsidies, the reallocation of resources among budgets of different levels is carried out through budgetary loans and the transfer of funds from higher to lower budgets and from lower to higher budgets within the process of budget execution.²⁹

The choice of mechanism for allocating budget transfers depends on the national economic and fiscal policy objectives at a given point in time. In Uzbekistan, the main goal of the existing system of budget transfers is to balance local budgets. This goes in line with the macroeconomic objective of limiting central government budget deficit. The negative consequences of this mechanism are not as apparent in the centralized budgetary system as in the decentralized one. However, transfers to cover deficits of lower budgets ought not to be the only policy objective driving the allocation of transfers, since dependence on central transfers discourages local governments from building up tax capacity and increasing the efficiency of financial management. If the system of budget transfers is not reassessed, local governments will continue to have the incentive to use resources irresponsibly and inefficiently.

The system of budget transfers should aim to provide equal access to all citizens of Uzbekistan to basic public services and social protection regardless of their place of residence. It should also generate incentives for the implementation of efficient and reliable fiscal policy at a local level, for the development and efficient use of

BOX 3.20. The Experience of China

The People's Republic of China partially reconsidered its intergovernmental agreements pertaining to revenue sharing during the implementation of fiscal reform in 1994. The pre-reform financial system of the Soviet type, (whereby revenues were collected by local governments, and some then were sent upward to the central government), was replaced by a system that redistributes taxes between the central government and local authorities.

Extra-budgetary financing is an interesting approach introduced in China in 1994. These are extra-budgetary funds controlled by local authorities, and independently collected funds at the level of cities and districts. Exact assessments of the scale of extra-budgetary financing do not exist, but according to Fan Gang, "over the past few years, they have been becoming more significant and may even exceed formal budget revenues". According to Kichiro Fukusaku, extra-budgetary revenues are an innovation that evolved at the beginning of market-oriented reforms. These incomes include funds collected from local sources by local governments and spent on local social projects or used to cover routine expenses that are not covered by any formal budget at any level. These revenues are informal, but they are increasing faster both in absolute and relative terms.

Another significant source of local revenue in Chinese cities are land use rights which in addition to generating income, contribute to the creation of urban land markets. All land in China used to be distributed previously in an administrative manner; reforms have introduced such market mechanisms as bids, auctions and negotiations of prices for land use over a period of 40–70 years where rights may be delegated. This, however, is not property right to land, which is still in the hands of the government. This practice is in line with the relatively successful experience of Hong Kong. Local governments in most Chinese cities receive up to 80% of their revenues from sale of rights to use land, thus making a considerable contribution to strengthening the finances of local governments in China.

Source: http://www.unhabitatmoscow.ru/debat_8_1/debat_8_1.htm

TABLE 3.11

Dynamics of Per Capita Tax Revenue by Region

(% of the republican average)

Regions	1996	1997	1998	1999	2000	2001	2002
Republic of Karakalpakstan	38.8	40.0	48.1	49.4	45.6	39.0	36.7
Andijan	40.3	51.5	51.2	55.2	52.4	54.6	55.9
Bukhara	75.9	98.9	27.7	170.2	159.7	162.7	143.0
Djizzak	33.6	35.6	30.7	34.2	37.2	41.6	37.3
Kashkadarya	90.2	109.6	95.2	73.0	92.3	81.6	75.6
Navoi	170.9	146.1	130.8	131.4	135.0	159.1	182.1
Namangan	40.2	48.3	44.7	43.1	45.3	46.8	47.9
Samarkand	41.4	44.9	43.5	49.4	52.8	51.0	48.7
Sukhandarya	32.2	41.5	45.1	42.9	41.2	42.2	42.4
Syrdarya	75.3	72.4	70.9	72.3	73.1	77.0	79.4
Tashkent	106.2	114.7	103.1	104.5	105.6	114.2	128.1
Ferghana	157.5	116.1	86.6	103.3	107.5	101.3	101.7
Khorezm	53.6	78.2	72.4	68.2	63.9	60.9	57.7
City of Tashkent	443.9	402.2	450.1	402.9	388.5	367.8	363.5

Source: CER Policy Paper "Local Budgets in the Context of Liberalization: Strengthening of the Income Base and Improvement of Relations with the Central Budgets", 2003/01.

²⁹ Mutual settlements are the instrument for ensuring equilibrium of local budgets during budget execution. If as a result of passing new laws, the income parameters of local budgets decrease or increase their expenditure parameters decline or grow accordingly, the Ministry of Finance makes adjustments in the approved parameters. Mutual settlements regulate planned sources of funding for additional expenses, and planned assignment of additional incomes in order to ensure equilibrium and avoid deficits in local budgets.

BOX 3.21. New Principles of Financing Local Governments in Asian Counties

The existing system of local governments in Asian countries is being gradually replaced with one based on new principles. A shift has been observed in three crucial spheres and primarily in the sphere of inter-governmental transfers. Previously, transfers from central government to local authorities were set either through negotiations between them or by means of a unilateral procedure determined by a higher government body. Now many countries are beginning to shift toward using regulations concerning revenue sharing as a standard for local governments, while granting them the right to use allocated funds at their discretion in accordance with their priorities. In the Philippines and some other countries the use of transfers, which local governments receive through this kind of revenue sharing, has in recent years become the major method of funding local authorities; a method which gives them more stability and predictability in managing their finances.

The second change is the growing autonomy of local governments in saving and mobilizing resources. Traditionally, budgets of local governments are based on the principle of balancing the books. The issue of bonds by municipal authorities, as it is done in India and the Philippines, shows that loan financing of municipal infrastructure can be one viable way of satisfying the growing financial requirements of cities in Asian countries. Loan financing forces local governments to improve massively their financial performance and credibility. Another change is the adoption of a system of market evaluation used in the taxation of property. Some Asian countries have introduced significant changes into their system of property evaluation, and have simultaneously taken measures to improve tax collection through using banks and other channels (See Table).

Although limited to several cities, according to estimates of most specialists, this change in fiscal policy is important and shows that the work of local governments in Asia is being carried out using a variety of approaches and means, albeit with different levels of success. As their work becomes more complex, local governments assume new functions and powers, and have more influence on the use of funds at the local level, while the main focus is on choice, efficiency and accountability in providing local services to the population.

Table. Changes in the Principles of Funding Local Governments

Old Principles	New Principles
Inter-governmental transfers based on negotiation outcomes	Standards or formulae justifying intergovernmental transfers which give financial stability and predictability for local governments
Funding in the form of subsidies for local (municipal) infrastructure	Loan financing of (municipal) infrastructure
Subsidized prices for basic services and municipal infrastructure, determined on the basis of external indicators	Use of the principle of purchase value in assessment of municipal infrastructure and services
Regarding land as capital stock	Sale of land use rights to increase cash revenue
Accounting for other municipal property	Receiving credits using property as guarantee to mobilize resources
Provision of services by municipalities	Government and private sector partnership in providing municipal services and infrastructure
Rental revenues as the basic framework for determining taxable annual value of income and for taxation of property	Formation of framework for taxation of property based on properties of land plot and assessment of capital
Directives of higher authorities guide financing and performance of municipality	Incentive funds for municipal governments aimed at implementation of reforms in order to improve the financial system and performance of municipalities

Source: Russian version of informational bulletin "Debate Habitat", volume 8, No.1. Om Prakat Matur—expert in urban and household economics at the National Institute for Government Policy and Finances, New Delhi (India).

tax potential, and for an increase in the effectiveness of budgetary expenditures. The system should encourage regions to become financially sustainable.

In most transition economies efficient public administration that also incorporates combating corruption, promotes transparency and predictability of decision making, and improves the quality of public services is deemed an essential tool towards achieving equitable growth for the benefit of all citizens, through promoting poverty reduction and human development. Public administration reform that was launched in 2004 and included decentralization as its major component, aims the achievement of this objective. The government anticipates revising the legal and regulatory framework, introducing new methods of organizing civil service, as well as overall

improvement of the system of interaction between government bodies and civil society institutions, citizens, business actors and NGOs.

This should result in a more efficient and manageable public administration, that ensures transparency in decision-making and current policy. In the long run this would help securing sustainable income and opportunities for human development (Box 4.1).

In this chapter decentralization is viewed in its classic sense: the transfer of functions, rights and responsibilities from central bodies (the so-called Center) to regional authorities, NGOs and community organizations.

BOX 4.1. Main Directions of the Public Administration Reform in Uzbekistan

"What direction should public administration reform take? And what concrete results do we expect from its implementation?"

First of all: a radical reduction in the state's role in managing the economy, reduced administrative structures and functions, and reduced expenditures on state administration. More and more functions and authority should be transferred from the state to public NGOs and community organizations. Moreover, these functions should not be just for show, but should be real – backed up by efficient mechanisms and concrete sources for their implementation. For those functions remaining under state control, the responsibilities of state authorities and officials should be clearly formulated, allowing them to be concretely evaluated and controlled.

Second: administrative decentralization, including the broad transfer of functions to regional administrations and the elimination of excessive vertical administrative structures. This can be achieved by increasing the responsibility of khokimiyats at all levels for implementing reforms dealing with local conditions, for addressing economic and social problems, and for resolving issues connected with the unemployment and welfare of the population. Here it is very important to ensure complete compliance with market principles; otherwise, the inefficiencies of state administrative methods will merely be transferred intact to lower levels of administration.

Third: rationalization of the economic management structure through reorganization, merger, restructuring and elimination of certain management bodies at the departmental, sector and regional levels, in accordance with market principles. There is a need to review the expediency of retaining not only particular units, but even certain agencies, which can no longer justify the expenditures associated with them.

Fourth: improvement in the efficiency of the administrative system. The quality of the decision-making process should be improved and those decisions implemented more efficiently. There is a need to radically reduce the number of existing administrative tools and methods currently used by ministries, agencies and economic entities, and to prevent the latter from interfering in the activities of enterprises or attempting to limit the independence of economic entities.

Fifth: the step-by-step modernization and increase of efficiency of state administration through the progressive introduction of information and communication technologies and the reduction of unnecessary reports and paper circulation. Our main task in public administration reform is to ensure the democratization and liberalization of the entire system for managing state social and economic entities, and our second task is to bring them in line with the requirements of the current stage of reform and modernization of the country."

Source: Speech of the President of the Republic of Uzbekistan, Mr. I. Karimov at the meeting of the Cabinet of Ministers, to discuss the results for the first half of 2003.

4.1. CENTRAL AUTHORITIES - HORIZONTAL DECENTRALIZATION

In the course of public administration reform, the state commission conducted a full inventory of the functions of state administrative bodies in order to identify and remove duplication, to limit the opportunities for administrative interference in entrepreneurial activity, and to concentrate the efforts of public authorities on improving their performance while implementing more limited range of functions.

As a result, since 2004 27 administrative and public economic entities have been closed down.³⁰ Public governance functions were revoked from other economic entities. There has also been a rationalization of the higher levels of the state apparatus, with the abolition of over 20 positions of ministerial rank and over 80 of deputy minister rank. In addition, about 40,000 civil servants in administrative-managerial functions have been made redundant.

Several measures were taken to abolish the system of centralized distribution of certain types of commodities.³¹ The number of goods subject to quantitative state balances has been halved; barriers to other means of distributing these resources are being removed; these goods are being sold mainly through exchange and auction markets, or through direct contracts avoiding centralized distribution.

These steps represent the inception phase of public administration reform. Creating an efficient system of economic regulation by the state, ensuring a clear distinction between the activities of state executive bodies and market institutions require an in-depth analysis of functions and structure of executive authorities, and development of a conceptual basis for its further improvement.

4.1.1. Optimization of Functions of the State and its Executive Authorities

The task of increasing the efficiency of public administration requires a clearer definition and regulation of state functions. This can be achieved through the following steps:

- Identification of core functions which can only be performed by the state;
- Removal of redundant functions;
- Identification of an optimal executive power structure for the implementation of these functions;

- Introduction of transparent and efficient mechanisms for the functioning of state authorities.

The key task here is to clearly determine the basic rules for the operations of state authorities, i.e. their competence, procedures and responsibilities. Core state functions are those addressing national interests, and for which the expenditure incurred by the state is less than the expected social losses which would occur should the state fail to provide them. Functions which do not meet these criteria should be considered redundant.

For each concrete function, responsibility should be assumed by a specific agency or a subdivision thereof; and for each concrete issue a specific public servant should be responsible. A clear and concrete definition of functions to be carried out by state bodies will facilitate the development of quantitative and qualitative indicators to monitor their activities.

It is important to move towards functional management and away from the system of state management based on economic sectors. Practice has shown that administrative structures dealing with multiple sectors not only encourage the pilfering of budget resources, providing a breeding ground for corruption, but also give agencies and government officials the incentive to invent for themselves new, fictitious authorities that lack any practical purpose. State authorities should broadly direct economic processes, not manage day-to-day operational details. In this regard it is expedient to gradually eliminate and transform the majority of sectoral ministries and agencies into functional ones. Most branch departments should be transformed into functional departments, thereby raising public administration to a new level.

The government practices creating republican commissions for addressing key development issues. To date, 53 such commissions were established, however their activity is subject for thorough revision. Their members are mainly senior officials who work on an unpaid basis, in parallel with their main administrative duties. The functions of the commissions often overlap with those of ministries, state committees and agencies,

The task of increasing the efficiency of public administration requires a clearer definition and regulation of state functions

³⁰ Decrees of the President of the Republic of Uzbekistan "On Improving the System of Public Administration Bodies" of December 9, 2003, "On Improving the System of Economic Management Bodies" of December 22, 2003.

³¹ Including the following: secondary aluminium, refined copper, zinc metal, cable and conducting products, fodder grain, sugar, flour, vegetable oil, etc.

Public governance bodies should assume the position of an independent arbitrator: creating conditions for the independent development of entrepreneurial activity, without passing judgment on the economic situation or seeking control over citizens and enterprises

or with the Cabinet of Ministers as a whole. Many commissions, through their decisions (protocols), perform the functions of public governance bodies, even though they officially lack the legal powers to do so. At the same time, technical and other support for the commissions' operations is usually provided by ministries and agencies, or the Cabinet of Ministers apparatus. Many of these commissions have analogous regional commissions, which operate in a similar fashion.

Reformed executive authorities will operate efficiently with newly defined functions only if the current system of interaction and coordination of their activities is also modernized, with the development and introduction of new procedures regulating the activities of

state authorities and their officials. This should lead to a reduction in administrative arbitrariness and corruption in governing bodies.

It is particularly important to introduce a more thorough process of reviewing draft versions of crucial government documents. The mechanisms should include the development of various drafts of a document and their evaluation by experts, including independent ones; the competent economic and legal assessment of draft documents; the determination of their pros and cons; and the development of mechanisms for effective implementation of government decisions. It is also necessary to abandon the practice of making government decisions which have no realistic sources of funding.

In international practice, when there is a rationalization of managerial processes, or when elements of e-government are introduced, the number of administrative and functional regulations tends to increase.³² Currently the rough equivalent of such regulations are the statutes of agencies and job descriptions for individual officials. However these documents are rarely referred to in day-to-day operations.

Administrative and functional regulations determine the procedures and permissible actions by state management bodies and their officials, limiting the scope for arbitrary decisions and creating the grounds for controlling the authorities' activities. The introduction of such regulations will lead to a rationalization of inter-agency interaction and greater transparency extent in the operation of agencies. Regulations implemented in electronic form can serve as efficient managerial instruments, unlike the practically useless instructions and regulations which currently govern agencies and are completely unsuitable for modern operations. Functional regulations facilitate the unification and standardization of management processes, as well as the creation of state authorities which operate on functional principles.

In general, public governance bodies should assume the position of an independent arbitrator: creating conditions for the independent development of entrepreneurial activity, without passing judgment on the economic situation or seeking control over citizens, enterprises.

4.1.2. Optimization of Public Governance System

The rationalization of public governance system carried out in Uzbekistan in 1991–2003 led to a 2.4 times reduction of the number

BOX 4.2. The System of Administrative Standing Orders

A new system of administrative standing orders can enable enterprises and citizens to control the procedures for processing their documents and appeals, thus laying a real foundation for transparency in administration.

Administrative standing orders are designed to formalize the obligations and rights of a regulatory body and its jurisdiction, and to describe interaction with other regulatory bodies during the preparation, processing, consideration and approval of decisions. In addition, official standing orders should reflect the possible procedural actions of civil servants, thereby limiting the scope for arbitrary decisions and creating the basis for citizen control over the executive branch.

One of the objectives of introducing administrative standing orders is the clear specification of the functions of public authorities down to the level of business processes, and the establishment of standards and quality indicators to monitor fulfillment of those processes, while providing a clear description of the patterns of interaction between participants.

Source: <http://www.izh.ru/item-ipspub/meth-v/obj-19274.html>

BOX 4.3. Is the Reduction of Administrative Personnel a Timely Issue in Developed Countries?

The implementation of administrative reforms aimed above all at reducing an excessive bureaucratic apparatus is currently a hot topic in countries with developed market economies. In certain countries of Europe, South-East Asia and North America, the share of managerial personnel in the total employed population varies from 2% to 20%, and is equal to 15% in the USA, 18% in Sweden, 14% in Great Britain, 6.7% in Germany, 5.8% in Poland, 6.3% in Turkey, 2.3% in Japan, and 2.3% in South Korea. In the latter country, the 'revolutionary' public administration reforms launched in 1993 resulted in the transfer of 10 thousand officials to other agencies.

Source: Public Administration Reform – the Catalyst of Economic growth. Narodnoe Slovo, March 11, 2004.

TABLE 4.1

Number of Managerial Personnel in State Management Bodies

Country	Number of managerial personnel per 1000 of population	Share of managerial personnel in the working age population, %	Share of managerial personnel in the total employed population, %
Azerbaijan	32.3	6.0	7.1
Armenia	8.1	1.2	2.3
Belarus	14.9	2.7	3.4
Georgia	16.3	2.3	4.2
Kazakhstan	19.2	3.4	4.0
Kyrgyzstan	13.3	2.6	3.6
Moldova	15.3	3.4	4.4
Russia	22.1	3.9	4.9
Ukraine	20.0	3.5	4.5
Uzbekistan	6.1	1.3	1.6

Source: Public Administration Reform – the Catalyst of Economic growth. Narodnoe Slovo, March 11, 2004.

of civil servants, or by 16.4 thousand people. In 2004 another 40,000 civil servants were made redundant, or 2.5 times more than during all previous years. As a result, there has been a reduction in the share of administrative personnel in all public governance bodies. While in 1991 the share of administrative-managerial staff in public governance bodies constituted 77.7%, in 2004 it had fallen to 32.4%.

