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January 10, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Uzbekistan—Poverty Reduction Strategy Paper**

Attached for the **information** of Executive Directors is the welfare improvement strategy of Uzbekistan, prepared by the government of the Republic of Uzbekistan. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the Republic of Uzbekistan indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Ms. Eken (ext. 36511) and Ms. Bacalu (ext. 34816) in MCD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board, to the WTO Secretariat on Friday, January 18, 2007; and to the Asian Development Bank, the European Bank for Reconstruction and Development, the European Commission, and the Organisation for Economic Cooperation and Development., and the United Nations Development Programme.

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REPUBLIC OF UZBEKISTAN

# **WELFARE IMPROVEMENT STRATEGY OF UZBEKISTAN**

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FULL STRATEGY PAPER FOR 2008-2010

TASHKENT, 2007

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## **Chapter 1**

# **Goals and Priorities of the Welfare Improvement Strategy.**

### **Introduction.**

1. The Development of Living Standards Strategy (LSS), covering the period 2004-2006, was an important step in the development of medium-term strategies. The LSS was prepared by Government working groups with technical assistance from ADB and based upon two major studies – Living Standards Assessment (World Bank) and Macroeconomic Policies and Poverty in Uzbekistan (UNDP, CER). The LSS became the foundation for preparing the interim WIS, which covered the period 2005-2010.
2. This complete Welfare Improvement Strategy Paper will replace the interim WISP as a medium-term (2008-2010) national development document of the Government of the Republic of Uzbekistan for determining the main areas and measures for accelerating economic growth and enhancing the living standards of the population.
3. The process of formulating this complete WIS paper featured a number of key characteristics.
  - *Comprehensive approach to development.*
4. Achievement of the goals and objectives set in the WISP calls for development and implementation of a range of economic policies covering all the priority areas of development and all critical aspects of the reform process. This will increase the effectiveness of the measures undertaken by the Government to foster economic growth and improve the livelihoods of the population.
  - *Transition from short-term projections to medium-term and long-term strategies.*
5. The WISP sets both the medium-term and longer-term priorities for development and the transformation of various aspects of socioeconomic and public life for the period up to 2015. Thus, the development of this complete WIS paper concludes the first stage of transition from primarily short-term and sectoral approaches to medium-term and long-term development strategies.
  - *Forming the conceptual framework for regional development strategies.*
6. The WISP will not only become a strategic document for promoting economic growth and improved livelihoods of population but to a certain extent it will be the vision of the country's path of development for the foreseeable future. This lays the foundation for implementing methods and approaches of strategic governance at the regional level in close coordination with the national development strategy. Policies and new initiatives reflected in the WISP could be pilot-tested as regional-level experiments, and then subsequently clarified and disseminated nationally.
  - *Greater opportunities for resource mobilization.*
7. Key to the success of national, sectoral, and regional development projects and programmes is the active involvement of stakeholders – civil society, the private sector, international organizations and other development partners. The Strategy itself and the process by which it is designed, implemented and monitored can serve as the basis for expanding constructive collaboration between the Government and all stakeholders.

#### **1.1. WIS goals**

8. Between 2000 and 2003 GDP growth rates were consistently within the band of 3.8% - 4%, while in the last three years the Uzbek economy has been developing at higher growth rates – 7.3% on

average annually. Thus on average the annual GDP growth rate for the period 2001-2006 is greater than 6%, significantly higher than demographic growth rates.

9. This growth was both facilitated by ensuring macroeconomic stability and encouraging economic growth, as well as improving the business environment and facilitating private sector development. Fairly low inflation rates and the government's policy of easing the tax burden mean that companies have greater opportunities to invest. Ongoing reforms in agriculture are also contributing to economic growth. Policies to support export-oriented industries are succeeding, and this stimulation is complemented by the favorable situation in foreign markets.
10. Yet the impact of economic growth on improving livelihoods has been inadequate. Poverty decreased from 27.5% in 2001 to 25.8% in 2005. A substantial reduction was achieved in urban areas, where the share of the disadvantaged fell from 22% in 2001 to 18% in 2005. In rural areas, where most of the population is concentrated, poverty reduction is proceeding at a slower pace.
11. Thanks to recent reforms in social policy and the welfare system, substantial income inequality has been prevented, though there remain inequalities between the regions.
12. Poverty is a complex issue. As demonstrated by the experience of many countries and Uzbekistan itself, economic growth is an essential but not sufficient prerequisite for poverty reduction. In this regard, the WISP is based on the need to harmonize the efforts of those focused on encouraging economic growth, and ensuring that economic policies are sensitive to the interests of the disadvantaged.
13. **The Welfare Improvement Strategy of Uzbekistan has the ultimate objective** of improving living standards based on robust and inclusive economic growth, forming a modern and diversified economy able to compete in world markets, the comprehensive development of the whole country, a fair distribution of income as well as further development and significant improvement in the quality of services in education, health, and other socially significant sectors.

## 1.2. Long-term and medium-term development objectives of Uzbekistan<sup>1</sup>

### 1.2.1. Maintaining sustainable high rates of economic growth

14. A key strategic priority for Uzbekistan up until 2015 is to maintain robust economic growth at 7-8% per annum and increase the contribution of economic growth to improving public welfare and achieving key development objectives.

**Table 1.1.**

**Projections of Major Macroeconomic Indicators**

Indicators	2006	2007	2008	2009	2010
GDP, bln. soums (in current prices)	21,708	27,353	33,405	39,941	47,550
GDP growth rates, %	7.3	9.2	7.9	8.1	8.3
GDP growth rates per capita, %	6.1	8.0	6.6	7.0	7.0
GDP deflator, %	21.4	15.4	13.2	10.6	10
Consumer Price Index, %	6.8	5-7	5-7	5	5
Growth rates of investments into fixed assets, %	9.1	15.5	16	8.3	8.5
Share of investments into fixed assets in GDP, %	18.6	19.6	21.0	22.5	24.0

<sup>1</sup> The economic and social policies essential to achieving the priorities outlined in this section will be described in greater detail in the following sections of the Strategy.



Indicators	2006	2007	2008	2009	2010
Industrial growth rates, %	10.8	10.0	110.2	113.5	114.2
Agricultural growth rates, %	6.2	5.6	5.5	4-5	4-5
Share of the mixed ownership sector in GDP, %	77.8	78	80.5	82	83
Share of SMEs in GDP, %	42.1	45	47.1	49.4	52
Export growth rates, %	18	22	15	17	18
Poverty rate, %	25	23	22	21	20

15. An important macro-level strategic objective for Uzbekistan is to improve the quality of economic growth so as to further technological modernization in order to increase the country's international competitiveness, economic diversification, and transition into a technologically developed producer of a wide range of export commodities and services. This will expand opportunities for productive employment and increase incomes, thereby improving public welfare.

Table 1.2.

## Impact of Economic Growth on Poverty

	2005	2006	2007	2008	2009	2010
GDP per capita as % against previous year	118.5	106.1	108.0	106.7	107.0	107.3
Poor population, as % of total population	25.8	24.7	23.3	22.2	21.1	20.0
Poverty reduction per 1% of income growth	-0.335	-0.691	-0.733	-0.698	-0.701	-0.706

Estimated based on State Statistics Committee data

16. Estimates shows that at the projected rates of growth poverty in Uzbekistan can be reduced down to 20%.
17. Main factors contributing to economic growth up to 2015 should be:
1. Active restructuring of the economy.
  2. Gradual re-orientation of export policies from the export of commodities to exporting products with high value added.
  3. Continued economic liberalization.
  4. Development of the financial sector.
  5. Increasing investment in human capital to form a "knowledge-based economy".
  6. Ensuring an information rich society.
  7. Establishment of innovation institutions
  8. Comprehensive area-based development.
18. **Active restructuring** will be focused at the macro-level on:
- Increasing the share of the industrial sector in GDP (up to 25.5% by 2010) and services sector (up to 49% by 2010);

- Increasing the volume, growth rates, and share of exports with high value added. Annual export growth rates are planned within the 17-18% range for 2007-2010;
  - Increasing investment as a proportion of GDP up to 24% by 2010 and increasing investments by an annual average of 10-11% between 2007-2010, and stimulating the demand for investment;
  - Increasing the share of private sector in the economy, primarily in the processing sectors;
  - Increasing the share of small businesses in GDP up to 52% of GDP by 2010.
19. **The gradual re-orientation of export policies from raw materials export towards the export of products with high value added** will be achieved by the introduction of new technologies in the industrial sector and increasing competitiveness in external markets. Along with the development of domestic industries, protectionism will be gradually reduced and exporters, particularly in the non-raw material sectors, will be encouraged. Although moderate protection will be given to new industries, trade policy in general will be oriented towards greater openness of the economy. Foreign trade will be further liberalized through the unification of legislation in the framework of the EurAsEC processes and subsequently through the country's accession to the World Trade Organization (WTO).
20. The development of export-oriented industries will be based on the resources that contribute to Uzbekistan's competitive advantages: an educated workforce, effective agriculture and mineral resources which are in great demand in world markets. Thus, the emergence of new companies will be encouraged in sectors such as processing agricultural produce and food production, the chemical, petrochemical, oil and gas and electronics industries, along with tourism.
21. **Continued economic liberalization** will be primarily focused on strengthening private property and protecting ownership rights. Policies aimed at reducing the share of the government budget as a percentage of GDP to ensure the competitiveness of domestic producers will be continued so that it would not exceed 22% of GDP by 2010. Reducing the tax burden will encourage private investment and create a sustainable source of high rates of economic growth.
22. While developing the Strategy, a new Privatization Programme for 2007-2010 was adopted and it will be implemented in the medium-term<sup>2</sup>. It envisages the full privatization of 994 companies and facilities, while in 363 companies in major industrial sectors government-owned shares above the level necessary for the government to retain a controlling share will be sold to investors under specific investment commitments to modernize the manufacturing and produce competitive products, and 75 companies will be sold at zero cost subject to certain commitments from the investors.
23. **Financial Sector Development.** A substantial proportion of the planned growth will be within the private sector, necessitating a significant increase in capital investment by the banking sector. A continuation of banking reforms involves the greater capitalization of banks and increasing their resource base for issuing loans, substantial increases in the amount of mortgages, involving both banking and non-banking financial institutions in the process of microfinance, enhancing the trust of the people and businesses in the banking system by relieving them of the supervisory functions not normally carried out by banks, promoting the unhindered access of businesses and individuals to their current accounts, and the complete unification of cash and non-cash circulation.
24. **Increasing investment in human capital to form a "knowledge-based economy"** including through a concentration of efforts in "producing and selling knowledge". Such production means new technologies and high-tech equipment. The development of management and market research methods as well as methods and techniques for disseminating knowledge are in great demand at high prices.

<sup>2</sup> Ordinance # PP-672 on *Measures for the Further Enhancement of the Privatization Processes and Active Promotion of Foreign Investments in 2007-2010* of the President of Uzbekistan issued on July 20, 2007.

25. In order to rebuild the economy for “producing and selling knowledge”, additional efforts will be made to train highly qualified workers able to reproduce this knowledge including an increase in the number of the working-age population with university degrees, primarily in engineering and with a technical education. Meanwhile, education should be of such a level that specialists are not only able to master and improve the latest technologies, but also to predict and model the future of technology. At the same time, there is need for the quality integration of production and research, experimental and project activities. It is specialists with applied research skills related to the production processes that have the best chance of inventing new technologies.
26. **Ensuring an information rich society.** The creation of a “knowledge-based society” necessitates the development and wide scale use of modern digital information systems in order to create effective mechanisms for generating and disseminating information, knowledge, research and technical progress. By 2015 electronic information will serve all areas and industries of the economy. Information flows will be digitized within government agencies, business as well as amongst government generally and the users of its services – both businesses and the population.
27. Digital information, monitoring, and management systems will cover all the modern manufacturing and services sectors including power supply, water supply, and gas supply systems. Digital management will be in place in all forms of transportation including national and interstate roads. Digital management systems for irrigated agriculture will also be introduced.
28. The Internet access rate of general schools will reach 35% by 2010 and 50% by 2015.
29. **Establishment of innovation institutions** capable of providing impetus to the development of a “knowledge-based economy” is the ultimate prerequisite for the implementation of this objective. These institutions can be represented by various government programmes for encouraging innovations both in large and small businesses. The experience of developed economies is evidence of the effectiveness of direct government support and financing for applied research – creating mechanisms of commercially exploiting research along with programmes of technology transfer to domestic manufacturing. There is no doubt of the need to set up these institutions in order to effectively implement the government’s policies on innovation.
30. **Comprehensive area-based development.** The strategy envisages that economic growth should cover all regions of the country and mitigate the existing differences in the level of economic development and welfare. To this end, the government, jointly with local authorities, will develop and facilitate implementation of Area-based Development Programmes, which would plan for the development of resource-extraction and processing industries as well as services, maximizing the use of local mineral and agricultural raw materials, recreational resources and the natural environment. These programmes will be linked with regional employment generation and business support programmes.

### 1.2.2. Strategic Priorities for Human Development and Welfare

31. This economic growth strategy aims to increase, by 2015, GDP per capita by 1.75 times in terms of purchasing power parity. Meanwhile, by 2010 average wages will be 2.5 times greater than those in 2006. If the Strategy is successfully implementation, by 2015 average wages may be 7.5 times greater than those of 2006.
32. The main objective of the Strategy is to reduce poverty to 20% in 2010 (down from the 2005 rate of 25.8%). At the same time, an equitable redistribution income will be maintained at the level of countries with similar development indicators. Expanding employment opportunities and income generation based on economic growth will be main means of improving livelihoods. The development of labor intensive sectors of the economy will be the vital instrument for implementing this priority, requiring appropriate measures to be taken to improve their investment rating.

33. Social policies will also play an important role in reducing poverty. Special attention will be paid to improving the targeted use of the funds earmarked for welfare. Along with improving people's livelihoods as a result of growing business opportunities and higher incomes, welfare will be more oriented towards children and vulnerable groups including the elderly and disabled. Improving the effectiveness of welfare will be achieved through reforms promoting better planning, targeting, and management of welfare spending, and using the positive experience of decentralizing the distribution of benefits to local communities.
34. Another target group – young families will receive financial benefits and by 2010 it is planned to also provide tax benefits for buying or building a home as well as a university tuition fee benefit .
35. Along with robust growth, sufficient investment into human capacity is important for improving public welfare and the sustainable long-term development of the country. As such, looking ahead to 2015 the Government will pay particular attention to the education and health sectors as well as improving access to and quality of public utilities.
36. **In education**, the Government has the objective of maintaining literacy rate of the adult population within the 99.3% - 100% band in the long-run and also to increase the average number of years in education from the current 12 years to at least 14 years by 2015.
37. A key priority is providing equal access to education and improving its quality in order to empower the population, primarily the youth, to actively engage in internal and external labor markets. This objective fully complies with the national MDG-2, i.e. improving the quality of primary and secondary education while maintaining universal access to education by 2015. In this regard education and human resources training reforms aimed at improving the quality and accessibility are understood to be an important part of WIS until 2010 and remain a key priority for longer-term government policy.
38. The objective is to complete the creation of the material and technical base essential for the full provision to all school graduates of a secondary special and vocational education. The School Education Development Programme will be completed by 2009. The objective is to provide computer classes in all schools and provide Internet access to at least 50% of schools by 2015.
39. In the run up to 2015 the main focus in the education sector will be on improving its quality and meeting the needs of the modern stage of scientific and technical development of the economy and society in general, the creation of a continuous training system for all workers both in the public and private sectors. The higher education system will be expanded particularly through opening branches of leading foreign universities ensuring a high quality of education for those sectors spearheading scientific and technical progress.
40. **In health**, the government has set the objective of achieving and maintaining 100% access to primary medical care for the population.
41. As with education, healthcare is an important factor in the development of human capacities. Uzbekistan had adopted the national MDGs 4, 5 and 6: Reducing under 5 child mortality by two-thirds; reducing maternal mortality by one-third; containing and then reversing the HIV/AIDS, tuberculosis and malaria epidemics by 2015. The main healthcare reforms will be focused on improving the quality of health services and ensuring equality in access to health care. In order to achieve the national development priorities in healthcare, expenditures in this area should be increased by 1-1.5% of GDP. The objective here is to radically increase the quality of diagnostics and all forms of health assistance as well as the reorientation of the sector towards preventive medicine.
42. Restructuring of the hospital network will continue until 2010, particularly in rural areas in order to close small and inefficient hospitals and establish rayon healthcare institutions with an integrated management system and coordination of rural health centers, along with the establishment of

- multidisciplinary healthcare centers in the oblasts, special centers of healthcare assistance for children, and diagnostic centers.
43. Efforts to expand, equip, and upgrade the primary medical, sanitary, and emergency services, particularly in the rural areas, will also be continued. Measures will be taken to increase access to free-of-charge medical assistance and the main medicines for disadvantaged citizens, children, the elderly and disabled through targeted benefits and reduced informal fees in the healthcare system.
  44. Child mortality will be reduced through the improved training of medical staff and implementation of advanced neonatal resuscitation methods, care for children with congenital abnormalities and the promotion of breastfeeding. The mother and child health-related data collection system will be reformed through the implementation of international reporting standards and applying the WHO standard live birth definition.
  45. The strategic priorities in improving maternal health include improvement of obstetrical care and health workers skills, addressing the issues of nutrient deficiency amongst fertile-age women (anemia and iodine deficiency) through taking measures such as universal flour fortification and salt iodization, as well as improving public awareness of reproductive health issues.
  46. Combating socially-significant diseases requires large-scale interventions including prevention and treatment. In this regard, there will be a continuation of efforts to achieve universal immunization against infectious diseases, and to improve access to the prevention and treatment of HIV/AIDS, tuberculosis and other major diseases. Meanwhile, a special focus will be on expanding cooperation with civil society.
  47. **Environment, water supply, and improved sanitation.** Amongst the major environmental challenges that Uzbekistan faces are the pollution of soil, air, and water resources, reduced flora and fauna, and the lack of adequate management of industrial and municipal waste.
  48. The Government will develop and start to realize two major programmes promoting environmental sustainability: The Environmental Security Strategy of the Republic of Uzbekistan and the National Strategy for Renewable Energy Sources. They will lay supporting the achievement of the environmental MDG-7. At the same time the implementation of already adopted energy-efficiency and rational resource utilization programmes will be continued.
  49. Reducing poverty and improving public health are directly related to improving access to safe water and sanitation. Such access remains relatively low in rural areas and small towns. On average, 6% of urban residents and 21% of rural population do not have access to safe drinking water. Municipal sewers are accessible only for 38% of the urban population and 3-5% of the rural population. The lack and poor quality of drinking water, inadequate sanitation and a worsening environment are interrelated with health. In this regard, the Government will continue to pay greater attention to the development of water supply systems and improved sanitation in order to increase the share of the urban population, and primarily the rural population, with access to quality drinking water and sanitation. In order to ensure environmental sustainability, efforts will be continued to integrate the principles of sustainable development into Government policies and programmes primarily in more effectively using natural resources.
  50. The priorities in promoting gender equality as an integral element of human development and enhancing social welfare, principles embedded in the national MDG-3, will be achieved through furthering the economic independence of women through equal opportunities to employment and entrepreneurship, particularly in the rural areas. Meanwhile, for the purpose of maintaining gender equality, favorable conditions will be put in place for mobilizing private sector and civil society resources as well as those of international organizations. Efforts will be continued to improve legislation guaranteeing women's employment rights, increase women's representation in lawmaking bodies and the civil service, and overcome gender stereotypes in society.

### **1.2.3. Better Governance Strategy**

51. Implementing the WISP goals and objectives for 2008-2010 and longer-term development priorities will require an active economic role of the government. In this regard, the government's role and functions will be continuously reviewed and clarified in the light of wider trends in the economy, society and public life.
52. In order to enhance the institutional underpinnings for implementing the WIS and government policy in general, the Government will be further implementing reforms aimed at improving the effectiveness of governance and the civil service. Policies to reduce direct government interference in the activities of businesses will be continued along with the development of instruments of indirect economic regulation based on market principles.
53. Allocating government resources according to the government's policy priorities and effective management of government expenditures are key aspects in achieving the national strategic objectives. As such, the government will continue reforms in the budget system aimed at the following long-term objectives:
  - Maintaining adequate financing of strategic development programmes and projects including the education and healthcare sectors, water supply and sanitation, and the environment.
  - Developing a medium-term budget planning system as the underpinnings for the formulation and implementation of effective medium-term policies and programmes.
  - Greater efficiency of government expenditures through implementation of results-based budgeting.
  - Improving transparency and accountability of the budget process at all levels of governance based on the complete implementation and improvement of the treasury system.
54. The government will facilitate the development of public-private partnerships (PPP), for which appropriate changes have already by 2007 been introduced in the current legislation.
55. The public awareness of government activities and the outcomes of reforms already underway will be substantially enhanced through wide scale publications and discussions of these issues in the media. The government will take action to reduce the number of classified data so that they can be published.

### **1.3. Relationship between the WIS goals and MDGs**

56. The sustainable and equitable development objectives of the Welfare Improvement Strategy correspond to the Millennium Development Goals (MDGs) approved by the UN General Assembly in 2000. Uzbekistan committed itself to the achievement of the Millennium Development Goals by 2015 reflecting the national specifics. Implementation of the Strategy will facilitate significant progress towards the achievement of the national Millennium Development Goals by 2010 in order to ensure achievement of most MDGs by 2015.
57. The necessary improvements in primary and secondary education will be delivered and the share of women with a higher education increased.
58. The under 5 child mortality rate will be reduced from its 2006 rate by one-third, and by another one-third by 2015. Maternal mortality will be reduced by 15% by 2010 and a further 15% by 2015.
59. The spread of tuberculosis will be halted by 2010, and the prevalence of tuberculosis will begin to subside by 2015. It is expected that the HIV/AIDS infection rate will be substantially reduced by 2015.

60. Measures for environmental protection and the rational use of natural resources will enable to reverse environmental damage, securing tangible results by 2010. Access of urban and rural households to safe drinking water and sewage will be improved from its 2006 level by 25% by 2010 and by 50% by 2015.

#### **1.4. The Process and Outcomes of Ensuring Broad Participation**

61. The WISP was developed by the Government of the Republic of Uzbekistan, incorporating the recommendations of the United Nations Development Programme, World Bank, ADB, and other international organizations. Civil society and the private sector were actively involved in the formulation and discussion of WISP. In particular, realizing the necessity of the active involvement of all population groups in the process of both its formulation and, subsequently, its implementation, monitoring, and revision, the Government of Uzbekistan approached the organizational process of the WISP in the following manner.
- An Interagency Council for the coordination of WISP development efforts has been established including officials of key ministries and agencies, non-government organizations and civil society institutions, the private sector and international financial organizations. Likewise, the Group for Coordination and Methodological Support, providing organizational and technical support to the process, was established.
  - Sectoral working groups (SWGs) including the officials of the ministries and agencies of the Republic of Uzbekistan, national research centers, independent experts and representatives of civil society. The SWGs included the following dimensions: macroeconomic policies to accelerate economic growth; institutional reform and improved governance; development of human capital; enhanced social security; monitoring and statistical indicators; and determining WISP costs and their integration into the government budget system.
  - The government initiated a series of discussions and consultations on WIS by inviting government officials, representatives of civil society, private sector and businesses, international organizations and other stakeholders. Since November 2006 more than 30 discussions and consultations on national and regional levels were held, involving about 700 participants including national and international experts, national and local government bodies, representatives of civil society and the private sector, academia, and international organizations. Most of these activities were arranged with involvement of the Government, UNDP, and the Center for Economic Research in the framework of various national and sectoral research projects, whose activities were closely correlated to the process of formulating the WIS. Based on the results of discussions with various stakeholders, more than 40 policy briefs and analytical reports have been prepared, providing a foundation for the both the Strategy and also a number of medium-term sectoral programs and policies, developed in conjunction with the WIS. The issues raised most often in these discussions were related to continuing liberalization in economic policy, reducing the tax burden, safeguards for private property, reduced interference of regulator bodies into business activities, increased access to bank loans, the reduction of customs clearance fees in importing technological equipment for the modernization of production, and the legalization of external migration of the labor force. These and other issues raised have been reflected in the Strategy.
62. Furthermore, with the support of UNDP and the World Bank a number of training workshops and trainings were held for government officials, non-government organizations, academic institutions, local authorities, media and the private sector. These efforts were focused on enhancing the capacity of all participants of the formulation process of WIS and provided the knowledge and skills essential for active involvement in the WIS process.
63. As a result, these consultations not only helped in clarifying the analysis of the situation and a vision for the country's development, but also helped to achieve consensus on the main priorities,

strategies and policies and other strategic programmes that the Government is planning to implement in the period up to 2010 and beyond. However, the most important outcome of this consultation process was the creation of a collaboration framework between the Government and other stakeholders. This is the framework for further development of the dialogue on development in the course of the implementation and interim revision of the WIS in 2008-2010.

64. The process of formulating the WIS drew upon the latest data from ministries and agencies, the household budget surveys regularly held by the State Statistics Committee, labor market surveys by the Ministry of Labor and Public Welfare as well as the surveys of independent research centers. The findings of these surveys including questionnaire-based surveys and focus group discussions so as to incorporate the opinions and assessment of various stakeholders including the most vulnerable groups of the population in the development of the WIS.
65. The Strategy also incorporates the recommendations and assessments of the staff and experts of the United Nations Development Programme, World Bank, Asian Development Bank, and other international organizations providing assistance to Uzbekistan in addressing relevant development issues. Inter alia, World Bank studies dedicated to the review of living standards in Uzbekistan, microfinance and mortgage lending development, and public utilities sector made a significant contribution to the WIS. Also, the findings of studies by the Asian Development Bank on the issues of improving governance and agricultural reforms were also used.
66. At the same time, this process of consultation has highlighted the need, on the part Government, civil society, private sector, and other stakeholders, for new knowledge and skills in order to develop and implement policies within the context of developing market relations. In this regard, the Government intends to continue cooperation with UNDP and other international organizations to strengthen national capacity for the formulation and implementation of a comprehensive development strategy, including the processes of participation.



