

POLICY BRIEF



No. 1, 2005

English version

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Policy Briefs present concise analysis of major policy issues and offer recommendations for maximizing benefits to Uzbekistan. They are intended for national decision makers at central and local levels, as well as the international community.

Impact of Agricultural Reforms on the Nation: Political and Social Aspects (Demography and Migration)

Since last year, a new stage of agricultural reforms was launched in Uzbekistan principally to liquidate unprofitable shirkats¹ and establish individual private farming entities instead. The aim is to increase agricultural productivity and enhance efficiency of resource utilization, particularly with regard to land and water resources. While those are commendable to expanding the market economy in Uzbekistan, one has to note that substantial labor resources will be released in the rural areas.

The higher market orientation of the agricultural sector should eventually create more jobs - but that will take time. Meanwhile, most of the rural jobless will be unable to find jobs near home, and there will be a tendency to relocate, searching for employment in one of the larger cities, above all in Tashkent. Based on the experiences of the many developing countries, a likely scenario could involve significant rural-to-urban migration, creation of shanty towns, and the attending social, economic and political problems.

I. Predicted Outcomes

The new stage of rural reforms aimed at generating private agricultural production was launched with the adoption of the "Concept of Farm Entities Development for 2004-2006." According to the Concept and the Decree of the Cabinet of Ministers #476 of October 30, 2003 1020 shirkats (55% of the total number) were to be reorganized into private farming entities. Since the beginning of 2005, more than 445 shirkats have already been liquidated, with 22,700 farming entities established in their place. These have been offered for rent with over 700,000 hectares of land. All these measures have brought the number of farming entities in the country to exceed 117,000.

An analysis of the reorganization process leads to the following

¹ Agricultural cooperative

conclusions:

1. The creation of individual farming entities is carried out on a competitive basis² (tender) in order to ensure transparent and equitable distribution of land and selection of farmers. Since the beginning of 2005, more than 52,000 applications have been received from those willing to establish a farm. This brings the average ratio of candidates per "single place" to 2.5. In Andijan region, this ratio is 3.5, in Tashkent region it is 3.4,³ and in Jizzakh, Kashkadarya, Surkhandarya and Syrdarya regions over 3,³ while in Khorezm, Navoi and Ferghana there are 2 applicants per place. Hence, over half the applicants will not get a farm plot and will have to seek another source of income.

2. In some regions (for instance in Karakalpakstan and Khorezm), land distribution among farmers is carried out with significant delays. On the one hand, this is caused by the lack of capacity and some unfair practices on the part of local authorities; on the other, by the widespread reluctance of the rural population to show entrepreneurial spirit and engage in private farming activities. It is almost certain that the reform will proceed under the pressures from the center. However, many of the private farms are likely to have poor productivity and low economic viability due to the lack of enthusiasm of farmers, poor quality of land, small size of the farm plots,⁴ lack of funds and necessary equipment, etc.

3. Around 1% of individual farms are liquidated every year because they are unprofitable.⁵ The bankruptcy procedure for agricultural enterprises, due to the nature of agriculture production, can be a rather time-consuming process. Bankruptcies are likely to increase in the near future. The consulting and training systems which currently exist in the country will hardly be able to cope with the huge rise in the number of farmers, who will need significant upgrading in both business knowledge and technical skills. Rising bankruptcy numbers will also be caused by the high-risk nature of agricultural business and to a great extent by administrative barriers, local monopolies, etc. This process will also result in the expansion of some farms, as successful farmers will buy out the land of bankrupt farmers. But the enlargement of an individual farm does not necessarily guarantee employment for those who have lost their land, whereas greater economies of scale within the enlarged farms will result in even further release of labor.

4. Individual farms require less labor force than shirkats. Therefore, a further increase in the number of farming entities in agricultural production should be accompanied by a parallel employment-generation policy for rural areas in order to absorb the labor surplus.

5. Policies aimed at ensuring grain independence have led to a substantial growth of the land used for wheat cultivation. Since the amount of land did not change during the break-up of the shirkats and as grain production is less labor-intensive compared to

cotton, the agricultural sector has faced additional labor release. Another factor to note is that the reduction of labor in agricultural production due to the expansion of grain cultivation was partially compensated by the

² During the competition process special attention is paid to the availability of initial funds and equipment, and applicants are tested for the knowledge of agriculture production processes. Priority is given to former shirkat members living in the respective area.

³ "Numbers of Farmers are Increasing," 14.04.2005, Uza.