As of January 1, 2004 the number of civil servants in public and economic governance bodies was equal to 6.1 people per 1,000 of the population, or 1.6 % of the total number of the employed population, which is significantly lower than in other CIS countries³³ (Table 4.1). For comparison these indicators are 19.2 and 3.4% respectively in Kazakhstan; 20 and 4.5% in Ukraine; and 22.1 and 3.9% in Russia.

Reduction of personnel in public and economic governance bodies is also reflected in its lower share in the total number of those employed in the economy. While in 1991 the share of public governance officials among the employed in the economy was 1.2%, in 2003 this indicator was equal to 2.0% (Figure 4.1).

However, **it is important to be aware of the risk that any large-scale reduction in staff without a concomitant re-assignment of functions to other state administrations may result in a weakened administration unable to fulfill all of its tasks** (Box 4.4).

The reduction of managerial staff in public governance bodies should be achieved mainly through the elimination of useless and overlapping managerial functions and units, and redundant control bodies. The latter should be accompanied by a reduction in redundant and unnecessary controls over the activities of enterprises, as well as a liquidation of state bodies dealing with the allocation of key resources (Box 4.5).

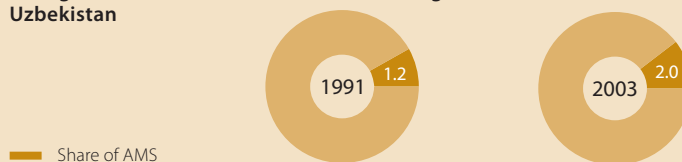
Modern administrative management methods should be introduced in parallel to staff reduction. Moreover, up-to-date information technologies should be used extensively.

Particular attention should be paid to the development of the analysis, projection and evaluation functions of state structures, and most importantly to increasing the quality of decision-making processes, especially in central governance bodies.

The Law of the Republic of Uzbekistan "On Civil Service" is being drafted and adopted which would clearly define the status, rights, responsibilities, liabilities and guarantees of civil servants, as well as their

FIGURE 4.1

Change in the Share of Administrative-Managerial Staff (AMS) in Total Employment in Uzbekistan



Source: State Committee of the Republic of Uzbekistan on Statistics.

BOX 4.4. Consequences of Large-scale Staff Reductions in Central and Eastern European Countries and the CIS

In the mid 1990s, certain ECE and CIS countries carried out legislative reforms (inspired by various "Western" models) which were increasingly combined with large-scale personnel reductions. Starting in 1995 Hungary, Bulgaria, Slovakia, Kazakhstan and Kyrgyzstan implemented broad automatic staff reductions which were quite frequently carried out without taking into account the possible consequences of such operations on the functioning of the institutions.

Mechanical reductions "freeze" the existing imbalances in administrative systems. This is especially harmful for post-Soviet countries, when the freeze affects an underdeveloped central state management apparatus while retaining excessive subordinate organizations. The weakened central administration is no longer able to manage its subordinate management bodies, or even to coordinate their activities. The reporting lines are weakened, and this in turn leads to limited democratic control over state administration. Centrifugal trends generated by such an approach to reforms have led to absurd situations in such countries as Latvia, where key state management institutions were suppressed, leaving skeptical citizens with the impression that they were being managed by irresponsible administrators pursuing their own personal interests.

Source: Reconstruction of the State Structures: Methods and Approaches. UNDP. New York, 2002.

BOX 4.5. Reorganization of Ministries and Agencies in Uzbekistan: the Case of the Ministry of Agriculture and Water Resources

In 2003 the Ministry of Agriculture and Water Resources was reorganized, and several of its functions related to economic management were transferred to local governments and the private sector. As a result, 15 departments out of 31 were abolished, and the number of the administrative-managerial staff of the central apparatus of the Ministry was reduced by 31%. At the same time, 28 organizations subordinate to the Ministry, which previously performed economic management functions, were abolished.

The reduction and decentralization of functions, and the corresponding decrease in office and management personnel, led to budget savings in the amount of 3.4 billion soums, which were then used to increase economic incentives for employees of the sector and to improve their working conditions.

As a result of such reorganization:

- functions relating to the distribution of physical and raw material resources, as well as the monitoring of shirkats and other agricultural producers were removed, thus increasing the autonomy of economic agents and expanding opportunities for entrepreneurial activities;
- the number of reports to be presented to the Ministry and its subdivisions by agricultural producers was reduced by more than two times (i.e. by 41 items), thus allowing commercial units to cut back on reporting and labor costs;
- fundamental changes in the water sector management system were made. There was a shift from regional water management to a basin management system, which led to a reduction in the number of managerial levels from 5 to 3. Some functions were transferred to associations of water consumers created by farmers. 252 such associations were created locally. They are already providing services to over 30,000 water consumers, including 21,200 farms. These changes have led to important gains for water consumers' associations, including the supervision of water use by farms, the involvement of consumers in water resource management, the integration of efforts and funds for a coherent and effective use of water resources on irrigated lands and the participation of consumers in fixing fees for water supply.

promotion system, training, retraining and capacity-building. This will not only increase the credibility of civil service and attract more qualified staff, but will also promote the creation of an administrative and managerial apparatus oriented to the needs of market economy.

33 Public Administration Reform – the Catalyst of Economic Growth. Narodnoe Slovo, March 11, 2004.

Modern administrative management methods should be introduced into the governance sector

4.2. LOCAL GOVERNMENTS - VERTICAL DECENTRALIZATION

During the years of central planning as well as during the first years of transition to a market economy, most public policy decisions on economic and social interventions were taken in a highly centralized manner. Local authorities, with only a limited influence upon them, became mere passive recipients of the decisions taken by the central powers. The abandonment of central planning was inevitably accompanied by greater decentralization of public decision-making. But which decisions should be delegated to the local level and which should be kept under the central authorities?

The theory of “public goods” can help to make these choices. Local public goods are those that produce benefits only within a given geographical area (a raion or region). In this case, local communities and authorities are better informed about both the features of the goods and services they prefer and the best way to produce them. This informational advantage is essential to design public services in an appropriate way that meets local needs.

However, for projects generating indivisible effects over larger areas or the entire nation, local decisions can complicate the situation, resulting in coordination difficulties and inefficiencies. In these cases, centralized decision-making is more appropriate. For instance, the design of a highway linking various regions (i.e. a typical “national public good”) is best done by the central authorities. In concrete terms, this entails that for every public service, one needs to determine the “optimal scale of production” of a given public intervention. Some of them are best produced at the raion level, others at the inter-raion level (as in the case of transport services between towns that are highly integrated in economic and other ways), others at the level of regions or groups of regions and others again at the national level.

Therefore, such an approach suggests that it is practical to decentralize the production of “local public goods” (including many aspects of healthcare, education, agriculture and local transport, or some components thereof) to the region or raion level but not that of “national public goods”. In other words, it makes sense to rely on the “principle of subsidiarity”, according to which state institutions at a higher level should provide only those services that lower level institutions are unable to provide efficiently or at all.

Each country has had its own decentralization experience, conditioned by its history and people’s mentality. In certain European countries (e.g. Switzerland) the centralized state emerged from the merger of small in-

dependent states (cantons), and that is why decentralization occurred there “bottom up”. In other countries, for example in France, the state has always been distinguished by a high level of centralization, and decentralization there was “top down”, i.e. through the transfer of certain decision-making powers from central bodies to territorial subdivisions (deconcentration) or to local governments (decentralization).

There are two main forms of local governance that are often mistakenly merged into a single notion. **First of all**, local governments are the representatives of the executive governance bodies in the regions,³⁴ Tashkent city, other cities and raions. These authorities are accountable to the higher level administrative bodies and at the same time to the population of a given territory. **Second**, citizens’ assemblies at the village and settlement level, the makhallas, and the councils elected by the assemblies represent purely community organizations. The representative bodies of these community organizations (councils of elders, makhalla presidents, etc.) are elected by the people living in each locality, and report directly to this population.

Decentralization is thus a “two in one” process: on the one hand there is a transfer of public governance functions from central to local governance bodies, and on the other hand decisions on local issues are delegated to community organizations. This allows duly respect for the historical patterns, national and moral values, local customs and traditions of the country, while seeing to the every day needs and concerns of the people living in the village, settlement or makhalla.

4.2.1. Legislative Basis of Local Governments

In order to ensure an optimal balance between central and regional interests it is necessary to establish clear and transparent rules regulating the relations between central and local governments. In other words, there is a need to find the best possible allocation of functions and funds between central and local governments, and the optimal regulation of the exchange of services among different levels of government.

In most countries, several general indicators are used to measure the extent of decen-

³⁴ The legislative and executive bodies of the Republic of Karakalpakstan have a special position, and are a separate case.

The abandonment of central planning was inevitably accompanied by greater decentralization of public decision-making. But which decisions should be delegated to the local level and which should be kept under the central authorities?

tralization to local government in the fields of political, administrative and financial autonomy (Box 4.6).

Local governments play an important role in delivering efficient social services and ensuring social cohesion due to certain reasons. **First of all**, local governments execute the national economic policy developed by the central government. In areas under their jurisdiction, they implement the ideas, plans and policies generated by the center. **Second**, local governments develop and implement regional policies aimed at improving the living standards and welfare of the population, and ensuring sustainable development of the region in social, economic, political and environmental terms. And, **third**, local governments act as intermediaries between the central government, enterprises and civil society institutions. Local governments should coordinate the partnership “government – business – civil society”.

In Uzbekistan the public governance reform has led to creation of a new system of local governance bodies, where the institution of the khokim represents a kernel combining both executive and representative functions (Scheme 4.1).

The basic operational principles for local governments – such as democracy, social justice, legitimacy, openness, observance of human rights, and respect for national and local interests – are set out in the Constitution.

In the course of reorganizing the central public and economic governance bodies, many of their functions were transferred to local governments. These are mainly the functions conducive to control and supervision, issuance of licenses, allocation of resources, provision of public services, monitoring the quality of services, etc. There is also a more clear distribution of functions at the local level between the region and raion levels of governance. For example the sector of higher and secondary education is under the competence of the center (ministry) and the region (the latter is responsible for the allocation of financial, human and other resources). Secondary education is managed at the raion level, as well as at the higher levels (the raion deals with day-to-day management, the process of coordination, the allocation of resources and monitoring). Moreover, many other state functions associated with environmental management, protection of cultural heritage, automobile and passenger transport regulation, municipal engineering, provision of communal and other special services to the population (for instance, support to families with many children, poor families, and handicapped) have been transferred to local governments. This allows them to take

BOX 4.6. Main Conditions for Decentralized Management

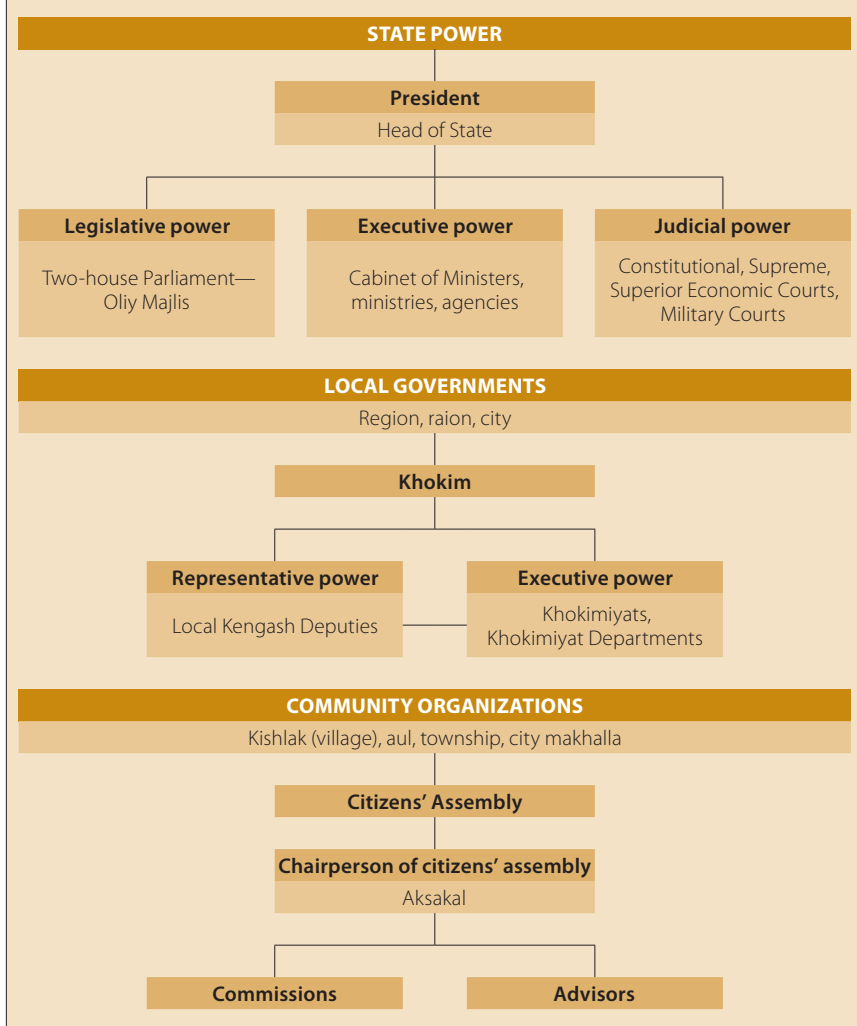
Political guarantees: respect for the principle of separation of powers, expansion of the processes of democratization in the life of society, development of self-governance, and expansion of the authority of local governments. There should be legal rules governing the activity of community organizations, non-government organizations and groups.

Economic guarantees: provision of legal status and legal protection for different types of property: private, cooperative and municipal property. There should be economic guarantees that ensure the active introduction of market relations at the local level and facilitate the development of local small enterprises through a simplified system for registration and protection of their rights. To a large extent, this will limit the opportunities of central bodies to interfere in the operational activity of lower levels, and will encourage them to use not administrative but economic methods of influence. It would be useful to continue an educational campaign through the mass media, explaining what a mixed economy is, and how competition rewards those firms that better satisfy the needs of people, while punishing those who fail to do so.

Legal guarantees: respect for the rule of law, revision of current legislation and strengthening within it only those powers of the central state bodies that are really necessary for the pursuit of unified state policy in all spheres of society.

SCHEME 4.1

Legislative Separation of Power in Uzbekistan



local conditions into account and to perform certain functions more efficiently.

In their turn, local governments are delegating over some of their functions to the private sector and to civil society, including community organizations and NGOs in order to improve the quality of public services. Thus, khokimiyats are selling some urban passen-

Local governments play an important role in delivering efficient social services and ensuring social cohesion

ger transportation routes by tender to private companies. As a result, most passengers use private transportation. Condominiums are being established to replace housing and communal services. Economic relations between government agencies and enterprises that do not belong to the municipality are formed on a contractual basis. In large cities, local governments create associations and cooperate with private enterprises on the basis of social partnership.

Step-by-step measures are being taken ensuring the implementation of key goals and objectives of public administration reform. For example, the structure of regional government has been improved. In accordance with Decree No.2 of the Cabinet of Ministers of the Republic of Uzbekistan "On Improvement of the Structure of Regional Government" as of January 5, 2004, all khokimiyats adopted a new structure of management, reduced the number of deputies of regional, city, and raion khokims, and reduced the staff of khokims in the first half of 2004. The position of a deputy khokim responsible for economic and social development was also introduced. The main tasks of this deputy are to ensure the execution of the local budget; to develop social infrastructure, education and healthcare; to promote employment; and to support small businesses.

At the same time, there are a number of problems in the performance of local governments that hamper their efficiency and, as a result, affect the quality of public services.

1. The existing system of local governments entails the dual subordination of the regions' and raions' departments to the Khokimiyat and to the relevant Ministries. At the initial stages of economic reforms, dual subordination was the centerpiece of the entire governance system, since it enabled the central government to maintain control, while local governments were able to participate in planning, financing, providing and controlling services. However, as all aspects of social life are being liberalized, the lack of precise allocation of management functions among regional offices of the Ministries, on the one hand, and among khokimiyats, on the other hand, results in ambiguity, uncertainty, and duplication in local governments.

The system of dual subordination quite frequently does not allow the staff of regional authorities to make decisions independently without permission "from the top". This makes decision-making more time-consuming, and is often the reason for incorrect or untimely decisions, for which ultimately nobody can be held responsible.

The currently unified organizational structure of regional and raion khokimiyats is not

very efficient for distributing authorities at the local level. The distribution of responsibility areas among khokimiyats at different levels was not reflected in the Law "On Local Government Bodies", which has led to an unclear division of responsibilities at different levels of the executive branch.

There are no clear legal standards (documents) regulating the decision-making process at any level of the executive, providing a green light for the bureaucratization of this process. Consequently, the following is typical for local governments: vague and dispersed managerial functions among various subdivisions (which by their nature require consolidated guidance), chief executives overloaded or insufficiently loaded with managerial functions, and the assignment of extra functions to khokimiyat staff, preventing them from fulfilling their own duties.

2. Currently, local representative authorities provide almost no contribution to decisions in the socio-economic field that affect regional development. The Law "On Local Government Bodies" neither elaborates their specific powers nor specifies conditions ensuring organizational support and availability of resources for their activities. Moreover, it formally subordinates these authorities to the khokim. In fact, only khokims possess real political, decision-making, organizational, material, and financial resources. Regional, city and raion khokims do not actually report to representative authorities or to the local population. As a result, very often khokims and their subordinates ignore the basic needs of the population and take on extra functions, including some that interfere with the activities of enterprises. Insufficient control over the activities of local governments by the local population results in poor quality of services provided by local governments to the population (Box 4.7).

3. Local authorities do not have real leverage that they can use to influence the socio-economic situation, mainly due to limited financial, material-technical and human resources (Box 4.8).

It is therefore increasingly necessary to create an effective civil service with embedded anti-corruption mechanisms. In particular, the civil service should be open for an influx of new personnel. A system of competitive selection and promotion of personnel should be gradually introduced (Box 4.9).