## *Chapter 2*

### **Review of Economic and Social Policy in Uzbekistan**

#### **2.1. Economic Expansion in 1996-2003**

67. Uzbekistan has demonstrated stable rates of economic growth since 1996. Although economic growth was moderate at the rate of 3.5% - 4.0%, it is notable that economic expansion started earlier than in other CIS countries. Although inflation rates remained relatively high due to the structural changes underway they leveled off at the rate of 18-29%.
68. In general, in this period economic growth had a positive impact on poverty reduction rates. Along with the gradual revival of the economy, the poverty rate fell from 44.5%, identified in 1994 through a one-time sample survey, to 27.5% according to the findings of household budget surveys held using the World Bank methodology. More than 70% of the poor lived in rural areas.
69. At the dawn of the new century a number of factors triggered a process of improving economic policy. First, trends in the real exchange rate of the local currency hindered the competitiveness of domestic producers. Secondly, adverse prices for major commodity exports led to the wide-scale use of tariff and non-tariff import regulations. Thirdly, distortions in domestic relative prices contributed to the inefficient use of available resources and discouraged investment. As a result, the amount of foreign direct investment was below its potential, and this logically affected the restructuring of the economy and economic growth. As such, the liberalization of and reduced government interference in the economy, enhanced guarantees of the protection of businesses, and the gradual liberalization of the currency market were declared as major priorities of the new economic policy. Starting in 1999 structural transformation of the economy through the accelerated development of the private sector, especially small and medium enterprises (SMEs), has been viewed as a priority.
70. Special programmes were adopted to support SMEs, and the privatization of large companies in major sectors of the economy has been underway with priority given to foreign investors. Meanwhile, in the privatization of large companies the practice of having an individual approach was introduced by inviting in strategic investors. A distinct feature of this individual approach was the detailed review of the company to be privatized and the development of the most appropriate privatization strategy for each facility.
71. Along with changes in Central Bank exchange rate policies, these measures led to the almost complete unification of exchange rates by mid-2003. Strict monetary and fiscal policies along with greater use of indirect monetary policy instruments contributed towards significantly reducing the inflation<sup>3</sup> and creating the prerequisites for currency market liberalization. In October 2003 Uzbekistan accepted the commitments detailed in Section 2(a), 3 and 4 of Article VIII of the Articles of Agreement of the International Monetary Fund to ensure the current account convertibility of the national currency.

#### **2.2. Macroeconomic achievements in 2004-2006**

72. Since 2004 economic growth rates have been high. According to the official statistics, in 2004-2006 GDP growth rates averaged 7.3% per annum. The main factors that led to such economic growth in this period were economic liberalization, including first and foremost the introduction of current account convertibility, agricultural reforms, and a favorable external market environment, including economic growth in the main trading partners of Uzbekistan.

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<sup>3</sup> While growth in the consumer price index was 26.6% in 2001 and 21.6% in 2002, since 2003 it has not gone above 8%.

73. A distinct feature of this period is that the high GDP growth rate was achieved not only by traditional commodities sectors such as agriculture, but due as a result of faster growth in high-tech industries creating substantial value added and enhancing the country's competitiveness. Already contributing to sustainable economic development are emerging industries producing finished products, which are competitive in the world markets and less prone to the volatilities of world commodities markets.

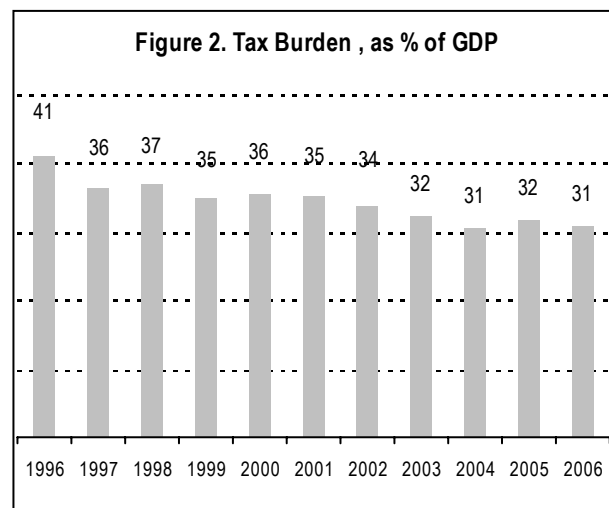
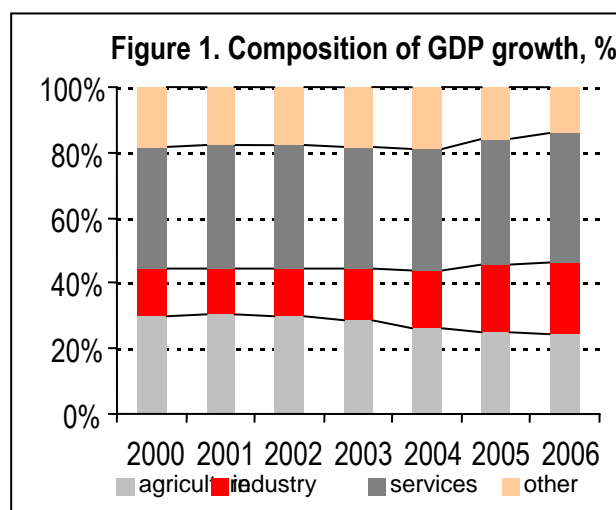
Table 2.1

## Outcomes of Economic Policies in 2000-2006

	2000	2001	2002	2003	2004	2005	2006
GDP growth, %	3.8	4.2	4.0	4.2	7.7	7.0	7.3
Inflation, %	28.2	26.6	21.6	3.8	3.7	7.8	6.8
Unemployment rate, as of the beginning of the year	6.5	6.9	4.4	4.0	3.7	3.6	3.0
Industrial growth, %	5.9	7.6	8.5	6.2	9.4	7.3	10.8
Agricultural growth, %	3.1	4.2	6.1	5.9	10.1	5.4	6.2
Growth of investments, %	1.0	4.0	3.8	4.5	5.2	7.0	9.1
Gross savings, as a % of GDP	0.9	-2.9	-5.7	24.6	30.3	11.5	18.1
Investments to fixed assets, as % of GDP	19.4	20.0	21.4	26.9	31.9	35.7	33.9

Source: State Statistics Committee of Uzbekistan

74. Qualitative changes are underway in the composition of gross domestic product. Industry's share in the composition of GDP is increasing, up from 14.2% in 2000 to 22.1% in 2006, while the share of the services sector has also increased from 37.2% up to 39.5%, while agriculture's share fell from 30.1% to 24.1% in 2006 (Figure 1).
75. Yet the impact of the main factors contributing to economic growth in 2004-2006 will gradually decline and cannot sustain high growth rates in the medium term. Thus the main challenge for the country is the identify and introduce new, more sustainable, sources of economic growth, which would sustain growth levels of at least 7-8% per annum throughout the projected period.



Source: State Statistics Committee of Uzbekistan

76. **Fiscal policy** in this period was oriented towards balancing budget revenues and expenditures while at the same time reducing the tax burden on business (Figure 2). For instance, starting in 2005 the corporate tax rate was reduced to 15% (down from 18% in 2004), and again in 2006 reduced to 12% in 2006, and then again to 10% in 2007. At the same time many expenses were defined as tax deductibles. The 1% environmental tax was abolished altogether.

77. Furthermore, the tax rate for incomes of legal entities and individuals received as taxable dividends and interest went down from 15% down to 10%, while the single social tax rate reduced from 31% to 25% in 2006 and to 24% in 2007.
78. For micro-firms and small businesses in all sectors of the economy, a flat tax payment of 13% was introduced to replace the flat tax, mandatory deductions to the extra-budgetary Pension, Republican Road, and School Educational funds with amounted to 15.2%. In 2007 this rate was further reduced down to 10%.
79. As a result, output went up and the taxable base was thus grew, which, along with measures to improve tax administration, resulted in growth of revenue and a low budget deficit.
80. Currently the consolidated budget makes up 31% of Uzbekistan's GDP. However, given the uneven distribution of the tax burden amongst the sectors of the economy, reduced taxes did not lead to greater competitiveness in all sectors. The practices of indirect taxes and mandatory fees to the extra-budgetary funds need to be further improved in order to, increase the competitiveness of domestic producers and expand the taxable base, particularly in the labor-intensive sectors of textiles and light industry which face stiff competition from imports.
81. The rate of excise taxes on basic commodities (vegetable oil, sugar, etc.), set in order to maintain price parity with neighboring countries, is limiting the purchasing power of the population, for whom these goods make up a substantial portion of their consumer basket.
82. Further development of the taxation system on individuals' income, given that wages are growing significantly faster than the inflation rate, should encourage greater coverage and an increased taxable base.
83. The Tax Code, adopted in 1997, needs to be amended to reflect the new objectives and priorities of economic policies. Numerous changes and amendments have been introduced to this and other tax regulations since then. As a result, tax legislation has become complicated and less coherent, leading to additional costs for businesses. As such, in 2006 the Government set out on a course of gradual reform of the tax system and a government working group has been established to develop the basis concept of tax reform, and this New Revision of the Tax Code has now been developed and submitted to the government.
84. **Monetary Regulation and Development of the Banking System<sup>4</sup>.** Monetary policy in this period was implemented strictly in line with money supply targets, the reduction of extra-banking turnover, greater sustainability of the local currency along with the rational expansion of crediting to the real sector of the economy. Reforming the banking system entailed stronger money markets, financial support to small businesses and private entrepreneurship, and this has been directly reflected in the improved financial sustainability of the banking system as well as its operations with businesses and individual customers. Concerning inflation, the indicator of price stability, the CPI, fell from 24.9% in 2000 to 6.8% in 2006.
85. Close attention was also paid to advancing banking sector reforms. This was reflected in the increased total capital of banks, and the better quality and greater assortment of services as well as in increased competition in the banking sector.
86. At the same time, a number of challenges exist in the banking and financial sector, which need to be resolved in order to maintain high rates of economic growth and a more equitable distribution of its results: (1) further increase in the rate of financial mediation according to the high rate of economic growth ensuring further control over inflationary processes; (2) high level of administrative interference; (3) a number of untypical control and accounting functions performed by banks.

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<sup>4</sup> A policy brief prepared with the assistance of the World Bank was used in this section.

87. Currently the ratio of deposits to GDP still remains low and although the trend is of accelerated growth, this the rate of growth in assets and bank capital lags behind GDP growth rates.

Table 2.2

## Data on the Banking System in 2000-2006 (mln. USD)

	2000	2001	2002	2003	2004	2005	2006
Bank loans	2,850 \$	2,731 \$	2,724 \$	2,844 \$	3,040 \$	3,210 \$	3,307 \$
Banks' assets	4,649 \$	4,190 \$	3,869 \$	4,048 \$	4,355 \$	4,953 \$	5,807 \$
Banks' deposits	894 \$	675 \$	616 \$	811 \$	1,176 \$	1,304 \$	1,424 \$
Banks' capital	854 \$	729 \$	739 \$	793 \$	764 \$	789 \$	862 \$
Bank loans/GDP	29.5%	28.4%	28.1%	28.2%	25.3%	23.4%	20.9%
Bank deposits/GDP	9.3%	7.0%	6.3%	8.0%	9.8%	9.5%	8.8%
Capital Adequacy	50.5%	44.1%	41.9%	39.9%	28.0%	25.0%	21.5%
Loans under Government guarantee/Total loans	82.9%	82.4%	78.2%	75.5%	69.5%	59.8%	52.2%
Overdue loans/total loan portfolio	3.0%	5.1%	8.5%	10.9%	9.3%	8.9%	7.3%
Incomes/expenditures	81.7%	85.7%	87.6%	87.8%	87.3%	90.7%	78.8%
Liquid assets/total assets	11.8%	9.2%	17.8%	21.3%	22.2%	19.7%	25.5%
Liquid assets/short-term liabilities	35.5%	28.4%	48.4%	59.4%	66.5%	51.8%	64.4%
Savings accounts/Total liabilities	12.8%	10.8%	11.6%	12.3%	11.0%	18.4%	15.4%

*Note: data in UZS as of the year end divided by the exchange rate of USD in the respective period except for deposits in 2006, for which data for 1<sup>st</sup> quarter is used. In the case of capital adequacy indicators, overdue loans/total loans, average rate of return on assets, average rate of return of the capital, expenses/revenues, liquid assets/total assets, liquid assets/short-term liabilities as well as savings accounts/total liabilities the data is of September 2006.*

*Source: IMF (Article IV, January 2007); IMF estimates based on CBU data (2000-06); State Statistics Committee data for 2005 and 1<sup>st</sup> quarter of 2006.*

88. Currently the main financial indicators are either quite healthy in terms of international standards or are being improved. Regulatory capital towards risk is adequate, the quality of assets is improving, the level of concentration is going down, loan risk is being diversified, falling in various sectors, and liquidity against short-term liabilities is sustainable. Hence, a sufficiently stable environment will facilitate the expansion of the banks' presence, including in the consumer loan market.
89. The banking sector is becoming less concentrated, with 25 out of 28 private banks (without a government share in their capital) gradually increasing their share of the market. This is leading to a stiffening of competition, which will have a soothing impact on the economy as a whole. Growing competition will encourage many banks to focus on active crediting of the private sector and consumer loans, thereby making a contribution to reducing the gap in the micro-crediting market between existing levels of risk and the rate of unsatisfied demand.
90. Banks have sufficient regulatory capital and good liquidity indicators. The share of overdue loans has been decreasing since 2004 indicating a higher quality of assets. However, rates of return remain quite low and incompatible with the need to seek sources for greater capital over longer periods of time and in market conditions. Given the non-typical functions performed, Uzbek banks have lower returns than in market-oriented systems. Further commercialization and increased competition will force the banks to become more flexible and develop skills in developing new products and managing new risks.
91. **Microfinance.** Significant efforts have been made to develop non-bank financial institutions to serve the population and entrepreneurs. The Law on Credit Unions was adopted by the Oliy Majlis on April 4, 2002, and respective changes were made in 2006 to the legislative framework, in order to establish and expand credit unions' activities. Based on this law the Central Bank developed a number of regulatory acts establishing licensing procedures, the minimum amount of authorized

- funds, management requirements, main activities, and financial reporting. 38 credit unions with total membership exceeding 50,000 are currently registered and operating nationwide.
92. The Microcreditbank was set up in 2006 with government involvement. The Laws on "Microcredit Organizations" and "Microfinancing" adopted in September 2006 creates the foundations for the emergence of a new microfinance segment of the financial market.
  93. Despite this the microfinance market is not yet adequately developed. As of end of 2006, the total amount of loans issued by credit unions and microfinance organizations amounted to USD 15 mln., which is significantly lower than the current needs and microfinance operations of commercial banks.
  94. In addition to microcredit organizations and credit unions, commercial banks are involved in microfinancing (92% of the total market). Microcredits issued by banks amounted to USD 172 mln., while the average amount of loans per capita is USD 7 or 1.2% of GDP.<sup>5</sup>
  95. Despite the growing amount of bank loans to households and small companies, this indicator is still inadequate in comparison with their needs in the scale of the national economy.

Table 2.3

## Characteristics of the Various Segments of Microcrediting in 2006

Banks	28	
Credit Unions	35	
Microfinance organizations	14	
	<b>USD</b>	<b>% of total amount</b>
<b>Microloans</b>	<b>186,716,065</b>	<b>100.0%</b>
Banks	171,425,234	91.8%
Credit Unions	10,386,197	5.6%
Microfinance organizations	4,904,634	2.6%
<b>Assets</b>	<b>4,868,589,892</b>	<b>100.0%</b>
Banks	4,850,330,579	99.6%
Credit Unions	12,128,521	0.2%
Microfinance organizations	6,130,793	0.1%
<b>Deposits</b>	<b>1,432,738,166</b>	<b>100.0%</b>
Banks	1,423,553,719	99.4%
Credit Unions	9,184,447	0.6%
Microfinance organizations	0	0.0%
<b>Capital</b>	<b>802,707,578</b>	<b>100.0%</b>
Banks	800,247,934	99.7%
Credit Unions	2,459,644	0.3%
Microfinance organizations	No data	No data

*Note:* the assessment of microloans is based on interest rates of the loan issued to households and individual entrepreneurs in 2004, which was applied to the data of March 2006; credit union data as of October 31, 2006; MFO data as of July 2006; MFO assets are estimated as total amount of loans multiplied by 1.25; exchange rate UZS to USD=1,210 as of March 31, 2006 and 1,237 as of October 31, 2006.

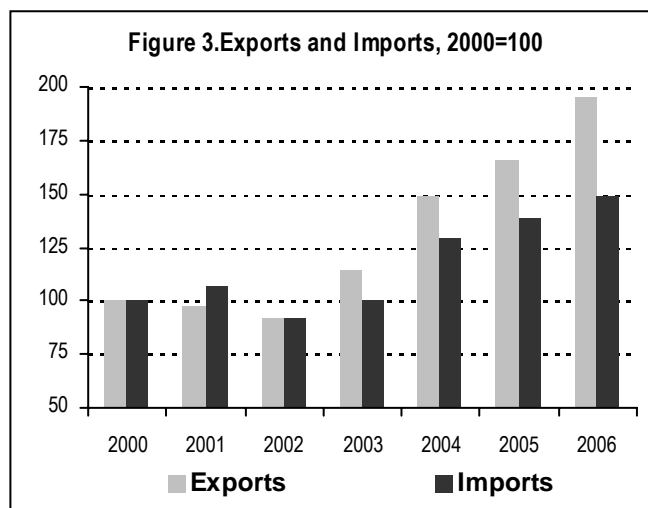
*Source:* State Statistics Committee of Uzbekistan, IMF, Association of Credit Unions, Microfinance Association, authors' estimates.

96. Considering the high social significance of microfinance as an effective instrument for improving public welfare and creating additional jobs, it is essential to undertake efforts to make microfinance a sustainable component of the country's financial sector.
97. To this end, in June 2007 the Government of Uzbekistan adopted the Microfinance Development Programme up to 2010 envisaging an expanded network of non-bank loan institutions in all regions of the country by increasing their number up to 159 with a total loan portfolio of 127 bln. soums.

<sup>5</sup> Microfinance development in Uzbekistan. Terms of Reference of the World Bank . March 2007

98. **Mortgage Finance.** In 2006 the Law on Mortgages was adopted and a special mortgage lending bank – Ipoteka Bank and a Mortgage Lending Fund were established along with the adoption of other legislative acts essential for the implementation of home financing. In 2007 a government decision was made authorizing government subsidies for mortgage lending to cover the difference between the market rate and a preferential interest rate issued to the mortgage borrowers eligible for preferential mortgage loans. However, currently the amount of mortgage loans issued to individuals is miniscule and it is premature to talk about a developed housing finance market.

99. **Foreign trade policy.** The growth of exports became a key factor in the accelerated rate of growth in recent years. This growth in exports was influenced both by internal and external factors. The main internal factors conducive to growth in exports were the convertibility of the local currency, the implementation of activities to promote exports of domestic products as well as structural changes in the economy. The favorable situation in world markets for the main export commodities of the country, high demand for goods produced in Uzbekistan by its main trade partners also had a substantial impact on the growth of exports.

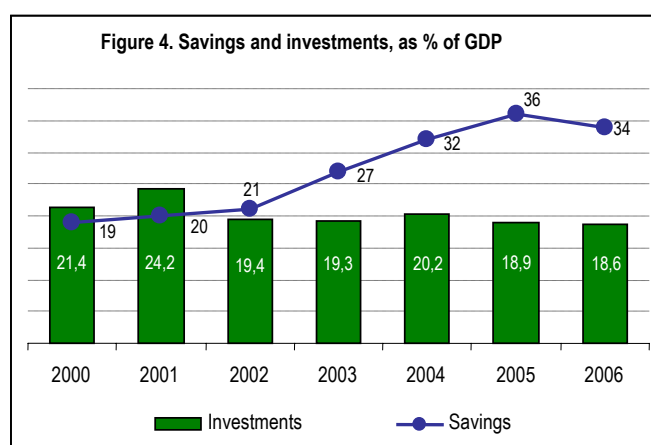


Source: State Statistics Committee of Uzbekistan

100. As a result, in 2006 exports almost doubled against 2000, which is significantly higher than the growth in imports. Moreover, a current account surplus was achieved in the balance of payments, which helped to maintain the exchange rate of the local currency within the given limits, a reduction of external debt, and a substantial increase in gold and hard currency reserves.

101. At the same time, the export potential of the country is hindered by the lack of effective mechanisms to promote domestic exports to external markets. In particular, mechanisms for encouraging the export potential of mediatory organizations are not utilized. The current high rate of transaction costs reduces the competitiveness of national producers.

102. There is a need to improve the legal framework for exports, customs legislation and procedures in order to streamline procedures for export and import operations and reduce the complexity of export and import operations and thus the transaction costs.



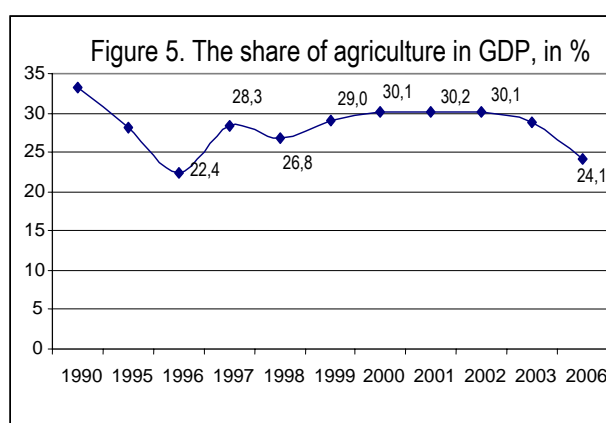
Source: State Statistics Committee of Uzbekistan

103. **Investment policy** facilitated the advancement of structural reforms, modernization of the economy, and foreign investment. This was achieved by an annual growth in investments within 7-9% for the implementation of priority investment projects.

104. Benefits and preferences created to encourage investment increased the share of company equity, foreign direct investments and loans in the general composition of investments. Total foreign direct investment in 2006 was 2.8 times greater than that in 2003 and amounted to USD 683.8 mln.
105. However, since 2002 total savings were higher than investments, partially due to the growth in total currency reserves. Nevertheless, in the long-term there is a need for the development of effective mechanisms to transform national savings into production assets.
106. The Fund for the Reconstruction and Development of the Republic of Uzbekistan (FRDRU) was established in 2006 with its objectives being to ensure the macroeconomic stabilization and utilization of financial resources generated as a result of favorable world prices for the financing of strategically important investment projects in the basic sectors of the economy.
107. The FRDRU accumulates funds not through purchasing local currency but directly through payments. This means that there is no release of excessive money supply and associated growth in inflation, and it also enables Uzbekistan to solve the problem of increasing investment in the domestic economy where there is a great need rather than investing these funds abroad as is often the case with stabilization funds of the majority of other countries.
108. The main challenge in investment policy is not just the search for additional sources of financing but also to create a portfolio of effective investment projects and a good regulatory environment such that they can be implemented without excessive bureaucratic procedures.
109. The availability of material and human resources in the investment process will be an important factor for such successful investment activities, requiring additional efforts both in expanding the production of construction materials and also for training highly qualified engineers and construction staff.