⁴ Based on expert estimates, a farming entity should have 50-100 hectares of land in order to ensure profitability and capacity for development. Today nearly 60% of farming entities specializing in cotton and grain growing have less than 30 hectares of land.

⁵ "Reorganization of cooperative (shirkat) agricultural enterprises into farming entities," Center for Economic Research, 2004.

increasing use of manual labor in cotton cultivation, when the majority of agricultural enterprises ceased using cotton harvesters as manual labor was more economical. However, such seasonal employment provides a low income.

6. There are clear signals of increased mechanization in the agriculture sector. In 2004, there was a two-fold increase in the amount of technical devices and equipment purchased by farmers at their own expense.⁶ With rising profits, this trend will grow, resulting in an additional release of labor.

II. Assessment of Rural Unemployment

Following the reorganization of 178 shirkats in 2003, only 7.2% of workers managed to find work at non-agricultural enterprises and organizations. According to official data, the majority of released workers (85-90%) were still employed on farming entities and private plots (0.06-0.20 hectare) as well as on land distributed for the creation of additional dekhkan⁷ entities (0.2-1 hectare).⁸

In fact, during recent years the establishment and enlargement of farms has led to the annual release of nearly 100,000 middle-aged people. Based on expert estimates, in the medium-term, the intensification of individual farming may cause the annual release of an additional 600,000-900,000 people (2005-2006 could be the peak of the transformation of shirkats into individual farms).⁹ Moreover, the majority of the "officially employed" can count on seasonal employment (6-7 months) at best, with scant remuneration (most frequently they are paid in kind).¹⁰

Even though the establishment of farms will most probably serve as an engine for increased productivity and improvement of agriculture, the process will also bring about, in the short run, a sharp decline in rural employment.

At the same time, opportunities for income and employment generation within private farms will be limited due to their continued marginalization - being outside the formal market structure, restricted access to raw materials and resources, most frequently to water and fertile land.

The situation will be aggravated by the following: (1) local governments have no real power to implement practical business development programs that could mitigate unemployment; (2) much of the released labor force has low skill levels; (3) the unemployed lack accumulated funds, knowledge or skills to start up their own businesses.

It is assumed that the release of labor from agriculture will lead to an increase in migration abroad and internal migration within the country. In rural families, the number of dependents per employed person is also expected to rise (mostly these dependents are recent secondary school graduates). Hence, the income per capita will decline even if the aggregate

⁶ "Farming: when the land has its owner," 07.04.2005, Uza.

⁷ A family-based small-scale enterprise that produces and markets agricultural products using the labor of family members on a household land plot (tomorka) transferred to the head of family for lifelong heritable ownership, registered or not registered officially as a legal entity.

⁸ "The reorganization of cooperative (shirkat) agricultural enterprises into farming entities," Center for Economic Research, 2004.

⁹ These figures do not cover natality.

¹⁰ Relatively small and medium farming entities try to reduce the formal employment of farm workers to a minimum, preferring to engage the members of their households (families). As a rule, hired workers are involved only in seasonal activities (temporary workers).

income level increases in this sector.

III. Migration Flows and Possible Consequences

1. Increase in Migration Abroad

In general, the increase in external migration has both positive and negative consequences. Based on expert estimates, labor migration comprises the major part of informal migration.

In that context, it is necessary to look at illegal emigration, which involves crossing frontiers in violation of the legal and/or migratory regulations of states. This is especially important for Uzbekistan, given the absence of a visa regime with most popular destinations (Russia and Kazakhstan). Potential threats of include:

- Illegal migrants fall out of the state social protection system;
- They do not pay income tax;
- Their protection is more complicated;
- Due to their illegal status and low awareness, they are used mainly for hazardous and dangerous jobs, they have to perform low-qualified and low-paid work and their wages are always lower than the wages of legal migrants hired to do similar work;
- This type of migration is often tied to or controlled by various criminal elements and worsens the crime situation in all countries involved in the process;
- The state does not usually have reliable statistics, which makes the planning and implementation of socio-economic policies more complicated.

During the last several years, temporary labor migration accounted for 90% of total migration. According to the data provided by the NGO "TONG" in, nearly one million people moved abroad in search of jobs during 2002-2004 (the average migrant is 35 years old).¹¹

Russia remains the main destination for Uzbekistan's labor migration, though its share decreased from 78-80% of the total in 1994 to 60% in 2004. Based on the estimates of Russian experts, including those from the Federal Migration Service, 800,000 to 1.5 million Uzbekistan migrants arrive annually in Russia. Lately, Kazakhstan has become more attractive in terms of migration flows, and in 2004 the proportion of Uzbekistan migrants to Kazakhstan reached 22-25% of the total number of migrants, compared to 13-15% in 1999. Presumably, the toughened migration regime in the Russian Federation and Kazakhstan's policy to attract additional labor are behind this shift.