4. Interaction between local governments and local business is often accompanied by the administrative interference of the former into the activities of the latter. Direct intervention of khokimiyats into the activities of small and medium businesses is quite common. Therefore, it is important to reduce the number of agencies authorized to conduct these

inspections; to refrain local governments from imposing fines on economic entities (including “voluntary” donations); and to prohibit the interference of government agencies into the economic activity and human resource policy of non-governmental enterprises (for example, appointing an enterprise or shirkat manager, etc.). Entrepreneurs should always have open access to local governments so that they can freely review and solve business-related problems.

5. The limited involvement of civil society is another factor which hampers the socio-economic development of a region. Effective cooperation between local governments and civil society institutions should be established. Local governments should assist in the establishment and development of local civil society institutions, and the latter should participate in the socio-economic development of their regions.

6. The lack of a comprehensive regulatory and legal framework specifying the tasks and functions of local governments is another urgent issue. This legal vacuum jeopardizes the efficient operation of government: functions are substituted, duplicated or weakened since they depend on actions from higher levels of government, or are not fully completed due to a lack of financial, human, and material and technical resources.

Moreover, other legislative acts indirectly relevant to the tasks of local governments are absent (for example, there is no corresponding portfolio of legal acts related to regional policy, or to methods for developing plans for the socio-economic development of the country and its regions). In order to provide a legal basis for the functions given to khokimiyats, it is necessary to strengthen the normative-legislative acts with regard to:

- increasing autonomy in the development and implementation of regional development programs;
- increasing the effectiveness of cadre policy;
- enhancing the organization and control of activities;
- increasing the efficiency and quality of public services in the region;
- encouraging cooperation with civil society institutions.

4.2.2. Enhancing Local Governance Capacity

Creation of a sustainable system of community organizations is one of the key components of the government’s strategy for the decentralization and reform of the public governance system. In Uzbekistan the citizen’s self-governing takes place

BOX 4.7. Results of the Pilot Project on Functional Analysis of Khokimiyats in Kashkadarya Region

As heads of both executive and representative authorities, raion khokims have the ability to influence the economic entities, kengashes (Councils) and delegates who in practice implement the decisions taken by the executive bodies.

The kengash of people’s delegates has practically no control over the activity of khokimiyats. The delegates themselves explain this by the fact that they do not work on a full-time basis and lack material and political incentives. Khokimiyat staff in turn explain this by the low professional level of, and lack of initiative among, delegates. They equate “lack of initiative” with not knowing how to use the power provided to them by legislation, and their irregular regime of work. They are more concerned with fulfilling their own tasks at their regular jobs than with their secondary duties as delegates.

Another aspect of the problem is that kengashes of people’s delegates at all levels completely depend upon khokimiyats for the organization of their work. Khokimiyat departments arrange kengash sessions, meetings of delegates with the electorate, and even the technical maintenance of kengash operations.

Kengashes do not have a permanent Secretariat able to resolve all the organizational and financial-technical issues of the delegates’ activity.

Source: Report on the pilot project on functional analysis conducted at khokimiyats of Kashkadarya region. CER, 2004.

BOX 4.8. Problems of Provision Khokimiyats with Qualified Personnel

The main problems regarding the staff of khokimiyats result from:

- the lack of unified staffing policy with regard to staff recruitment, control over their work performance and professional development;
- the use of informal systems for staff recruitment;
- the large amount of time spent by khokimiyat staff on reporting to ministries and answering enquiries from ministries;
- insufficient access to information and communication technologies, and inefficient use thereof;
- low wages;
- above all, the high turnover of most skilled staff, who leave for higher wages in the private sector.

Source: Report on the pilot project on functional analysis conducted at khokimiyats of Kashkadarya region. CER, 2004.

BOX 4.9. The Civil Service Selection System

In Uzbekistan, the government guarantees free choice of one’s type of work activity, protection from unlawful refusal to hire or unlawful termination of a labor agreement, equal opportunities for acquiring skills and employment, equal conditions and remuneration, and equal opportunities for job promotion. However, the selection process of civil servants is still insufficiently transparent. Practically no job advertisements, document submission deadlines, document lists or forms, or information of where competitions will be held are published. Competition-based selection of candidates for the civil service apparatus of local governments is generally conducted behind closed doors.

throughout the whole country, most often in the form of independent actions by citizens to resolve problems of local importance – taking into account their own interests, as well as national and spiritual values (Box 4.11).

The most important feature of the system of community organizations is the revival of true national traditions based on trust and on the sense of being part of a collective (Box 4.12).

The citizens implement their constitutional right to self-governance in settlements, villages and makhallas through assemblies (meetings of representatives) of citizens, the number of which exceeds 10,000.

The community organizations are not part of the government system and are non-governmental, non-profit organizations. They enjoy the rights of a legal

Creation of a sustainable system of community organizations is one of the key components of the government’s strategy for the decentralization and reform of the public governance system

entity, and must register with the local government.

The devolution of certain powers to makhallas – such as the provision of social aid to poor families (1994), payment of child benefits (1997), and granting and payment of childcare allowances to women on maternity leave (since March 1, 1999) – has increased the role of community organizations in social development and enhanced their capacities. Such decentralization has brought about considerable advantages, as makhallas have a far better knowledge of local conditions and are better able to assess the living standards, needs of the local population.

In addition, community organizations more and more frequently demonstrate ini-

tiative and entrepreneurial skills in the economic sector. They open small, private joint ventures, commercial shops, cooperatives, and firms manufacturing consumer goods on their territories. The government provides proper incentives for the creation of economic cooperation zones according to the formula “enterprise + makhalla”, thus playing a catalyst role in promoting interaction between local governments, entrepreneurs and citizens.

The year 2003 was proclaimed the Year of the Makhalla. There were many achievements in terms of the socioeconomic development and transformation of the regions. Analyses of the work done under this program show that in 2003 a total of 66 billion soums of grants and 13 billion soums of credit were allotted for the development of entrepreneurship and creation of new jobs in makhallas. In addition, 2,765 low-income families were allocated 2 billion soums for the development of family businesses and over 176,000 jobs were created in small and medium-sized businesses. A final characteristic of the “Year of the Makhalla” was the prioritization of social protection for the poor and for new families (Box 4.13).

Women are becoming more actively involved in the activities of community organizations. In 2004, an additional position of consultant in religious, moral and spiritual education was created in these local bodies. This is a remunerated post, paid for from the budget, and represents an addition to the staff of the citizens’ assembly kengashes. 7,505 of the most respected and active women with experience in the sphere of moral and spiritual education were selected for this position.

International organizations are actively involved in capacity building in community organizations, by providing them with small grants and improving dialogue among government agencies, the population and other civil society institutions. This was the goal of the Makhalla Initiative Program (MIP), conducted in 1999-2003 by Counterpart-Uzbekistan with support from USAID (Box 4.14).

The above goals were to be mainly achieved through the implementation of small projects, in which NGOs, makhalla committees and residents themselves jointly identified problems, then planned the necessary responses and finally introduced measures to resolve them. The projects financed by the program were implemented in areas such as social services (16), healthcare (15), children/young people (13), environment (11), women (9), the elderly/seniors (5), education

BOX 4.10. An Expert’s View on Decentralization

Soviet or communist ideology is based on the premise that the state represents society as a whole, rather than each individual, whose ultimate purpose is only to serve society. Subsidiarity thinking,* on the contrary, starts from the individual and views the state as a creation designed to serve the individual.

People’s attitudes towards national policies are frequently shaped by their interests, but only to the extent to which the government helps them locally in addressing every-day problems. It should be obvious to everyone that the consequence of decentralization will be not the weakening of the state but, on the contrary, its strengthening. Experience clearly shows that the more every-day tasks which are transferred to lower levels of government, the stronger the state, as the executors are closer to the citizens.

* Subsidiarity assumes the transfer to a higher level of only those functions that cannot be implemented at a lower management level.

Source: Doctor Heinrich A. Hoffschulte “On the Path to the UN Treaty on Local Self-government of Citizens: Requirements of the XXI Century.” Materials from the international conference sponsored by the Konrad Adenauer Fund together with the Swiss Development and Cooperation Agency and the International Center for Retraining Journalists. November 29, 2000, Tashkent, 2001, pp.62-63..

BOX 4.11. Uzbekistan Community Organizations

These include:

- assembly (meeting of representatives) of the citizens of a village, kishlak or aul, and also makhallas, in towns, kishlaks and auls;
- assembly (kengash) of citizens;
- commissions for the main activities of the citizens’ assembly;
- control committee of the citizens’ assembly;
- administrative commissions summoned in circumstances prescribed by legislation in hard-to-reach and remote townships, kishlaks and auls.

Source: The Law of the Republic of Uzbekistan “On Citizens’ Self-Governing Bodies” (new edition), 1999.

BOX 4.12. The Makhalla

The Makhalla is a community of people living close together on a certain territory. The word “makhalla” in Arabic means “local community”. Makhallas differ in size, and range from 150 to 1,500 families.

The Makhalla in both the historical and contemporary situation is a clearly marked socio-demographic, cultural and territorial-administrative unit, in which the inhabitants are interconnected through common traditions and customs, and through personal, economic and legal relations. Since ancient times, these territorial units have generated the rules regulating community life, and have been the forum for the creation of public opinion and systems of ideological and world views.

Since independence, the reform of self-governance in Uzbekistan has been based on the traditions of the population. These have always included a whole array of features characteristic of eastern society: paternalism (the respect for authority and the custodial attitude of the ruler to the people), succession, the strength of moral example, respect for the elderly, orientation towards family values and so on. These principles remain active in the mentality of the population at the individual and community levels. Their stability and adaptability to new social and economic realities result from the specific mentality of the population. Indeed, in the collective conscience, a communal psychology dominates.

(4), law (3), agriculture/farmers (2), business development (2), democratization/human rights (1), and arts/crafts (1).³⁵ An evaluation of the program's results showed that in most cases, various forms of cooperation were established between NGOs, makhalla committees and residents. Residents themselves actively participated in identifying the problems and in finding solutions, while khokimiyats and other government structures that supported the projects were involved in the dialogue.

However, as mentioned previously, cooperation with the makhallas was mainly based on interaction with their chairmen, but not with their commissions. This is explained by the lack of interest on the part of commissions of makhalla committees to become more actively involved. In many cases, work was held back by the excessive workload of the chairmen, and in some cases by their incompetence.

A large number of programs implemented by international organizations (e.g. World Bank, UNDP and ADB) has shown how local communities can play an important role in promoting human development. Capacity building initiatives provided by these organizations helps the local population acquire new skills and knowledge and apply them in community initiatives and in the mobilization of local and external resources.

At the same time the potential of the community organizations is not being fully exploited. Continuing efforts must be aimed at strengthening the regulatory and legal, financial, personnel, and other frameworks needed to improve the work of local community organizations. The role of the makhalla in local governance could be improved by the following measures: creating stronger and more sustainable community organizations; increasing the opportunities for local communities to participate in managerial

BOX 4.13. Results of "Year of the Makhalla" Program

A significant amount of social assistance was provided to the elderly in the form of food, drugs, and free medical treatment under the "Year of the Makhalla" program. Special attention was also paid to developing sport activities for children. Responsible organizations are conducting tournaments such as the "Future of Our Football", "Palvans of Our Makhalla", and "Belbogi Kurash", and are coordinating their efforts all over the country. There are plans to involve over 2.5 million children in these competitions.

Source: "Year of the Makhalla" Program: Analysis of Work Done."

BOX 4.14. Makhalla Initiative Program Goals

The main objectives were:

1. to increase the number of NGO clients, as they are generally recognized to be representatives of public opinion and partners in activities with local communities; and to help them find ways to solve problems which they themselves have identified;
2. to promote the transformation of makhalla committees and other local administrative structures into a two-way channel for dialogue between citizens and the government; and
3. to ensure sustainable cooperation between NGOs and makhalla committees within the framework of social partnerships.

Source: Reference book for leaders of makhallas and community organizations in Uzbekistan Success Stories. Prepared by the Association of Business Women of Uzbekistan together with the social association "Hamkor-Consulting" with financial support from the World Bank under the project "Group on Development of Autonomy of Communities", 2003.

decisions directly related to the needs of the communities; and building up the experience of local communities in promoting economic, legislative, and other initiatives both locally and centrally.

Building capacity in the community organizations will require a series of legal, regulatory, financial, and other measures in order to achieve the following goals: to give the makhallas the status of a legal entity with full powers subject to private and/or public law; to make the kengash assemblies accountable to the citizens who elect them; to establish local administrations staffed with highly-qualified personnel accountable to the kengash; to allocate the kengash of citizens sufficient financial resources to perform the management functions which they are ready to undertake; to increase the technical equipment available to makhalla committees; and to upgrade the technical training of their staff.

The complex task of ensuring human development calls for broad participation and cooperation among all structures contributing to the process

4.3 EMPOWERING THE CIVIL SOCIETY

The complex task of ensuring human development calls for broad participation and cooperation among all structures contributing to the process. As already noted, in present day Uzbekistan, the most common approach to sequencing activities is "top down". Strategies and program measures of economic and social development are defined by government bodies at the republican level; then are passed down to regional branches, where these measures are made more specific and supplemented in order to take into account particular local conditions; and then are passed

down further to be implemented by an administrative body at the next level. In other words, the following administrative chain is generally used: government – ministries/departments – regional khokimiyats – city/raion khokimiyats – communities – citizens.

Three levels of interaction can be identified:

- The national level, where government bodies, ministries and departments, as

35 Based on the results of intermediate assessment conducted in February 2002 by Jane Yuledemann, an independent expert in assessment of programs and projects.

Most non-government organizations address aspects of human development such as health care, education, physical training, spiritual upbringing, protection of human rights, assistance to socially vulnerable population groups, land improvement of residential areas, and others

NGOs are involved in different types of activities and bring together different components of society in order to solve complex issues in specific regions

well as regional, non-governmental and social structures elaborate policies, strategies, priorities and mechanisms (including social norms, guarantees, etc.) for national programs conducive to human development. Their implementation is obligatory throughout the territory of the country.

■ The regional level, where regional (oblast) government bodies and administrations (khokimiyats) in cooperation with raion bodies (raion and city khokimiyats) and other structures: **a)** make comments on the draft decisions generated by the first level; **b)** expand them, upon approval, so as to take into account local conditions and opportunities, and to develop and approve measures to ensure achievement of the goals of the initial programs.

■ The local level, where the measures to improve the living standards and welfare of the local population are actually implemented.

Assessment of current practice shows that while interaction between structures of the first and second level is common, interaction with the third level is limited. Here, partner interaction is usually limited to higher administration – regional and city khokimiyats – and their functional subdivisions. The many structures at the primary level are involved only to a small extent in these processes, and NGOs and households themselves are insufficiently engaged.

Non-government non-profit organizations (NGOs). There are currently more than 5,000 NGOs in Uzbekistan, including 130 national cultural centers, and more than 70 foundations.³⁶

Most NGOs address aspects of human development such as health care, education, physical training, spiritual upbringing, protection of human rights, assistance to socially-vulnerable population groups, land improvement of residential areas, joint management of infrastructure of residential buildings, and others.

Women's NGOs considerably contribute to all of the above. Women's organizations such as the Women's Committee of the Republic of Uzbekistan (1991) and the Business Women Association "Tadbirkor Ayol" (1991) were among the first NGOs to be established in the country. These NGOs and some others that appeared during the first years of independence were created with active assistance from the government. In this respect, they closely interact with government agencies, have a sustainable fi-

nancial base and organizational potential, and also provide support to government initiatives, among their other activities.

Presently, over 50% of NGOs carry out their work in areas related to interests and rights of women. The activities of these organizations tend to focus on vocational retraining and employment, counseling, the protection of the rights of women-entrepreneurs, the development of educational programs, the protection of women and children's health (Box 4.15).

The most important spheres for NGO activities are those which aim to help populations at risk during the transition to a market economy: the protection of socially vulnerable population groups, assistance for children at risk (Box 4.16), medical and social rehabilitation of the disabled, and protection of minorities.

The experience of existing NGOs shows that they are more likely to be successful if they establish cooperation with both the local population and government bodies, and if they consolidate efforts to achieve their goals. This is particularly evident in the work of the more than 50 NGOs active in environmental protection. The Ecoforum organization was set up in order to consolidate the efforts of these organizations and to create opportunities for their participation in government and international environmental programs, projects, and decision-making processes pertaining to environmental issues.

NGOs are involved in different types of activities and bring together different components of society in order to solve complex issues in specific regions. For example, the international scientific society "Al Khorezmi Vamberi" created in Khorezm region, unites specialists, entrepreneurs, researchers and representatives of the creative arts in order to promote the social and economic development of Khorezm region, support the development of civil society, and solve environmental problems in the region.

³⁶ In accordance with the Law of the Republic of Uzbekistan "On Non-government Non-profit Organizations" of April 14, 1999, the following types of NGOs may be established: public associations, community funds and facilities, international non-government non-profit organizations, and others listed in the legislative acts. The Law of the Republic of Uzbekistan "On Public Associations", in its latest edition of December 26, 1997, uses a broader concept of public association. These include professional associations, political parties, associations of scientists, women's organizations, veterans' and youth organizations, artistic unions, grass-root movements, and other civic associations. However, in the Law of the Republic of Uzbekistan "On Non-government Non-profit Organizations" public associations refer to only one of the possible forms of organizations and legal forms of NGOs.

From 2001 to 2003, the number of NGOs in the region increased from 27 to 103, training courses were organized, and community needs assessments were conducted in makhallas. Recognition of NGOs role by local governments is another qualitative indicator of their success. The attitude of local regional and raions governments towards NGOs is gradually changing as a result of their activities and, particularly, due to the training sessions organized by these NGOs, in which representatives of local government have participated.

Along with providing social services, NGOs implement programs aimed at the development of local communities. The main goal of these programs is to mobilize the potential of local governments, to help them to articulate their own problems and to find ways to solve them. For this, the development in local communities of the following skills is vital: self-assistance, support, and the ability to involve all stakeholders in finding solutions to problems.