### 2.3. Agricultural Policy

110. Improving people's livelihoods in Uzbekistan depends to a significant extent on transformations in the agricultural sector. Approximately 64% of the country's population lives in rural areas, while about 32% of the workforce is employed in the agricultural sector. 24% of the gross domestic product of Uzbekistan is produced in the agricultural sector.
111. Other sectors of the domestic economy are also closely related to the development of the agricultural sector. The agricultural sector directly or indirectly provides up to 70% of domestic trade. Domestic agricultural output generates more than 90% of the overall domestic demand.
112. Cotton processing, textiles, hosiery, clothing, footwear, food processing, fruit and vegetable processing, along with the oil and fat, meat and dairy industries are directly related to the processing of agricultural output. According to expert estimates, 35% - 40% of all industrial output or 7.7% - 7.8% of GDP is produced in processing domestic agricultural output.
113. The agricultural sector creates a market for domestic agricultural machinery building companies, chemical companies producing mineral fertilizers and plant protection items, power generating



Source: State Statistics Committee of Uzbekistan

- companies, and producers of fuel and lubricants. Furthermore, exports of raw materials and processed agricultural output directly or indirectly generate nearly half of all hard currency receipts.
114. Between 1981-1990 the annual growth rates of agricultural output barely exceeded 2%, and growth in farming products was less than 2%, while demographic growth in this period exceeded 2.0% per annum, with the higher rate of 2.6% amongst the rural population. Thus, for the 15 years before starting market reforms in Uzbekistan, agricultural output growth rates were lower than population growth in rural areas and did not contribute to improving living standards. Furthermore, in the early 1990s domestic agriculture experienced a significant downturn along with the rest of the economy.
  115. Starting from 1997 agriculture has bounced back. In 2000 gross agricultural product (in comparable prices) exceeded the pre-reform level of 1990. In the subsequent years growth in agricultural output became sustainable and in 2001-2006 its average annual rates were 4.5% per annum, which is substantially higher than the average annual growth rates of the country's population (1.2-1.3% per annum).
  116. In the period up until 2004 the restructuring of agricultural output was focused on reducing cotton production and in its place to increase the farming of wheat and other foodstuffs that had previously been imported. At the same time, major efforts were made to improve the varieties of both cotton and especially grain crops, varieties that corresponded to natural-climatic conditions of each region, the rehabilitation of evidence-based agriculture of cereals, the abolition of state procurement for most crops and reducing government procurement for cotton, wheat, and rice.
  117. Meanwhile, institutional reforms in the agricultural sector were slow prior to 2003. The shirkats (cooperatives) set up to replace the kolkhozes (collective farms) were inefficient. The number of loss-making shirkats was as high as 40% of the total. To a certain extent this was due to the low procurement prices for cotton and wheat, which were frequently below world prices in the period until 2004. The amount of government and private investment into the agricultural sector was lower than that into most industrial and social sectors, and as a result the technical capacity of land improvement systems and irrigation was not maintained.
  118. The government's agricultural policy in 2003-2006 was concentrated on:
  119. **1) Private farming sector development**, which came into being to replace liquidated insolvent and loss-making agricultural cooperatives (shirkats). In 2006 this process affected the production of not only cereals and cotton-farming shirkats but also producers of fruits and vegetables.
  120. The government has adopted a special programme, according to which the conversion of shirkats into private farms was concluded in 2007. As a result of these reforms, as of January 1, 2007, the total number of active farms in 2006 was 189,200 against 87,500 in 2003. The average land endowment per farm is 26.2 hectares. About 1.8 mln. workers are employed in private farms, and they produced more than 32% of gross agricultural output. Private farms account for 86.3% of raw cotton and 73% of grain crops.
  121. **2) Setting up a market and production infrastructure**, designed to service the newly emerging farming sector. Companies providing plowing and planting, veterinarian, insurance and mini-banks services, as well as supplying chemical fertilizer, fuel and lubricants are being established everywhere. As a result, the access of private farmers to these services has improved significantly.
  122. At the same time, there is huge untapped potential in developing the procurement system and improving the functioning of wholesale agricultural markets. Despite reorganization in progress, there is a lot yet to be done to create water user systems in compliance with market reforms and enhance the effectiveness of the Water Users Association.
  123. **3) Improving the advance payment system and payments to private farmers** for agricultural output produced and sold. Disbursing advance payments directly from special Fund for payments, in



- line with state procurement, were gradually advanced in market conditions through bank loans. In rural areas microloans to new farmers are becoming popular.
124. However, there are still issues regarding the access of agricultural producers to funding. Advance loans are mostly issued under government procurement, and access to advances for products above the procurement quota is burdensome for many farmers. Microloans require quite a high level of collateral. Commercial banks are not always interested due to the high costs.
  125. **4) Establishment of various forms of cooperatives by farmers** to process agricultural output, primarily livestock and horticultural farming products. There is a widening process underway of farms founding agri-firms specialized in production and the advanced processing of horticultural and vinicultural produce, processing companies and other businesses.
  126. In order for farmer cooperatives to develop further, there is a need to overcome the high level of distrust amongst farmers in such forms of cooperation due to unsuccessful experiences in the past, and also there is a need for broad-based training of farmers in the skills necessary to spearhead effective market-based cooperation.
  127. Steps taken to reform agriculture facilitated stable growth in the sector by 23.2% in 2003 and 6.2% in 2006.
  128. Despite the robust and impressive results of agricultural reforms, there are still challenges related to the quality of land resources and limited irrigation water resources.
  129. **A) Quality of land resources.** The total area of agricultural land consists of 17.8 mln. hectares, of which 25% is arable land. In the last 15 years the area of agricultural land decreased by more than 5%, and in per capita terms by 22%, mostly due to the creation of pastures, orchards, and vineyards. There are 8 persons per each hectare of irrigated land. Demographic growth rates are far ahead of growth rates of irrigated land, which has led to a reduction in irrigated farmland from 0.22 ha down to 0.13 ha per person. According to ADB estimates, if the current trends persists, the acreage of irrigated land will further decrease by 20-25% in the next 30 years.<sup>6</sup>
  130. At the same time the quality of agricultural land is deteriorating. Between 1990-2000 the average land quality grade fell from 58 to 55. Low land quality is typical for Karakalpakstan (41 points), Tashkent, Jizzakh, Kashkadarya, and Navoi oblasts (49-52 points).
  131. More than 3 mln. hectares of land are suffering from soil erosion caused by wind and water – the average losses of fertile layer in a season has reached 80 tons per hectare. Area of pastures subject to erosion due to overgrazing and technical reasons constitutes 7.4 mln. ha, while more than 5 mln. ha of pasture land is affected by desertification. Issues of water and wind erosion are worsening due to a reduction in the area of forests, which fell from 8.5 mln. ha in 2000 down to 8.1 mln. ha in 2004. About 54% of land is polluted by pesticides, and more than 80% has a high content of pollutants.<sup>7</sup>
  132. Considering the limited land resources of the country, reductions in arable land per capita is likely to become a long term trend, and calls for strategic actions to be taken to enhance the effective use of limited land resources.
  133. Currently, one agricultural worker in Uzbekistan “feeds” only 12 residents of the country, while in developed market economies this indicator is 6-8 times higher. This is due to the low yield of agricultural crops and deteriorated land quality.

<sup>6</sup> *Water – a critical resource for the future of Uzbekistan*, UNDP, Tashkent 2006

<sup>7</sup> *Economic Review Journal*, # 5-6, 2001.

134. According to World Bank estimates, annual losses in agricultural output in Uzbekistan due to land salinity/degradation are estimated to equal USD 31 mln., while the economic losses due to agricultural land taken out of use equals roughly USD 12 mln.<sup>8</sup>
135. Activities to reduce land salinity incur major financial costs as well as labor, water, and technical resources. Even with government support, there is an acute shortage of funding for land rehabilitation, preservation, and enhancing yields. Today at least half of all irrigated land is in acute need of improvement (rehabilitation).
136. **B) The limited irrigation water resources in Uzbekistan**, as in the entire Central Asia, is dependent on the water endowment of the two major rivers – the Amudarya and Syrdarya. Irrigation has always been the basis for agricultural development and income generation for the bulk of population in all countries of the region.
137. The irrational water use during the last 40-50 years caused the biggest environmental crisis in the region – the drying up of the Aral Sea. According to the assessment of the Research and Information Center of the Interstate Coordination and Water Management Commission (MKVK) and Mountain Unlimited & Scientific Information (2003), the Aral Sea crisis has led to direct and indirect socioeconomic costs totaling USD 144 mln. (nearly USD 5.7 per capita or 1.8% of GDP)<sup>9</sup>.
138. Using upstream rivers in neighboring nations for energy generation rather than for irrigation, breaking with centuries of tradition of irrigation, is inflicting irreversible damage on the quality of land resources and threatening the survival of tens of millions of people in all countries of Central Asia.
139. In the meantime, the efficiency of use of water resources for irrigated agriculture should be significantly improved. One of the main reasons for the excessive use of irrigation water is the significant filtration losses from primary canals, secondary canals, and tertiary canals. Only 35% of the canals' total length has anti-filtration cover. More than 15,000 km of primary and secondary canals (60% of the entire length) require rehabilitation.
140. The annual clearing of the collector and drainage system constitutes 60-65% of this need. Funds allocated from the budget for clearing the sub-surface drainage systems are not sufficient in many areas.
141. Furthermore, the inadequate use of water-efficient technologies means that an additional 10-15% of water is required for irrigation.<sup>10</sup>
142. Another underlying reason for the excessive use of water is the **secondary salinization of lands** are a result of factors such as the high underground water table and the use of drainage water for irrigation. As a result, salinized lands require substantial water for leaching, which makes up 20% of all water used in the fields.
143. Another type of non-productive irrigation losses are **high energy costs**. A substantial part of irrigation water is pumped to the fields with electric pumping equipment, which in the majority of cases is in need of reconstruction and modernization. Outdated equipment consumes 5-25% more electricity than modern equipment. Furthermore, the efficiency of pumps is low due to unstable energy supply, unstable water supply, and the low water level in primary canals.
144. It is difficult to assess the losses caused by the inefficient use of water due to the lack of accurate estimates of irrigation. However, according to World Bank estimates (2003) the destruction/loss of the resource base for agricultural production costs the country approximately USD 1 billion annually.<sup>10</sup>

<sup>8</sup> General state of the environment, World Bank, 2002.

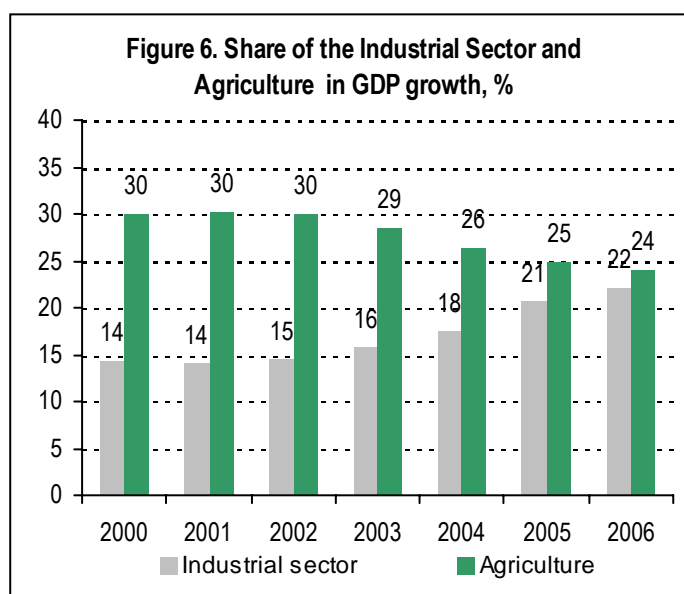
<sup>9</sup> *Water – a critical resource for the future of Uzbekistan*, UNDP, Tashkent 2006

<sup>10</sup> *Water – a critical resource for the future of Uzbekistan*, UNDP, Tashkent 2006

145. Hence, the agriculture of Uzbekistan needs an infusion of more financial resources, primarily into land improvement and the modernization of irrigation facilities. Otherwise, there is a great risk of lower yields and efficiency of the agricultural land plots.

## 2.4. Industrial Policy

146. Measures taken to reform and develop the industrial sector in recent years were focused on the creation of a solid foundation for the accelerated development and diversification of the sector primarily in the oil and gas sector, power sector, and non-ferrous metal processing. High rates of growth were observed in machinery-building and metal-processing, non-ferrous metallurgy, construction materials, cotton processing, knitting, apparel, and the food industry. In 2006 industrial output was up 30% compared to 2003. This growth is mainly generated as a result of measures taken for the restructuring and financial support of industrial companies, increasing exports, the greater use of industrial capacity and supporting the production of finished products.



Source: State Statistics Committee of Uzbekistan

147. However, the potential for industrial growth has yet to be fully realized, and so there is a need to search for effective market mechanisms in mediating the relations among businesses, ensuring the protection of private property, increasing the effectiveness of the judicial system and improving the principles and methods of corporate management.
148. The underdeveloped competitive environment requires increasing the effectiveness of antimonopoly legislation and a further reduction of government interference in business. One of major factors contributing to the sustainable development and competitiveness of the industrial sector is the more efficient use of fuel and energy resources and lower energy use per unit of output.
149. In order to enhance the competitiveness of domestic industrial products in external markets, it is essential to continue policies to reduce the tax burden to the levels enjoyed in competing countries, produce finished products with high value-added, and set up new innovation-oriented production in oil and gas chemicals, the chemical industry, power industry and other promising industries.
150. **Problems in the energy sector.** Although the share of the energy sector in GDP is significant and exceeds 7% of GDP, efforts made prior to 2006 to increase gas and liquid hydrocarbon reserves were insufficient. This had led to the reduced output of oil and gas condensate in 2005-2006, and put at risk the future energy self-sufficiency of the country. Since 2005 Uzbekistan has restarted

importing oil (although in small amounts). In 2005 medium-term programmes for expanding the exploration, production, and processing of liquid hydrocarbons and a gas transportation system were developed. In order to implement these programmes, since 2005 large-scale projects for expanding oil and gas exploration and production have been started, including those with foreign companies based on PSAs (Production Sharing Agreements).

151. The extremely high energy consumption rate, one of the highest in the world and exceeding the energy intensity of many developing countries by 200-250%, remains a major problem for the country<sup>11</sup>. The low costs of major energy resources does not create incentives for consumers to use energy efficiently. If high energy efficiency losses cannot be prevented (currently they exceed 20%) and a highly energy efficient economy is not created, then the country will need additional generating capacity to support the annual 8% GDP growth.
152. The financial status of many energy companies is unsatisfactory, as result of the burdensome debts of consumers for electricity and gas. As a result, businesses in this sector do not have enough financial resources to maintain their equipment and infrastructure at adequate levels, or to modernize and expand production, negatively affecting the quality of services provided to the consumers.

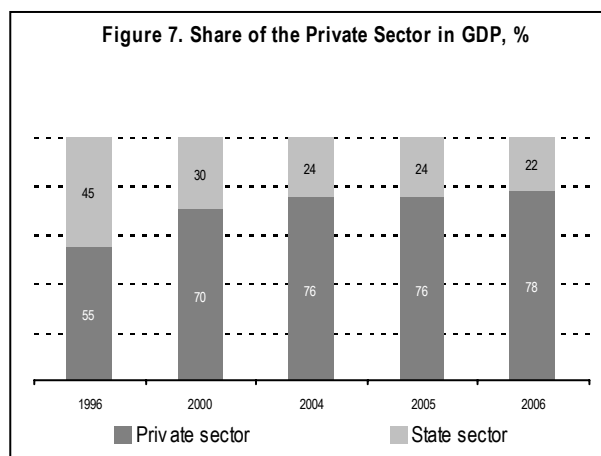
## 2.5. Development of the Services Sector

153. Amongst the major priorities and important objectives of economic reform in recent years, the faster **development of the services sector** was determined as an important factor in promoting employment, income growth and the improved livelihoods of the population. The telecommunications, financial, banking, and transportation sector services are developing most rapidly. A special programme has been adopted for taking practical steps in this dimension, creating a number of incentives and preferences in the services sector.
154. In this area significant attention is focused on advancing reforms in the utilities sector designed to set up an effective operating and maintenance system for the housing sector, maintaining infrastructure and the performance of homeowner cooperatives, providing them with funds, eliminating monopolies and creating a real market for maintenance and utility services.
155. Meanwhile, there are number of issues remaining in the development of the public utilities sector – particularly relating to disadvantaged homeowners, such as elderly residents, the disabled or unemployed persons, who do not always have the funds to pay the full market cost of services or major renovations of their buildings. Targeted programmes of financial support to disadvantaged homeowners may be helpful in addressing this problem.

## 2.6. Private Sector Development

156. Private sector development was achieved through accelerated privatization processes, creating a favorable environment for businesses, which assisted in reducing the government's role in the economy. As a result, the share of the non-government sector in GDP has reached 77.8% compared to 54.7% in 1997.
157. Thanks to measures such as the drastic reduction of audits, implementation of a judicial mechanism of imposing sanctions, the reduced financial and time costs of businesses for registration procedures and statistical reporting, the number of registered businesses increased by 45.6% in 2006 compared to 2003 and totaled 384,100. The share of small businesses in GDP increased from 35% up to 42.1%.

<sup>11</sup> UNDP, Policy Brief 1(8), 2007, p. 15.



Source: State Statistics Committee of Uzbekistan

158. Currently the private sector is facing four major challenges. First, small businesses are currently primarily agricultural. Private farms make up 54.6% of all active legally registered businesses; while opportunities for small businesses in the industrial sector are much lower (10% of the total number).
159. Secondly, the relatively low efficiency of most small businesses (which totals 69.3% of total workforce and 42.1% of GDP) is characterized by low labor productivity and reduced resources for capital accumulation. Thirdly, the share of small businesses in total exports is not adequate (10.7%) and contributes a higher share of imports. This is a consequence of the inadequate use of the export potential by small businesses and their orientation towards mostly the farming and services sector.
160. Fourthly, there is a need to expand access to markets and the development of infrastructure to enhance the efficiency of small businesses. The Microfinance Development Programme adopted in June 2007 will cover more than 320,000 borrowers nationwide, thus substantially expanding the access of small businesses to modern financial services.

## 2.7. The Labor Market and Employment

161. As a result of demographic trends, Uzbekistan is experiencing a rapid increase in the working-age population, significantly increasing the number of the population. For instance, from 2001 to 2006 the average annual growth rate of the population of a working age and the population grew by 3% and 1.3%, respectively. As a result, the share of the working population as a share of the overall population is growing (from 51.7% in 2001 up to 56.1% in 2006).
162. According to estimates, the total number of employed workers including in the informal sector exceeded 10 mln. as of the end of 2006. Along with high rates of economic growth, faster employment rates were observed. In particular, while the average annual growth of employed workers was 1.1% prior to 2002, as of 2003 this indicator exceeded 3%. Employment in education, healthcare, utilities, and the household services sectors is increasing most rapidly.

**Table 2.4.**

### Employment Trends (as of beginning of the year)

	2001	2002	2003	2004	2005	2006
<b>Working-age population:</b>						
Mln.	13.1	13.6	14	14.4	14.9	15.3
as % of population	51.7	52.5	53.5	54.5	55.5	56.1
growth in working-age population, as % of previous year	2.8	3.8	2.9	2.9	3.5	2.7
<b>Number of workers</b>						

Mln. persons. Growing number of workers as % of the previous year	9.0 1.1	9.1 1.1	9.3 2.2	9.6 3.2	9.9 3.1	10.2 3.0
<b>Employment rate</b> as % of working-age population	69.5	68.4	68.6	68.8	68.5	67.5

Source: Estimates based on data of the State Statistics Committee and the Ministry of Labor and Public Welfare

163. Currently the labor market is characterized by a number of factors, which correlate closely and between them create synergy effects.

164. Firstly, quantitatively there is an excess of supply over demand stemming from:

- About 250,000 persons entering the labor market annually;
- Release of workers from some sectors of the economy (according to projections, 160,000 workers annually within the next 2-3 years<sup>12</sup>) mainly from the agricultural sector as a result of shirkats being dismantled. Private farmers can provide jobs to no more than 25% of the former shirkat workers, so for the remaining workers can hope for at best occasional and seasonal work besting the private farms. Very soon, when restructuring of the shirkats will be finalized, the number of the excess workforce in the agricultural sector will be sharply reduced but at the same time the creation of new permanent jobs at private farms will also cease.

165. These issues are partly addressed by the creation of jobs in small businesses. During 2001-2005 the number of workers employed in small businesses (excluding individual entrepreneurs, operating with a patent) increased by nearly 500,000 workers (from 1.5 mln. workers up to 2 mln. workers). However, in the last 5 years rates of job creation in small businesses are lagging behind the growth rate of companies due to the reduced average number of workers in small businesses. Furthermore, according to international experience, jobs in small businesses are not known for being sustainable. In 2001-2005 the share of active small businesses was about 85%, while the number of small businesses which failed each year was 8-10% of all active small businesses.<sup>13</sup>

166. Secondly, the quality of the workforce does not meet the professional and qualification-based requirements of employers. The main reasons for demanding stricter requirements for the quality of labor resources are that the market is experiencing a shortage in engineers and highly skilled workers in the industrial sectors. There are insufficient numbers of trained specialists in some agricultural specialties (zootechnics and veterinary, hydromelioration, plant protection, sericulture), in the construction and communications sector (especially modern communications), and in the housing and utilities sector.

167. Along with economic growth and significant investment activities, the problems of the shortages of qualified workers for the leading sectors of the economy and small businesses may increase despite the availability of an unemployed workforce, since they do not have the required qualifications. This will require changes in the approach both to the professional training of workers at colleges and lyceums as well as special programs for re-training the unemployed and upgrading the skills of employed workers. This calls for significant increases in the expenditures of the Employment Fund and by employers for the re-qualification of workers.

168. There is a particular challenge in the area of migration policy given that remittances from labor

<sup>12</sup>In 2007 the liquidation process of shirkats has been completed, therefore, the number of workers released from the agricultural sector, which constituted more than 400,000 annually in 2004-2006, will be sharply reduced.

<sup>13</sup>In early 2005 out of 277,400 registered small businesses, active businesses made up 85.6% (86.3% in 2004). 29,800 small businesses ceased to exist in 2005, which makes up 10% of active small businesses and 50.9% of small businesses registered in the reporting year.

migrants constitute up to 10% of GDP. The most popular destination countries should be engaged with in order to legalize the process of labor migration and secure the welfare of migrants in the countries where they find work.

169. Regional and sectoral factors are closely intertwined and reflect an uneven area-based distribution of industries. There are limited opportunities to increase employment in a number of regions, and in the regions dominated by agriculture temporary and informal employment is more common.
170. The gender factor. According to the statistical data, employment among women is lower than among men but their share in the structure of formal employment remained stable at 44% in 2001-2005. There is an imbalance in the sectoral distribution of female labor. Women dominate in the healthcare and education sector, while men dominate in the construction, transportation, and telecommunications sectors. The number of women and men differ insignificantly in the industrial sector, agriculture, and services sector. In all sectors women have less qualified jobs in comparison with men.
171. The further reduction of informal employment and encouraging the legalization of such employment, particularly amongst start-up small businesses, is an important factor. In discussing the existing challenges in the labor market the following priorities must be emphasized - the development of labor-intensive sectors and companies, higher territorial and sectoral mobility of the workforce, particularly in the rural areas, as well as the creation a legal framework to increase employment through the legal and socially protected export of labor resources.

## **2.8. Analytical Conclusions to shape the Long-term and Short-term Priorities for Economic Growth**

172. 1. The main factors contributing towards the high economic growth rates during 2004-2006 included an expansion in external demand thus encouraging increases in exports and industrial output, liberalization of the currency market, measures to increase the imports of essential materials, raw materials, and components for industrial production, increases in the utilization rate of existing industrial capacity, along with agricultural reforms, enabling higher efficiency and yields, and reducing losses in this sector.
173. Increasing world prices for the major export commodities had a positive influence on economic growth.
174. Domestic demand was stimulated by policies to reduce the tax burden, increasing the incomes of the population from domestic and external sources.
175. The rapid growth of the private sector was facilitated efforts at liberalizing the business environment, reduced government interference in business activities, and the expanded access of entrepreneurs to raw materials and financial resources.
176. 2. The Uzbek economy had relatively good indicators between 1997-2006, enabling an economic revival and a transition from moderate to high rates of economic growth. However, relying on these factors of economic growth or even continued high export prices will not be enough to maintain the rate of exports and GDP at the level of 2004-2006.
177. High rates of economic growth in 2004-2006 made possible a switch to a qualitatively new stage of development, when boosting savings and channeling them into productive investments act as the locomotives of economic growth.
178. In order to maintain sustainable high rates of economic growth in the medium-run and long-run it is necessary to increase investment in the private sector. Meanwhile, fiscal and monetary policy should be aimed at maintaining macroeconomic stability and moderate inflation rates (5-7% per annum) and should be investment oriented. Public and private investment should be gradually increased (up to 25-28% of GDP).

179. 3. The financial infrastructure is not adequately developed, so in the near future there is a need to improve the activities and legal framework of the financial sector, and to further reduce government regulation.
180. 4. Given the high social significance of microfinance as an effective instrument for improving public welfare and creating jobs, there is a need to undertake measures to make microfinance a sustainable component of the nation's financial sector.
181. 5. Economic liberalization measures have contributed to a significant increase in the activities of small private businesses. But in order to maintain this high rate of its development it is essential not only to maintain a favorable regulatory environment and reinforce the protection of private property, but also to take additional measures to support to private companies by improving their access to production infrastructure facilities and services, land for construction and bank loans. Small business development requires substantially increased crediting including in the form of microfinance.
182. 6. In order to maintain the competitiveness of the economy, there is a need to continue the policy of reducing the tax burden and improving tax administration. The tax burden on business should not be higher than in the country's main competitors with whom Uzbek producers compete both in domestic and external markets.
183. 7. Along with increased private investment in the industrial and services sector, it is becoming ever more important to increase private and public investment in the agricultural sector. This sector contributes to maintaining and improving the living standards of the majority of the population of the country, and considering its dependence on irrigation and given limited water resources, it is vital for Uzbekistan to increase investment in the modernization of water management and irrigation systems.
184. 8. It is essential to further improve the forms and mechanisms of regulation based on the mechanisms and principles of the market economy, to transition to new methods of regulating companies and improving the forms of activities of the regulatory bodies and legislative norms.
185. 9. The goal of the Government's economic policy up to 2010 is to ensure faster economic growth in order to increase incomes and reduce the number of the disadvantaged within the population. Therefore, economic regulation measures should be focused both on the achievement of sustainable high rates of economic growth as well as an equitable distribution of its outcomes among the various groups of the population.

## **2.9. Programmatic Approach in the Implementation of Social Policy in 1996-2006**

186. Uzbekistan was one of the first countries in the CIS to initiate the implementation of social policy in a programmatic framework.
187. **In the education sector** - the National Program on Personnel Training, designed for the period till 2009, was adopted in 1996 and the Program on School Education Development, also designed for the period till 2009, was adopted in 2004.
188. **In the healthcare sector**, the Healthcare Reform Program for the period till 2004 was adopted in 1998. The Child Sports Development Program was adopted in 2004.
189. **In the public utilities sector** - targeted programs for supplying clean drinking water and natural gas to the population, programs for the introduction of meters to the utilities sector, programs for the major overhaul of apartment housing built prior to 1991, programs for the modernization of boiler equipment that supplies hot water and district heating to the residents of apartment buildings, along with programmes for the provision of social facilities were adopted during the period 1996-2006 and are currently being implemented.
190. **In the framework of programs for the social protection of the population** - in 1994 the country introduced a system of financial benefits to families in need, including families with children, funded



by the state budget. Assistance is provided on a family basis and the final decision on its allocation is made by local self-governing bodies. In addition, social assistance is provided to all socially vulnerable groups of the population: the retired, those, including children, with disabilities, orphans, as well as to individuals who lost the bread winners of the household, and children with mental disabilities.