More than 85% of the migrants have been successful in terms of earnings. A survey conducted in 2004 demonstrated that 96.1% of them managed to improve the welfare of their families and 5.6% accumulated sufficient funds to start their own business. Most of them bring back home at least 50% of their earnings, for a total of nearly USD 727 million.¹²

¹¹ The research was conducted based on the method of random probabilistic selection in 27 cities and 36 rural settlements in June-July 2004. 100 people were questioned in each region of Uzbekistan.

¹² USD 291 (average monthly income of a migrant) x 5 months (average migration term) x 50 % (exported % of income) x 1 mln. migrants = USD 727 mln. Calculated by "TONG" NGO.

According to information provided by the Chamber of Commerce and Industry of Uzbekistan, labor migration plays a substantial role in the development of entrepreneurship. A survey conducted among 276 heads of private companies revealed that 111 people (40.2%) had worked abroad before starting their own businesses. Research conducted by the Chamber also showed that an average 15-20% of the entrepreneurs worked abroad before establishing their own business.

The Agency for Labor Migration under the Ministry of Labor has, in 11 years of operation, managed to find employment for about 10,000 people, demonstrating its inability to cope with the current volume of migration. As a result, illegal and semi-legal employment agencies flourish in the country, often sending citizens abroad to work under cruel and harsh conditions. At the same time, calculations by "TONG" revealed that over 80% of the migrants are ready to pay for public employment services if those could ensure formal legal protection in the destination countries.

Undoubtedly, migration abroad will continue to grow. That could lead to more undesirable outcomes:

- The destination countries could obtain certain instruments of political pressure on Uzbekistan. In the case of Russia-Tajikistan, that was seen in 2003-2004 when Russia tried to influence Tajik policy in relations with the USA by toughening migration legislation and implied expulsion of Tajik workers.

- Catalyzing discord between home and destination countries. Some of that is due to destination country citizens resenting jobs being taken away by immigrant workers, some due to the latter frustrated with their "second-class treatment" and bad working conditions.

- "Brain drain" and/or "brawn drain" from Uzbekistan. Migrant workers are mainly young and active individuals, many with vocational education (especially labor migrants to Russia). When they leave, they take sizeable human resources out of the country. That adversely affects the labor market, as the market is imbalanced with a surfeit of lesser skilled workers while it requires higher skills, though not yet able to compensate adequately for their skills.

2. Increase of Internal Migration

Groups of the unemployed fail to move abroad because they lack the qualifications or professional skills, the necessary "connections" or are unable to pay those who can place them abroad. Those then are forced to search for jobs in large cities, above all in Tashkent, settling mostly in the outlying regions of the city – Sergely, Algoritm, Quyluk and Karakamysh – where inexpensive accommodation is available. A considerable number of the internal migrants also move to the satellite towns of Tashkent – Almalyk, Angren, Akhangaran, Yangiyul and Chirchik – where prices are fairly low (100,000 soums for a room) and there are abandoned buildings.

Already, these towns face large numbers of migrants from the Fergana Valley who have come to Tashkent in search of work. Estimates show that the number of officially registered people in Almalyk is currently about 130,000 whereas the actual population of the town reaches almost 300,000. Due to the restrictions in residential registration, the majority of the migrants cannot obtain permanent jobs. Law enforcement officials do not often want to deal with the registration of additional residents, because this adds to their workload. Hence, these migrants are pushed towards the

informal labor market or to low-pay jobs at market stalls and to seasonal field work. Under those circumstances, they can hardly enjoy permanent employment or a reasonable income.

As a result, some typical urbanization "diseases" arise:

- Striving to earn easy money, the unskilled jobless youth might be involved in criminal activities, above all pick pocketing, larceny, drug dealing and prostitution. One indirect impact of rising drug addiction and prostitution is a considerable growth in the number of those infected with HIV/AIDS and the spread of sexually transmitted diseases. Moreover, the bad living conditions of most migrants and the lack of access to proper medical services make them a victim and a source of infection.

- Areas densely populated with the unemployed and low-income strata of the population may become fertile ground for the propaganda of numerous extremist ideas and views. Traditionally, the "ghettos" of industrial centers are recruitment areas for mass protests and social discontent. This is aggravated by the separation of rural migrants from their families and the loss of their traditional way of life, the lack of sustainable employment and income, and the increasingly visible gap between the income levels of wealthy city dwellers and unemployed young people. All these provide ample opportunity for ill-intentional individuals or groups to advocate discord and recruit for organizations based on crime, extreme religious or ethnic principles.