NGOs have acquired rich experience in this area through working under the Community Action Investment Program – CAIP, which has been implemented since May 2002. The main objective of this program is to provide assistance to local communities in developing their ability to solve problems by means of their own resources, for example in the sphere of infrastructure development and employment generation (Box 4.17). This program involves 60 communities, which were selected on the basis of results from a survey of the level of development of local communities. The results of this study pointed to a rather poor understanding of the role of NGOs among the population, and a lack of awareness of the possibilities of these institutions and their activities.

Using skills and knowledge received from training courses, selected communities will implement one infrastructure improvement project per year, over a three-year period. For best results, communities should not only receive training and implement their own projects, but should also learn how to interact with local governments, business structures, NGOs and international organizations.

Condominiums. A good example of true decentralization and devolution of functions from local governments to non-government, non-profit organizations is the system of managing the common property of citizens in apartment complexes (condominiums) practiced in a number of Eastern and Central European countries. In

BOX 4.15. An Example of the Activities of the “Mehri” Society

The “Mehri” society has opened a counseling and training center for women and their families, “Mapurahonim”. The center offers women the opportunity to acquire skills and knowledge which will help them find a well-paid job, and help empower them in general. The center “Mapurahonim” has organized free training courses for social workers – for taking care of infants and pre-school children, the elderly, the sick, and retirees, as well as for housekeeping. Moreover, “Mapurahonim” takes active measures to ensure the job placement of women who have taken part in their courses on providing practical services to the population.

BOX 4.16. “Sen yolg’ iz emassan” (“You Are Not Alone”) Fund

The Republican Social Children’s Fund has been functioning successfully since November 2002. The activity of the “SYE” is aimed at providing:

- health care and psychological assistance to children;
- assistance in placing children from disadvantaged families into orphanages;
- help with the job placement of children from orphanages, and in setting up their independent lives;
- organization of tutoring, training programs, study groups, courses, and recreation facilities for children;
- assistance for children’s homes;
- organization of free lunches for children from poor families;
- implementation of practical measures pertaining to the protection of interests and rights of children;
- assistance to particularly gifted children and others.

On the initiative of the Fund, the Republican Center for Social Adaptation of Children under the Committee of Women of Uzbekistan was set up to help with the social and medical adaptation of disabled children, children with physical and neuropsychological defects, orphans, children left without parents or guardians, and children from disadvantaged families.

Uzbekistan, apartments in blocks were fully privatized in the early 1990s. However, it is proving difficult to establish a new market system for the management of the common property of such buildings.

In Uzbekistan in 2000–2004, 1,466 condominiums were created on the basis of the experience of the Eastern European countries. They received the status of NGOs, and were given the task of using democratic means to solve all issues of improvement and sanitation of nearby territories, capital repairs of apartment blocks, routine repairs for the domestic supply of water, gas, electricity, etc. Accordingly, government housing offices previously responsible for the maintenance and upkeep of apartment buildings were disbanded, utility service agencies were reorganized, and the Ministry of Communal Services was abolished. The recreated state agency “Uzkommunhizmat” was entrusted with new tasks, which were limited to the construction and upkeep of main water pipes and drains, and the natural gas supply. All other services were transferred to local governments and the new condominiums.

However, the condominiums were not able to completely solve all the issues facing tenants at a decentralized level. This resulted mainly from administrative intervention into the process of condominium establishment; which, in turn, resulted from pressure by local governments to

establish condominiums. In international practice, tenants of one or a few houses sharing common property form a condominium. In Uzbekistan, a condominium usually comprises some 20 apartment complexes, which makes management insufficiently transparent, inefficient and often undemocratic. Tenants often do not understand why their maintenance

payments have to be spent on apartment buildings other than their own. Besides, with the large number of condominium members (in Tashkent, for example, one condominium includes over 1,000 apartments) it is impossible to ensure democracy and transparency of management-board election procedures, expenditures of funds, etc. Consequently, most condominiums do not work democratically, but rely on administrative methods, and thus fail to provide the population with quality services.

The need to increase the responsibilities of condominiums arises from the need to transfer powers to their members and to ease the conditions for joining and quitting condominium membership regardless of the extent of common property to be managed. It is important to create the legal conditions for the establishment and performance of professional managing companies to be engaged by condominiums. Such cooperation will enable the professional management of common property to be ensured.

Through their activities in different spheres, NGOs make their contribution to human development through the creation of jobs, the expansion of opportunities for the participation of the population in discussion and decision-making, the protection of human rights and support for various social groups, the attraction of financial, technical, informational, and other resources (Box 4.18). Despite this, however, the capacity of NGOs remains underutilized. Their impact is limited by problems within the organizations and by public misunderstanding of their role and distrust towards them.

The key aim of decentralization is to develop initiatives at the lowest level of administration and to exploit local opportunities for improving human development as a supplement to national programs. Its main objective is to establish the framework and conditions which efficiently facilitate interaction among local structures in order to conduct needs assessments, to develop and implement measures to support initiatives, and to assist the population in improving their living conditions. In this regard, it is necessary to expand the scope of activities of community organizations (makhalla committees), to increase the interaction of NGOs and other public associations with government agencies, and to promote the participation of each household and

BOX 4.17. The Experience of Implementing a Project within the MIP Program

As in many other raions of the Ferghana region, lack of drinking water has become a priority problem for residents of the "Bedarak" mahalla, in the Pakhtaabad village council in the Bagdad region. Residents of the makhalla learned that their neighbors had been able to solve the water problem without waiting for assistance from the local government. The makhalla created an "initiative group" which asked the NGO "Ayol va Zamon" for help. This NGO, in accordance with a project funded by Counterpart, had mobilized residents of the makhallas "Samandarlik" and "Yangi Kishlok" to solve the drinking water problem. Having received advice from the NGO "Ayol va Zamon", the initiative group of makhalla "Bedarak" addressed the Ferghana hydrogeological station (FHS) with a request for assistance in laying water pipes to their makhalla. FHS carried out groundwater exploration of this raion and allocated eight million soums for well-boring. The residents, in their turn, collected one million soums, bought 450 meters of pipes with this money and laid them in their streets. As a result, 135 families in the makhalla "Bedarak" now have access to clean drinking water.

Source: Reference book for leaders of makhallas and communal organizations in Uzbekistan: Success Stories. The Association of Business Women of Uzbekistan and the social association "Hamkor-Consulting" with financial support from the World Bank under the project "Group on Development of Autonomy of Communities", 2003.

BOX 4.18. The Experience of interaction NGOs with Khokimiyats

The analysis showed that khokimiyat employees divide NGOs into two categories: integrated and non-integrated NGOs. Integrated NGOs are those which work closely with the khokimiyats. Integrated NGOs are based on organizations created with assistance from the government (associations of rural and husbandry farms, the chamber of manufacturers and entrepreneurs, etc.). Here it was noted that integrated NGOs are very passive in drafting legislative proposals. There are no cases of NGOs acting as initiators in drawing up and implementing certain regional plans and programs. None of the surveyed NGOs had even once taken initiative in drafting new legislation in the course of their work.

Khokimiyats do not wish to work with the non-integrated NGOs. The main reason for this is that khokimiyat employees are not interested in the results of these NGOs' work. The purpose and concept of NGOs are not quite clear for them. They regard these NGOs only as supplicants pleading for financial and administrative assistance.

Nonetheless, in the opinion of khokimiyat workers, closer cooperation with NGOs could considerably improve the quality of services rendered to the public by khokimiyats, since NGOs could provide significant assistance in monitoring the quality of the services rendered.

Source: Report on the pilot project on functional analysis conducted in khokimiyats of Kashkadarya region. CER, 2004.

BOX 4.19. Makhalla and Employment

The population of the Rishtan rayon is over 148,000, of them 71,000 are of working age, and 57,000 are permanently employed. According to monitoring results 2,100 unemployed were registered, the rest are women on maternity leave, students and schoolchildren.

Additional jobs were created by means of engaging people in socially useful labor, training young people in various specialties, and creating advanced processing plants. A program developed by the raion khokimiyat along with the labor and employment department, women's committee, general prosecutor's office, village community assemblies, and other structures stipulated a set of measures aimed at the resolution of socioeconomic issues. Village community assemblies held meetings in eight villages throughout the realization of the project. Open, motivated, and businesslike talk yielded solutions for dramatic improvement of the situation. In particular, the issue of personnel training came up when a network of household services was opened. Twenty people signed up for sewing, gold-working and shoemaking courses.

The topic of one Mekhnatabad village community meeting was land improvement and the planting of trees on the territory and streets of the village. No one was left indifferent about the decision: schoolchildren, shirkat workers, and farmers participated in these activities.

Activists from Uyrat village – the most densely populated one in the raion – were the first to open an occupational training center. A building that stood empty a while ago is now being remodeled at full speed. Soon, there will be joinery, carpentry, gold-working and bakery courses at this building.

Source: Nabidzhon Sobir, Maksud Zhonihonov, "On Route of Kindness and Mercy: Ferghana Oblast", Narondoe Slovo, July 1, 2004, No.135.

every able-bodied household member in improving their own well-being.

The involvement of NGOs and numerous lower-level structures in promoting human development will make it possible

to eliminate discrepancies in the degree of participation at different levels, and to form an optimal pattern of interaction among involved parties, utilizing elements of both top down and bottom up practices.

E-GOVERNMENT FOR IMPROVING THE EFFICIENCY OF PUBLIC ADMINISTRATION

5.1. E-GOVERNMENT AND PUBLIC ADMINISTRATION REFORM. ENGINE OF GREATER TRANSPARENCY AND DECENTRALIZATION

In order to ensure that ICT improves the efficiency of public administration, it must be introduced as part of a broader effort to reform that administration, as well as endeavors increasing the transparency of government bodies, making them more accountable to citizens, and involving large sections of the population in decision-making

Generally speaking, “e-government” constitutes a tool that promotes application of information and communication technologies (ICT) in public administration with an aim to increase the efficiency and accountability of government and to ensure public access to its services. E-government can help:

- increase transparency and accountability of government decision-making, thereby reducing the risk of corruption;
- improve access to information (e.g. laws and other legal and regulatory documents, statistical and other information);
- broaden the participation of civil society institutions in the public life;
- reduce costs for small and medium-sized businesses.

However, the introduction of information and communication technologies does not by itself improve the efficiency of state administration. Indeed, ICT alone may have no positive effect at all on the activities of government bodies. In fact, when purchasing new computers, establishing local area networks and linking computers to the Internet, top civil servants often have no clear idea of how these tools should be used to increase work efficiency in their institutions.

In order to ensure that ICT improves the efficiency of public administration, it must be introduced as part of a broader effort within the reform process, as well as endeavors increasing the transparency of government bodies, making them more accountable to citizens, and involving large sections of the population in decision-making. Without these measures, the acquisition of computers or of the other office equipment and the training of public servants using the new equipment will not necessarily lead to any tangible increases in efficiency.

Introduction of modern information and communication technologies can help significantly reduce and even overcome some of the obstacles to decentralization of public administration. Such

barriers include an information vacuum in the activity of regional and raion authorities, NGOs; slow information flow and feedback among central, provincial and district authorities; absence of information channels between government bodies and citizens; and lack of opportunities for providing public services to businesses and citizens through electronic communications.

The efficiency increase expected from the introduction of ICT in public administration includes the following:

Firstly, increased productivity, lower costs and better organization of work can be led by upgrading the technological skills of civil servants. To improve the quality of work and to reduce staff quantity (as a result of increased productivity) as well as refining the technical capacities

One of the reasons for benefiting public administration through ICT use is the relative simplicity where “management tools” such as resolutions, decrees, documents and reporting forms, can be converted into an electronic format, so as to facilitate their transmission, dissemination and monitoring. Interaction with a society at large is the cornerstone of government; the introduction of electronic technologies can accelerate and facilitate interaction processes, leading towards more effective governance.

Secondly, ICT can contribute to the refinement of analytical techniques, thus improving the process of drafting documents and policy decision making. It can also improve the quality of planning, monitoring and controlling the allocation of human, financial and other resources, as well as the supervision of work performance. Modern technology speeds up the process of collecting, processing, summarizing and distributing information required for policy decisions.

Thirdly, ICT can improve inter-departmental communication, facilitating quick and

informed decisions on complex issues through a fast exchange of information. This can help in creating strategic links within the government by intertwining various branches of power, ministries, departments, local authorities and government databases, with an aim to strengthen the policy analysis and policy formulation potential, and execution of state strategies and policies. Improved communication channels and information exchange can also reduce duplication of efforts in data collection, thus leading to savings in human and, ultimately, financial resources.

Fourthly, ICT can facilitate the delegation of authority, power and resources to those actually working in the field. In other words, it can bring about a effectively decentralized government decisions-making process.

Fifthly, ICT can improve the quality and efficiency of the services provided by the state authorities to citizens and businesses while considerably reducing the risk of corruption, which is more common when there is direct contact between civil servants and citizens or entrepreneurs. The risk is much lower when this type of contacts takes place electronically.

The aforementioned advantages have stipulated equipping all state authorities in developed countries with ICT tools, thus enabling the creation of so-called e-government. The most advanced examples of e-government in developed countries are the public administration system in the USA and the UK, whereas Estonia is the leading example among transition economies.³⁷

It should be noted that e-government is not the only solution in achieving these goals but to a great extent can ensure their comprehensive introduction and sustainability. However, by increasing overall efficiency, the government can make significant cuts in public expenditures, and ensure tax and custom duties collection processes to be more effective through transparent and continuous contact with citizens, especially with those residing in remote and sparsely-populated regions.

5.2. THE INTRODUCTION OF ICT INTO PUBLIC ADMINISTRATION IN UZBEKISTAN

Situation Analysis and Key Problems. Introduction of ICT, as a key component of e-government, requires a certain extent of preparation on the part of the government and society. In order to assess the readiness of government and society for the introduction of “e-government”, it is necessary to answer several basic questions: Do the people understand the need to build an information-orient-

The indirect benefits are equally important and include means to promote greater transparency and accountability in decision-making, development of local electronic culture and stronger democracy. The introduction of e-government can also help identify the weakest links in the structure of public governance and reveal redundant functions and structural units. E-government can act as a window revealing the internal processes taking place in public administration as well.

Principles for Using ICT in Public Administration. Experience shows that the introduction of information and communication technology as part of administrative reform should be inspired by the following principles:

- Government should use ICT not to control, but to regulate the interaction between the government and the society in a timely and effective manner, since proactive regulation is far more effective than a belated response.
- Government should not interfere in the private lives of citizens and society. The introduction of ICT should guarantee observance of private property rights.
- ICT should be considered as only one component in the overall reform of the system and functions of the government, aimed at improving the performance of the public administration.
- Strong political will is necessary to initiate reforms which ensure decentralization of the government along with the use of information technology.
- A regulatory and legal framework must be developed; human resource training and adequate financing must be provided; psychological barriers preventing civil servants from using ICT must be eliminated.
- ICT should be used extensively to improve the provision of public services and to establish feedback channels among the government, citizens and businesses.

International experience has shown that the opportunities provided by e-government entail a certain number of risks, which are summarized in Table 5.1 below.

The introduction of e-government can help identify the weakest links in the structure of public governance and reveal redundant functions and departments

The introduction of ICT, as a key component of electronic government, requires certain preparation on the part of the public administration and society

ed society? Are they ready for the changes which this entails? Is the government willing to “go electronic”? Have the required security systems been created to minimize the risks of e-government? How will an information-oriented society encourage regional, sub-regional,

³⁷ Other countries are at various stages of creating an electronic government. See the CER Policy Paper on “E-readiness assessment of Uzbekistan”, 2001/11.

TABLE 5.1

Social Risks Associated with the Creation of E-Government

Risks	Ways to Reduce Risks
Risks Faced by the Government	
1. Leaks of secret information through information networks	1. Creation of security systems (additional risk: increase in costs)
2. Virus attacks on state information systems destabilizing the performance of government agencies	2. Creation of security systems (additional risk: increase in costs)
3. Ineffective use of expensive equipment and technology	3.1. Prior rationalization of government (before introducing e-government) 3.2. Upgrading skills of civil servants 3.3. Development of computer hardware and software
4. Decreased quantity and quality of vertical decision-making (from the center to region) due to gaps in the level of technical equipment at various levels of state administration	4. Synchronization of introduction of technical equipment at various levels of government (additional risk—high non-recurrent costs)
Risks Faced by the Civil Servants	
1. Negative health impact from utilization of office appliances	1. Additional labor and health protection measures for employees (additional risks: costs incurred by government agencies and civil servants)
2. Deterioration of interpersonal communication skills with co-workers and the public	2. Psychological training
Risk Faced by Society as a whole	
1. Greater opportunities for the government to control businesses (the intervention of state agencies in the activities of entrepreneurs presents the highest risk)	1. Legal restraints on the inspection of entrepreneurs and a ban on unlawful intervention into their economic activities
2. Greater opportunities for the government to intensify control over information and over the lives of citizens (limiting people's civil rights), and to interfere in people's private lives	2. Statutory limits, with sanctions in case of abuse, on the use of information technologies to intrude into people's lives
3. Additional costs incurred by society in the creation of e-government and security systems	3.1. Decrease in relative costs due to the preliminary optimization of government performance 3.2. Decrease in costs of state administration after the introduction of e-government 3.3. Increase in public social benefits due to the introduction of e-government
4. Leaks of forged information into public networks, with negative consequences for society and public interests	4. Introduction of direct action systems to fight forged information which can potentially harm society
5. Large-scale potential effect on society if destructive or terrorist forces make use of ICT	5. Creation of secure systems of control over information space
6. Greater dependence on the continuous operation of the electric power grid and communications network (in case of their mass destruction, the financial and economic life of society may come to a halt)	6. Creation of backup power lines, capacities and security systems, etc.

and international cooperation and accelerate the process of decentralization? What attitude of the government towards citizens can be transformed into electronic commercial activities to replace vague procedures of the state orders by transparent procedures of electronic public purchases? What are the needs of society in using electronic equipment, and does this demand create sufficient incentives for most members of society to become computer literate? Are there conditions to create a competitive domestic market for computer hardware and information technology? And, finally, does the adequate level of equipment exist in the country?