191. While the main feature of the program for social protection of the population until 2000 was delivering guaranteed social protection to nearly all groups of the population, more recently the focus was on just the most vulnerable groups of the population. To increase the welfare of the rest of the population the state started developing special programs for job creation and increasing employment and income, including those based on the development of private entrepreneurship, including small businesses.
192. In addition to the implementation of the above-mentioned programs, Uzbekistan has accumulated a unique experience in focusing the attention of society on solving a specific major social issue each year. This form of mobilization of state, public and non-governmental resources of society to address socially important issues has become something of a tradition. Since 1997 each year has been dedicated to a concrete objective and a special targeted program is adopted to implement it: 1997 – The year of the individual's interests; 1998 – The year of the family; 1999 – The year of women; 2000 – The year of a healthy generation; 2001 – The year of mother and child; 2002 – The year of the interests of the older generation; 2003 – The year of the mahalla; 2004 – The year of kindness and mercy; 2005 – The year of health; 2006 – The year of charity and medical workers; 2007 – The year of social protection.

## **2.10. The Shape and Outcomes of Education Reforms**

193. As a result of the reforms carried out, the country has achieved the following by the beginning of 2007:
194. Universal free 9-year schooling system that continues to be strengthened and covers 100% of the children of the relevant age. The system includes 9,800 schools, 5,707,000 pupils, and 463,100 teachers. In the framework of the School Educational Development Program 117 new schools serving 39,500 pupils were built, 670 schools serving 249,000 pupils were rehabilitated, and 968 schools serving 505,000 pupils have undergone major renovation in 2005-2006.
195. New system of three-year universal free secondary special vocational education. The system includes 1,052 well equipped vocational colleges and academic lyceums for 627,200 students, with 1,075,000 children currently enrolled, and 67,330 teachers and trainers of practical skills.
196. System of higher education that includes 62 higher educational institutions, of which 20 are universities. Each year higher educational institutions enroll on average 64,000 students by means of competitive exams. The number of students totaled 286,000 for the 2006-2007 academic year. 23,400 faculty members work in higher educational institutions, of whom 30.1% are candidates for a doctoral degree and 6.5% hold doctoral degrees;
197. System of postgraduate education, including master's, candidate, and doctoral degrees. The total number of students in the postgraduate system for 2006 was 2,200;
198. The number of students at each education level is increasing annually, thus ensuring a high level of literacy and education of the population;
199. Well formed system for preparing textbooks and instructional material for schools, secondary specialized professional education institutions as well as a printing infrastructure for their publication;
200. Well formed manufacturing capabilities for the production and supply of school furniture, laboratory equipment, and other types of equipment for professional industrial training and educational institutions.

201. At the same time the main issues for the completion of reform in the education system include:

- Inadequate access to preschool education for children aged 5-6 who need to be prepared for school. This current level of access does not provide create a uniform foundation for preschool aged children to start school. Of the age group 5-6, 70% are not covered by preschool institutions, while this figure being 87% in the villages. Of the total number of children enrolled in Grade 1, the percentage of graduates of preschool institutions is 30-35% in the urban areas and only 15-17% in rural areas.

Inadequate infrastructure and resource base of preschool and extracurricular institutions and universities. Of all preschool institutions (PSI) 33.2% have all the basic utilities, 36.4% are in need of major renovation and 51.9% need ongoing maintenance, 21.5% need access to the local water supply, and 62.6% need access to sewers. The largest divide is observed in the resource base of PSIs in urban and rural areas. In the last 10-15 years at institutions for children with disabilities there has been no upgrading of the medical equipment, special technical and other auxiliary items (including special beds and wheelchairs, typing machines and Braille paper, hearing aids, special logopedic probes, and magnifiers).

- Of the 351 classrooms and laboratory buildings of higher educational institutions, only 68.9% of them are located in purpose-built buildings, while 28.5% need major overhaul, 43% need ongoing maintenance, and 7 buildings are near collapse.
- Inadequate quality of the educational process at all stages of education including the quality of curricula and textbooks, teacher skills as well as the practical orientation of the educational process to the needs of the labor market. In rural schools the staffing rate of teachers with higher education makes up 65%, while in the cities it is nearly 96%. 126,400 teachers without higher education (27.4%) are working in the nation's schools, including 16,400 teachers (7.4%) teaching the major subjects – native language and literature, mathematics, physics, chemistry, history, the basics of state and law, foreign languages, geography, and biology. There is an acute issue of availability of teachers in junior grades. Only about 60-65% of them in the regions have a higher education, and yet it is in the junior grades where foundations of the entire human life are laid.
- Difficult access to secondary special and vocational education for children from remote areas, especially for girls due to high transport and times costs or expenses related to residence in a dormitory.

202. This situation is aggravated because of the:

- Major need for funding in order to:
  - complete the process of establishing, strengthening, and properly maintaining the infrastructure and resource base of schools, vocational colleges and academic high schools;
  - gradually increase teachers' wages.
- Inadequately efficient distribution of government funding for educational needs due to an incomplete transition to the progressive per capita system;
- Inadequacy of private funding, including sponsor and trustee funds raised in the educational sector or fees for additional educational services;
- Poor link between the human resources training system and the rate of economic development in the different sectors and areas, creating imbalances in the demand and supply within the labor market for workers of different professional backgrounds and education.
- Low incomes of families if the government were to discontinue a number of public welfare schemes, including free access to preschool institutions for children from disadvantaged and

large families, and social support to the students of secondary special and vocational colleges.

## 2.11. The Shape and Outcomes of Health Reforms

203. The main areas of healthcare reform in Uzbekistan in 1998-2006 were:

- Completely new conceptual and practical approach to the issues of motherhood and childhood aimed at creating appropriate conditions for the birth and upbringing of a healthy generation. This direction of reforms aimed not just at short-term effects reflected in the fall in maternal and child mortality, but also at long-term effects that would benefit future generations and their life expectancy;
- Completely new approaches in building the healthcare system and the development of its infrastructure. The main goal of the primary healthcare reform was creating rural health centers instead of the previous medico-obstetric stations. This creates equal opportunities for receiving primary healthcare both in urban and rural areas;
- Rejecting the old stereotypes and a change of approach to healthcare financing, with a substantial broadening of financial resources due to the development of commercialized and private healthcare, which not only makes up for insufficient state funding, but also increases the quality of medical services and raises patient expectations of the medical facilities and workers;
- Optimization of the system for financing this field, primarily concentrating budgetary funds at the primary level, emergency hospital treatment, and preventative care instead of the inefficient usage of expensive hospital beds;
- Creation of a principally new system of emergency medical care of the population at all levels of local authorities;
- Improving the healthcare management system, cutting down on middle management;
- Improvement of health related legislation.

204. 3,100 RHC (rural health centers) for 135,000 visits per shift were created in this period, and the duration of inpatient care decreased from 24 days in 1997 down to 10 in 2006. The Republican Center for emergency medical care, equipped with modern equipment, was created with branches in the regions and districts.

**Attraction of IFI funds for healthcare development in Uzbekistan.** The “Health – I” project aimed at the reform of primary level healthcare and funded by a **World Bank (WB)** loan was successfully completed. The project was focused on supplying technical equipment to rural health centers in several oblasts as well as improving healthcare management and financing systems in market conditions. The legal framework for transition to a more effective financing system based on the number of the users was created as a result of the project. The universal introduction of this system will contribute to increased financing of primary healthcare to provide services to women and children and will also rationalize the structure of budgetary resources. Thus, for example, as a result of an experiment, the percentage of expenses for primary healthcare facilities increased in Ferghana region from the pre-experiment level of 13.6% of total expenses for healthcare up to 24.3%.

A project aimed at the improvement of the motherhood and childhood protection system, improving the facilities in obstetrics establishments, and hematological services is implemented with participation of the **Asian Development Bank (ADB)** amounting to USD 70 mln, of which 40 mln USD is a soft loan by ADB. The project will be implemented in 6 pilot regions, as well as at hematological centers and blood transfusion stations at the national level.

The “Health -2” project aimed at advancing primary healthcare reforms, the introduction of a general practitioner (family doctor) system throughout the republic, and the pilot testing of an urban model of primary healthcare in Tashkent, Samarkand, Gulistan and Margilan cities is being implemented with the participation of the **International Development Association (IDA)**. The total project cost is USD 118.1 mln including an IDA loan of USD 39.5 mln.

To further implement the State Program on Healthcare System Reform, to improve the material-technical infrastructure of the Republic Scientific Center of emergency medical care and its branches in the regions, an agreement with the **Islamic Development Bank (IDB)** was signed to supply these establishments with equipment at

the cost of USD 23.8 mln. An agreement with the IDB was signed on equipping 171 emergency medical care departments in large central district and city hospitals.

A contract for the procurement of diagnostic equipment and their installation in oncological dispensaries was made with the People's Republic of China, and issues of equipping regional children's hospitals, creating and equipping regional consultative-diagnostic centers are being negotiated with the IFIs. The Government and World Bank signed a grant agreement for implementing the "National Program on Flour Fortification" project aimed at increasing the effectiveness of measures for reducing diseases related to iron deficiency, and also for the use of **Global Fund** grants to combat AIDS (USD 24.6 mln), tuberculosis (USD 12.6 mln), and malaria (USD 2.5 mln).

205. As a result of the improved functioning of the healthcare system in recent years reduced reductions in the prevalence of a number of diseases can be observed. For example the rate of those diagnosed for the first time with infectious and parasitic diseases fell 41% from its 1997 level, there was more than a threefold fall in the rate of congenital abnormalities, and falls in acute viral hepatitis by 60.5%, acute intestine infections by 64.2%, digestive apparatus diseases by 86.6%. Maternal and child mortality indicators in Uzbekistan decreased more than twice since 1991. The population of the republic has generally a high level of life expectancy, reaching 73 years compared to 66.3 years in 1993. Implementation of the second phase of healthcare system reform started in 2003<sup>14</sup> envisaging the gradual creation of a well equipped, highly specialized medical centers in the country that provide qualified medical services for special diseases. So far four republican special centers have been created specializing in the provision of such high technology medical services to the population (surgery, cardiology, urology, and microsurgery of eyes).

206. At the same time, healthcare, being the main social field aimed at promoting adequate living standards for the population, continues to face serious challenges related to:

- its structure which is bulky and hard to manage. There are many ineffective and poorly equipped medical institutions unable to provide high quality health services. As a result, government spending for development and support to the sector is inadequate and its allocation is inefficient;
- many poorly equipped healthcare establishments had been created earlier, thus limiting the provision of highly qualified diagnostics and treatment of patients;
- Inadequate qualifications of medical personnel as well as inadequate training of doctors in particular specialties;
- lack of access to health services for residents of remote rural areas due to the unfinished process of establishing rural health centers;
- increasing the level of access to treatment and the purchase of medicines for many citizens in need of medical care but with low or middle income;
- need to decrease the maternal and child mortality indicators.
- The healthcare system is still not sufficiently oriented towards preventive medicine and so most funds are spent on treatment in outpatient and inpatient care. Prevention oriented and outpatient institutions and polyclinics account for only 27% of government health spending.

207. As such, already in 2007 the Government will develop and start to implement additional measures to enhance the effective functioning of the healthcare system aimed at addressing these problems.

<sup>14</sup> According to the Decree of the President of the Republic of Uzbekistan №PD-3214 dated 26 February 2003.

## Chapter 3

### Living Standards Assessment in Uzbekistan

#### 3.1. Overview of the material welfare and income of the population

##### 3.1.1. Household Assets and Opportunities to Use Them for Generating Entrepreneurial Income

208. The living standards of the population substantially depend on both accumulated assets and the current income of the households.
209. The distinctive feature of Uzbekistan is that 98% of families, irrespective of their current financial situation, own their own home. A large proportion of families, including about 96.7 % of families in rural areas where the majority of the disadvantaged population is concentrated, own land plots (passed down from generation to generation) which are suitable for farming agricultural products or carrying out small entrepreneurship activities.

**Table 3.2**

#### Family ownership of homes and land plots

<i>Income quintiles</i>	Proportion of families in a quintile that own a home (an individual house or an apartment in an apartment block), %	Proportion of families in a quintile with their own land plots, %
1 quintile	98.2	87.3
5 quintile	97.8	56.2
<i>Place of residence</i>		
Urban	94.9	51.9
Rural	98.3	96.8

Source: State Statistics Committee

210. In November 2003, within the framework of research on the effectiveness of the usage of household's assets conducted by the Center for Economic Research, it was determined that the average value of accumulated assets of households makes up more than US\$ 6,400 per family or exceeding US\$ 35 billion on a national scale.
211. In the structure of household's assets about 80% is home ownership, and in the overwhelming majority of cases this is their own private property. The assessment shows that in the 2.5 years since this research was carried out, the market value of homes in the country has grown by more than 3 times in the cities, and 2.5 times overall. Thus, at the beginning of 2007 the total value of households' assets can be estimated at US\$ 80 billion<sup>15</sup>, or on average about US\$ 14,500 per family.
212. At the same time, these assets are used for generating entrepreneurial incomes in only 4.1% of cases, suggesting that there is a large and unfulfilled potential for the growth of family incomes from entrepreneurship activities. Among the surveyed families there are at least 2 times more families who would like to organize a family business on the basis of household resources than those that have already done it. Among the factors which do not allow such households to fully use their assets, it is possible to identify a number of motives, the major ones being economic. If 25% of all families could be engaged in private entrepreneurship activities, of which 20% do not yet possess the necessary financial resources, there is a need for start up loans which total, according to estimates, up to US\$ 1 billion.
213. The resource mobilization of households requires not only financial investment but also favorable investment conditions. Thus households are holding back from economic activity also because of non-economic factors such as, first of all, legislative, institutional, and administrative factors. The legislative problems are mainly caused by the fact that the legislatively established guarantees of the rights of owners are not always supported by mechanisms for their realization.
214. The primary administrative obstacles are: i) a large number of licensing procedures including established restrictions on the usage of household plots; ii) frequent changes in administrative rules and regulatory bodies; iii) ambiguities in the rules and norms that lend themselves to different interpretations.
215. In recent years it is becoming evident that there is a connection between the growth of incomes of the population and the growth in provision of families with particular types of durable goods. At the same time the level of provision of families with durable goods according to many indicators is lagging behind the corresponding indicators in the developed countries and has a large potential for growth connected to the growth of incomes of the population.

### 3.1.2. Assessment of the access of households to public services

216. A major indicator of living standards is the access of the population to basic types of public services required for an adequate standard of living.
217. The provision of basic types of public services is characterized by the following data:

**Table 3.3.**

#### Provision of households with basic types of public services

Types of public services	Ratio of households with access to services, %		
	2001	2003	2005
Cold water supply	81.4	81.8	82.2
Natural gas	76.1	79.8	80.6

<sup>15</sup> The indicated value of households' assets does not include the value of plots used by families living in individual houses.

Source: State Statistics Committee

218. During the period 1990-2006 two national targeted programs were implemented in the country - provision of the population with pure drinking water and natural gas. Over this period, within the framework of these programs funded by the state budget, extra-budgetary funds, and also credits from international financial institutions, 114.2 thousand kilometers of water supply networks and 77.3 thousand kilometers of natural gas networks were constructed. As of the beginning of 2007 the proportion of the population' access to the centralized water supply system has reached 82.6%, and to the natural gas supply system – 81.0%.
219. At the same time a significant part of the water and natural gas supply infrastructure requires repair; many households suffer from faults in the supply of these public services. This affects both poor and non-poor families. However, poor families have fewer opportunities to find substitutes to compensate for the shortage of public services.
220. The differences in access to social infrastructure between urban and rural households are not so pronounced for natural gas supply, but are significant for centralized water supply and even more for the sewerage system. Many rural inhabitants deal with this situation by accessing drinking water via artesian wells.
221. The differentiation between non-poor and poor households in rural areas is insignificant, whereas the differentiation in access between poor and non-poor households in urban areas is more noticeable.

**Table 3.4**

**Access to social infrastructure / public services**

*(Share of households which have access to the listed public services, in working order)*

	Urban population	Poor urban population	Non-poor urban population	Rural population	Poor rural population	Non-poor rural population
Water supply system	84.9	71.9	86.8	24.3	22.1	25.0
Central hot water supply	34.7	16.7	37.3	Not required for individual homes		
Natural gas supply	93.4	92.4	93.6	71.8	67.0	73.4
District heating	33.2	18.8	35.4	Not required for individual homes		
Sewage system	46.0	21.5	49.6	0.3	0.2	0.4

Source: Family Budget Survey (FBS), 2005

**3.1.3. Assessment of the level and dynamics of current incomes and expenditures of the population**

222. Since 1996 there have been positive dynamics of growth in the country of real monetary average per capita incomes. The annual average growth of real incomes during the last six years was (adjusted by the CPI) about 16.2%. Real incomes have grown by almost 2.5 times between 2000 and 2006.

**Table 3.5**

**Real disposable monetary incomes, %**

	against previous year	against year 2000
2000	124.7	100.0
2001	116.8	116.8

2002	112.6	131.5
2003	111.8	147.0
2004	114.4	168.3
2005	120.2	202.3
2006	122.0	246.8

Source: State Statistics Committee

223. The income of the population in the years 2000-2006 has been growing in every part of the country. The greatest growth has occurred in the regions with high incomes – in Tashkent city and Navoi oblast. This has led to a substantial reinforcement of existing differences between the regions in the level of average per capita incomes.

**Table 3.6**

**Relative disposable per capita income in the regions**

*(as % of the country average)*

	2000	2001	2002	2003	2004	2005	2006	Growth of year 2006 against year 2000, times
<b>Republic of Uzbekistan</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	5.2
<b>Republic of Karakalpakstan</b>	63.7	63.4	58.9	56.6	64.2	66.0	57.3	4.6
oblasts:								
Andijan	120.5	123.5	120.8	109.6	120.2	110.1	88.6	3.8
Bukhara	90.2	95.6	93.3	94.2	111.8	108.7	94.2	5.4
Jizzakh	56.5	62.7	68.8	67.5	78.8	74.5	63.2	5.8
Kashkadarya	75.7	77.8	76.0	80.0	93.2	88.6	71.4	4.9
Navoi	112.8	109.7	92.0	129.4	170.6	162.8	142.9	6.5
Namangan	69.5	71.4	75.7	71.3	75.1	80.6	66.6	4.9
Samarkand	79.5	71.8	70.2	72.9	83.2	79.1	65.1	4.2
Surkhandarya	70.4	69.1	73.2	72.9	90.8	89.0	79.9	5.8
Syrdarya	77.9	72.3	65.0	67.5	85.2	90.6	73.5	4.9
Tashkent	92.2	93.5	90.6	102.7	122.0	112.6	96.8	5.4
Ferghana	112.3	103.7	109.4	100.3	108.9	99.3	79.3	3.6
Khorezm	77.6	78.6	72.0	64.8	81.0	82.5	73.7	4.9
Tashkent city	242.6	255.9	267.0	267.5	364.3	412.2	339.4	7.2

Source: State Statistics Committee



224. Since 2000 in each three year period the average wage nationwide has increased by almost 2.5 times. Consequently, the wages' share in the structure of the population's incomes has slightly increased.

Table 3.7

**Structure of average per capita aggregate incomes**  
(percentage)

	2001	2003	2004	2005	2006
<i>Total</i>	100.0	100.0	100.0	100.0	100.0
<i>Monetary per capita incomes on average per month</i>	79.3	82.4	83.8	84.5	85.5
Wages	29.9	28.2	29.5	29.5	30.0
Income from entrepreneurial activity	10.0	12.9	15.1	15.4	19.3
Sales from personal land plots	16.2	17.8	17.5	17.0	15.3
Social security benefits	15.3	15.5	15.8	17.3	14.8
Material support from relatives	4.4	5.2	4.2	4.1	3.2
Income from property	0.7	1.3	1.2	1.1	1.8
Loans, borrowings	2.6	1.4	0.5	0.6	0.9
Other monetary income	0.2	0.1	0.0	0.0	0.0
<i>Incomes in kind (converted into soums)</i>	20.7	17.6	16.1	14.9	13.6
Consumption of produce from personal land plots	15.0	12.7	12.8	11.8	10.8
Incentives	0.4	0.1	0.2	0.1	0.1
Other incomes in kind	5.3	4.7	3.2	3.0	2.7

Source: State Statistics Committee

225. There is a more rapid growth in incomes from various types of entrepreneurial activities, property and self-employment. Since 2001 the ratio of aggregate incomes from entrepreneurial activities and working on dehkan farms (household plots) has increased from 26.9% up to 36.4%. More and more of the products of personal subsidiary plots and dehkan farms are taken to market. As such these products are increasing contributing to the growth of monetary incomes rather than as the sources of direct consumption. This testifies to the growth of economic efficiency in the usage of the plots allocated to dehkan farms. They are widely and productively used for the manufacturing of commodity products and generating monetary incomes.

Table 3.8

**Structure of average per capita aggregate expenditures**  
(in percent)

		2001	2003	2004	2005	2006
<b>Total expenditures</b>		100.0	100.0	100.0	100.0	100.0
<i>Consumer expenditures, total</i>		89.5	84.2	83.8	84.2	82.4
	Including purchase of goods:					
	Foodstuffs	54.6	48.4	48.7	45.8	44.9
	Non-foodstuffs for personal use	18.7	17.8	17.3	20.4	20.0
	Payment for services	10.6	12.3	12.9	13.6	13.3
<i>Non-consumer expenditures, total</i>		10.5	15.8	16.2	15.8	17.6
	Taxes and compulsory payments	2.6	8.8	10.3	8.5	9.5
	Expenditures for household plots and business activities	2.6	2.0	1.6	2.6	3.0
	Purchase of real estate and renting	1.0	1.2	0.2	0.8	1.0

Business expenditures	1.9	1.9	1.9	1.9	2.0
Deposits, purchase of shares, loan repayment	0.1	0.2	0.2	0.2	0.3
Other expenditures	2.2	1.5	2.0	1.2	0.8

Source: State Statistics Committee

226. The growth in incomes of the population has created a better expenditure pattern. Since 2000 the ratio of expenditures to purchase of goods in the expenditure pattern of the population has decreased and the ratio of expenditures for payment of services has increased. Simultaneously, the expenditures on household plots and business activities, the purchase of real estate and accumulation of funds, are increasing. The pattern of expenditure on commodities is characterized by a decreasing proportion spent on foodstuff and an increasing proportion of expenditures on non-foodstuffs including durable goods.

### 3.1.4. Assessment and overview of poverty according to incomes

227. Before the break up of the USSR Uzbekistan was one of the poorest regions of the former Soviet Union –more than 45% of the population had incomes below the minimum wage level. The break down of the economic linkages between the various republics at the beginning of the 1990s resulted in a 24% decrease in real GDP by 1996, contributing to a growth in poverty in the early years of the reform process. A survey of 20,000 families in 1994 showed that 44.5% had per capita incomes below the minimum wage level.

228. In order to assess living standards and the poverty rate, the State Statistics Committee has, since 2000, regularly carried out a Family Budget Survey (FBS) which covers about 10,000 households. In addition to this, the Government of Uzbekistan, with the support of the EU, UNDP, and ADB, has conducted a series of cross-sectional surveys on households' living standards (i) within the framework of the formulation of the Strategy for improving Living Standards (SILS) which involved research in the Jizzakh oblast, and (ii) within the framework of the project on the Enhancement of Living Standards (ELS) in the Republic of Karakalpakstan and the regions of Namangan and Ferghana. Recently one further survey has been conducted as part of the UNDP project on comprehensive area development within the Kashkadarya region.

229. On the basis of household survey data (2001) the World Bank undertook an assessment of the living standards of the population in the country, with the finding that the poverty rate in the country in 2001 was 27.5% or 6.8 million people. Analysis of the FBS results for the years 2001-2005 demonstrates a steady decrease in the poverty rate (from 27.5% down to 25.8%, see Table 4.8).

230. A major decrease is observed in urban areas where the poverty rate decreased from 22.5% down to 18.3%. At the same time the difference between the poverty rate in urban and rural areas grew from 8% in 2001 to almost 12% in 2005. The rural population makes up 64.4% of the total population but the proportion of the disadvantaged population living in rural areas is 74.7%.

**Table 3.9**

#### Poverty rate (2001– 2005), in %

	2001	2002	2003	2004	2005
<b>Total</b>	27.5	26.5	27.2	26.1	25.8
Urban	22.5	21.8	22.0	18.8	18.3
Rural	30.5	29.4	28.7	30.3	30.0

Source: Family Budget Survey

231. This geographic distribution of the disadvantaged population highlights the large differentiation in poverty rates between the regions as well as the fundamental difference between Tashkent city and other regions of the country. The highest poverty rate is in Karakalpakstan (44%) and the lowest one is in Tashkent city (6.7%), with the second lowest being Ferghana oblast (15.8% - see Table 4.11.)

Table 3.10

## Geographic distribution of poverty in 2005

Territory / oblast	Poverty rate	Total population	Proportion of disadvantaged population
<b>Total</b>	25.8	100	100
Urban	18.3	35.6	25.3
Rural	30.0	64.4	74.7
Karakalpakstan	44.0	5.1	8.7
Andijan	23.1	9.5	8.5
Bukhara	20.8	6.4	5.1
Jizzakh	29.6	3.7	4.3
Kashkadarya	41.0	8.5	13.5
Navoi	26.3	2.9	3.0
Namangan	33.4	7.9	10.2
Samarkand	23.9	11.2	10.4
Surkhandarya	34.6	7.3	9.8
Syrdarya	32.6	2.4	3.0
Tashkent oblast	20.4	10.1	8.0
Ferghana	15.8	11.6	7.1
Khorezm	31.0	5.1	6.1
Tashkent city	6.7	8.2	2.1

Source: State Statistics Committee

232. The analysis demonstrates that the distribution of poverty is linked to the following major factors:

233. **1) Family composition and number of dependents, first of all children**

234. Thus, the results of data analysis for the years 2000-2005 demonstrate that families with children and families with more than 2-3 dependents were most likely to be poor. Thus households in rural areas, where the average size of the family is much higher due to the tendency to have 4, 5 or more children, are more likely to become poor.