IV. Recommendations

More consistent policies, based on international experience and on sustainable labor exchange, should be developed and implemented. That will help reduce the unfavorable effects of skills loss while improving the benefits from migration patterns.

The rewards of economic growth – increasing employment opportunities and improving public services – should be passed on to the population. That is the only way to prevent a huge convergence of people from the vast countryside to a few urban centers. The major socio-economic and political challenges that would accompany such a population movement will pose serious challenges to the sustainable development of the country. In that regard, two important courses of action are recommended:

- The decentralization of decision-making authority and budget responsibility to viloyats, raions and other local administrative levels will ensure that public services will be more responsive and available to local needs.
- Comprehensive, area-based development plans should be launched with a priority system that emphasizes investment, poverty reduction and other programs with an impact on rural areas, where employment generation is most needed, and which are most likely to face high levels of out-migration.

More specifically, there are a number of more immediate options available:

1. To re-formulate the rather weak national employment programs. They should be focused on the local conditions and be area-based, formulated and implemented by local authorities with the active participation of the private sector and the local community. At the national level, the focus should be on:

- a. increasing the role of local governments and institutions in business development and employment generation;
- b. reducing the labor tax (in the revised Tax Code) and eliminating barriers to the creation of new jobs; and
- c. reducing barriers to the development of business and market infrastructure.

2. To create a system of benefits and preferences for farms which have high employment rates (at least during the first years after establishment). The system will keep in check the growth in rural unemployment, at least for a period of time.

3. To undertake measures for including private plots in the production of goods. Private plots may become an instrument for restraining migration flows, by preserving small, mostly in-kind forms of income for the majority of households in rural areas.

4. To foster private micro-entrepreneurship for employment generation. The development of the program "Small Towns," aimed at supporting public works, and the development of infrastructure at the level of raions and small industrial towns could be of great importance.

5. To pilot and introduce a simplified system of permanent residential registration in cities and towns (or temporary registration with work permission) for internal migrants, in order to facilitate the search for permanent work in cities. This will also reduce opportunities for corruption among law enforcement authorities (for instance, in Almalyk, obtaining permanent residential registration through illegal channels reportedly cost 100,000 -150,000 soums). Moreover, the proposed approach can provide a basis for the development and implementation of a long-term government urbanization strategy to draw the excessive labor force out of agriculture, which is deemed an objective necessity for ensuring the sustainable social and economic development of the country.

6. To establish, on a pilot scale, a private employment agency providing services for employment abroad. The main objectives of agencies of that type should be to search for employment opportunities of Uzbek citizens in foreign countries, to assist in the preparation of required documents, and to provide legal and informational support to migrants while they are abroad. In order to prevent the involvement of the agencies in illegal operations, this type of activity should be subjected to strict monitoring by the appropriate government authorities. It is also necessary to ensure the liability of recruitment agencies in cases where they fail to fulfill their obligations. The lessons derived from this experience would certainly provide a basis for the further elaboration of a set of measures aimed at the liberalization of the labor market and the improvement of mechanisms for regulating migration abroad.

7. To expand the export of labor, as one of the main instruments for decreasing social tensions in the nearest future. This will require, on the one hand, the active collaboration of MFA and AFER for the elaboration and conclusion of intergovernmental agreements; and on the other hand, the further development of direct relations between the regions of Uzbekistan and other countries. Issues of labor emigration should also be shifted from the political sphere to a primarily economic one. In that regard, it could be particularly helpful to utilize the Chamber and its regional departments for establishing partnerships among recruitment agencies (including private ones) in Uzbekistan and their counterparts abroad (employers, representatives of the central and local governments, etc.). The Chamber

could also facilitate open dialogue on labor migration abroad. Within the framework of such a dialogue, there is a clear need for discussion of training and capacity-building; improvement of respective procedures; taxation; international partnership development; establishment of representative offices, etc. This could be of particular importance, considering that Russia is expected to develop a new concept of migration policy promoting the attraction of labor resources, particularly from CIS countries, by the end of the year.

8. Under current circumstances, strengthening the activities of law enforcement bodies and special services can only ensure short-term and, not necessarily, positive results. In this regard, one of the key instruments for controlling the situation should be the establishment of a system of monitoring and analyzing external and internal migration, as well as the socio-political attitude of the society. This system should be maintained and further enhanced both by government agencies (including regional khokimiyats) and specialized NGOs.