E-readiness assessment of Uzbekistan was conducted in 2001 creating a basis for a more thorough study and analyses of the problem³⁸ and the subsequent adoption of a national ICT development program and a number of related laws, including a few radical ones.³⁹ The major laws adopted in this field enabled the creation of favorable customs regulations to facilitate the import of computers and components; the complete exemption of these goods from all custom

duties until January 1, 2006; the allocation of budget resources for the gradual equipping of all types of training institutions – schools, colleges, lyceums, universities – with computer technologies; the creation of favorable tax and customs regimes for domestic software producers; the provision of government support to these producers by placing orders from ministries and departments for the development of local area networks, websites, and other software products as well as support for the export of software; the creation of government electronic information resources and databases; and the creation of a legal framework for electronic document flow, e-commerce, digital signatures, etc.

Currently, 65% of government agencies are equipped with computers and 85% of all civil servants have computer skills. Local

38 CER Policy Paper "E-Readiness Assessment of Uzbekistan". 2001/11.

39 The decree of the President of Uzbekistan "On Further Development of Computerization and Introduction of Information and Communication Technologies" of May 30, 2002, Regulation of the Cabinet of Ministers "On Further Development of Computerization and Introduction of Information and Communication Technologies" of May 30, 2002.

area networks function in 83% of government agencies. At the same time, the percentage of electronic document circulation still does not exceed 25% in intraministerial data processing and 7% in interdepartmental document flow. The best examples of state agencies dealing with economic policies in Uzbekistan and making use of electronic networks are the banks, and, to a lesser extent, the tax and customs systems.

Today, the main problem in introducing computer technologies to public administrations is the lack of a coordinated economic and technological strategy in this area. The main constraint is the fact that most government employees and policy makers do not realize the potential benefits of e-government. As a result, the quantitative enhancement of technical capacities of the government agencies with computer technology (which in its turn fastly becomes obsolete) is not always accompanied by qualitative changes in the governance system.

The E-government Introduction Strategy should include a set of intertwined measures and activities that are to ensure:

- the improvement of intra-departmental and inter-departmental computer-based information exchange. This will bring about an enhanced "government-to-government" ("G to G") information flow.
- the improvement of the flow of electronic services and information between the government and the citizens ("G to C") and between government and businesses ("G to B").

The basis for achievement of the above tasks and objectives has been provided by a national ICT development program for the period up to the year 2010.

The program that was adopted in accordance with the Decree of the President of Uzbekistan "On the Further Development of Computerization and the Introduction of ICT", stipulates the following objectives:

1. Creating a regulatory and legal framework for ICT which ensures information security and observes the rights and freedoms guaranteed by the Constitution of the Republic of Uzbekistan.

Reforms should be based on legal and statutory acts which efficiently regulate the activities of ICT sectors and ensure free access to information, e-commerce, information security, and electronic evidence of identification. Legal and statutory acts should efficiently regulate the interrelationships between the center, the regions as well between the center and sectoral departments. This requires the development of a whole new legislative package, including laws on "On Computer Crimes", "On Electronic

Funds Transfer", "On Standards for Databases of Government Agencies", "On Electronic Public Services" and others.

2. Ensuring free access of the private sector and civil society to open government information resources.

To achieve these goals, first of all, the functional activities of departments and institutions must be analyzed and the intra- and interdepartmental electronic flows examined, including the formation of databases at ministries and institutions. The main task in achieving these targets is to develop standards for government documents and protocols for interdepartmental information exchange, and to create incorporated interdepartmental network for information exchange. It is necessary to look carefully at the possibilities of transferring into electronic form of those public services which require direct contact with people (collecting payments for utilities, submitting tax declarations and pension contributions, etc.).

3. Raising awareness on benefits of using ICT tools among population, and civil servants in particular.

To achieve these goals, a set of measures should be taken to raise the public awareness and knowledge on constitutional rights to receive and send information, ensure free access to government information and increase the efficiency of a mechanisms of public control over the government activity.

4. Increasing interaction among government agencies both at intra- and inter-departmental levels and with businesses and citizens through application of ICT tools. Considering the high costs involved in e-government, it is crucial to proceed with its introduction based on functional characteristics rather than sectoral ones. Moreover, it is important to start with those functions or services where high recurrent costs can be reduced significantly through the use of e-government. Some examples include:

- dissemination of tender information and reception of commercial (tender) proposals through the Internet and via e-mail;
- creation facilities in public buildings in remote regions and areas to ensure access to government information on parliamentary laws, government regulations and decrees, ministry and departmental regulations and instructions. Although these services in large cities and suburbs are provided by the private sector, the latter is unlikely to be interested in covering distant and sparsely populated areas. In order to decrease costs, the existing infrastructure (banks, post offices) could be

According to the program for the introduction of information and communication technologies in public administration by 2010, the equipping of government agencies should reach 100%, the share of electronic document circulation should equal to 70%, and that of interdepartmental document flow should be 40%

E-government could make the decentralization process more realistic and feasible, thus increasing efficiency throughout the entire structure of public administration and helping to promote human development

used to provide these services, while charging users a minimal fixed fee;

- the encouragement of public discussion of draft laws and key government decisions. In addition, it is expedient to make public those comments and recommendations made by appropriate ministries and agencies;

- the creation of a system on-line licensing and certification, with the opportunity to track the progress of the inquiry at every stage.

5. Capacity building through ICT based education. Developing integrated educational programs in the field of ICT will ensure the availability of highly qualified specialists and result in raised professionalism of employees.

6. Forming a unified information and telecommunications infrastructure to further improve the performance of government agencies and offices. According to the program for the introduction of information and communication technologies in public administration by 2010, the equipping of government agencies with computer technology should reach 100%, the share of paperless document circulation should equal to 70%, and that of interdepartmental document flow should be 40%.

In order to advance e-government from technical perspectives, a solid telematics platform should operate at an affordable cost, provide quality services and ensure highly skilled staff. Under this conditions the main barriers to a broad introduction of e-government could be the lack of necessary skills in

public administration and limitations of infrastructure.

There are networks that cover the whole Uzbekistan but they are still remain incoherent and not intertwined with one another. Moreover, the limited budgets of agencies concerned do not allow them to bear all the expenses to introduce and maintain connection systems and modern technology. As a result, the implementation of ICT remains fragmentary and prevents the full introduction of e-government.

In addition, Internet usage is not prevalent and availability of the centers for collective access is fairly limited. Consequently, this directly restricts the potential success of programs for e-government, that prioritize the rights of individuals, groups and enterprises to direct online access to various state agencies services.

The solution of the aforementioned problems within implementation of the E-Governance strategy has to become a priority-driven aspect of the entire reform process. It is known that the decision-making at local level is more effective, but a lack of sufficient capacities and difficulties in monitoring of activities lead back to a centralized decision making process. The use of e-government methods that ensure transparency at all levels of government could make the process of decentralization more realistic and feasible, thus increasing the efficiency throughout the entire structure of public administration and helping to promote human development.

TECHNICAL NOTES

The Calculation of the Human Development Index

The Human Development Index (HDI) is an integral indicator characterizing the quality of a population's life, which has been developed and published by UNDP since 1990 in annual Human Development Reports.

The calculation of the HDI is based on detailed data from a majority of countries in the world and is universally recognized as a valid indicator for estimating a basis of comparison.

The value for the HDI ranges from 0 to 1, with 1 being the maximum possible value for any given country.

It reflects the level of a country's achievements in terms of three basic dimensions of human development:

- A long and healthy life as measured by life expectancy at birth;
- Knowledge as measured by the adult literacy rate (with two-thirds weight) and the combined primary, secondary and tertiary gross enrolment ratio (with one-third weight);
- A decent standard of living as measured by GDP per capita (PPP US\$).

Before the HDI itself is calculated, an index for each of the dimensions should be determined within a range from 0 to 1, calculated by the following formula:

$$I_E = \frac{\text{fact } X_i - \min X_i}{\max X_i - \min X_i}$$

I_E — Element Index; $\text{fact } X_i$ — Real Value; $\min X_i$ — Lowest Value; $\max X_i$ — Highest Value.

The GDP index is calculated through a corrected per capita GDP (PPP US\$), since an unlimited approach is unnecessary to determine adequate levels of human potential. Therefore, an income logarithm is used.

Based on the above, the formula for GDP index calculation is as follows:

$$I_{GDP} = \frac{\log(\text{fact } X_i) - \log(\min X_i)}{\log(\max X_i) - \log(\min X_i)}$$

I_{GDP} — GDP Index.

The HDI is then calculated as an arithmetic average with the help of these elements:

$$HDI = 1/3(I_{LE}) + 1/3(I_E) + 1/3(I_{GDP})$$

I_{LE} — Life Expectancy Index; I_E — Education Index; I_{GDP} — GDP Index

RANGE OF VALUES FOR CALCULATING THE HDI

Indicator	Max	Min
Life expectancy at birth (years)	85	25
Adult literacy rate (%)	100	0
Combined gross enrolment ratio (%)	100	0
GDP Per capita (PPP US\$)	40 000	100

The Gender Empowerment Measure (GEM)

Focusing on women's opportunities rather than their capabilities, the GEM captures gender inequality in three key areas:

- Political participation and decision-making power, as measured by women's and men's percentage shares of parliamentary seats.
- Economic participation and decision-making power, as measured by two indicators: women's and men's percentage shares of positions as legislators, senior officials and managers and women's and men's percentage shares of professional and technical positions.
- Power over economic resources, as measured by women's and men's estimated earned income (PPP\$).

For each of these three dimensions, an equally distributed equivalent percentage (EDEP) is calculated, as a population-weighted average, according to the following general formula:

$$EDEP = [(S_F(I_F^{-1})) + [(S_M(I_M^{-1}))^{-1}]$$

S_F — female population share; I_F — female index; S_M — male population share; I_M — male index.

For political and economic participation and decision-making, the EDEP is then indexed by dividing it by 50. The rationale for this indexation: in an ideal society, with equal empowerment of the sexes, the GEM variables would equal 50%, that is, the women's share would equal the men's share for each variable.

The income index in the GEM indicates the individual's ability to earn income. It is used for registering the difference in the position of men and women with a view to the distribution of resources.

Acquiring income data which is broken down by gender is impossible. Therefore, approximate values of earned income of both men and women are calculated.

The calculation of income for women and men (PPP US\$) is carried out on the basis of the following information:

- The relationship of women's income in the non-agricultural sector and men's income in the non-agricultural sector (if information about the income relationship is absent, then 75% of the index is used);
- The share of women and men in the economically active population;
- The total population of women and men;
- Per Capita GDP (PPP US\$).

GEM is a simple arithmetic average of the three EDEP indices.

$$GEM = 1/3 EDEP_{PR} + 1/3 EDEP_{EP} + 1/3 EDEP_I$$

$EDEP_{PR}$ — EDEP for parliamentary representation; $EDEP_{EP}$ — EDEP for economic participation; $EDEP_I$ — EDEP for income.

The Method of GDP Calculation Based on PPP

The real per capita GDP in US dollars based on PPP for the period of 1995-2000, used in the Report in line with up-to-date information, was calculated using the method of global extrapolation of purchasing power parity (PPP) of national currency with regard to the results of international comparison of GDP, according to the data for 1996, by Shokamanov Yu. K. in his book: "Human Development Trends in Kazakhstan", Almaty; The Statistics Agency of the Republic of Kazakhstan, p.92.

Real per capita GDP in US dollars based on PPP for 2001 was adopted based on the data from the Report on Human Development for 2003, Minsk; Unipack, p.238.

The author calculated the real per capita GDP in US dollars based on PPP for the period of 2002-2003 by multiplying the

real per capita GDP (PPP\$) in 2001 by the rate of growth of the real GDP (assessed in base prices) per capita in the corresponding years.

In accordance with the method of global extrapolation of purchasing power parity (PPP) of national currency, the PPP at the level of GDP in the last reference year is extrapolated with the help of relative inflation rates, in comparison with countries which are used as implicit price deflators of GDP. Within the framework of the European Comparison Program (ECP), the basic PPP for GDP may be extrapolated on the basis of matching inflation rates in each country with the corresponding indicator in the reference country. Thus, for example, the PPP of the country **B** per annum (t+1) may be calculated by means of multiplying its PPP per reference year (t) by the inflation rate of the country **B** per annum (t+1) with subsequent division by the inflation rate in the reference country **A**.

Definition of Statistical Terms

Literacy Rate of Adults is the percentage of people aged 15 years and older who can both read and write with comprehension a short simple statement about their daily life.

Population Density is the total number of residents in a region divided by the area of that region.

Average Time of Education is the average number of years people aged 25 years and older have spent on education.

Coverage of Children is the number of children in pre-school institutions as a percentage of the number of children of corresponding age, determined as a ratio of the number of children attending pre-school institutions to the number of children aged 1-6 according to the given statistics on demographics, corrected with regard to the number of children at age 6 studying at school.

PPP (Per Capita Real GDP, purchasing power parity) is a method of using the official exchange rate of currency to transfer local prices into U.S. dollars, which does not provide a picture of real Purchasing Power Currency. The International Comparison Project of the United Nations developed a method of comparing Per Capita Real GDP taking as a base PPI expressed in U.S. dollars.

Sustainable Access to Quality Water is the percentage of the population that has access to quality drinking water, including purified surface water or unpolluted sources such as wells and protected bore holes.

Labor Force Replacement Index is the ratio of people aged younger than 15 years to 1/3 of the population aged 15-59 years.

Government Expenditure is the expenditure of all government institutions and organizations which act as agencies or instruments of the country's central authority. These include current expenditures, capital expenditures, expenditures on development and the jurisdiction of central authority agencies, but exclude law-enforcement, local, and private expenditures.

Gross Domestic Product (GDP) is the total number of goods and services produced for final consumption, produced by the economy of this country and its residents and non-residents, independent of their location, for the purpose of satisfying domestic and external needs.

Health Care Expenditure is expenditure on hospitals, health care centers and clinics, as well as health insurance programs and family planning.

Sustainable Access to Health Care is the percentage of the population that can get to a local health facility either by foot or with the help of local transportation within one hour.

Life Expectancy at Birth is the number of years a newborn infant would live if prevailing patterns of age-specific mortality rates at the time of birth were to stay the same throughout the child's life.

Life expectancy of individuals who have reached a definite age is the average number of years an individual of a certain age is expected to live, if the mortality rate were to remain unchanged. The life expectancy index is a more accurate characteristic of modern mortality rates that excludes the impact of age distribution on this index.

Education expenditure includes expenditure on maintenance, administration, inspection, and support for pre-schools, schools, specialized secondary schools, vocational schools, higher educational institutions, and professional training institutions, and on administrative and support services.

Permanent Population is the population residing permanently on a given territory during the time of census, including those who are temporarily absent.

Change Rate of Population is the relation of two consecutive dynamic levels of population.

Maternal Mortality Rate is the annual number of deaths of women from pregnancy or pregnancy-related causes per 100,000 live births.

Infant Mortality Rate is the probability of death between birth and exactly one year of age, expressed per 1,000 live births.

Total Birth Rate is the number of newborns in one year per 1,000 people.

Total Mortality Rate is the number of deaths per 1,000 people per year.

Total Mortality Rate of Children Aged 0-5 Years is the probability of death between birth and 5 years of age, expressed per 1,000 live births.

Gender-related Development Index is a composite index measuring average achievement in the three basic dimensions captured in the human development index – a long and healthy life, knowledge and decent standard of living – adjusted to account for inequalities between men and women.

Economically Active Population includes all the population of both sexes who produce economic goods and services as a result of their work, as defined in the UN national accounts and balance system.

The unemployed officially registered with employment agencies refers to individuals who do not have a job and are looking for one and who receive the official status of "unemployed" in the employment agencies.

Unemployment Rate is defined as the proportion of the unemployed to the economically active population.

Registered Crime is the number of crimes detected and registered by internal affairs agencies including socially dangerous acts proscribed by criminal law.

Investment into Fixed Assets refers to the expenditures on all types of construction; expenditures on equipment assemblage; on acquisition of equipment (which requires or does not require assemblage); on acquisition of instruments and household inventory, including all those for planned construction; and other capital work and expenses. Information on volumes of investments into fixed assets is given without taking into account the acquisition of equipment, buildings, and structures (or their parts) previously credited to the fixed assets of other enterprises and organizations.

STATISTICAL TABLES

TABLE 1. HUMAN DEVELOPMENT INDEX

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Life expectancy at birth (years)	69.1	69.2	70.1	69.9	71.1	70.8	71.3	71.2	71.6
Adult literacy rate (%)	98.96	99.06	99.13	99.15	99.16	99.17	99.18 *	99.19	99.20
Mean years of schooling (years)	11.4	11.4	11.4	11.4	11.4	11.4	11.5	11.6	11.6
Literacy index	0.990	0.991	0.991	0.992	0.992	0.992	0.992	0.992	0.992
Schooling index	0.76	0.76	0.76	0.76	0.76	0.76	0.77	0.77	0.77
Educational attainment	2.74	2.74	2.74	2.74	2.74	2.74	2.74	2.74	2.76
Real GDP per capita (\$ PPP) *	1973	2004	2105	2188	2301	2422	2460	2532.8	2616.2
Life expectancy index	0.735	0.737	0.752	0.748	0.768	0.763	0.772	0.770	0.777
Index of achieved level of education	0.913	0.913	0.913	0.913	0.913	0.913	0.913	0.913	0.917
GDP index	0.498	0.500	0.508	0.515	0.523	0.532	0.535	0.540	0.545
The gender empowerment measure (GEM)	0.351	0.368	0.371	0.364	0.373	0.382	0.378	0.380	0.411
Human development index (HDI)	0.715	0.717	0.724	0.725	0.735	0.736	0.740	0.741	0.747
GDP per capita rank minus HDI rank	–	–	13	–	19	–	21	–	–
HDI rank	104	–	92	106	–	–	101	–	–

* From 1995 to 2000 — information updated using by purchasing power parity of national currency (Human development in Kazakhstan, Almaty 2001, page 92); for 2001—Report on Human Development for 2003, page 238; for 2002–2003—our calculations

TABLE 2. HUMANITARIAN DEVELOPMENT

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Scientists and technicians (per 10,000 people)	12.3	12.2	11.0	11.0	11.0	11.2	10.9	11.3	10.9
Enrolment in education (% age 7–22)	76.0	76.0	76.0	76.0	76.0	76.0	76.7	77.3	77.3
Enrolment in tertiary education per 1,000 people	8.4	7.1	6.7	6.6	6.8	7.4	8.2	9.1	9.9
as % of constant population	0.8	0.7	0.7	0.7	0.7	0.7	0.8	0.9	1.0
Female enrolment as % of constant population	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Daily newspapers (copies per 100 people)	7	6	7	7	8	7	8	9	8
Television sets (per 1,000 people)	103	91	84	73	61	50	39	34	33
Radio sets (per 1,000 people)	122	106	94	81	65	53	43	39	39

TABLE 3. PROFILE OF HUMAN DISTRESS

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Unemployment rate (%)	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.3
Injures from road accidents (per 100,000 people):									
died	8.4	8.6	8.8	8.6	8.6	8.6	8.6	8.2	8.0
injured	50.3	48.9	48.2	48.7	48.9	47.4	47.3	45.2	44.5
Sulphur and nitrogen emissions (NO ₂ and SO ₂ per capita, kg)	21.0	20.6	20.3	18.2	18.2	16.7	14.3	14.0	13.1
Reported crimes (per 10,000 people)	29.4	28.4	28.3	28.7	30.9	29.9	29.7	30.4	31.2
including:									
intentional murder and attempted murder	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4
intentional grievous bodily injury	0.4	0.4	0.4	0.3	0.3	0.3	0.4	0.5	0.4
intentional homicides by men (per 100,000 people)	3.5	3.7	3.0	3.2	3.1	3.0	2.8	3.4	3.0
reported rapes (per 100,000 people)	2.5	2.6	2.1	2.2	2.3	1.7	1.9	1.9	2.1

TABLE 4. HUMAN DEVELOPMENT FINANCING

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total expenditure on education (as % of GDP)	7.2	7.4	6.8	6.9	7.1	7.1	7.0	6.8	7.0
Total expenditure on health (as % of GDP)	4.1	4.4	3.9	3.5	3.6	3.5	3.5	3.2	3.3
Real GDP per capita (\$PPP) *	1973	2004	2105	2188	2301	2422	2460*	2532.8	2616.2
State expenditure on education (as % of GDP)	7.4	7.7	7.3	7.4	7.5	6.7	6.8	6.7	6.4
State expenditure on health (as % of GDP)	3.6	3.5	3.1	2.9	2.8	2.5	2.5	2.4	2.4

* From 1995 to 2000 — information updated using by purchasing power parity of national currency (Human development in Kazakhstan, Almaty 2001, page 92); for 2001—Report on Human Development for 2003, page 238; for 2002–2003—our calculations.