Table 3.11

## Composition of poor and non-poor households (2005)

Number of children under 16	Average for all surveyed households	Average for poor households	Average for non-poor households
0-2	71.7	54.7	76.0
3-4	25.8	39.7	22.3
4+	2.5	5.6	1.7
With pensioners	8.4	7.0	8.8
Head of household gets the minimum pension	3.4	3.9	3.3

Source: Family Budget Survey

235. In 2005 the average size of poor families was 6.5 people, and in non-poor families 4.76 people. Thus the average dependence rate in poor families was 0.81 in comparison with 0.73 in non-poor families. In poor families there are more family members of a working age (3.6) in comparison with non-poor families (2.7).

236. At the same time the trend during recent years of declining birth rates, including in rural areas, to a certain extent improves the situation for those families oriented towards having 2-3 children. At the

same time the government continues to provide direct material aid to poor families with children, complementing the free education and health services, in order to improve their financial position.

237. **2) Educational level of the head of household**

238. Poverty is more likely in those households where the head has an education level below that of a specialized secondary professional education (see Table 3.12).

**Table 3.12**

**Distribution of households according to educational level in Uzbekistan**

	On average		Poor		Non-poor	
	2004	2005	2004	2005	2004	2005
Share of households with heads having the following education, %:						
- 0-9 years of education.....	14.4	15.4	17.3	17.1	13.7	14.9
- full secondary education	40.5	39.5	48.7	48.9	38.4	36.9
- incomplete and complete specialized secondary professional education	28.8	28.5	25.2	24.0	29.7	29.8
- incomplete higher, complete higher education and above	16.3	16.6	8.8	10.0	18.2	18.4

Source: State Statistics Committee, Household survey

239. Amongst poor families only in 8.8% of cases does the family head have a higher education and in 25.2% cases a secondary professional education, while in 66% of poor families the family head has an education below the professional educational level including 17.3% cases without even a complete secondary education.

240. The government is addressing this problem by introducing general compulsory and free of charge specialized secondary professional education that will fully enter into force in 2009 and also by expanding the admission of students to higher educational institutions.

241. The higher educational status and professional skills of the family head obtained through this learning process will facilitate the access of young people to the labor market including the opportunity to be engaged in private entrepreneurship activity.

242. **3) Employment rate of the head of household and its working age members**

243. In non-poor families the employment rate of both family head and other working age family members is significantly higher. In relation to the place of residence, in some regions poverty is mostly concentrated in rural areas; however, in small towns and urban-type villages there are also widespread and acute poverty. The population of small towns where manufacturing facilities have been closed or where there are delays in the payment of wages are particularly vulnerable along with those who do not own their own plots to provide alternative sources of income and consumption. The low level of average incomes and consequent low level of customer demand in these areas additionally hinders the development of the services sector.

**Table 3.13**

**Poverty and employment rate**

Status of families	Employment of family head, % of number of families	Employment of working age family members, % of number of working age family members
Poor households	55	11

Non-poor households	58	56
---------------------	----	----

Source: State Statistics Committee

244. The agricultural sector is another sphere in which there is a high risk of poverty as a result of the unemployment of the working age population. The decrease in employment in the sphere of agriculture was caused by the process of transforming shirkats into large private farms.
245. The large private farms employ on average 25% less workers than shirkats, and only a small part of workers are employed officially while others are employed as temporary or seasonal workers. According to estimates, in 2004 alone about 460,000 workers were laid off from shirkats. This has happened during a period when the number of the working age people has been increasing annually by approximately 250,000. The restructuring in combination with the growth of the working age population has resulted in recent years in increases of people involved in low-paid and seasonal work in agriculture, having a negative impact on living standards in rural areas.
246. Surveys have also shown that the lack of basic transport and communications services in remote villages is also associated with a greater risk of poverty.
247. This problem of how to employ those who lost their jobs in the restructuring in rural areas, and also the problem of unemployment in the cities, is partly resolved through the temporary labor migration of rural inhabitants to the cities and also rural and urban inhabitants to other countries. According to estimates, the number of labor migrants has increased from 44,000 people in 2001 up to more than 330,000 people in 2006, and remittances sent back total about US\$ 2 billion, thus mitigating the problems of employment, incomes and poverty.

**A survey conducted within the framework of the project on Enhancement of Living Standards** showed that, for example, in all surveyed areas between 10% and 27% of families had at least one family member who had left to earn money. In most cases the migration had a positive effect on the family income: the average income from a labor migrant in such families is 5-10 times higher than other sources of household earnings. In November 2005 the average income per family member in these regions from labor migration was about 25,000 soums, and in some families the income reached as high as 500,000 soums per family member. A further example is ELS research carried out in Ferghana oblast in November 2006. The survey results in So'xsk the district revealed that it had the lowest poverty rate despite the fact that this district is an enclave of Uzbekistan within Tajikistan territory, and so experiencing big difficulties as the result of the absence of the cross-border agreement between Tajikistan and Uzbekistan. However, the recent increase of living standards has occurred as a result of the fact that every fifth household receives remittances from a labor migrant.

248. The solution to this unemployment problem rural inhabitants is seen by the government as not so much in moving the laid off labor force from rural to urban areas, but in the development of non-agricultural manufacturing facilities in rural areas.
249. The labor migration problem necessitates the conclusion of intergovernmental agreements on the legalization of migration and the protection of rights of labor migrants (80% of labor migrants travel to Russia).
250. **4) Existence of low-paid employment**
251. Despite the fact that it is households where the family head is unemployed that are more vulnerable to poverty, over 60% of the disadvantaged population reside in households where the family head is employed. The unemployment rate is extremely low (in 2006 just 4% of the labor force and only 0.2% are officially registered as unemployed). However, an increasing majority of the labor force is employed in inefficient and low-paid jobs both within the formal and informal sectors. These jobs do not ensure sufficient levels of earnings to secure the needs of their families and protection from poverty.
252. That means that the risk of poverty is related not only to unemployment but also to underemployment (low-efficient employment), low wages, low productivity, and temporary employment.

253. The surveys confirm that employment does not protect households from poverty and being employed as a hired worker in agriculture, on dehqan plots as well as in the public sector, is also associated with poverty. For example, according to the FBS survey data (2005), overall 33.7% of family heads were employed in agriculture whereas for poor households the total was 48.7% and only 29.6% heads of non-poor families were employed in agriculture.
254. Seasonal and temporary agricultural workers are particularly vulnerable as well as those working on their own small plots, especially in the regions experiencing land quality and irrigation problems. Urban inhabitants who have temporary employment that does not require high qualifications are also vulnerable.
255. However, the problem of low-paid and unproductive employment is not limited to the agricultural sector. According to administrative data, about 32% of employees in the formal sector work in agriculture. Another 32% work in the public sector (public health services, education, public services, etc.) and this sector also has low wages. Thus, in the formal sector about two thirds of the labor force is employed in sectors that are considered to be low-paid where the wage rates are only at about 50-60% of the average level<sup>16</sup>.
256. However, the formal sector employs only about half of the labor force. The labor force survey data<sup>17</sup> shows that 45% of the labor force is employed in the informal sector and within the informal sector a considerable portion are in the rural economy. This figure includes employment on small plots (about 30% are owners of dehqan farms) or seasonal employment (27%) where the wages are low and/or irregular, i.e. there is no guarantee of a stable and sufficient income.

Table 3.14

**Employment and unemployment in 2001-2006 (in %)**

	2001	2002	2003	2004	2006
Economically active (proportion of the working age population)	72,6	71,6	71,6	71	74,6
Employed	69,5	68,4	68,8	68,5	70,8
Unemployed	3,1	3	2,8	2,5	3,8
Economically inactive population	27,4	28,4	28,4	29	26,4
Among them, people unsuccessfully searching for a job	5,9	6,1	1,6	9,9	6,7
Number employed in the informal sector (as share of total employed)	48	46	48	51	44,8
Among them, unregistered individual entrepreneurs	6,4	7,3	6,9	3,8	5,2
Employed on dehkan farms	25,1	23,7	27,7	25,5	29,4
Unregistered entrepreneurs	28,6	25,3	22,8	25	24,2
Employed in seasonal, one off and temporary jobs	16	21,4	21,2	33,5	26,9
Working as unpaid family members	23,9	22,3	21,4	12,2	14,3

Source: State Statistics Committee and Ministry of Labor and Social Protection

257. During the period 2001-2005 the employment rate in the informal sector increased by 17%. Despite the fact that the informal sector provides some employment opportunities, it does not protect the rights of employees. Therefore, workers are not covered by the social protection system (for example, the right to a pension, sick leave and maternity leave). The "quality" of the jobs offered by the informal sector also worsens, with an increase in the share of one off or seasonal jobs (from 16% in 2001 to 33% in 2005). The result is less social security for employees.

Table 3.15

**Employment in the agricultural sector and in non-agricultural manufacturing**

(% of employed family members)

<sup>16</sup> The wage rates in some budget sectors have increased in 2006, raising the possibility that there was some decrease in the vulnerability of the workers of this sector.

<sup>17</sup> Survey conducted quarterly by the Ministry of Labor and Social Protection.

	Employed in the agricultural sector				Employed outside of the agricultural sector	
	Hired workers in shirkats	Own private plots for farming	Own dehqan plots for farming	Do not consider themselves as employed	Hired workers	Self-employed
<b>Karayzyak</b>	<b>26.8</b>	<b>10.7</b>	<b>19.8</b>	<b>9.6</b>	<b>42.5</b>	<b>0.2</b>
Poor	42.9	2.8	21.6	18.7	32.7	-
Non-poor	21.5	13.1	19.7	6.7	45.4	0.3
<b>Kegeyli</b>	<b>27.1</b>	<b>3.5</b>	<b>19.5</b>	<b>11.4</b>	<b>45.1</b>	<b>4.8</b>
Poor	25	-	22.2	20.4	45.4	7.4
Non-poor	27.7	4.6	18.8	8.6	44.9	4
<b>Shumanay</b>	<b>33.5</b>	<b>5.7</b>	<b>10.5</b>	<b>6.7</b>	<b>49.7</b>	<b>0.6</b>
Poor	40.4	1.3	4.5	1.3	52.6	1.3
Non-poor	30.5	7.6	13.1	9	48.5	0.3
<b>Kasansay</b>						
Poor	37.6	-	9.4	6.3	43.8	9.3
Non-poor	32	1.5	16	6.1	47.4	3.1
<b>Mingbulak</b>	<b>39.7</b>	<b>2.9</b>	<b>17.8</b>	<b>3.9</b>	<b>32.5</b>	<b>7.1</b>
Poor	44.8	1.4	13.3	2.8	35.7	4.8
Non-poor	37.7	3.6	19.7	4.4	31.1	7.9
<b>Chartak</b>	<b>34.5</b>	<b>1.8</b>	<b>20.7</b>	<b>8</b>	<b>39.6</b>	<b>3.4</b>
Poor	31.6	0.6	23	9.8	41.4	3.4
Non-poor	35.9	2.4	19.6	7.1	38.7	3.4

Source: Survey of 1500 households in 6 districts of Namangan oblast and Republic of Karakalpakstan conducted by "Tahlil" research organization for the Enhancement of Living Standards Project (2006).

258. National statistics averages out the annual poverty rate for each region. However, this type of one off survey is conducted in different months of the year and highlights seasonal variations in the poverty rate, especially in rural areas where employment and income rates are lower during the winter period. For example, the poverty rate in Ferghana oblast in November 2006 was almost two times higher than its annual average rate.
259. Such survey data also reveals that the regional data hides important variations in living standards between different parts of that region. For example, in Ferghana oblast the poverty rate varies by a factor of three. There is therefore a need to carry out poverty mapping in various regions of the country<sup>18</sup> in order to determine where poverty is most concentrated and to track its causes.

## 3.2. Overview of the social welfare of the population

### 3.2.1. Literacy and access to education

260. Uzbekistan is ranked among the most developed countries of the world in terms of its educational level. The educational index for Uzbekistan is 0.99619 compared to the world average is 0.77. That means that practically all of the population is literate.
261. In 2006 primary school education covered 96.8% of children in the 7-15 age group. At the age of 15-18 about 33% of children of were attending general secondary schools and 41.6% were studying in specialized secondary educational institutions.
262. The cluster survey in 2006 undertaken by the State Statistics Committee with support from UNICEF has confirmed that almost 100% of the relevant age group is enrolled in primary school education and there is inequality between the sexes in school admissions. However, there is some evidence

<sup>18</sup> This experiment in poverty mapping was conducted in Ferghana region within the ELS project with support from the EU and UNDP.

<sup>19</sup> According to the State Statistics Committee of the Republic of Uzbekistan. In the Human Development Report (2006) the indicator was 0.92.

that girls do not always attend the higher (10-12) grades or professional colleges and lyceums. Secondary educational institutions are often located in urban areas, which mean that rural families with children have to spend additional funds on transportation and other related costs.

263. The average duration of study in 2004 was about 12 years, noticeably above the level of many other countries with an average level of development. Access to free education is provided for all categories of families irrespective of their material status. Moreover, children from low income families receive additional help from the government to purchase winter clothes and footwear as well as textbooks and school accessories.
264. Enrollment to preschool institutions has been decreasing in recent years, partly as a result of granting women the opportunity of receiving partially paid maternity leave if they opt to stay with their under 3 years olds and thus bringing them up at home. The other reason for this decrease in coverage is the increased need for payment by parents for these services. There are variations in attendance between urban and rural children (35% in urban areas and 15-17 % in rural areas).
265. General primary education and equality of the sexes amongst schoolchildren has already been achieved in Uzbekistan. Therefore, it was decided in Uzbekistan to formulate an "MDG Plus" on the basis of MDG-2 and MDG-3, and establish a set of goals for the improvement of the quality of primary and general secondary education. At the present time in Uzbekistan the basic compulsory education lasts 12 years. For the final years of general secondary education (10-12 grades) pupils can attend lyceums, which usually function within a higher educational institution, as well as in professional colleges.
266. In higher education, a mixed system of state and fee based funding has been introduced. Entrants with the highest scores at the admission examinations (tests) study for free (about 40% of all students), and those who score less than this threshold study on a fee basis. However, this approach favors better-off families, since they have more resources to devote to preparing their children for university entrance by hiring private tutors.
267. There are big differences in the admission rate to higher educational institutions with respect to sex, place of residence and standard of living. The admission rate to higher educational institutions for the highest quintile is about 13% (17% in urban areas) to compare with 1.7% for the lowest quintile<sup>20</sup>. This means that the government subsidies for higher education are not effectively targeting poor families to ensure that they get the chance to have a higher education.

### **3.2.2. Life expectancy, health, access to public health services and the control of socially dangerous diseases**

268. The high level of literacy of the population creates an ideal environment for employment, incomes, and consequently opportunities for paying for timely and highly skilled medical services.

**Table 3.16**

#### **Health and education in the budget surveys in Uzbekistan**

*(% of adult members of households)*

The educational level of the head of household	Did not experience or experienced temporary health problems		Constantly experienced health problems and have severe chronic disease	
	2002	2005	2002	2005
Secondary and below.....	88.8	91.9	10.5	8.1
Incomplete secondary.....	90.4	92.9	8.0	6.9
General secondary.....	95.2	97.1	4.0	2.5
Specialized secondary	94.0	95.7	5.3	4.0
Incomplete higher.....	92.0	94.7	7.5	4.7
Higher .....	95.0	94.8	5.0	5.0

<sup>20</sup> See World Bank (2007), Assessment of living standards in Uzbekistan. The results are based on the HBS survey data (2003) and the Survey on Energy Consumption in Households (2005).



Source: Data from budgetary surveys of the State Statistics Committee of the Republic of Uzbekistan

269. The government of Uzbekistan has already undertaken considerable efforts to strengthen the health of mothers and children with the support of such programs as Mother and child screening (1998), Healthy generation (2000), Protection of maternity and childhood (2001), and other measures to improve the health of women and the young and also measures to achieve more significant goals towards the improvement of families' lifestyles. Thanks to these efforts Uzbekistan has already achieved a significant reduction in infant, child and maternal mortality.

**Expansion of international cooperation in improving the reproductive health of women, birth and parenting of children.** Donors, international organizations, ministries and departments and non-governmental organizations support the state policy on public health services and promote the improvement of maternal and child health at all levels of the public health system. As such many programs on maternal and child health are implemented in the country with the support from the WHO, UNICEF, UNFPA, USAID, and KFW Bank including the "Improvement of efficiency of perinatal care", "Implementation of the live birth definition recommended by the WHO", "Resuscitation of newborns", "Encouragement and spread of breast feeding", "Assistance in the development of reproductive health", "Prevention of anemia", "Prevention of iodine-deficiency".

In 2003 the regional office of UNICEF recognized Uzbekistan as a regional model for the introduction of the WHO/UNICEF project on "Improving perinatal assistance". To prevent iron-deficiency anemia among children and women of fertile age, 2005 saw the launch of the "National program on flour fortification" financed by the Global Alliance on Improving Nutrition with a budget of US\$ 2.8 million. About 90,000 tons of iron and folic acid enriched flour were produced in 2005.

270. The average life expectancy of the population of Uzbekistan is 72.5 years, compared with 69.3 1990 and the difference of life expectancy between men and women in the country has narrowed, down from on average 6.3 years in 1990 to 4.7 in 2005. The indicators of life expectancy in Uzbekistan are considerably higher than in many other CIS countries and are comparable to the developed countries of the world.

271. The national MDGs 4-6 are targeted towards the reduction of poverty and vulnerability through improvements in the health indicators of the population. The primary goals are the reduction of child and maternal mortality rate. Child health and maternal mortality are considered not only as health indicators but also as aspects of human development that includes such issues as the access to and quality of public health services, nutrition and expanding women's opportunities and rights. Along with other countries of the world, Uzbekistan has committed itself to reduce the child and maternal mortality rate by the year 2015.

272. Measures already undertaken by the government have resulted in more than halving since 1991 the infant mortality rate (aged 1 year and below) - from 35 down to 15 cases per 1000 newborns, and the child mortality rate (aged 5 years and below) – from 48 cases down to 20 cases.

**Table 3.17**

**Infant and child mortality rates (1991 – 2004)**

*(number of deaths per 1000 live births)*

	1991	1993	1995	1997	1999	2002	2003	2004
Infant mortality rate	35.3	32.0	26.0	22.8	20.2	18.4	16.7	15.2
Child mortality rate	48.0	48.6	42.5	37.8	32.5	26.4	22.2	20.6

Source: National Human Development Report (2006), on the basis of statistical data from the State Statistics Committee.

273. The level of infant and child mortality still raises concerns despite the fact that Uzbekistan has a wide network of medical institutions. The analysis of the causes of infant mortality shows that the most widespread cause appears to be respiratory diseases (40% of all cases). The neonatal mortality rate is still relatively high despite the fact that the neonatal mortality rate contributes only 38.7% of the

total infant mortality rate and two-thirds of neonatal deaths occur during the first days of life. The neonatal causes of death are dominated by asphyxia and patrimonial traumas. The relatively low mortality rate caused by infections and parasitic diseases (4% of the total mortality rate) is explained by the fact that 97-98% of all children are being vaccinated against the basic infectious diseases. The causes of infant and child mortality are basically connected with the issues of qualified medical aid as almost 100% of childbirths take place with the assistance of qualified medical stuff. There is a necessity to improve and enhance the quality of personnel training, management of maternity hospitals, and the provision of maternity hospitals and departments with basic equipment. There is also evidence of large regional differentiations in child mortality rates. For example, the results of the cluster survey show that the lowest child mortality rate is observed in Tashkent city and Central and Eastern regions of the country. The highest rate is observed in Southern regions.

274. The implementation of a set of programs for improving maternal reproductive health and child health, the better availability of special preventive and therapy departments for mothers and children in hospitals and outpatient clinics, improved access to various modern contraceptives as well as the encouragement of longer periods between childbirths have together helped to improve maternal and child health. Since 1991 the maternal mortality rate has decreased by more than half from 65.3 per 100 thousand newborns in 1991 down to 30.2 in 2004. The share of reproductive age women using any kind of contraception has grown from 13% in 1991 up to more than 63% in 2005; the number of abortions per 100 childbirths has decreased from 11.2 in 1991 down to 9.1 in 2005; and the number of childbirths among women aged 20 years and below has halved 7% in 1991 down to 3.7% in 2004.
275. Despite this significant decrease in the maternal mortality rate it remains rather high (4-5 times higher than in developed countries). The major causes of maternal mortality are related to complications in pregnancy. As the majority of women have access to prenatal care, the problem is very similar to the case of infant and child medical aid, that is the issue is not so much access to medical care but the quality of the antenatal care provided. There are some regional variations though their structure differs from the structure of child mortality. According to the official administrative data, the maternal mortality rate is highest in the Navoi, Khorezm, and Tashkent oblasts and in Tashkent city<sup>21</sup>.

Table 3.18

**Maternal mortality rate (1991-2005), by regions***(number of deaths per 100,000 newborns)*

	1991	1998	2000	2001	2002	2003	2004	2005
Uzbekistan	65.3	28.6	33.1	34.1	32.0	32.2	31.4	30.8
Karakalpakstan	108.7	60.1	38.8	41.9	26.6	25.0	22.9	15.3
Andijan	44.1	17.7	20.2	20.5	17.3	23.2	25.7	21.3
Bukhara	35.6	33.4	49.0	54.4	37.3	42.2	23.4	29.7
Jizzakh	99.9	30.2	29.4	42.5	29.7	35.2	24.5	25.0
Kashkadarya	69.9	30.1	39.9	40.6	37.1	31.5	24.4	24.4
Navoi		76.3	91.6	91.5	51.5	71.9	55.8	49.7
Namangan	45.4	27.0	27.0	29.3	18.4	31.8	21.0	30.6
Samarkand	43.4	19.4	26.4	17.9	21.9	18.0	20.9	17.4
Surkhandarya	91.5	32.2	24.6	19.3	20.4	24.1	19.5	23.8
Syrdarya	83.6	26.4	21.0	35.7	26.4	14.5	21.5	34.7
Tashkent oblast	43.2	20.9	27.5	44.2	59.8	52.7	43.6	43.3
Ferghana	62.8	19.6	22.5	25.3	25.8	28.4	31.6	31.4
Khorezm	46.0	16.1	24.9	36.2	32.3	27.1	54.5	40.8

<sup>21</sup> The higher mortality rates in these better developed regions is initially perplexing and they can reflect the nature of the reporting rather an actual higher rate. It would be necessary to recheck this data using survey methods in order to get a more accurate account of regional variations in terms of the quality of medical care provided in prenatal institutions. However, there are variations in the quality of medical care between different regions and different groups (based on their incomes) of the population.

Tashkent city	141.1	38.0	63.9	36.4	59.9	51.4	52.3	44.9
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Source: National Human Development Report (2006), on the basis of data from the Ministry of Public Health.

276. Improving the quality of medical services is connected with the need to improve administration of the sector and inter-institutional issues in the public health system. Greater transparency is required in respect to patient's rights and types of medical care that should be provided free of charge as well as appropriate guidance for patients in making complaints about the availability and level of medical care.
277. Uzbekistan has formulated the national MDG-1 in terms of improving living standards and reducing malnutrition. Nutrition plays an important role in child and maternal health. Malnutrition and the shortage of micronutrients can harm the intellectual and physical development of children, can also lead to complications in pregnancy and also affect the fertility. The survey results show that they are connected with low incomes in combination with insufficient knowledge about proper nutrition and an insufficient quality of medical treatment and aftercare.
278. The FBS survey data shows some improvements during recent years in the consumption rate of foodstuffs. However, the average consumption of meat products is still only at 32% of the level recommended by the Ministry of Public Health, and the average consumption of eggs is only one third of the norm. At the same time the consumption of bread and flour products is 1.6 times higher than the norm.
279. Results of a survey undertaken by UNICEF (2004) show that 60% of children aged from 6 up to 24 months suffer from iron deficiency and more than half of pregnant women suffer from anemia. Both anemia and iodine deficiency in women during pregnancy cause maternal and infant mortality. About 53% of children suffer from vitamin A deficiency which makes them more vulnerable to illnesses.
280. In the context of the global effort on HIV/AIDS prevention, Uzbekistan has been active in taking measures to control the spread, prevent and treat this disease. Since 2000 the number of new HIV cases each year has steadily increased from 154 cases in 2000 up to 2198 cases in 2005. The total number of registered cases has reached 7,600. Most of the cases are registered in Tashkent city (28%) and Tashkent oblast (14%). Women constitute about 18% of cases and children about 1.5% cases. Registered cases are most common among vulnerable groups such as injection drugs users (59% of new cases in 2004).

**Table 3.19**

**Registered HIV cases (new cases)**

2000	2001	2002	2003	2004	2005
154	549	981	1,836	2,016	2,198

Source: National Human Development Report (2006)

281. The government has been taking measures to prevent HIV/AIDS spreading by approaching injection drug users, improving interdepartmental coordination, and maintaining the wide availability of testing. The government has developed a strategy on the prevention of HIV/AIDS and halting its spread for the period 2003-2006 and established the Emergency anti-epidemic commission to coordinate preventive measures and treatment. Uzbekistan requires additional international donor assistance for preventing the spread of the HIV/AIDS infection.

**International assistance for HIV/AIDS prevention.** The Global Fund has granted the Republic of Uzbekistan US\$ 24 million for the period of 5 years to implement a complex of measures on HIV/AIDS prevention. The program includes:

- implementing preventive measures focused on high risk groups,
- ensuring the availability of medical care, and providing support and care to vulnerable groups of the population,
- carrying out antiretroviral therapy,
- establishing a supporting environment to improve access to the vulnerable groups of the population and protecting the rights of those HIV/AIDS.

282. Tuberculosis is an infectious disease often associated with low standards of living. During the period 2000-2005 the tuberculosis rate was about 76 cases per 100,000 (using the 2005 population total), especially among teenagers and youth people as well as women of reproductive age. There is also a growth in the number of new cases among children. There is a clear variation in the number of cases in regions. Some areas are witnessing an alarming spread of tuberculosis (for example, the disease rate is higher in the Aral Sea basin).
283. The government of Uzbekistan has already taken steps to address this: for example, in 1998 the country approved the international DOTS strategy (a short-term course of anti-tuberculosis therapy under direct care), and has established a tuberculosis prevention network equipped with the necessary medical equipment. Measures on prevention and halting the spread of the disease in penitentiary institutions have also been taken. The Strategic program on tuberculosis disease reduction and prevention for the period 2004-2008 is being implemented, with plans to raise early detection up to 70% and treatment of tuberculosis patients to 85%. Implementing this program is recognized in the country as one of the Millennium Development Goals.
284. However, it is necessary not only to continue to improve access to medical care but also to increase its quality, better inform the population about the causes of tuberculosis and forms of prevention and treatment. Uzbekistan requires donor assistance for the prevention of this dangerous social disease.

**Table 3.20****Incidence of Tuberculosis (new cases per 100,000 of the population)**

1991	1998	2000	2001	2002	2003	2004
46.0	59.4	65.5	73.3	79.4	77.6	75.8

Source: National Human Development Report (2006)

285. Hepatitis is another infectious disease for which improvements are necessary in testing and screening in order to prevent its spread. Approximately 50-60% of Hepatitis C and D cases in the country are caused by transfer through medical treatment, which again highlights the necessity to improve the quality of medical care and the treatment provided by the public health system. This includes improvements in the areas of professional training, management, and public health infrastructure. For example, not all medical institutions have access to the centralized water supply and even less (about 41.5%) have access to hot water<sup>22</sup>.

### **3.3 Social protection of poor and vulnerable groups**

286. Since the beginning of the transition period the government of Uzbekistan has made significant efforts and provided resources for securing the system of social protection of vulnerable groups of the population. In particular, up until 1994 the government was retaining some elements of the former system of social protection. Subsidies for basic foodstuff and services were retained and there was an attempt to main the previous levels of expenditure on health and education. The pension system was retained and the indexation of pensions was periodically carried out. In addition to this, the "general" indexation of wages was carried out on a regular basis. However, all these measures significantly affected the budget of the country<sup>23</sup>. The decision was taken to move away from universal subsidies and incentives towards targeted social assistance. In 1994 (after the introduction of the new national currency) the subsidies for basic foodstuff were cancelled (and limited) and the new system of targeted social assistance to poor families (through the system of the mahallas) was introduced. In 1997 the system of children's allowances was replaced with targeted allowances available only to families with children aged 16 years and below and with an income per family

<sup>22</sup> Source: National Human Development Report (2006)

<sup>23</sup> See Klugman and Mamie (1998)

member below the established minimum. In 1999 the targeted maternal allowances for unemployed mothers with children aged 2 years and below through the system of mahallas were also introduced.

287. The proportion of public funds allocated for social protection is rather a high proportion of GDP, but since 1998 it has declined. Within the limited social protection budget the priority is on retaining pension payments, which makes up the largest share at about 6% of GDP as of 2004. Allowances for children aged 16 years (18 years) and below is the next largest item of expenditure but it makes up only 0.7% of GDP. The unemployment allowances paid from the Employment Fund make up 0.2% of GDP, and social assistance to poor families makes up only 0.1% of GDP.

**Table 3.21**

**Expenditures on social protection as a % of GDP in 1998, 2000 and 2004**

	1998	2000	2004
Total		9	7.9
Pension fund	6.8	7	6.0
Employment fund	0.3	0.25	0.2
Social assistance			1.7
- maternal allowances (children aged 2 years and below)			0.5
- allowances for child care	2	0.9	0.7
- allowances for poor families	0.2	0.1	0.1

Source: IMF data

288. The FBS survey data given in previous sections indicates that pensioners are sufficiently protected against poverty while the families with children face a greater risk of poverty. This situation may partially reflect the way in which the social protection system is oriented towards the provision of pensions. As shown above, pensions constitute the largest expenditure item. They also have the widest coverage and, on average, contribute more to family incomes in comparison with other social payments. According to the FBS survey data (2005), pensions are received by members of 40.9% of families (34.8% of families receive retirement pensions), 11.6% of families receive allowances for child care, 1.6% receive social assistance, and 10.3% receive maternal allowances. According to estimates by the World Bank (2003), 90% of women and 85% of men of retirement age are covered by the pension system.
289. Pensions are not directly aimed at reducing the poverty rate, and as such are not targeted at the disadvantaged population (their purpose was to protect the incomes of elderly people). However, in Uzbekistan pensioners usually live in large families meaning that families with children also benefit from pensions. Thus, pensions are indirectly aimed at reducing the poverty rate. According to estimates by the World Bank (2003) the absence of pensions would increase the poverty level by 10%<sup>24</sup>.
290. Table 4.23 demonstrates that since 2003 the coverage rate of social assistance programs, child and maternal allowances has been decreasing. According to the survey data the coverage rate of child care allowances was reduced from 15% of families in 2003 down to 11.6% of families in 2005, and the coverage rate of social assistance programs was reduced from 3.5% in 2003 down to 1.6% in 2005.
291. In 2005 child care allowances contributed about 9.8% of family incomes, social assistance allowances about 13.6%, and pensions about 30%. Social benefits contribute a slightly larger proportion to family incomes than the child care allowances but they are much more restricted in coverage. In 2005 the average social assistance allowance made up 21% of average earnings, the average child care allowance 17%, and the average pension 45%.

**Table 3.22**

**Coverage of social assistance programs, child and maternal allowances (2003-2006)**

	2003.	2004.	2005	2006
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<sup>24</sup> Assessment of living standards, World Bank (2003)

<b>Social assistance</b>				
Share of households that receive allowances	5.1	4.2	4.2	4.0
Average allowance (in soums)	9,885	10,014	14,795	18,947
Number of applicants	30,4200	313,500	306,000	293,900
Number of refusals	48,900	40,000	32,700	29,100
<b>Child allowances</b>				
Share of households with children aged 16 years and below that receive allowances	34.7	35.4	33.1	31.9
Average allowance (in soums)	7,244	8,531	12,064	13,144
Number of applicants	1,874,300	1,938,600	1,862,600	1,808,800
Number of refusals	118,000	116,600	131,900	98,100
<b>Maternal allowances (for unemployed mothers with children aged 2 years and below)</b>				
Share of mothers with children aged 2 years and below that receive allowances	63.1	59.3	56.9	49.1
Average allowance (in soums)	10,277	11,788	15,582	20,740
Number of applicants	573,478	498,771	468,270	485,162
Number of refusals	33,339	48,191	26,344	21,897

Source: Ministry of Economy, Ministry of Labor and Social Protection

292. The amount of funds allocated for social protection is being reduced, such that it is even more important that they are well targeted to the poor and vulnerable.
293. Uzbekistan's unique system of targeting social security through mahallas is, despite some shortcomings, more efficient compared with other systems. Continuous monitoring of this system is required and where appropriate corrections are needed to increase its efficiency. Early research showed that the child allowances program works better in relation to its target group than the social assistance program<sup>25</sup>. The FBS survey data (2005) shows that the majority of households of poorer quintiles receive allowances and the major part of allowances are paid to the lowest quintiles (i.e. allowances are being distributed progressively), although some outflows of funds into highest quintiles also occurs.
294. The main shortcoming of distributing targeted social assistance through mahallas is connected to the fact the identification of the target group is possible only within each mahalla and there is no mechanism for redistributing funds from richer communities to poorer communities. The total amount of allowances that can be allocated is determined by the total amount of funds available to each mahalla and not by the number of people who require assistance. This reduces its efficiency in terms of providing assistance to the target group.

**Table 3.23**  
**Share of households in every quintile that receive allowances**  
(according to FBS survey data)

	1 <sup>st</sup> quintile	2 <sup>nd</sup> quintile	3 <sup>rd</sup> quintile	4 <sup>th</sup> quintile	5 <sup>th</sup> quintile
Child allowances	20.4	15.4	11.6	7.5	3.0
Social assistance	3.1	2.0	1.6	0.8	0.4
Maternal allowances	15.2	11.7	11.1	8.6	4.9

**Table 3.24**  
**Distribution of households that receive allowances among quintiles**  
(according to FBS survey data)

	1 <sup>st</sup> quintile	2 <sup>nd</sup> quintile	3 <sup>rd</sup> quintile	4 <sup>th</sup> quintile	5 <sup>th</sup> quintile
Child allowances	35.2	26.6	20.0	13.0	5.2
Social assistance	39.2	24.7	20.3	10.1	5.7

<sup>25</sup> See Coudouel and Marnie (1999), World Bank (2003)

Maternal allowances	27.9	24.4	21.6	16.7	9.4
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Table 3.25

## Distribution of total amount of funds by quintiles

	1 <sup>st</sup> quintile	2 <sup>nd</sup> quintile	3 <sup>rd</sup> quintile	4 <sup>th</sup> quintile	5 <sup>th</sup> quintile
Child allowances	36.4	27.9	19.1	12.0	4.6
Social assistance	39.1	26.1	18.8	9.4	6.6
Maternal allowances	30.9	22.2	21.1	16.7	9.1

295. The total coverage rate of social assistance is low (4% of the total number of households according to official statistics), but it is quite high for child allowances (over 11% of all households and over 30% of all households with children aged 16 years and below). However, given the limited financial resources, there are problems in balancing out the coverage and amount of the allowance. Currently the amount paid to a household can be inadequate to protect the family. This occurs partly because the allowances are linked to the minimum wage which, in turn, is not connected to the minimum subsistence level. The child allowances can vary within 50-175% of the minimum wage (depending on the number of children in the household) and the social payments can vary between 1.5-3 times the minimum wage.
296. Data obtained as a result of studies conducted in the Ferghana and Kashkadarya oblasts at the end of 2006 demonstrates that the receipt of social assistance and child allowances does influence the poverty rate. For example, in Ferghana oblast the poverty rate was measured at 24.7% as of November. If the social payments received by these households would be taken away from the household incomes then the poverty rate would increase to 27%. The cancellation of child allowances would lead to an increase in the poverty rate of 1%. Pensions play an important role: if pensions were to be removed from household incomes then the poverty rate would increase by 10%. The same tendency has been observed in Kashkadarya oblast where the cancellation of pensions would lead to a 7% growth in the poverty rate. It is necessary to note, however, that the insufficient impact of social payments on wellbeing can be caused by the concentration of many households around the poverty line. For the households whose consumption per family member is below the poverty mark, the receipt of allowances can play a more decisive role.
297. The impact of social allowances on the protection of vulnerable groups from income poverty depends on the total amount of expenditures on such allowances, the efficiency of the targeted payment mechanisms, the coverage rate and the amount of allowances. Pensions are well financed, have a good coverage rate and high amount. But they are not targeting the disadvantaged population according to their function. They play a role in mitigating poverty but this is not the most economically effective method. A different approach is to improve the levels of funding, targeted approach, coverage rate and amount of allowances specifically designed to fight poverty. The recent decision of the government on social protection increases the funding of social assistance allowances by 50% but at the same time extends the period for which this allowance covers from 3 to 6 months. Thus there is a need to increase this amount by 100%, instead of 50%, in order to maintain the same level of allowance. Practically, the coverage rate may fall even further but those households with the right to allowances will continue receiving it for 6 months until the resubmission of their application.
298. The social protection system also includes unemployment allowances which, as with pensions, do not have the direct aim of reducing poverty but are used for managing the risk of a member of the working age population having reduced incomes as a result of losing his or her job. This allowance is insufficient given the current situation in the labor market. For as mentioned above, the problem of living standards is related not only to unemployment but also partial unemployment (or underemployment).

299. The unemployment allowance could play more an important role in the social protection system if economic restructuring was accompanied by an increase in the number of jobs in the private sector. In such a situation the allowance could serve as a guaranteed buffer during period of searching for a new job. However, in the absence of dynamic and comprehensive growth the role of unemployment allowances remains minimal.
300. In practice, the Employment Fund is used not only for payments of allowances but also for funding what are referred to as 'active' measures including the creation of jobs, training and retraining, job search and the organization of public works. Almost half of its budget is used for creating jobs through issuing credits at low interest rates. However, additional assessment of the efficiency of these measures is required in order to ensure the long term and productive employment of the unemployed.

### **3.4. Gender Development**

301. The gender approach requires an assessment of how all actions or processes impact upon both men and women. This should be taken into account when developing welfare improvement strategies.
302. The existing gender profile of Uzbekistan is influenced by many factors. The three main ones are the Soviet heritage, the social and economic difficulties of the transition period, and traditional Uzbek values.
303. The resulting indicators in the area of human and gender development of Uzbekistan are as follows: the Human Development Index (HDI) as of 2004 was 0.756 and the Gender Development Index (GDI) as of 2004 was 0.752. The GDI captures differences in indicators between the sexes – specifically life expectancy (lower rate for men than for women – 69.6 and 74.1 respectively in 2005) and income per capita (smaller for women than for men), while the literacy rate and school education indicators are more or less equal.
304. Taking into account the existence of a gender asymmetry which makes women more vulnerable, the Government has paid close and consistent attention to resolving their problems. It is clearly stated both in national legislation, including the Constitution, and in the active participation of the Government in international initiatives including the signing of the Beijing Political Platform and ratification of the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) in 1996.
305. These documents have defined the strategy and policy priorities in respect to women, founded on the need to implement the principles of equal rights, freedom and equal opportunities for all members of society. "The national platform of actions on improving the status of women" intends to combine the efforts of the government, parliamentarians, government and public organizations, and civil society to increase the potential for women to participate in the processes of developing a democratic society.
306. An important step in involving civil society, especially women, in the cause of gender equality was taken in the form of the Decree of the President of the Republic of Uzbekistan "On additional measures to support the activity of the Women's Committee of Uzbekistan" (May 25, 2004) and the Resolution of the Cabinet of Ministers on the program of measures to ensure its implementation (June 29, 2004).
307. Legislation also provides for protection in the areas of family, economic and labor relations and also supports them in their valued position in society.
308. Within this legislation importance is placed on such issues as development and approval of the law on equal opportunities, ensuring gender equality in access to higher education, increasing women's participation in decision making processes, strengthening the potential of rural women, taking preventive measures against prostitution, polygamy and the trade of women.
309. At the same time, an analysis of the situation shows that in practice there are some cases of discrimination against women caused mainly by the low level of legal knowledge on the part of employers, a wrong understanding of the traditional family way of life and the existence of gender stereotypes within society.



310. **Gender aspects of the economy.** As women constitute a significant part of the country's labor force, their employment is important not only in terms of individuals or their families but also in terms of macroeconomics. Issues of sexual equality impact upon the living standards of the population and the well being of the whole society.
311. Despite the significant changes that have occurred in the economy of independent Uzbekistan, the employment structure in terms of gender relations has not undergone any significant changes – the share of women employed in the economy is less than 44% and the share of women employed by the informal sector is increasing. In general, economic activity rate of women is slightly lower than that of men – 63.2% and 78.5% respectively. The trend is for women to be increasingly employed in low-paid sectors such as health (in which women are 77.5% of all employees) and education (72.7%). In 2006 women's wages were lower than men's by 37%.
312. Of the total number of citizens registered by the labor authorities as job seekers in 2004 the share of women was 45.5% and the share of men 54.5%. The share of women unemployed after finishing secondary school is lower than that of men (44.8% of women and 55.2%). The average duration of job search for women is higher than that of men. Overall, women make up more than 67.7% of the unemployed and are on average unemployed for more than a year.
313. To prevent the growth of this indicator the government has undertaken special measures on promoting women's employment. There are about 500,000 jobs being annually created in the country and about 40% of them are being taken by women. For this purpose the local authorities are setting up jobs for women and providing special funds to train women.
314. A significant role in the creation of jobs is being played by non-governmental organizations. Among them are the Women's Committee, Business Women Association (BWA), the "Mehr" Association of Non-government Women's Organizations, and the National Association of non-governmental organizations. Also being undertaken are measures to shore up the proportion of women who are economically active (given that 60% of women do not have the opportunity or desire to start working because of their high level of family responsibilities).
315. **Equality of access to education.** Currently, there is no differentiation in access to education between boys and girls, confirmed by their approximately equal share in primary and secondary schools. At the same time there is a trend of girls being less likely to study in professional educational institutions, such as professional colleges, and in higher education. For example, in 2004-2005 young men constituted about 64% of all people admitted to academic lyceums. Also, as it was mentioned above, there are more young men than women among the students of higher educational institutions aged 19-24 years.
316. Probably, this tendency can be explained by the relatively early marriage of a significant number of women (aged 18-20 years) and the existence of gender stereotypes, especially in rural areas, which prevents girls from receiving a complete education.
317. **Gender aspects of health.** Men and women are facing different health risks. The issue of maternity health has already been mentioned. Other public health indicators show that among the working age population the mortality rate among men is higher than among women (in 2005, in breaking down the overall mortality figures, it was men from this age group who contributed 33% and women of this age group only 18%). Men are also more vulnerable to infectious diseases including tuberculosis (in 2003 the rate of disease amongst men was 17.4 per 100,000 persons while it was only 8.4 for women).
318. **Women's rights and participation at the decision making level.** In Uzbekistan legislation stipulates the equality of women including their participation in decision making at all levels. Women are now more actively engaging such public processes.
319. In order to ensure gender balance in political representation a quota system was introduced for political parties such that women should make up 30% of nominees to stand as candidates for legislative and representative authorities. This resulted in an increased number of women in the national parliament from 9% up to 16%. Currently, 21 women are working as Legislative Chamber

deputies and 15 are members of the Senate of the Oliy Majlis. The share of women in the executive makes up 3.4%, in the judiciary 22.7%. The share of women among the heads of organizations makes up only 28.8% - there are particularly few women at higher levels while the share of women is significantly higher among the relatively junior rank of specialist – 60.1%. In spite of having a higher education (in 2004 the proportion of employed women who are specialists with a specialized higher education 21.8%, higher than the respective number for men - 20.4%), women in some cases fall behind in their business careers.

**320. Main challenges in achieving gender equality**

321. The main challenges in ensuring gender equality are:

- Lack of full financing in implementing measures on gender policy, especially in the area of employment;
- Insufficient use of gender approaches in implementing economic and social policy and in state decision making in general;
- Lack of readiness of government employees to resolve gender issues, as well as a lack of a specific understanding of the role of women in society and the importance of ensuring gender equality;
- Weakness of the gender analysis methodology and criteria for assessing gender equality in terms of the lack of local detail based on systematic data collection, processing and analysis of such gender-disaggregated statistics;
- Lack of research in the area of gender development with the purpose of identifying the interrelations and interdependences of the gender inequality indicator with the basic socio-economic indicators;
- Existence of gender asymmetry with regard to the vulnerability of both women and men in the distribution of employment amongst sectors, remuneration, public health and education;
- Significant amount of unpaid house work carried out by women as a result of them having children, along with a shrinking of the social infrastructure, especially in rural areas;
- Existence of gender stereotypes and a patriarchal way of life both in the understanding of society as a whole and at the decision making level.

**3.5. Wellbeing of children**

322. Noteworthy is the fact that all government programs and activities for improving the wellbeing of children are clearly targeting towards achieving high levels of achievement within the framework of the nationalized Millennium Development Goals, implementation of the document “A world fit for Children”, the strengthening of interaction between the different institutions involved in these processes, and the development of local initiatives and participation of local organizations.

323. Issues related to the wellbeing of children are reflected in all state programs approved by the Government of Uzbekistan.

324. With a view to implement the recommendations of the UN Committee on Child's Rights a National Plan of Action was developed and is being overseen by the Cabinet of Ministers that is responsible for inter-sector coordination and cooperation at both national and local levels to implement the Covenant.

325. Non-government organizations are taking part in monitoring the observance of child rights.

326. In 2006 under the Complex on Social Issues of the Cabinet of Ministers of the Republic of Uzbekistan the Coordination Council for Promoting the Wellbeing of Children of Uzbekistan was established. The Council is a permanent standing advisory body that is responsible for the coordination of the activities of government entities and public organizations in ensuring the rights and interests of the children of Uzbekistan.

327. The protection of the interests of children in Uzbekistan cannot be neglected in government policy. The importance of this problem means that it should be a major priority in government policy because without this it would not be possible to concentrate all society's efforts in fully protecting the rights and interests of children. This is especially true given the age structure of the population, dominated by children and young people. Children under the age of 15 make up nearly 10 million or 41% of the total population.
328. The following measures will be implemented as the main areas of government policy:
- perfection of the system of protection of the reproductive health of the population;
  - further development of the State system for the early identification of congenital and hereditary pathology amongst newborns and pregnant women – “Mother and child screening”;
  - development of a system of continuous training, improvement of specialists' professional skills and raising awareness in the areas of reproductive health, and more generally awareness of health issues amongst the population;
  - expanding international cooperation in order to improve the reproductive health of women, birth and child care;
  - strengthening of the facilities and equipment for child and maternity institutions;
  - development of hematology services in the country;
  - creation and refining of the legal basis for the protection of family interests, motherhood and childhood by taking into account advanced international experience and legal systems;
  - creation of the economic conditions which promote the strengthening of families, material welfare of children, and prevention of homelessness amongst children and teenagers;
  - implementation of a national educational program for providing a free, general 12-years education for children;
  - provision of state protection for the socially vulnerable children – the disabled, orphans, and children from poor families.
329. Special attention and particular protection is guaranteed for children from poor families, children with physical and learning disabilities as well as for children with adequate family care or who have found themselves in other unfavorable circumstances and extreme situations.
330. Among the initiatives planned for this next period it is necessary to mention the following:
331. 1. The development for 2007 and for subsequent years of the targeted program “Year of Social Protection”. This program includes the implementation of a set of measures concerning children on:
332. Improving the facilities in “Mehribonlik” homes and specialized boarding schools, and enhancing the care of children who have lost their breadwinner, putting into practice the noble slogan “You are not alone”;
333. Further expansion of measures for developing a physically healthy, spiritually rich generation, the strengthening of motherhood and childhood care, and development of the “Healthy mother – healthy child” movement;
334. Further perfection of the mechanism of providing incentives and performance based appraisal for social sector employees in the “Mehribonlik”, “Sahovat” and “Muruvvat” houses;
335. Supporting the key interests of young people, creation of conditions for the development of their capacities and potential, supporting young families through moral and financial incentives at the start of their independent life, and providing loans to young families.
336. Implementation of the adopted National Program of Actions for the wellbeing of children in Uzbekistan.

## **Chapter 4**

### **Macroeconomic policies for implementing the WIS goals and priorities**

#### **4.1. Main Objectives of Macroeconomic Policy**

337. In order to meet the goals of the Welfare Improvement Strategy in the medium term macroeconomic policy should ensure the implementation of the following objectives:
338. a) Maintaining a balanced state budget, thus removing the potential for the budget deficit to contribute to inflation. Growth in government revenues should be combined with a reduced tax burden, and therefore revenue growth should be exclusively as a result of an expansion of the taxable base. Government expenditures should grow in line with the growth in revenues.
339. b) Maintaining the stability of the national currency as well as its stability on monetary and foreign exchange markets. The inflation rate should be moderate (no higher than 5% by 2010) and also support economic growth and growth of the real incomes of the population. The national currency exchange rate should, on the one hand, be correlated with moderate inflation policy, and on the other hand it should not result in an increase of the real value of the national currency and thereby discourage exports.
340. c) The foreign debt policy will remain conservative. The government will avoid growth in the foreign debts of the country and debt servicing volumes in order to avoid an excessive debt burden on future generations.
341. d) Investment policy will be targeted at a substantial growth in local and private investment into the manufacturing and services sectors, the modernization of local industries, development of mineral resources including hydrocarbons, their extraction and deep processing in order to create new jobs. Public investments for the period up to 2010 will be primarily used for the development of social infrastructure in those sectors that improve the social wellbeing of the population – education and public health as well as the construction of strategic and inter-regional roads. From 2010, after the completion of large education and public health programs, a portion of public investment will be re-oriented towards the modernization of irrigation systems and the creation of a system of reliable supply of irrigation in order to guarantee growth in agricultural output and poverty reduction in rural areas.
342. e) Foreign trade policy in the medium term will be focused on the stimulation of exports and moderate support to localizing and the import substitution sectors such that domestic producers can create jobs. Along with the development of local manufacturing and the accession of Uzbekistan to the WTO, tariff levels and regulation will decrease and the level of competition in the internal market will increase.
343. f) The comprehensive use of all macroeconomic policy instruments and mechanisms for ensuring high rates of economic growth averaging 8% a year.