TABLE 5. GENDER GAPS (FEMALES AS PERCENTAGE OF MALES)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Life expectancy	108.0	108.1	107.6	107.1	107.1	107.0	106.8	106.7	106.3
Population	101.4	101.3	101.1	101.0	100.8	100.7	100.6	100.5	100.3
Schooling	92.4	91.7	90.9	90.2	90.2	95.7	95.7	95.8	95.8
Secondary school enrolment	91.2	87.2	78.7	96.6	91.2	93.6	87.9	87.7	86.1
Secondary school graduates	90.1	85.9	87.0	87.2	91.6	94.0	85.7	82.5	93.2
Full-time enrolment in tertiary education	96.1	95.4	96.6	96.5	95.6	95.3	94.3	93.9	93.1
Tertiary school graduates	63.7	65.0	61.0	61.6	63.7	64.2	55.3	59.5	66.8
Women in labor force	74.7	77.8	78.7	79.1	79.2	78.9	78.7	78.6	78.6
Unemployment	2.0t.	2.5t.	1.9t.	2.2t.	2.6t.	2.1t.	1.8t.	2.0t.	1.7t.
Gender-related development index*	0.704	0.705	0.714	0.717	0.727	0.733	0.736	0.738	0.743

* See in Definition of Statistical Terms.

Note: Here in the table and after «t.» means «times».

TABLE 6. STATUS OF WOMEN

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Life expectancy at birth	71.7	71.9	72.6	72.3	73.5	73.2	73.6	73.5	73.8
Average age at first marriage (years)	20.2	20.6	21.4	21.0	21.0	21.4	21.5	21.6	21.8
Maternal mortality rate (per 100,000 live birth)	18.9	20.7	28.5	28.6	31.2	34.5	33.5	26.9	29.9
Secondary school enrolment (as % of total)	43.0	46.5	49.7	49.1	47.7	48.3	46.8	46.7	47.1
Secondary school graduates (as % of women in total secondary school graduates)	47.6	46.2	46.5	49.3	49.7	48.4	46.2	45.2	48.3
Full-time enrolment in tertiary education (as % of total)	41.9	42.8	41.0	37.1	38.6	38.9	39.6	39.7	38.8
Women in labor force (as % of total)	42.8	43.8	44.0	44.2	44.2	44.1	44.0	44.0	44.0

TABLE 7. URBAN AND RURAL DEMOGRAPHIC PROFILES

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Population (millions) at the end of the year									
total	22.9	23.4	23.8	24.2	24.5	24.8	25.1	25.4	25.7
urban	8.8	8.9	9.0	9.1	9.2	9.2	9.3	9.3	9.4
rural	14.1	14.5	14.8	15.1	15.3	15.6	15.8	16.1	16.3
Annual population growth rate (%)									
total	2.0	1.9	1.8	1.5	1.5	1.3	1.2	1.2	1.1
urban	1.1	1.3	1.3	1.0	0.9	0.7	0.7	0.6	0.3
rural	2.5	2.3	2.1	1.8	1.8	1.7	1.5	1.6	1.5
Average family size									
total	5.4	5.4	5.5	5.6	5.5	5.4	5.3	5.1	5.1
urban	5.2	5.0	4.7	4.7	4.6	4.6	4.6	4.4	4.3
rural	5.6	5.9	6.0	6.1	6.1	6.0	5.9	5.8	5.7
Contraceptive prevalence rate (%)	38.2	42.7	45.1	57.8	56.1	58.5	55.0	56.4	60.0
Population elder working age (%)									
total	7.6	7.6	7.6	7.6	7.6	7.3	7.2	7.2	7.1
urban	9.5	9.4	9.4	9.4	9.2	9.0	9.0	8.9	8.9
rural	6.5	6.5	6.5	6.5	6.4	6.3	6.2	6.2	6.1
Life expectancy at age 60–64									
total	17.0	17.0	17.5	17.1	17.8	17.3	17.6	17.1	17.2
urban	16.7	16.6	17.1	17.1	17.6	17.2	17.5	17.0	17.3
rural	17.3	17.3	17.8	17.1	17.9	17.3	17.6	17.3	17.2
women									
total	18.2	18.1	18.6	18.1	18.9	18.3	18.6	18.3	18.3
urban	18.4	18.2	18.7	18.5	19.1	18.7	19.0	18.6	19.0
rural	18.1	18.2	18.6	17.7	18.7	18.0	18.3	18.0	17.8
men									
total	15.5	15.5	16.1	15.8	16.4	16.0	16.3	15.9	16.0
urban	14.5	14.6	15.1	15.2	15.6	15.3	15.6	15.1	15.3
rural	16.3	16.3	16.9	16.2	17.1	16.5	16.8	16.5	16.5

TABLE 8. URBANIZATION

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Urban population at the end of the year (as % of total)	38.3	38.0	37.8	37.6	37.4	37.2	37.0	36.7	36.5
Annual growth rate of urban population (% for 5 year period)	1.1	1.0	1.1	1.1	1.1	1.1	0.9	0.8	0.6
Population in cities of more than 1 million as % of:									
total population	9.1	9.0	8.9	8.9	8.7	8.6	8.5	8.4	8.3
urban population	23.9	23.8	23.6	23.6	23.4	23.2	23.0	22.9	22.7
Population of biggest cites (cites of more than 100000 and over) as percentage of:									
total population	22.3	22.1	21.9	21.8	21.6	20.1	21.2	21.0	20.9
urban population	58.3	58.1	57.9	57.9	57.8	54.0	57.4	57.3	57.3

TABLE 9. MEDICINE AND HEALTH CARE

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Death from circulatory diseases (as % of all cases)									
total	46.5	46.7	47.2	50.0	50.6	52.6	53.4	54.8	54.7
urban	50.3	50.0	51.0	52.7	53.4	54.8	54.9	56.1	55.8
rural	43.5	44.0	44.2	47.8	48.4	50.8	52.1	53.8	53.8
Death from malignant tumor (as % of all cases)									
total	6.9	6.8	6.8	6.8	7.3	7.1	7.1	6.9	7.0
urban	9.5	9.1	9.1	9.1	9.4	8.8	8.7	8.6	8.6
rural	4.8	4.9	4.9	4.9	5.6	5.6	5.7	5.5	5.7
Registered alcohol consumption (liters per capita)	0.7	0.8	0.6	1.2	1.0	1.3	1.4	1.4	1.2
Population per doctor	298	302	328	296	302	305	309	314	318
Number of hospital beds per 10,000 people	79.0	72.5	65.9	58.2	56.4	55.9	55.8	57.8	57.4
Number of hospital beds for pregnant women per 10,000 women	43.2	47.7	47.0	45.3	42.6	40.5	39.6	38.1	35.7
State expenditures on health (as of total state expenditures)	11.2	9.7	9.5	8.9	9.1	8.7	9.6	9.4	9.6
State expenditures on health (as % of GDP)	3.6	3.5	3.1	2.9	2.8	2.5	2.5	2.4	2.4
Total expenditures on health (as % of GDP)	4.1	4.4	3.9	3.5	3.6	3.5	3.5	3.2	3.3

TABLE 10. EDUCATION PROFILE

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Enrolment of 6–23 years old (%)	76.0	76.0	76.0	76.0	76.0	76.0	76.7	77.3	77.3
Average years of schooling:	11.4	11.4	11.4	11.4	11.4	11.4	11.5	11.6	11.6
women	11.0	11.0	11.0	11.0	11.0	11.1	11.2	11.3	11.3
men	11.9	12.0	12.1	12.2	12.2	11.6	11.7	11.8	11.8
Secondary school graduates (Enrollment/Graduates %)	111.9	111.3	110.4	108.4	107.9	114.8	113.9	121.0	107.9
Secondary schools graduates (% of total school age population)	105.8	107.8	104.6	107.8	116.7	93.7	102.5	—*	71.1
Secondary specialized school graduates (as % of school graduates, vocational and specialized school students)	44.0	43.6	43.9	41.5	41.9	41.4	42.9	—*	43.3
19-years still in full-time education (%)	24.9	20.8	17.6	17.3	18.7	23.4	19.0	18.2	18.5
University equivalent full-time enrolment (% of all types of education)	85.8	86.4	85.1	84.2	84.8	91.2	89.4	84.0	78.5
University equivalent full-time graduates (as % of graduate age (22 years) population)	13.0	12.2	10.5	8.7	8.2	7.0	7.7	8.4	9.2
State expenditures on education (as % of GDP)	7.4	7.7	7.3	7.4	7.5	6.7	6.8	6.7	6.4
State expenditures on education (as of total state expenditures)	22.8	21.1	22.6	22.3	24.2	23.2	25.5	26.0	26.2
State expenditures on tertiary education (as % of expenditures on education)	8.6	8.3	5.4	7.0	6.6	7.0	6.8	6.7	6.5

* Comparable data not available due to changes in the school system, introduced as part of the education reform programme.

TABLE 11. EMPLOYMENT

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Labor force (as % of total population)									
total	37.4	37.1	37.0	36.9	36.7	36.6	36.7	37.1	37.6
urban	17.3	17.8	17.7	17.6	17.9	17.0	16.4	16.6	16.8
rural	20.1	19.3	19.3	19.3	18.8	19.6	20.3	20.5	20.8
Engaged (as % of total population):									
in agriculture and forestry									
total	41.2	40.9	40.7	39.4	36.2	34.4	33.5	32.6	31.9
urban	1.4	1.5	1.5	1.5	1.4	1.5	1.2	1.1	1.2
rural	39.8	39.4	39.2	37.9	34.8	32.9	32.3	31.5	30.7
in industry									
total	12.9	12.9	12.8	12.7	12.6	12.7	12.7	12.7	12.8
urban	11.4	11.5	11.4	11.3	11.3	10.7	10.2	10.2	10.3
rural	1.5	1.4	1.4	1.4	1.3	2.0	2.5	2.5	2.5
in services									
total	26.1	26.6	26.9	26.9	29.1	30.4	30.7	31.3	31.8
urban	18.8	19.9	20.2	20.1	20.4	18.5	18.5	18.7	18.9
rural	7.3	6.7	6.7	6.8	8.7	11.9	12.2	12.6	12.9
Future labor force replacement ratio (%)									
total	237	234	229	223	215	206	197	188	180
urban	189	186	183	179	173	166	159	152	146
rural	271	267	261	253	243	233	222	211	201
Percentage of employees unionized	100	100	100	100	100	100	100	100	100
Weekly working hours (per person in manufacturing)	40	40	40	40	40	40	40	40	40

TABLE 12. UNEMPLOYMENT

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Unemployed, having official status (thousand people)									
total	25.4	27.5	28.8	33.3	39.1	35.4	37.5	34.8	32.2
urban	10.3	12.1	8.5	11.4	14.3	14.0	11.5	11.9	9.5
rural	15.1	15.4	20.3	21.9	24.8	21.4	26.0	22.9	22.7
Unemployment rate, (%)									
total	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.3
urban	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.2
rural	0.3	0.3	0.4	0.5	0.5	0.4	0.5	0.4	0.4
Regional unemployment disparity (the bottom 25% of all regions compared to the top 25%)	11.2	7.0	9.4	9.8	8.0	5.7	5.7	5.2	7.5
Ratio between the number of unemployed and secondary and higher schools graduates	1.8	2.0	2.2	1.9	2.5	2.4	1.8	4.0	2.3
women	2.9	3.7	3.6	3.4	4.5	3.1	2.8	6.8	2.6
men	1.1	1.1	1.4	1.2	1.2	1.7	1.1	2.5	2.0
Incidence of long-term unemployed (as % of total)									
6–12 month	9.2	19.3	5.7	10.4	8.8	8.2	12.3	11.4	5.7
More than 12 months	4.9	3.3	2.2	2.8	3.5	3.1	1.6	3.0	2.8

TABLE 13. NATIONAL INCOME ACCOUNTS

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total GDP (bln. soums)	302.8	559.1	976.8	1,416.2	2,128.7	3,255.6	4,925.3	7,450.2	9,664.1
Agricultural production (as % of GDP)	28.0	22.4	28.3	26.8	29.0	30.1	30.0	30.1	28.8
Industry (as % of GDP)	17.1	17.8	15.6	14.9	14.3	14.2	14.1	14.5	15.0
Services (as % of GDP)	34.4	36.8	36.2	36.2	36.3	37.0	38.0	38.2	38.1
Private consumption (as % of GDP)	50.6	55.2	60.8	59.6	62.1	61.9	61.5	59.6	54.8
Public consumption (as % of GDP)	22.3	22.1	20.5	20.5	20.6	18.7	18.5	18.0	18.5
Gross domestic investments (as % of GDP)	24.2	23.0	18.9	20.9	17.1	19.6	21.1	21.8	20.8
Gross domestic savings (as % of GDP)	27.1	22.7	18.7	19.9	17.3	19.4	20.0	22.4	26.7
Tax revenues (as % of GDP)	27.3	27.7	26.0	27.9	25.9	23.3	21.0	22.5	22.5
Government spending (as % of GDP)	32.6	36.4	32.5	33.0	31.0	29.0	26.7	25.8	24.6
Exports (as % of GDP)	31.6	34.2	29.8	25.0	21.8	26.5	30.8	31.6	37.4
Imports (as % of GDP)	28.7	34.5	30.0	26.0	21.6	26.7	31.9	31.0	31.5

TABLE 14. NATURAL RESOURCES BALANCE SHEET

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Population density (people per sq. km, at the end of the year)	51.4	52.4	53.4	54.0	54.8	55.5	56.2	56.9	57.5
Cultivated land (as % of land area)	9.2	9.2	9.2	9.2	9.1	9.1	9.1	9.1	9.1
Forested and wooded land (as % of land area)	2.8	3.0	3.0	3.2	3.2	3.1	3.1	5.1	6.1
Irrigated land (as % of arable area)	81.6	81.6	81.5	81.4	81.6	81.6	81.6	81.6	81.6

TABLE 15. TRENDS OF ECONOMIC PERFORMANCE

	1995	1996	1997	1998	1999	2000	2001	2002	2003
GDP annual growth rate (%)	-0.9	1.7	5.2	4.3	4.3	3.8	4.2	4.2	4.4
GDP per capita annual growth (%)	-2.7	-0.2	3.3	2.6	2.8	2.4	2.9	2.7	3.2
Tax revenues (as % of GDP)	27.3	27.7	26.0	27.9	25.9	23.3	21.0	22.5	22.5
Direct taxes (as % of total taxes)	42.0	44.7	43.2	35.2	34.7	33.4	34.9	30.1	28.4
Budget deficit (as % of GDP)	2.7	1.9	0.7	0.5	0.6	0.7	0.3	0.2	0.4
Exports (as % of GDP)	31.6	34.2	29.8	25.0	21.8	26.5	30.8	31.6	37.4

TABLE 16. COMMUNICATIONS PROFILE

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Television sets (per 1,000 people)	103	91	84	73	61	50	39	34	33
Cinema attendance (per capita)	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Daily newspapers (copies per 100 people)	7	6	7	7	8	7	8	9	8
Book titles published (per 100,000 people)	5.2	4.3	4.8	4.1	3.6	4.2	4.3	3.8	3.5
Private cars (per 100 people)	3.5	3.4	3.5	3.7	3.8	3.9	4.0	4.0	4.0
Telephones (per 100 people), units	6.7	6.5	6.4	6.3	6.4	6.5	6.5	6.5	6.5
Telephones (per 100 rural dwellers), units	2.2	2.0	1.9	1.8	1.7	1.7	1.6	1.6	1.6
Parcels, letters (per 100 people)	0.1	0.2	0.2	0.2	0.2	0.3	0.4	0.2	0.2
Long distance calls (per capita)	2.5	2.5	3.1	3.3	4.1	5.2	5.7	6.5	7.0
Letters mailed (per capita)	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5

TABLE 17. RURAL-URBAN GAPS

	1998			1999			2000		
	total	urban	rural	total	urban	rural	total	urban	rural
Life expectancy at birth (years)	69.9	69.9	70.1	71.1	70.6	71.6	70.8	70.2	71.2
Mean years of schooling	11.4	13.9	9.8	11.4	14.0	9.2	11.4	11.8	11.0
Literacy rate	99.2	99.7	98.8	99.2	99.7	98.8	99.2	99.7	98.8
Literacy index	0.992	0.997	0.988	0.992	0.997	0.988	0.992	0.997	0.988
Education level	2.74	2.92	2.63	2.74	2.88	2.59	2.74	2.82	2.70
Gross first, second and third level enrolment ratio	70.6	80.4	65.7	70.6	80.4	65.7	76.0	82.5	72.7
Education attainment index	0.913	0.973	0.877	0.913	0.960	0.863	0.913	0.940	0.901
Real GDP per capita (PPP\$)	2188	—	—	2301	—	—	2422	—	—
Life expectancy index	0.748	0.776	0.743	0.768	0.778	0.742	0.763	0.753	0.770

END OF TABLE 17.