#### **4.2. Macroeconomic Policy Mechanisms and Instruments**

##### **4.2.1. Fiscal policy.**

344. In the medium term the Government will complete tax reform aimed at an improvement of the investment climate, increasing the economy's competitiveness, creating effective jobs and legalizing informal businesses by means of:
345. a) Further reducing the tax burden. The target for 2010 will be reducing the tax burden down to 25% of GDP. This will allow enterprises to expand their output and create new jobs which in turn will generate incomes and reduce poverty;
346. b) Further streamlining the tax administration system;

347. c) Ensuring the stability of tax legislation and increasing the transparency and predictability of tax policy;
348. d) Optimizing public expenditures and increasing efficiency in spending.
349. In order to realize these objectives tax reform will be carried out in the following areas:
- Further reduction of income tax rates, the single social payment, VAT and improving the way in which corporate tax is calculated. This approach would create better conditions for the development of the labor intensive sectors of the economy and increasing employment.
  - Review of the tax privileges which currently make up about 10-12% of the state budget tax revenues and a phased reduction with a view to create equal conditions for all businesses. Individual privileges will be completely forbidden.
  - Reduction and optimization of labor tax rates such the individual income tax and single social payment that together create a significant burden on the labor intensive sectors of the economy and hinder growth in employment. It is planned to switch to a dual-rate income tax, make revisions to the income tax calculation scale and expand the bands of income groups taxable at different rates.
  - Reorienting taxes towards creating incentives for more effective use of natural resources. The taxation system for sectors involved in mining will be developed with consideration of rent already charged for land, i.e. a phased differentiation of tax rates for mineral resources will be implemented with consideration of the nature and conditions of field development and mining with a view to creating a level playing field.
  - Reforming the tax administration system to streamline and unify it, and optimize the activities of the tax authorities. The basic priorities in this area include:
    - Reduced number of taxes, simplification of their calculation methods, modification of the structure of taxes in favor of the simplest ones from the point of view of their calculation and collection, and optimization of the activities of tax authorities. This problem will be addressed in the following ways: unification of taxes with an identical base (corporate tax and the social infrastructure development tax; single social payment and obligatory insurance payments; gross revenue taxes or payments to non-budgetary funds), unification of excise taxation.
    - Modernization of the tax accounting and control system in order to abolish practices of comprehensive field inspections of the enterprises in favor of selected inspections when tax audits are scheduled only for those enterprises in the "high risk" group. Introduction of new mechanisms of taxpayer selection based on a risk-analysis system that will allow tax control to be more effective by narrowing it down to potential infringers. Law abiding entrepreneurs will have practically no face to face contact with the tax authorities.
    - Ensuring the stability of tax legislation and increasing the transparency and predictability of tax policy.
350. The President has called for a new edition of the Tax Code<sup>26</sup>, already developed, to be presented to the Oliy Majlis for approval in the second half of 2007. It is planned that the new edition of the Tax Code will enter into force in full from 2009 but the implementation of its main elements has already started in 2006-2007.
351. The conceptual foundation of the draft Tax Code includes:
- Establishment of an exhaustive list of taxes and obligatory payments;
  - Reduction in the number of taxes and duties;
  - Maximum unification of the tax base and rules of their calculation on separate taxes as well as the order of payment;

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<sup>26</sup> Technical assistance in the development of the Tax code was provided by UNDP

- Streamlining tax privileges;
- Leveling of taxation conditions for all taxpayers;
- Improvement in the tax administration system.

352. The main innovations in the new edition of the Tax Code include:

- A special chapter that establishes the basic definitions and terms used in the Code;
- Definition of “tax presumption”;
- Determining the rules of implementation of tax liabilities;
- Procedures on deferrals and paying by installments of tax payments and obligatory payments;
- Establishing a clear mechanism for tax credits and reimbursement of overpaid taxes and obligatory payments;
- Sections regulating the forms and procedures for tax control as well as for appeals concerning decisions of the tax authorities and the actions of tax officials;
- Reconsideration measures on liability in cases of tax legislation infringement (including measures on the liability of officials);
- Procedure according to which changes made to the tax legislation should be published no later than December 1<sup>st</sup> of the current year and entered into force from January 1<sup>st</sup> of the year following the year of their publication;
- Stipulation that tax inspections are carried out only by the state tax authorities;
- Establishing the procedures and intervals of tax inspections;
- Reducing the fine for overdue payments to budget and extra budgetary funds from 0.07% down to 0.05% for each day overdue;
- Introducing the procedures of State duties;
- Procedures for the calculation and payment of obligatory payments.

353. It is planned to abolish:

- Inefficient and unclaimed privileges that cover only a small group of payers or are not claimed at all;
- Overlapping privileges which lead to an unreasonable expansion of their application;
- Privileges that create unequal conditions of taxation, thus violating the principle of equal competition between businesses.

354. The medium term budgetary policies will include:

- Transition to medium term budgetary planning that envisages forecasting of the annual budget within medium term parameters for 3 years. The annual budget within the medium term budgetary strategy becomes the instrument for the transformation of state policy measures into expenditure plans and is developed with consideration of medium term priorities;
- Optimization of public expenditures, by means of: a) an improvement in budgetary planning that requires a move to per capita financing in public health and education thus providing an opportunity for the more flexible use of budgetary funds at the level of budget recipients (including wages and assimilated payments); b) full transition to treasury execution of the state budget and extra budgetary funds that will ensure the consolidation of all income and expenditure operations within a single account, promoting the creation of single accounting and reporting standards and allow for greater control over the targeted use of budgetary funds on a qualitatively new basis.

- Reforming the system of inter-budgetary relations that will be focused on strengthening the independence and interests of local authorities in the expansion of their revenue base and an increased efficiency in the use of resources. For this purpose there will be a clear legislative demarcation of expenditures between central and local level authorities, and a stable and transparent mechanism for the redistribution of state taxes between central and local budgets on the basis of stable (for 3 years) allocation guidelines of state taxes.

#### **4.2.2. Monetary Policy.**

355. In order to achieve these goals and objectives, an improvement in monetary policy for the period up to 2010 will be carried out in the following ways:

- Further improvement of the market mechanisms of monetary policy in liquidity management. In order to address this problem, the Central bank will make wide use of indirect instruments of monetary policy and, in particular, greater use of State Treasury Bonds (T-bonds), its own depositary certificates and bonds (including for operations at the secondary market) for creation of the fully fledged money markets;
- Acceleration of joint activities with the Ministry of Finance on the full transition to the treasury execution of the state budget for increasing the efficiency of government expenditures and restraining the growth in the money supply and inflation rates;
- Transition from the management of monetary aggregates to inflation targeting in order to keep inflation within the limits of the targeted parameters;
- Continued use of the funds accumulated by the Fund for Reconstruction and Development in light of changes in world prices for export commodities that will promote the sterilization of monetary aggregates related to market determined incomes;
- Support and further growth of confidence in the national currency, and expansion of the level of financial intermediation both by banking and non-banking financial institutions;
- Increase in the role of securities in the financial markets with a view to stimulating investment.

#### **4.2.3. Financial Sector Reforms.**

356. The financial sector will play a key role in the achievement of high rates of economic growth and a more equal distribution of its results among all segments of the population by encouraging savings and creating effective mechanisms of their transformation into investment. The solution to this problem requires major advancements in financial sector reforms in order to increase the intermediary role that financial institutions play.

357. **Banking sector.** Considering the state of the banking sector and the need to strengthen it further, there will be a continuation of reforms in the banking sector and increasing the operational efficiency of commercial banks. The main dimensions of these reforms are:

- Encouraging a more effective distribution of financial resources, increase in capitalization of the banking sector and enhanced confidence of the population in the banking system;
- Stage by stage exemption of commercial banks from undertaking non-relevant control and administrative functions with the transfer of these functions to the tax authorities and businesses themselves, providing completely unhindered access of businesses to their bank accounts, creating credit information system through credit bureaus that will raise the confidence of the population and businesses (especially micro and small businesses) in the banking system, and so promote the accumulation of savings, increase in capitalization and efficiency of the banking system;
- Significant growth in the capitalization rate of banks including through additional issues of shares, and the mobilization of new local and foreign investors;

The Decree of the President of the Republic of Uzbekistan dated December 19, 2006 “On measures to encourage the increased capitalization of commercial banks” was issued in order to promote the sustainable development of the banking system, to increase the capitalization rate of commercial banks and expansion of their participation in the investment processes and structural transformation of the economy. The Decree provides tax exemptions for the period of 3 years (from January 1, 2007 up to January 1, 2010) for earnings of legal entities received in the form of share dividends of commercial banks. This privilege covers the shares of commercial banks bought from January 1, 2007 and also on share dividends paid up until December 31, 2009.

- Creation of dynamic micro-crediting and mortgage markets;
  - Improvement in the corporate management of banks in order to increase returns on their securities and their investment rating at the stock market;
  - Introduction of a wide range of financial instruments of retail banking business as well as technological innovations in retail and corporate services;
  - Completion of the transition to international accounting standards and implementation of the banking supervision system based on the Basel-II standards;
  - Undertaking the privatization of large banks and the further creation of a competitive environment including through attracting foreign investors. In the period up until 2010 the privatization of the state owned “Asaka bank” will be completed and preparations will be made for the privatization of the National Bank for Foreign Economic Activities.
358. **Micro-finance Development.** According to World Bank estimates, micro-crediting requirements in Uzbekistan make up to US\$ 250 million, based on comparisons with indicators of the most financially developed countries.
359. The following recommendations which promote the strengthening and development of micro-finance institutions, which the Government will as much as possible use in its activities, were developed with the technical assistance of the World Bank:
360. **Medium term activities for the period up to 2010**
- To develop standards for the participation of banks in subsidized lending programs based on market practices where subsidies deliver only targeted improvements according to the needs of borrowers;
  - To provide guarantees of the availability of targeted subsidized programs to everyone who meets the transparent qualifying criteria including the justification of needs.
  - To develop strategies that would encourage raising deposits and the “voluntary dematerialization” of deals by creating incentives in the banking system through debit and credit cards attached to various savings and loan products;
  - To revise micro-financing standards and progress on the basis of a self-regulation model and to make the changes needed for the stimulation of financing in accordance with legal, regulatory, and tax requirements;
  - To improve credit rating parameters and strengthening the connection between the data of banks and credit unions on micro-financing so that the CBU can conduct assessments of stability and reliability testing;
  - To continue joint activities between the Government and the Micro-finance Association for (1) ensuring compliance with regulatory standards, (2) collecting useful industry information, (3) ensuring that the existing regulatory and legal framework is clearly explained, (4) conducting trainings and providing technical assistance to micro-financing organizations;
  - To provide financing to those participating banks, credit unions and micro-finance organizations that correspond to the criteria established for micro-finance institutions; and to start the development of an assets securitization package and rating criteria;



**361. Long term results oriented activities for the period after 2010**

- Gradual reduction of subsidy schemes targeting micro-firms, households and individuals along with growing access to the loan market and reduction in market rates as a result of growing competition;
- Continued monitoring of activities of micro-finance institutions and updating policy if the market share, growth of incomes and rate of return, development of products/services, innovations, pricing schemes, etc. indicate that there are significant gaps or shortcomings in comparison with other markets;
- Improving the consumer crediting analysis system with consideration of the common risks for economy and financial stability;
- Ensuring that micro-financing policies, standards and practices are aligned with objectives in relation to the aggregate amount of micro-crediting in the economy, poverty reduction and other progress assessment measures;
- Development of uniform systems of credit information from different segments to which all creditors could have access;
- Expansion of credit rating models to promote the development of a securitized assets market through the introduction of standards and indicators of activity as the basis for rating and price setting for such packages in the secondary market;
- Achievement of the self-sufficiency, sustainability and growth of micro-finance institutions in commercial terms and secondary market investments;

**Major components of the Micro-finance Development Program in the Republic of Uzbekistan up to 2010.**

The objective of the Program is to increase employment and improve the livelihoods of the population through expanding access to financial services of all segments of the population in the remote regions of the country. The objective of the Program will be implemented through the large-scale creation of micro-financing institutions and market infrastructure.

As a result of implementing this Program, the following is expected:

- Establishment of new micro-credit organizations and bringing their total number up to 159 units;
- Increased amount of the investments of micro-credit organizations and credit unions up to 127 billion soums by 2010;
- Creation of a comprehensive and effective regulatory framework for responsible supervision;
- Development of additional services (training, technical support, accounting and audit) for the micro-financing sector;
- Linking up micro-credit organizations and credit unions to the National Institute of Credit Information.

**362. Non-banking financial institutions.** A major expansion in the activities of non-banking financial institutions can become a vital factor in the accumulation of savings and stimulation of investment necessary to underpin high rates of economic growth. On the one hand, it will contribute to a considerable expansion in available sources of financing for investment and, on the other hand, will reduce interest rates for financial services by creating a more competitive environment that will positively impact on investment activities, the employment rate and welfare improvement of the population.

**363.** The following are the main mid term government measures aimed at creating a favorable environment for the development of non-banking financial institutions:

- Creation of favorable conditions for the development of micro-financing institutions and credit unions that are primarily focused on the satisfaction of need for financial resources and micro-leasing services on the part of small and micro enterprises as well as wide sections of the poor but economically active population, particularly in rural areas through:
  - Improving the regulatory and legal framework and creation of an effective supervision system over credit unions and micro-credit organizations;

- Providing assistance in the establishment of the resource base of micro-credit organizations and credit unions through commercial financing, particularly through credit lines of international financial institutions, commercial banks and targeted public funds and their admission to the remittances market;
  - Creation of the organizational conditions for the geographic expansion of the network of micro-credit organizations and credit unions in all regions of the country, especially in rural areas;
  - Creation of the conditions for the development of additional services and infrastructure that will provide micro-credit organizations and credit unions access to training, technical support and information;
  - Advancing the competitive environment in the insurance market, the development of modern types of insurance activities and the increased capitalization rate of insurance companies through:
    - Improving the regulatory and legal framework of insurance activities and insurance supervision in accordance with international practices;
    - Integration of Uzbekistan's insurance market into international insurance markets by means of a set of measures for the accession of Uzbekistan into the International Association of Insurance Supervision Authorities;
    - Facilitating the increase in volumes, scope, and quality of insurance services in business insurance, export-import transactions, long term life insurance including individual insurance accounts and designing insurance products to safeguard real estate and life insurance;
    - Development and introduction of a computer-based data collection and processing system in the State Inspection for Insurance Supervision under the Ministry of Finance;
    - Creation of conditions for improving the system of training, retraining and professional development of insurance market participants.
364. **Securities market.** The securities market has a decisive role in the accumulation of surplus savings of the corporate and private sector. A securities market is an effective market mechanism for moving savings into investments on the basis of voluntary decisions of investors without intervention from the government. Because of this, the strategic objective of the Government in this sphere is facilitating the development of a securities market. The main areas of economic policy for achieving this objective are as follows:
- Substantial expansion of the primary securities market through the full denationalization of enterprises and the en-masse creation of new joint-stock companies;
  - Creation of additional conditions for the accelerated expansion of a secondary securities market through the unification of norms of existing laws and adoption of a uniform law "On the securities market";
  - Implementation of an insurance system in the securities market and improving the operational methods of depositary systems in accordance with international standards;
  - Encouraging the activities of collective investment institutions through the creation of an effective supervision mechanism over their activities that leads to the creation of a system of obligatory norms and public disclosure of information;
  - Development of a Corporate Legislation Improvement Programme incorporating international corporate management standards;
  - Establishing the modern stock market infrastructure and improving its facilities through the introduction of the latest information and communication technologies and a transition to the use of electronic document management;

- Improvement in the training and professional development of specialists for securities market.

#### 4.3. Investment Policy

365. The medium term investment policy at the macroeconomic level will be focused on the following objectives:
- Active structural reorganization of the economy in order to increase the share of the industrial sector, primarily in high value added production, along with the significant expansion of the services sector, and dynamic development of small businesses;
  - Increased competitiveness of the national economy as a result of the technical and technological modernization of existing enterprises and industries, the creation of new hi-tech industries and production as well as the introduction of mechanisms for getting new innovations to the market;
  - Encouraging the growth of savings as a proportion of GDP in order to effectively use domestic savings for investment purposes;
  - Creation of a favorable investment climate for domestic and foreign investors so that can directly investment in the development and modernization of the industrial and services sectors;
  - Giving priority to private investment over public investment by reducing the tax burden and creating tax incentives for businesses investing in their own development and modernization;
  - Encouraging a rational geographical distribution of investments to ensure integrated area-based development;
  - Encouraging investment projects targeting the effective utilization of limited resources: energy-efficiency, water-efficiency, and projects aimed at reducing the emission of greenhouse gases;
  - Increasing the efficiency of public investment through strict limitations and control over their use.
366. The following are the instruments carrying out this investment policy in the medium term:
367. 1) **Programmatic approach** – by means of adopting and implementing medium term (for the period up to 2011-2012) programs for the development and technical modernization of major industries: electricity, oil and gas, chemical, nonferrous metallurgy, ferrous metallurgy, industry of construction materials, electro-technical, automobile, textile, pharmaceuticals, and leather and foot-wear, including important investment projects to be implemented starting 2007-2009 and ending in 2011-2015. This will allow for the creation of a large portfolio of investment projects for which essential financing sources will be sought, including loans of foreign banks and international financial institutions. Investments for technical modernization will be earmarked both for state-owned and private companies. The funding will come from company equity, domestic and foreign bank loans, and for basic industries and infrastructure also the resources of the recently created Fund for Reconstruction and Development.
368. 2) **Comprehensive approach** – stimulating projects targeting comprehensive area-based development and comprehensive development of the available raw materials – from geological exploration and extraction down to processing for higher value-added production. This is expected to increase investment in exploration works for essential mineral resources: oil and gas, uranium, and iron ores as well as previous, non-ferrous and rare metals. At the same time investments will be channeled towards processing the raw materials produced and manufacturing high value-added products.
369. 3) **Incentive-based approach** – granting tax privileges and various preferences in access to production infrastructure, raw material resources, etc. for investing into projects corresponding to the Medium term National Development Strategy and the development of related industries, and encouraging the technical and technological modernization of production through extensive tax and customs privileges;

370. 4) **“Pinpointed” Incentives for Investment Projects** implemented in relatively underdeveloped regions and prioritized industries;
371. 5) **Expansion of the financial base of investment** through the mobilization of foreign direct investment as well the accumulated market revenues in the Fund for Reconstruction and Development of the Republic of Uzbekistan;
372. 6) **Streamlining Regulatory Procedures** for the development, assessment and approval of investment projects by the state authorities;
373. 7) **Creation of conditions for increasing the efficiency of both public and private investment.**
374. **Increasing the efficiency of public investment.** Taking into consideration the importance of stimulating investment activities and increasing the economy’s competitiveness, public investment should become the catalyst for the growth of private investment and should be directed mainly at the development of the industrial and social infrastructure. The following measures will be taken for increasing the efficiency of public investment projects:
- Those projects which may be funded by private sector will not be financed from the state budget;
  - In the selection of public investment projects, one of the major assessment criteria will be the need to eliminate restrictions and bottlenecks in the development of the infrastructure promoting investment and development in the private sector.
  - Introducing “build-operate-transfer” and “build-operate” type contracts for stimulating public-private partnership for the implementation of infrastructural and other projects.
  - The Government will co-finance promising projects in key sectors of the economy through the established Fund of Reconstruction and Development of Uzbekistan:

**About the Fund of Reconstruction and Development of the Republic of Uzbekistan**

The Fund of Reconstruction and Development of the Republic of Uzbekistan (FRDU) was created according to the Decree of the President of the Republic of Uzbekistan №UP-3751 dated May 11, 2006.

Unlike similar funds created in the CIS, the FRDU performs the functions of stabilization, insurance and investment. On the one hand, it is directed towards promoting macroeconomic stabilization through the absorption of comparatively redundant currency revenues and guarding against a sudden growth in the monetary supply thus affecting inflation. On the other hand, it accumulates and uses the financial resources generated as a result of the currently favorable international market prices, and uses them for the technical modernization and development of key sectors that are important for the economic growth and structural transformation of the economy.

By being oriented in this way, the FRDU allows Uzbekistan to resolve the dilemma of how to use accumulated market revenues for the purposes of economic growth in a country that needs significant inflows of capital, whereas in many countries these funds are invested in low-risk assets abroad.

At the same time the Fund does not contribute to the appreciation of the national currency real exchange rate because it accumulates financial resources in hard currency and offers it to domestic investors in foreign currency for purchasing imported equipment and technologies. Meanwhile, FRDU funds can only be used for import purchases of modern equipment and advanced technologies.

Unlike other funds, the Fund also performs another important function – assistance in mobilizing direct investment and loans of local and foreign investors in co-financing investment projects. The FRDU funds earmarked for investment projects serve as a kind of signal to foreign investors regarding the priority status of the project within economic policy and the opportunities for effective investment of funds. It means that the Fund’s investment opportunities increase proportionately with the volume of additionally attracted funds into the co-financing of projects.

Thus the Fund in Uzbekistan is distinct from other funds according to its functions because it aims to meet several objectives: macroeconomic stabilization, contribution to future generations through the creation of new production potential, investment and the innovative development of the country.

- Construction of modern and safe roads will be funded by the Road Fund in accordance with the approved medium term policy and will ensure a substantial increase in the industrial and transit potential of the country;

- Sustainable irrigation water supply projects in the country's regions will be financed by the government and through the loans of foreign banks and international finance institutions mobilized under Government guarantees;
  - Investment projects in the areas of education and public health will be financed by the government budget, the extra budgetary School Fund and the loans of foreign banks and international financing institutions mobilized under Government guarantees.
375. **Encouraging Private Investment.** The stimulation of private investment for the introduction of innovative technologies, acceleration of the structural reorganization of the economy, enhancing its competitiveness and the acceleration of its development rates will be facilitated (in addition to the major condition of ensuring a favorable business environment) through implementation of the following measures:
- Creation of tax incentives for reinvesting company earnings;
  - Reduction of risks associated with the creation of new innovative projects by simplifying the process of importing technological equipment, raw materials and semi-finished products;
  - Fostering partnerships between the research and development centers, universities and the private sector;
  - Providing all kinds of assistance for the creation and functioning of venture funds and investment companies aimed at financing innovative investment projects;
  - Strengthening the protection of intellectual property rights, improving accounting practices to better reflect the value of intellectual property, which can then be drawn upon when requesting financing for the realization of innovative projects;

#### **4.4. Foreign Economic Policy**

376. Foreign economic policy in the medium term will be aimed at enhancing the competitiveness of the national economy and its integration into the world economy in order to take full advantage of the benefits of the international division of labor and globalization. Economic policy in this area will be focused on the creation of the necessary conditions for high export growth rates (15-18% per annum), increasing the proportions of both higher value added goods and small businesses in the overall structure of exports.
377. The creation of a favorable investment climate for promoting foreign direct investment and involving domestic enterprises in the global value chains established by transnational companies will become a major factor for accelerating the structural reorganization of the economy and the achievement of high rates of economic growth. The main measures facilitating resolution of these issues include:
- Development and implementation of a program of phased liberalization of the import regime that is equitable to the interests of domestic producers;
  - Reduction of transaction costs in export-import transactions and increasing export-import efficiency by streamlining customs procedures, harmonizing them with international standards, and also introducing computer-based methods;
  - Reduction of foreign trade transaction costs in the areas of certification, standardization and licensing through the implementation of a set of actions for the modernization and improvement of these systems in line with international standards;
  - Expansion of access of domestic producers to international markets by implementing existing regional trade agreements, bolstering regional integration and increasing the effectiveness of economic diplomacy;
  - Increasing the pace and effectiveness of the negotiations process within the framework of Uzbekistan's accession to the WTO by enhancing the potential of foreign trade promotion institutions and carrying out direct dialogue with WTO member countries. To this end it is

- envisaged to undertake measures to ensure the compliance of domestic products with international sanitary, phytosanitary requirements and technical standards, build up the infrastructure and resource base and improve the activities of laboratories overseeing compliance with sanitary norms and standards, as well as ensuring proper labeling of goods by manufacturers;
- Improving the forms and methods of stimulating and supporting domestic exporters in foreign markets, including through:
    - Expansion of the range of banking services related to export crediting, insurance of export credits and/or granting of counter bank guarantees through a public insurance system in order to increase the level of involvement of the private sector in export activities;
    - Stimulation of the establishment of financial and industrial groups based on capital mergers of the banking sector and industry with the involvement of trade and intermediary firms;
    - Boosting the activities of the relevant public authorities and agencies (Ministry of Foreign Economic Relations, Investments and Trade, Chamber of Commerce, sector-driven and business associations, etc.) in order to provide assistance to all players in the area of foreign economic activities in the promotion of domestic goods in foreign markets, including through the creation of a system for wide dissemination of information required for implementing foreign economic activities and mobilizing foreign direct investment;
  - Further deepening of the integration of the Central Asian transportation system through the development of regional cooperation for modernizing the transport infrastructure and provision of transportation services through the harmonization and streamlining of the legal and regulatory regime within this sector;
  - Creation of a favorable investment climate to promote the inflow of foreign direct investment and involve domestic enterprises into global value chains established by transnational companies through:
    - Improving the regulatory and legal framework of investment activities, maintaining the uniformity and unification of policy-making and law-enforcement practices;
    - Strengthening the protection of property rights and other guarantees and rights of investors through the creation of alternative ways and institutions for the settlement of commercial disputes, in particular arbitration tribunals;
    - Aligning business conditions for local and foreign investors;
    - Improving the quality and availability of statistical information;
  - Implementation of a foreign exchange policy that ensures the competitiveness of national manufacturers within both local and foreign markets, ensuring the availability of various foreign currency markets, promoting the expansion of forms and currencies for calculations in foreign trade operations.
378. At the request of the President, a draft of the new edition of the Customs code of the Republic of Uzbekistan<sup>27</sup>, envisaged to become a statutory act of direct application, has been prepared and presented for public discussion. In order to assist the Government of the Republic of Uzbekistan in this activity, in November 2006 the United Nations Development Programme (UNDP) initiated and launched the project on "Improving the Customs Administration system in Uzbekistan".
379. This draft of has incorporated the provisions of the International Convention on Simplification and Harmonization of Customs Procedures, the Customs Codes of the European Union, member countries of Eurasian Economic Community (EEC), as well as current legislation of Uzbekistan, and is aimed at simplifying and detailing the process of customs control and registration; improving the system of applying customs duties; more accurately defining the country of origin of goods; defining

<sup>27</sup> Technical assistance in the preparation of this project was provided by UNDP

the roles of customs authorities in implementing currency control; establishing measures for the protection of intellectual property rights and defining the roles of customs authorities in their realization.