	2001			2002			2003		
	total	urban	rural	total	urban	rural	total	urban	rural
Life expectancy at birth (years)	71.3	70.7	71.7	71.2	70.5	71.7	71.6	71.1	71.9
Mean years of schooling	11.5	11.8	11.2	11.6	12.0	11.2	11.6	12.0	11.3
Literacy rate	99.2	99.7	98.8	99.2	99.7	98.8	99.2	99.7	98.8
Literacy index	0.992	0.997	0.988	0.992	0.997	0.988	0.992	0.997	0.988
Education level	2.74	2.83	2.70	2.74	2.83	2.70	2.76	2.79	2.73
Gross first, second and third level enrolment ratio	76.0	83.4	72.2	76.0	83.8	72.2	77.3	80.0	75.3
Education attainment index	0.913	0.943	0.899	0.913	0.944	0.899	0.919	0.931	0.909
Real GDP per capita (PPP\$)	2460	—	—	2532.8	—	—	2616.2	—	—
Life expectancy index	0.772	0.762	0.778	0.770	0.758	0.778	0.777	0.768	0.782

TABLE 18. RURAL-URBAN GAPS (100=PARITY BETWEEN URBAN AND RURAL AREAS)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Population	160.2	162.1	163.7	165.0	166.4	168.1	169.7	171.3	173.1
Population growth rate	227.3	176.9	161.5	163.6	200.0	242.9	214.3	266.7	500.0
Life expectancy	101.3	101.9	101.6	100.3	101.4	101.4	101.4	101.7	101.1
Average family size	107.7	118.0	127.7	129.8	129.8	130.4	127.0	132.2	130.8
Labor force	115.5	108.9	109.0	109.0	104.9	115.6	123.8	123.5	123.5
Population elder than working age	111.1	112.4	113.5	114.5	116.2	117.4	118.2	119.4	120.0
Death from circulatory diseases	68.8	65.8	65.0	71.7	67.2	67.6	68.4	63.7	70.6
Death from malignant tumors	39.9	40.2	41.0	42.7	44.3	46.5	47.3	42.6	48.9
Life expectancy at age of 60–64	103.6	104.2	104.1	100.2	101.7	100.6	100.6	101.8	99.1
Employed as total employed (in urban and rural areas)	115.4	108.8	108.8	108.8	104.7	115.5	123.5	123.3	123.3
Unemployment rate	126.1	116.9	200.0	177.6	165.4	131.5	183.7	155.0	192.0
Provision of services to household:									
water supply	46.9	45.4	58.8	58.4	68.9	73.7	76.9	78.3	89.1
sewage service	10.6	9.0	9.0	8.6	8.7	8.9	8.4	8.1	9.0

Note: Rural average level as % of urban average level. The closer the figure is to 100, the lower is the distortion. Figures exceeding 100 indicate that the rural average level higher than the urban average level.

TABLE 19. GDP PER CAPITA BY REGIONS (REAL GDP PER CAPITA)

	(\$ PPP)				As % of average			
	2000	2001	2002*	2003*	2000	2001	2002	2003
Republic of Uzbekistan**	2,422.0	2,460.0	2,532.8	2,616.2	1.00	1.00	1.00	1.00
Northen Uzbekistan	1,627.6	1,493.2	1,464.0	1,394.4	0.672	0.607	0.578	0.533
Karakalpakstan	1,324.8	1,237.4	1,192.9	1,046.5	0.547	0.503	0.471	0.400
Khorezm	1,969.1	1,781.0	1,767.9	1,781.6	0.813	0.724	0.698	0.681
Central Uzbekistan	2,206.4	2,233.7	2,292.2	2,320.6	0.911	0.908	0.905	0.887
Bukhara	2,666.6	2,666.6	2,598.7	2,767.9	1.101	1.084	1.026	1.058
Djizzak	1,552.5	1,655.6	1,773.0	1,831.3	0.641	0.673	0.700	0.700
Navoi	3,419.9	3,537.5	4,103.1	4,405.7	1.412	1.438	1.620	1.684
Samarkand	1,799.5	1,768.7	1,803.4	1,750.2	0.743	0.719	0.712	0.669
Syrdarya	2,412.3	2,509.2	2,279.5	1,967.4	0.996	1.020	0.900	0.752
Southern Uzbekistan	1,872.2	1,968.0	2,008.5	1,993.5	0.773	0.800	0.793	0.762
Kashkadarya	1,981.2	2,076.2	2,120.0	2,051.1	0.818	0.844	0.837	0.784
Surkhandarya	1,736.6	1,830.2	1,869.2	1,920.3	0.717	0.744	0.738	0.734
Eastern Uzbekistan	2,487.4	2,477.2	2,439.1	2,498.5	1.027	1.007	0.963	0.955
Andijan	2,019.9	2,140.2	2,076.9	2,004.0	0.834	0.870	0.820	0.766
Namangan	1,625.2	1,567.0	1,570.3	1,431.1	0.671	0.637	0.620	0.547
Ferghana	2,557.6	2,273.0	2,271.9	2,051.1	1.056	0.924	0.897	0.784
Tashkent	2,724.8	2,755.2	2,770.9	2,713.0	1.125	1.120	1.094	1.037
Tashkent-city	3,393.2	3,601.4	3,482.6	4,371.7	1.401	1.464	1.375	1.671

* Preliminary Estimates

** Including not distributed data by regions: Uzbek energo; Foreign trade; Branches, rendering state services in a joint character; Taxes for import, including VAT; Subsidies for products.

ADDENDA TO MAIN TABLES

Demography and Employment

TABLE 20. HUMAN DEVELOPMENT INDEX BY REGION

	Life expectancy		Life expectancy index		GDP index			
	2002	2003	2002	2003	2000	2001	2002	2003 *
Republic of Uzbekistan	71.2	71.6	0.770	0.777	0.532	0.535	0.540	0.545
Republic of Karakalpakstan	68.2	69.3	0.720	0.738	0.431	0.420	0.414	0.392
Andijan region	71.3	71.5	0.772	0.775	0.502	0.511	0.506	0.500
Bukhara region	72.8	72.7	0.797	0.795	0.548	0.548	0.544	0.554
Djizzak region	73.6	74.3	0.810	0.822	0.541	0.547	0.480	0.485
Kashkadarya region	73.1	74.0	0.802	0.817	0.482	0.506	0.509	0.504
Navoi region	71.0	71.8	0.767	0.780	0.532	0.595	0.620	0.632
Namangan region	71.9	71.8	0.782	0.780	0.465	0.459	0.460	0.444
Samarkand region	71.2	71.9	0.770	0.782	0.482	0.480	0.483	0.478
Surkhandarya region	73.6	73.4	0.810	0.807	0.477	0.485	0.489	0.493
Syrdarya region	69.3	69.5	0.738	0.742	0.531	0.538	0.522	0.497
Tashkent region	70.2	70.5	0.753	0.758	0.551	0.553	0.554	0.551
Ferghana region	72.0	72.1	0.783	0.785	0.541	0.522	0.521	0.504
Khorezm region	71.4	71.3	0.773	0.772	0.497	0.481	0.479	0.481
Tashkent city	69.6	70.1	0.743	0.752	0.588	0.598	0.593	0.631

* Preliminary Estimates

END OF TABLE 20.

	Educational level				HDI			
	2000	2001	2002	2003	2000	2001	2002	2003
Republic of Uzbekistan	2.74	2.74	2.74	2.76	0.736	0.740	0.741	0.747
Republic of Karakalpakstan	2.73	2.74	2.73	2.73	0.690	0.684	0.681	0.680
Andijan region	2.74	2.74	2.74	2.75	0.727	0.732	0.730	0.730
Bukhara region	2.74	2.72	2.72	2.73	0.748	0.750	0.749	0.753
Djizzak region	2.75	2.72	2.72	2.72	0.755	0.754	0.732	0.738
Kashkadarya region	2.75	2.74	2.74	2.75	0.733	0.740	0.741	0.746
Navoi region	2.77	2.76	2.78	2.79	0.737	0.761	0.771	0.781
Namangan region	2.73	2.74	2.73	2.75	0.715	0.718	0.718	0.714
Samarkand region	2.75	2.75	2.74	2.75	0.720	0.722	0.722	0.725
Surkhandarya region	2.72	2.74	2.74	2.75	0.725	0.736	0.737	0.739
Syrdarya region	2.68	2.69	2.68	2.69	0.716	0.724	0.718	0.712
Tashkent region	2.68	2.68	2.68	2.68	0.732	0.733	0.729	0.734
Ferghana region	2.76	2.76	2.77	2.78	0.744	0.741	0.742	0.738
Khorezm region	2.75	2.75	2.74	2.76	0.724	0.723	0.722	0.725
Tashkent city	2.86	2.89	2.92	2.96	0.763	0.769	0.770	0.790

TABLE 21. POPULATION DENSITY AND RURAL POPULATION % BY REGIONS (AT THE BEGINNING OF YEAR)

	2001		2002		2003		2004	
	population density, people/km ²	rural population, % of total	population density, people/km ²	rural population, % of total	population density, people/km ²	rural population, % of total	population density, people/km ²	rural population, % of total
Republic of Uzbekistan	55.5	62.8	56.2	63.0	56.9	63.3	57.5	63.5
Republic of Karakalpakstan	9.2	51.6	9.3	51.1	9.3	51.0	9.4	51.3
Andijan region	529.2	70.0	536.5	70.0	544.2	70.1	551.2	70.2
Bukhara region	35.8	69.2	36.2	69.5	36.7	69.8	37.1	70.0
Djizzak region	47.0	69.9	47.7	70.0	48.3	70.2	48.9	70.1
Kashkadarya region	77.5	74.7	78.9	74.9	80.3	75.1	81.8	75.2
Navoi region	7.2	59.7	7.2	59.9	7.2	60.1	7.3	60.2
Namangan region	264.8	62.5	268.7	62.5	272.9	62.5	275.3	62.5
Samarkand region	161.8	73.2	164.2	73.5	166.5	73.8	168.7	74.1
Surkhandarya region	88.3	80.3	89.8	80.4	91.5	80.5	92.9	80.6
Syrdarya region	152.0	68.0	153.7	68.2	155.3	68.5	156.3	68.6
Tashkent region	291.1	59.9	292.3	60.1	293.8	60.3	294.8	60.5
Ferghana region	404.4	71.1	409.2	71.2	414.6	71.4	419.6	71.6
Khorezm region	221.3	76.5	224.9	76.8	228.4	77.1	231.6	77.4

TABLE 22. ABLE-BODIED POPULATION AGED 15 AND OLDER BY 01.01.2004 (THOUSANDS)

	Total			Urban			Rural		
	total	female	male	total	female	male	total	female	male
Population aged 15 and older	16,892.9	8,571.7	8,321.2	6,624.1	3,391.0	3,233.1	10,268.8	5,180.7	5,088.1
Literacy rate (percentage of literate population to population aged 15 and older, difference from 100%)	99.20	99.53	98.89	99.25	99.68	98.87	99.18	99.46	98.91
Literacy index	0.992	0.995	0.989	0.993	0.997	0.989	0.992	0.995	0.989

TABLE 23. AVERAGE FAMILY SIZE

	2000			2001			2002			2003		
	total	urban	rural	total	urban	rural	total	urban	rural	total	urban	rural
Rep. of Uzbekistan	5.4	4.6	6.0	5.3	4.6	5.9	5.1	4.4	5.8	5.1	4.3	5.7
Rep. of Karakalpakstan	6.3	5.9	6.7	6.1	5.9	6.3	5.9	5.6	6.2	5.8	5.6	6.1
Andijan region	5.6	5.2	5.9	5.7	5.4	5.8	5.6	5.1	5.8	5.3	4.5	5.7
Bukhara region	5.3	4.7	5.6	5.0	4.5	5.3	4.7	3.9	5.2	5.0	4.5	5.3
Djizzak region	6.2	5.1	6.8	6.0	5.4	6.3	6.0	5.1	6.5	5.9	5.3	6.2
Kashkadarya region	5.7	5.3	5.9	5.5	4.8	5.9	5.6	5.1	5.9	5.4	5.0	5.5
Navoi region	4.7	4.2	5.3	4.4	4.0	4.9	4.5	4.1	5.0	4.5	3.7	5.1
Namangan region	5.9	6.1	5.9	5.9	6.1	5.7	5.7	5.8	5.7	5.6	5.6	5.5
Samarkand region	5.6	4.6	6.3	5.3	4.5	5.9	4.9	3.5	5.8	4.9	4.0	5.4
Surkhandarya region	6.2	5.2	6.5	6.2	5.9	6.3	5.9	5.7	6.0	5.8	5.0	6.0
Syrdarya region	5.3	4.4	5.8	5.4	4.5	6.0	5.5	4.9	5.8	5.3	4.3	5.9
Tashkent region	4.6	3.4	5.9	4.8	3.8	5.9	4.7	3.7	5.7	5.0	4.0	6.0
Ferghana region	5.4	4.4	5.9	5.4	4.5	5.9	5.2	4.5	5.5	5.3	4.2	5.8
Khorezm region	5.9	5.7	6.0	6.0	5.0	6.3	5.6	4.5	5.9	5.3	4.7	5.5
Tashkent city	4.0	4.0	—	4.1	4.1	—	3.8	3.8	—	3.7	3.7	—

TABLE 24. LIFE EXPECTANCY AT BIRTH (YEARS)

	2000	2001	2002	2003
Total				
both sexes	70.8	71.3	71.2	71.6
women	73.2	73.6	73.5	73.8
men	68.4	68.9	68.9	69.4
Urban population				
both sexes	70.2	70.7	70.5	71.1
women	73.5	74.0	73.6	74.3
men	66.8	67.3	67.3	67.9
Rural population				
both sexes	71.2	71.7	71.7	71.9
women	72.9	73.3	73.3	73.4
men	69.6	70.1	70.2	70.5

TABLE 25. BIRTH AND MORTALITY RATES BY REGION

	Number of live births per 1,000 people			Number of deaths per 1,000 people		
	total	urban	rural	total	urban	rural
Rep. of Uzbekistan						
2000	21.3	17.7	23.5	5.5	6.6	4.8
2001	20.4	17.1	22.4	5.3	6.4	4.6
2002	21.0	17.4	23.1	5.4	6.6	4.7
2003	19.8	16.5	21.7	5.3	6.4	4.7
Rep. of Karakalpakstan						
2000	24.0	22.1	25.8	5.6	5.7	5.5
2001	21.7	19.5	23.8	5.9	6.0	5.7
2002	21.8	19.4	24.1	5.9	6.0	5.9
2003	20.6	18.4	22.8	5.6	5.6	5.5
Andijan region						
2000	19.9	19.5	20.1	5.2	6.3	4.8
2001	19.6	19.4	19.8	5.0	6.1	4.5
2002	20.3	18.5	21.0	5.2	6.3	4.7
2003	18.7	16.8	19.5	5.2	5.9	4.8
Bukhara region						
2000	20.0	15.9	21.8	4.7	5.1	4.5
2001	20.2	15.5	22.3	4.5	5.2	4.3
2002	20.1	15.6	22.0	4.6	5.3	4.3
2003	18.8	15.8	20.2	4.6	5.4	4.3
Djizzak region						
2000	24.3	18.9	26.7	4.4	4.2	4.4
2001	23.5	18.3	25.8	4.3	4.2	4.4
2002	23.4	17.7	25.8	4.4	4.3	4.4
2003	21.8	17.5	23.6	4.2	4.0	4.3
Kashkadarya region						
2000	26.3	21.3	28.0	4.4	4.6	4.3
2001	24.2	19.8	25.7	4.4	4.5	4.4
2002	23.9	19.3	25.4	4.4	4.6	4.3
2003	23.5	19.3	24.9	4.1	4.4	4.0
Navoi region						
2000	19.4	16.8	21.1	5.3	6.0	4.9
2001	19.1	16.4	20.9	5.1	5.5	4.8
2002	19.5	17.2	21.0	5.3	5.9	4.8
2003	18.9	17.0	20.2	5.0	5.6	4.6
Namangan region						
2000	21.0	20.6	21.2	5.1	5.5	4.8
2001	20.6	23.7	18.8	4.7	5.3	4.4
2002	21.4	23.1	20.4	4.9	5.5	4.5
2003	20.0	20.2	19.8	5.0	5.4	4.7
Samarkand region						
2000	22.7	16.6	25.0	5.3	6.2	4.9
2001	22.5	15.8	25.0	5.0	6.1	4.6
2002	22.9	16.6	25.2	5.1	6.2	4.8
2003	21.4	15.3	23.6	4.9	4.6	5.8
Surkhandarya region						
2000	25.5	19.3	27.1	4.6	4.7	4.6
2001	22.8	17.9	24.0	4.3	4.5	4.3
2002	24.4	18.0	25.9	4.3	4.6	4.2
2003	22.5	17.6	23.7	4.3	4.5	4.3
Syrdarya region						
2000	22.0	19.0	23.5	5.4	7.0	4.7
2001	21.4	19.2	22.4	5.3	6.9	4.6
2002	22.8	20.5	24.0	5.3	6.7	4.7
2003	20.5	18.5	21.4	5.2	7.0	4.4

THE END OF TABLE 25.

	Number of live births per 1,000 people			Number of deaths per 1,000 people		
	total	urban	rural	total	urban	rural
Tashkent region						
2000	18.5	16.2	20.0	6.4	8.0	5.4
2001	18.0	15.4	19.8	6.3	7.7	5.3
2002	18.7	16.1	20.5	6.5	7.8	5.6
2003	17.9	15.2	19.6	6.4	7.7	5.5
Fergana region						
2000	19.7	17.3	20.8	5.3	6.4	4.9
2001	18.8	15.8	20.0	5.0	6.1	4.6
2002	20.0	16.9	21.3	5.2	6.3	4.7
2003	18.8	15.7	20.0	5.2	6.2	4.8
Khorezm region						
2000	24.0	19.9	25.3	5.2	6.3	4.8
2001	22.3	18.1	23.6	4.9	6.0	4.5
2002	22.5	18.5	23.7	4.9	6.4	4.4
2003	20.8	17.4	21.9	5.0	5.9	4.7
Tashkent city						
2000	14.5	14.5	—	8.5	8.5	—
2001	14.0	14.0	—	8.2	8.2	—
2002	14.7	14.7	—	8.6	8.6	—
2003	14.5	14.5	—	8.3	8.3	—

TABLE 26. UNEMPLOYMENT RATE BY REGIONS *

	2000			2001			2002			2003		
	total	urban	rural	total	urban	rural	total	urban	rural	total	urban	rural
Rep. of Uzbekistan	0.4	0.3	0.4	0.4	0.3	0.5	0.4	0.3	0.4	0.3	0.2	0.4
Rep. of Karakalpakstan	1.7	1.9	1.4	1.7	1.6	1.7	1.5	1.5	1.4	1.1	1.2	1.0
Andijan region	0.3	0.1	0.4	0.3	0.1	0.4	0.3	0.1	0.4	0.2	—	0.2
Bukhara region	0.3	0.1	0.3	0.3	0.1	0.4	0.1	0.1	0.2	0.1	—	0.1
Djizzak region	0.3	0.1	0.4	0.3	0.2	0.3	0.3	0.3	0.4	0.2	0.1	0.2
Kashkadarya region	0.3	0.2	0.3	0.3	—	0.4	0.2	—	0.3	0.2	—	0.3
Navoi region	1.0	0.6	1.3	0.5	0.4	0.7	0.6	0.4	0.8	0.6	0.4	0.7
Namangan region	0.5	0.3	0.6	0.3	0.2	0.4	0.3	0.1	0.4	0.4	0.2	0.6
Samarkand region	0.4	0.3	0.5	0.5	0.2	0.6	0.5	0.3	0.6	0.3	0.1	0.5
Surkhandarya region	0.2	—	0.2	0.2	—	0.2	0.2	0.1	0.2	0.3	0.1	0.4
Syrdarya region	0.4	0.3	0.4	0.7	0.5	0.8	0.4	0.2	0.5	0.4	0.4	0.4
Tashkent region	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Ferghana region	0.2	0.1	0.3	0.3	0.2	0.4	0.2	0.1	0.3	0.1	0.1	0.2
Khorezm region	0.5	0.7	0.4	0.8	0.2	1.1	1.0	0.9	1.0	1.3	0.2	1.8
Tashkent city	0.3	0.3	—	0.3	0.3	—	0.2	0.2	—	0.2	0.2	—

* Officially registered unemployment

TABLE 27. RATIO OF EMPLOYED IN URBAN AND RURAL AREAS (AS % OF TOTAL EMPLOYED)

	2000			2001			2002			2003		
	total	urban	rural	total	urban	rural	total	urban	rural	total	urban	rural
Rep. of Uzbekistan	100.0	46.4	53.6	100.0	44.7	55.3	100.0	44.8	55.2	100.0	44.8	55.2
Rep. of Karakalpakstan	100.0	54.2	45.8	100.0	52.1	47.9	100.0	51.8	48.2	100.0	51.8	48.2
Andijan region	100.0	39.1	60.9	100.0	34.5	65.5	100.0	35.0	65.0	100.0	35.0	65.0
Bukhara region	100.0	41.5	58.5	100.0	38.2	61.8	100.0	37.1	62.9	100.0	37.1	62.9
Djizzak region	100.0	38.3	61.6	100.0	38.0	62.0	100.0	39.0	61.0	100.0	39.1	60.9
Kashkadarya region	100.0	26.6	73.4	100.0	27.7	72.3	100.0	30.0	70.0	100.0	30.0	70.0
Navoi region	100.0	51.2	48.8	100.0	50.3	49.7	100.0	47.9	52.1	100.0	47.9	52.1
Namangan region	100.0	42.2	57.8	100.0	41.5	58.5	100.0	43.0	57.0	100.0	43.0	57.0
Samarkand region	100.0	38.5	61.5	100.0	37.0	63.0	100.0	36.7	63.3	100.0	36.7	63.3
Surkhandarya region	100.0	28.5	71.5	100.0	28.1	71.9	100.0	28.4	71.6	100.0	28.4	71.6
Syrdarya region	100.0	38.1	61.9	100.0	38.4	61.6	100.0	36.6	63.4	100.0	36.6	63.4
Tashkent region	100.0	49.0	51.0	100.0	47.7	52.3	100.0	49.5	50.5	100.0	49.5	50.5
Ferghana region	100.0	39.5	60.5	100.0	36.0	64.0	100.0	33.5	66.5	100.0	33.5	66.5
Khorezm region	100.0	31.3	68.7	100.0	27.7	72.3	100.0	28.4	71.6	100.0	28.4	71.6

II. ECONOMY

TABLE 28. COMPOSITION OF GDP, %

	2000	2001	2002	2003
GDP – total:	100.0	100.0	100.0	100.0
Value added	87.5	88.1	87.9	86.6
industry	14.2	14.1	14.5	15.0
agriculture	30.1	30.0	30.1	28.8
construction	6.0	5.8	4.9	4.5
services	37.0	38.0	38.2	38.1
trade	9.7	10.4	9.9	9.4
transport and communications	7.7	7.5	8.2	8.5
other branches	19.8	20.3	20.3	20.4
Net taxes, including import taxes	12.5	11.9	12.1	13.4
Ratio between foreign trade turnover and GDP	45.4	57.0	59.3	67.4
exports	24.0	29.9	31.2	37.6
imports	21.4	27.1	28.1	29.8

TABLE 29. SHARE OF MEDIUM AND SMALL ENTREPRENEURSHIP IN GROSS REGIONAL PRODUCT, 2003 (AS % OF GDP)

	Total	Including	
		Small & medium enterprises	Individual business
Republic of Uzbekistan	35.5	16.4	19.1
Republic of Karakalpakstan	35.5	18.0	17.5
Andijan region	39.4	14.0	25.4
Bukhara region	39.8	19.0	20.8
Djizzak region	56.9	29.2	27.7
Kashkadarya region	34.9	16.0	18.9
Navoi region	22.1	8.8	13.3
Namangan region	44.4	17.2	27.2
Samarkand region	48.9	17.1	31.8
Surkhandarya region	44.5	19.2	25.3
Syrdarya region	47.8	21.8	26.0
Tashkent region	38.2	16.2	22.0
Ferghana region	42.1	19.2	22.9
Khorezm region	40.5	15.8	24.7
Tashkent city	46.6	29.8	16.8

TABLE 30. EMPLOYED AT SMALL, MEDIUM AND MICRO ENTERPRISES BY SECTORS IN 2003

	Thousand people	As % of total	As % to 2002.
Total	1,075.0	100.0	119.4
industry	137.0	12.7	102.4
agriculture	608.7	56.6	134.2
construction	59.6	5.5	97.8
transportation	10.0	0.9	104.3
trade and public catering	94.4	8.8	99.0

TABLE 31. NEW PRIVATE SECTOR AND INFORMAL SECTOR

	2000	2001	2002	2003
Share of the population engaged in the new private sector as % of total employment	47.8	49.8	51.4	53.6
Share of the population engaged in the informal sector as % of total employment	41.3	44.5	46.2	48.6
Share of informal sector in GDP (%)	32.7	32.2	32.1	31.0

TABLE 32. INVESTMENTS BY SECTORS AND SOURCE, %

	2000	2001	2002	2003
Total	100.0	100.0	100.0	100.0
for production purposes	57.5	63.1	59.5	65.1
industry	29.7	38.9	32.9	28.4
agriculture and forestry	5.7	5.5	6.7	4.4
for non-production purposes	42.5	36.9	40.5	34.9
Financed by state budget	29.2	21.5	23.9	17.7

TABLE 33. SOCIAL AND CULTURAL AMENITIES IN OPERATION

	2000			2001			2002			2003		
	total	urban	rural	total	urban	rural	total	urban	rural	total	urban	rural
Comprehensive schools (capacity thousand pupils)	17.3	0.1	17.2	26.9	1.6	25.3	19.3	1.6	17.7	22.1	1.9	20.2
Pre-school establishments (thousand seats)	—	—	—	—	—	—	0.1	—	0.1	—	—	—
Hospitals (thousand beds)	0.7	0.4	0.3	0.8	0.4	0.4	0.3	0.1	0.2	0.2	—	0.2
Policlinics (thousand visits in shifts)	8.3	0.5	7.8	13.5	0.4	13.1	16.8	0.2	16.6	15.5	1.0	14.5
Clubs and cultural buildings (thousand seats)	0.2	—	0.2	—	—	—	0.4	—	0.4	—	—	—

III. EDUCATION

TABLE 34. PRE-SCHOOL ENROLMENT (AS % OF ALL PRE-SCHOOL AGED CHILDREN)

	2000	2001	2002	2003
Total	18.2	19.4	19.9	19.2
urban	35.3	36.0	35.5	35.3
rural	10.6	12.0	12.9	12.1

TABLE 35. ENROLMENT IN SPECIALIZED SECONDARY AND HIGHER SCHOOLS

	2000	2001	2002	2003
Specialized secondary students (thousand)	324.1	446.1	545.9	684.0
of which women (%)	49.0	47.1	46.1	46.3
Number of students in higher schools (thousand)	183.6	207.2	232.3	254.4
of which women (%)	37.8	38.7	38.9	38.8

IV. HEALTHCARE

TABLE 36. NUMBER OF PEOPLE PER DOCTOR, NURSE AND HOSPITAL BED

	2000			2001			2002			2003		
	doctor	nurse	bed	doctor	nurse	bed	doctor	nurse	bed	doctor	nurse	bed
Rep. of Uzbekistan	305	96	179	309	95	179	314	96	173	318	96	174
Rep. of Karakalpakstan	347	95	212	350	93	211	353	93	171	357	96	167
Andijan region	321	96	158	326	97	162	331	99	162	330	99	164
Bukhara region	313	82	202	303	83	208	300	83	213	281	81	215
Djizzak region	431	108	198	437	107	201	463	110	204	463	109	205
Kashkadarya region	363	100	203	376	98	198	389	98	179	390	97	179
Navoi region	330	93	214	332	91	209	333	90	190	335	90	191
Namangan region	343	99	168	354	100	170	359	99	151	365	96	151
Samarkand region	308	114	181	312	114	185	317	118	190	319	118	190
Surkhandarya region	393	111	233	400	108	207	417	108	211	420	106	213
Syrdarya region	361	83	155	365	85	153	391	84	151	404	85	155
Tashkent region	389	96	212	398	98	214	409	101	215	411	102	220
Ferghana region	397	90	163	407	89	166	407	86	167	409	85	170
Khorezm region	337	103	199	342	103	196	348	102	183	343	102	184
Tashkent city	125	76	121	124	77	121	125	77	116	133	79	117

TABLE 37. MORTALITY RATE BY SELECTED CAUSES OF DEATH AND REGIONS (PER 100,000 PEOPLE)

	2000				2001			
	all causes of death	from circulatory illnesses	from malignant tumors	from respiratory illnesses	all causes of death	from circulatory illnesses	from malignant tumors	from respiratory illnesses
Republic of Uzbekistan	548.0	288.5	38.8	63.5	528.9	282.3	37.4	55.1
Republic of Karakalpakstan	559.6	180.9	40.0	120.1	586.0	191.8	44.4	107.5
Andijan region	521.6	293.6	30.8	63.7	495.5	276.9	27.1	61.6
Bukhara region	469.7	263.2	31.7	42.5	454.6	257.5	30.5	38.6
Djizzak region	435.8	190.7	30.0	61.3	434.1	190.7	29.6	57.9
Kashkadarya region	439.6	204.7	22.3	74.6	443.0	212.6	21.4	69.5
Navoi region	534.7	267.3	50.0	43.8	510.7	254.3	49.8	38.9
Namangan region	508.0	266.8	27.8	91.2	474.0	256.4	25.8	63.6
Samarkand region	527.0	285.1	32.7	63.0	499.7	280.5	28.8	53.5
Surkhandarya region	464.2	220.1	25.4	74.5	443.8	219.8	27.5	60.5
Syrdarya region	542.4	276.6	44.6	40.0	530.7	276.5	35.3	36.2
Tashkent region	644.6	363.5	49.4	42.8	625.6	358.8	48.7	35.5
Ferghana region	534.4	279.7	30.9	55.3	504.2	274.9	31.4	43.0
Khorezm region	520.0	291.4	29.9	77.4	488.6	286.9	28.6	69.1
Tashkent city	845.1	522.8	97.7	32.2	819.6	495.3	94.1	35.3

END OF TABLE 37.

	2000				2001			
	all causes of death	from circulatory illnesses	from malignant tumors	from respiratory illnesses	all causes of death	from circulatory illnesses	from malignant tumors	from respiratory illnesses
Republic of Uzbekistan	540.2	296.3	37.3	54.5	529.7	289.7	37.2	49.0
Republic of Karakalpakstan	591.2	213.8	34.0	122.7	557.0	188.9	39.6	114.9
Andijan region	519.1	299.6	30.8	52.4	517.1	246.9	34.2	42.1
Bukhara region	458.4	258.0	33.8	37.6	463.2	261.6	32.4	42.9
Djizzak region	440.1	207.6	32.2	50.5	423.2	204.9	30.6	46.9
Kashkadarya region	435.4	231.2	17.4	59.9	411.8	225.0	20.6	43.0
Navoi region	525.2	268.9	51.0	33.7	499.9	261.6	46.7	32.9
Namangan region	489.0	287.2	26.6	60.6	497.6	300.8	28.0	56.6
Samarkand region	513.0	284.3	25.8	56.9	489.9	263.3	27.8	50.4
Surkhandarya region	428.6	216.8	23.5	52.2	434.4	234.7	23.3	50.4
Syrdarya region	530.5	282.6	43.8	40.8	519.4	286.6	36.4	38.7
Tashkent region	650.2	366.2	50.1	45.7	641.4	379.3	48.3	37.7
Ferghana region	516.9	294.4	32.9	44.3	519.7	306.8	29.6	43.8
Khorezm region	489.5	286.9	30.8	59.7	497.8	296.4	27.7	46.7
Tashkent city	863.8	523.9	97.1	40.2	832.9	492.7	95.8	40.0

TABLE 38. INFANT MORTALTY RATE (NUMBER OF CHILDREN DYING UNDER AGE ONE, PER 1,000 LIVE BIRTHS)

	2000			2001			2002			2003		
	total	urban	rural	total	urban	rural	total	urban	rural	total	urban	rural
Rep. of Uzbekistan	18.9	22.4	17.3	18.3	21.2	17.0	16.7	19.9	15.3	16.4	20.5	14.5
Rep. of Karakalpakstan	20.5	23.0	18.5	22.3	26.2	19.3	19.9	24.0	16.7	18.3	20.1	16.9
Andijan region	15.2	22.4	12.1	15.1	21.0	12.6	13.6	18.3	11.7	13.8	18.9	11.9
Bukhara region	19.0	23.3	17.6	18.0	23.0	16.5	15.1	20.3	13.5	14.9	22.0	12.5
Djizzak region	16.2	18.7	15.5	17.0	18.8	16.5	13.9	14.7	13.7	13.9	18.3	12.5
Kashkadarya region	19.0	20.1	18.7	18.8	19.3	18.6	17.2	18.4	16.9	14.7	16.7	14.1
Navoi region	18.4	25.0	14.8	17.4	21.2	15.5	14.1	16.6	12.7	15.7	20.5	13.0
Namangan region	18.8	26.7	14.2	17.9	20.2	16.2	16.8	20.6	14.2	15.8	20.1	13.1
Samarkand region	16.0	17.1	15.8	15.9	18.6	15.3	15.1	17.0	14.6	13.7	14.6	13.5
Surkhandarya region	20.7	24.9	19.9	18.5	22.0	17.8	15.8	20.0	15.1	14.7	18.5	14.0
Syrdarya region	20.4	21.5	20.0	19.7	19.1	19.9	18.0	18.6	17.8	17.9	18.5	17.7
Tashkent region	19.6	20.2	19.3	17.1	17.6	16.9	16.8	17.5	16.4	15.2	16.6	14.5
Ferghana region	19.3	21.0	18.7	19.9	21.0	19.5	18.2	18.7	18.0	20.0	24.6	18.5
Khorezm region	24.6	46.0	19.4	19.9	32.8	16.8	19.3	31.8	16.4	18.9	26.1	17.2
Tashkent city	19.5	19.5	—	20.8	20.8	—	20.9	20.9	—	24.9	24.9	—

V. ECOLOGY

TABLE 39. AMOUNT OF HARMFUL EMISSIONS INTO THE ATMOSPHERE (THOUSAND TONS PER YEAR)

	2000	2001	2002	2003
Tashkent	12.7	10.9	10.5	11.6
Andijan	9.7	8.7	9.5	8.9
Navoi	28.1	27.9	23.5	24.2
Samarkand	7.0	6.6	5.9	5.5
Almalyk	99.3	98.8	97.3	99.3
Angren	116.3	91.7	101.8	93.1
Bekabad	7.2	13.0	13.4	9.1
Chirchik	5.7	5.2	4.9	4.1
Kokand	3.7	3.8	3.3	3.4
Ferghana	47.1	44.1	46.6	41.5
Margilan	0.1	0.1	0.1	0.1
Nukus	4.1	4.4	3.1	2.8
Urgench	3.7	6.8	6.6	6.1
Bukhara	3.3	3.1	2.1	1.8
Djizzak	0.8	0.8	0.8	0.7
Karshi	2.4	2.2	1.7	5.7
Namangan	3.4	4.5	4.1	4.0
Termez	0.6	1.0	0.3	1.6
Gulistan	0.7	0.6	0.6	0.6

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