380. The main distinctive features of this draft of the new Customs Code in comparison with the existing one are as follows:

- Openness and transparency achieved through consolidation of the existing customs legislation;
- More accurate definitions and improving the conceptual foundation;
- Simplification and detailed elaboration of customs control and clearance procedures;
- Improving the system of applying customs duties (payment and return);
- More accurate definition of the goods' country of origin;
- Introduction of a risk management system;
- Introduction of new implementation methods of customs control in the form of post-customs control and customs audit;
- Establishment of measures for the protection of intellectual property rights and definition of the roles of customs authorities in their realization;
- Regulations on the application of information systems, information technologies, both hardware and software;
- Existence of provisions regarding the obligations of informing and consulting in the area of customs affairs with the establishment of concrete deadlines, places and times for providing information or consultation.

381. Existence of special norms on the timely publication of legal acts in the area of customs affairs, and providing information resources about the customs authorities for general and open use.

382. The incentives created within these macroeconomic policies for the development of selected sectors of the economy can become a major factor in accelerating the structural reorganization, promoting employment and increasing people's incomes.

## *Chapter 5*

### **Economic Policies for Implementing the Goals and Priorities of the WIS in Individual Areas and Sectors of the Economy**

#### **5.1. Agriculture**

**383. Restructuring of agriculture in the medium and long-run will be focused on:**

- gradually improving crop selection in favor of cash crops with higher yields;
- using newly bred varieties of plants and animals, agro-technologies and agricultural practices in order to enhance the yield of crops and productivity of livestock farming;
- substantially increasing capital investment into irrigation water supply and implementing water efficient technologies.
- improving economic relations between all actors in the agricultural sector.

384. Further agricultural reforms and the implementation of agricultural development programmes are long term strategic priorities, as they contribute to increases in the incomes of many people currently living in rural areas and employed in ineffective jobs. Thus agriculture assumes the role of the “second engine of growth” to improve the livelihoods of the people.

385. Taking into consideration the existing issues in agriculture as well as the need to improve the welfare of the population, primarily in rural areas, the main objectives of agricultural policy in the medium and long-run are:

386. 1) Completion of the transition process to private farmers, strengthening the institution of long term lease rights to encourage farmers to effectively use and make long term capital investment in improving the quality of the leased land;

387. 2) Facilitating the increase in land plots allocated to dekhan farms through land development, utilizing unused land as well as the existing resources of dekhan farms;

388. 3) Increasing capital investment, including government funding and foreign loans with Government guarantees to support and rehabilitate the system of irrigation and drainage as well as the modernization of pumping facilities;

389. 4) Improving the system and increasing the efficiency of water resource management. Increasing government investment into economic security projects, primarily into land improvement and providing rural people's access to clean water and sanitation;

390. 5) Gradual transition away from growing cotton and imposing state procurement in low yield lands that do not generate returns and in its place growing more productive crops;

391. 6) Introduction of new forms of relations and the settlement of accounts between the state and farmers regarding government procurement of cotton and wheat;

392. 7) Creation of new forms of cooperation between farmers for storing and processing fruits and vegetables, meat and dairy products. Using tax incentives to be granted to agro-firms or farmer associations for the processing of their agricultural produce;

393. 8) Substantial improvement of the terms of trade for agricultural producers through better access to the essential material and technical resources (seeds, fertilizers, high-breed livestock, veterinary services, etc.) and agricultural equipment as well as the system of storage, delivery, sale, and processing of their products at market prices;

394. 9) Improvement of the system of private farmers' access to credit resources and the financial services market;



395. 10) State support in breeding new high yield crops and high-breed animals, fighting domestic livestock diseases, as well as the introduction of new agricultural technologies;
396. 11) Improving taxation in order to strengthen the role of land tax in enhancing land quality and yield;
397. 12) Government support to various forms of training for farmers to improve their professional, technical, and management knowledge. Appropriate farmer training will be arranged at vocational colleges specialized in agriculture, economics, and technical disciplines. Furthermore, training will be provided with the technical assistance of donors.
398. The instruments for implementing the water resource management policy, of prime important for the agricultural sector, in the long-run will include:
- Development and implementation of a national program for the introduction of a system for measuring irrigation water;
  - Gradual transition to a system of charging some of the cost of water usage in agriculture to encourage the efficient use of water and the accumulation of financial resources for the operational and investment expenses of irrigation and pumping systems;
  - Development and implementation of programs for the sustainable supply of irrigation water to the country's regions, including a list of the most important investment projects;
  - Improving the performance of Water Users Associations that will become the basic grassroots unit in the system of efficient water resource management
399. The Concept of Integrated Sustainable Water Supply to the Regions of the Republic of Uzbekistan has calculated that the resources required for land improvement and increasing the water supply in irrigated lands for the period of 2007 – 2011 to equal USD 2 billion, of which USD 900 million will be financed by foreign investments and loans.
400. According to the Strategy for the Development of the Irrigation and Drainage Sector<sup>28</sup>, the amount of investment required for water management, irrigation and drainage projects is approximately USD 23 billion, of which USD 12 billion could be covered by water users.
401. Implementing these measures will result in an increase in the yield of agricultural crops and live-stock productivity, and will lead to growing incomes of the rural population. Expanding access to land as well as to non-agricultural employment will facilitate the increased employment of the rural population and will accelerate the process of urbanization of rural settlements without a mass resettlement of the population into existing cities.

## **5.2. Industrial Sector**

402. Industrial policy in the medium and long-run will be focused on increasing the share of the industrial sector in GDP, shifting priorities from raw material production towards manufacturing products with higher value added, enhancing the competitiveness of finished products in both domestic and world markets, and the development of industrial companies, primarily labor intensive production, not only in the capital city and major oblast centers but also in other residential areas, mostly in rural areas.
403. The aforementioned objectives are supposed to be addressed through:
- accelerated development of the basic industrial sectors, primarily fuel and energy complexes, the chemical industry, vertically integrated production and “chains” of mutually linked companies ranging from the petroleum chemistry and biochemistry industries up to the production of consumer goods;

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<sup>28</sup> I&D Strategy, WB, 2001 Uzbekistan – Strategic Research in the Sector of Irrigation and Drainage. World Bank, Part 1, Conclusion. The Strategy is based on the State Decrees (no 398 and 357) and the National Program on the Development of Irrigation for 2000-2005.

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- encouraging labor intensive industries in the area of advanced processing of local raw materials in the framework of programs to expand the output of textiles, leather and food, as well as processing industries with the maximum possible use of local raw materials;
- organizing the production of raw materials and accessories for machine-building and electric equipment manufacturing: including automobile production, agricultural machine-building, cables and conductors.
- directing investment to those projects which strengthen the country's own raw material base (geological exploration and resource extraction industry) and in localization projects (processing industry) and energy efficiency projects;
- increasing the share of investment in the domestic private sector
- increasing foreign direct investment including on co-financing terms (JV, PSA, etc.);
- effectively using co-financing from the Fund for Reconstruction and Development for industrial investment;
- encouraging applied investment projects, primarily in the high-priority areas of investment into the industrial sector;
- providing incentives for innovation in the small businesses sector;
- encouraging innovation driven energy efficiency and water efficiency projects;
- Attracting leading foreign companies (transnational corporations) into the production of technologically intensive products with high value added.

**404. At the same time, for the purposes of economic security, industrial policies will be focused on:**

- maintaining energy self sufficiency
- creating alternative external transport corridors
- creating a rational domestic transportation system.

**405. Industrial Strategy for the Energy Sector**

- Substantially increasing investments into the energy sector up to 38% of total domestic investment funded both by the largest state owned companies (Uzbekneftegaz NHC and Uzbekenergo), the loans of domestic and foreign banks, foreign companies (on JV and PSA terms) and the Fund for Reconstruction and Development. At the same time increasing investment earmarked for the exploration of new resources and increasing reserves as well as enhanced the processing of the extracted mineral resources
- Diversify the export routes of energy resources and review opportunities for creating alternative routes for gas transportation;
- Reduce the use of gas by increased use of coal, and to this end, rehabilitate and modernize the major thermal power plant in Angren;
- Implement energy-efficiency technologies, including the broader use of renewable energy sources, and using the opportunities offered in the framework of the Clean Development Mechanism;
- Improve the collection of payment for the supply of energy resource by introducing 100% prepayment for petroleum products, the installation of modern electronic meters for power and gas, and improve billing systems for gas and power supply to the consumers;

- Undertake the gradual modernization of the power industry and public utility companies including through raising loans. These loans could be paid off both by the company (for example by increasing prices) and also budget subsidies (where there are administrative limitations on price increases);
  - In order to improve pricing policies, to introduce a system of investment and financial planning for companies in this sector based on models incorporating the level of prices, the ability of consumers to pay these prices, and the rate of return on capital investments in order to assess to what extent the government should finance the industry.
406. **Transport infrastructure.** Industrial development will be strengthened by a more developed production infrastructure including transport communications, vital in linking local production centers, markets, and warehouses with regional and international markets. In the framework of regional integration in Central Asia, efforts will be made to complete the construction of the Nukus-Beyneu motorway, which will complete the creation of an integrated domestic road network with access to the nearest transit point on the border with Kazakhstan. Construction of the Tashguzar-Baysun-Kumkurgan motorway (to be opened for traffic in the second half of 2007) will complete the creation of a “North-South” motorway which will ensure better use of the rich production capacity of the southern regions of the country and provide the shortest route to Afghanistan.

### **5.3. Area-based Development Programs**

407. Facilitating area-based development is a major strategic objective in improving welfare, and decreasing inequality according to the indicators of income and living standards of the population in the regions.
408. **The objectives of the program are:**
- ensuring the integrated and effective use of the natural, raw mineral, industrial, agricultural and labor potential of each region to accelerate socio-economic development, increase the employment rate and the incomes of the population;
  - channeling and effectively using resources from the private sector, foreign investment, and government spending;
  - complete establishment of an integrated nationwide transportation and telecommunication framework which will enable sustainable and secure economic development and expansion of regional integration;
  - development of regional systems of energy efficiency, and water and gas supply that is linked up with investment projects, economic development rates and the needs of the growing rural population and country in general;
  - implementation of strategic programs for the development of basic industries in conjunction with the socio-economic development of the regions: programs for the development of the oil and gas industry, power industry, ferrous and non-ferrous metallurgies, chemical industry as well as an energy efficiency programme;
  - increasing the capacity of the domestic market through increasing the incomes of enterprises and of the population;
  - increasing the export potential of enterprises and regions;
  - development of the social infrastructure of the regions according to their demographic needs;
  - In the short-run measures will be taken to facilitate legal migration including to other countries to increase family incomes and the subsequent channeling of these funds towards the development of their family and other forms of small businesses.

409. The development of target indicators of socio-economic development of the country and for each region based on the maximum utilization of their existing potential will enable the country to avoid the artificial redistribution of regional funds in ways that often hinder the development of leading regions but instead enable to use the full potential of each region.
410. At the same time, a specific development strategy will be identified for each region, based on its existing potential linked to sectoral programs and the general strategy for economic development of the country:
411. a) **for the regions with rich raw mineral resources**, the Program will include **investment projects for their development using state-of-the-art technologies and their integrated processing**. The creation of a technological production chain that includes deep processing of the extracted raw materials is envisaged. These projects will be financed through foreign direct investment, the funds of ministries and agencies as well as by the Reconstruction and Development Fund.
412. b) **for the regions that possess advanced and technical potential** (Tashkent city, some regional centers) the plan is to initiate high priority investment projects in advanced high-tech products, the development of mechanical engineering, electric engineering, and radio technology as well as the parallel development of their technical maintenance infrastructure in the regions (localization of accessory production, repair and servicing). These projects will be financed mainly through the funds of enterprises and investors as well as through commercial bank loans.
413. c) **for the regions with potential for the development of agricultural production** measures for increasing the effectiveness of agricultural production are envisaged. Simultaneously, **vertically integrated production chains of interlinked industries for the processing of cultivated agricultural products** will be created in these regions (textile companies including finished products, processing of fruit and vegetables, etc.). Land reclamation and water management works in these regions will be financed both from the domestic resources of the regions and through government funds. The development of the processing sector will be supported through direct investment.
414. **Development of a social infrastructure and service sector** in each region will be linked to future demographic trends (population forecast) in the program as well as to the financial resources of the regions, private investors, government funds, extra budgetary funds, and international financial institutions.

#### 5.4. Support to the private sector, entrepreneurship and small business

415. The Government will gradually continue its privatization policy, which envisages the complete or partial privatization of approximately 1,500 companies, facilities and state owned shareholdings. All major companies and government holdings of shares in the textiles industry, electric equipment, agricultural machine-building, major wholesale trade companies, machine-tractor parks in the agricultural sector, and in many chemical companies, major construction and international cargo companies, wine-production companies, recreational zones and other recreational facilities will be sold off. Production and social infrastructure facilities in the oil and gas, and power industry will be privatized, while up to 49% of shares in such industries as thermal power plants, railway companies, and automobile production (49-50%) will be sold.
416. The Government will continue the policy of supporting entrepreneurship and especially small businesses as a mid term strategy in the following directions:
- further reduction and streamlining of government regulatory procedures including those related to acquiring permits and licenses for activities. It is expected that no later than 2008 the Law on Permit Procedures will be adopted, clearly delineating all forms of permit procedures and regulating their implementation by authorized government bodies. Subsequently, the list of permit procedures may be gradually reduced;
  - improving the competitive environment through the gradual abolition of individual benefits and preferences, decreasing other barriers for entry to the market, and exit. The aforementioned

efforts are being made and will be continued in the upcoming years in the framework of improving tax and customs policies;

- strengthening private property rights, expanding opportunities for the privatization of land plots where private enterprises are located and business is already underway;
- enhancing the system of protecting the rights and legitimate interests of entrepreneurs, including against abuse by government officials as well as by their business partners;
- strengthening the judiciary that protects the rights of entrepreneurs and private property rights. Creation of a system of arbitration tribunals as well as international arbitration;
- expanding access to credit resources and modern financial services markets for entrepreneurs;
- creation of a system of assistance to innovative projects in the small business sector;
- continuing the policy of the liberalization of commodity markets, expanding market information systems for entrepreneurs;
- continuing the policy of reducing the tax burden aimed at maintaining the competitiveness of small businesses as well as improving the tax and customs administration system;
- strengthening the system of re-training and upgrading qualifications for those wanting to engage in entrepreneurship including the creation of private business schools;
- creation of more favorable conditions for the access of small businesses to the production infrastructure;
- fostering production cooperation between large and small businesses including the creation of financial and industrial groups and vertically integrated production.

#### **5.5. Development of the Services Sector**

417. The Program for the Development of the Services Sector till 2010 was developed and approved by the Presidential Decree in May 2007.

418. The program envisages:

- The increased percentage of the services sector in GDP up to 49% by 2010 as opposed to 39.5% in 2006. Meanwhile, the main parts of the service sectors will increase their volume by 1.9 – 2.5 times. The most dynamic development in 2006-2010 is envisaged in the communication and information services (2.5 times), hotel services (2.4 times), and tourism (2.3 times).
- providing soft loans for the development of services sector by the Employment Promotion Fund under the Ministry of Labor and Social Protection and the “Microcreditbank” totaling 26.3 billion soums (equivalent of USD 21.6 million). These loans will be allotted only for the technological equipment of newly created service companies. Priority is given to entrepreneurs operating in the services sector in rural areas facilitating increased employment and income generation for the rural population;
- sharp reduction in licensing fees for small businesses operating in the communication and information services sector in rural areas;
- introduce a broad system of tax benefits and preferences to micro-firms and small enterprises that render socially important services;
- Widescale development of transport services will be underpinned by measures to improve the regulatory environment, contracting private carriers to provide public bus and coach services through bidding procedures. Increasing the domestic manufacture of buses through joint production with Isuzu Company and creating leasing schemes for selling them will accelerate the modernization of the bus fleet. Setting up the manufacturing of small trucks at the same company significantly increase cargo services in the small business sector.

419. Widescale introduction of market principles in economic activity is a guarantee of the effective allocation and use of resources. For this reason economic policy and institutional reforms will be aimed at decreasing the government's role in the economy and lowering the transaction costs in doing business, accelerating structural transformation, and increasing the competitiveness of national producers, rates of economic growth, and public welfare.

## **5.6. Socio-economic Policy Measures for the Development of Human Potential and Social Protection**

420. Social policy should support the implementation of the following objectives for the realization of the goals identified in the medium term Welfare Improvement Strategy:
- 1) Reduction of income poverty from 25.8% in 2005 to 20% in 2010, ensuring equitable distribution of income throughout the country in line with other countries at the same level of development. Economic policy, described in the previous chapters, will play the main, but not exclusive role, in solving these issues in addition to policy measures in the sphere of employment and increasing the effective functioning of the labor market.
  - 2) Strengthening of targeted social protection of the population and the role of social protection measures in enhancing the living standards of the most vulnerable and disadvantaged layers of the population.
  - 3) Increasing the financial welfare of pensioners, creating guarantees of adequate pensions according to their work contribution during the period of active employment.
  - 4) Completion of already launched programs to reform the primary and secondary specialized professional education system, ensuring 100% coverage of children of the appropriate age group in schools and secondary specialized professional institutions. Widening education coverage in the institutions of higher education. Substantially improving the quality of education focused on the gradual formation of a "knowledge-based economy" in the country.
  - 5) Completion of earlier launched programs for health system reform. Widening the second phase of the health system reform for creation of well-equipped modern multi-disciplinary specialized patient care institutions and diagnostic complexes along with a wide network of primary level medical care institutions ensuring 100% coverage of the population. Substantial improvement in the quality of healthcare, introduction of preventive medicine, and as a result, decrease in morbidity rate, infant, child, and maternal mortality.

### **5.6.1. Policy mechanisms and instruments in the labor market**

421. **Labor market. Increased demand for labor** will be closely linked to the rate and quality of economic growth as well as to the following factors, which will be shaped by State policy:
- Encouraging the placement of new, **especially labor intensive industries, predominantly in the regions and settlements with high levels of unemployment and poverty**. Creation of an industrial infrastructure and other auxiliary services around new industrial companies will promote the wide involvement of the local population in legal employment. Special attention will be paid to increasing employment in the period till 2010 in the Republic of Karakalpakstan, the Southern regions (Kashkadarya and Surkhandarya), and the Ferghana valley.
  - Creation and modernization of the **railway and road networks contributing to economic development and to the creation of new industries and workplaces in the regions with high levels of unemployment and poverty**. Primarily these are the Republic of Karakalpakstan, the Southern regions, as well as transport connections between the Ferghana valley and the Central regions of the country.

- Implementation of a policy of the **comprehensive development of rural territories** that envisages all-out assistance to the horizontal and vertical integration of agricultural producers to create new industries for processing agricultural output.
  - Every kind of support to small business through the economic policy measures described in the earlier chapters.
  - Support for the creation and widening of **diverse forms of individual employment** in the regions with low levels of employment and a high poverty rate, including private entrepreneurship, home-based labor, and family business. Allocation of micro-credits as well as grants for different education programs for these purposes.
  - Expansion of **human resources training for newly reintroduced modern industries financed by the initiators of investment projects**. The construction and operation of special vocational colleges to train staff for the oil and gas, chemistry, power, metallurgy, and railroad industries with capital shares from large holdings, companies and enterprises. **Complete adaptation of training programs of these entities to the needs of specific industries and enterprises.**
422. The policy of labor supply in the market will be aimed at:
- **Revision and substantial strengthening of the practical orientation of all educational programs** at senior levels of schools, vocational colleges and universities **for the needs of industrial enterprises and the service sector.**
  - **More active implementation of employee professional development (training) programs to retain them in the labour market during the restructuring of the economy.**
  - **More active use in-service staff training programs and** to retain them in the labor market during the restructuring of the economy.
  - **Gradual reduction of labor taxes**, including a flat social payment and income tax in order to encourage the expansion of employment, including legal employment.
  - **Improvement of the registration and statistics of the employed population**, including the informal labor market and labor migration as well as the unemployed, strengthening the monitoring of supply in the labor market and to ensure it conforms to the demand.
  - **Substantial widening of legal and socially protected labor migration** in conformity with existing international agreements.
423. Reduction of the informal sector and return of the labor force to the formal market will be the priority of the medium term policy. The level of open unemployment might increase at this stage, which will require special measures in order to contain it below 6-8%. The criteria for success in this second phase would be for the employment rate in the informal sector to decrease from its current level of 56% down to 30%. In this period there will be a need to overcome the qualification and professional gaps.
424. Strengthening social support to the unemployed will be achieved in the following ways:
- increasing the standards of training and re-training of the unemployed, including the utilization of the capacities of local vocational colleges;
  - widening the participation of the unemployed in paid public works, mainly in area development, transport infrastructure development, and the provision of services to lone elderly citizens;
  - optimizing the process of job placement for the unemployed through widening the information base for job selection, increasing the quality of job searching by the district departments of labor, employment, and social protection;

- allocating micro-credits to unemployed families to set up their own businesses in the prioritized areas of the economy.

#### **5.6.2. Strengthening the role of social protection measures in the enhancement of living standards of the poorest and most vulnerable**

425. In order to further improve the targeted and tailored approach in the implementation of social support to the population, to provide the required material support to disadvantaged families, to improve the mechanism of incentives and labor remuneration in the social services system, the Decree of the President of the Republic of Uzbekistan adopted in May 2007 envisages the followings:
- increasing the amount of government funding for material aid payments to disadvantaged families by a factor of 1.5 times with a concurrent increase in the period of payment for which the payment is made (up to 6 months instead of the current 3 months) as of 1 September 2007;
  - increasing the remuneration of teachers, junior staff, and nurse/nannies in the “Muruvvat” orphanages and at the same time reducing the workload of a teacher by two-thirds;
  - setting up a fund for material incentives for workers of boarding schools and homes for children, elderly people and the disabled, as well as specialized colleges for people with special needs, sanatoria for veterans, rehabilitation centers for the disabled, household social support services – up to 25% of the overall allocation for salaries;
  - introduction of an 15% increase in the rate of pay for workers of sanatoria for war and labor veterans;
  - free board for disabled students in specialized colleges for people with special needs;
  - monthly compensation of transportation expenses for the workers providing home support in the social services, as well as for teachers providing home schooling for disabled children.
426. In addition to the above mentioned measures that will be in force for the whole period of the medium term Welfare Improvement Programme, the strengthening of the target orientation and increasing the level of social protection of disadvantaged families in the period till 2010 will be achieved by the following means:
- streamlining existing system of benefits and allowances, gradual decrease of non-targeted benefits, first of all, benefits provided to individual professional groups and, thus increasing the amount of benefits to the families most in need;
  - completing the process of substitution of part of in-kind benefits with adequate monetary payments;
  - improving the methods for identifying families in need by excluding those families that receive income from entrepreneurship in the informal sector and from monetary transfers. Extra funds will be redirected for material aid to the families who need it most;
  - unifying certain types of social support based on the same grounds (e.g., need based on income);
  - expanding the independence of local state authorities in decision making on the issues of the providing additional support to the disadvantaged as well as in the redistribution of funds between separate budget lines allocated for social protection;
  - improving the skills of specialists at mahallas responsible for the organization of allowance payments to disadvantaged families;
  - attracting extra budgetary sources in financing social protection policies, including charity organizations and sponsors that will allow an increase in the coverage and amount of social allowances to disadvantaged families;



- redirecting the funds released from canceling of certain benefits and allowances to increase the financing of targeted benefits for families in need;
- improving the methods for calculating social minimum standards, taking into account regional distinctions. Introduction into practice of the social standard value of the minimum subsistence wage;
- gradual introduction of targeted subsidies for housing and communal services to disadvantaged families that can partially compensate for the increased expenses caused by the reduction of government subsidies for the enterprises providing these services;
- expanding micro-finance institutions, aimed at ensuring access to credit resources for the development of family entrepreneurship for the representatives of the socially vulnerable groups of the population, primarily disadvantaged families with unused labor potential. To this end, a proposal is being considered to create a specialized Fund for Social Investment with the involvement of extra budgetary state funds, international development projects, and foreign donors.

**427. In addition to the existing and recently adopted social protection measures for those with special needs** the following measures are envisaged in the period till 2010:

- Improved provision of the main means of life support for these people (including prosthetic and orthopedic devices, wheelchairs, hearing aids, books and textbook in Braille). These items will be manufactured locally in the framework of the localization program;
- The creation of comfortable living conditions through the strict implementation of standards in planning and constructing new residential buildings, entrances to administrative buildings and socio-cultural facilities, equipping street crossings with special devices;
- enhancing rehabilitation activities and their comprehensive nature through: (a) strengthening and developing rehabilitation centers, improving their specialization; (b) development and implementation of modern methods of medical and vocational rehabilitation in line with international standards; (c) greater support for the employment of people with special needs;
- implementation of measures for ensuring access to the system of professional education for these people, including access to higher education through the introduction of targeted credits for education in higher institutions, and the development of a distance learning network via computer networks;
- strengthening state support to enterprises created by individuals with special needs and public organizations of disabled persons through the provision of loan resources and tax privileges as envisaged in the legislation;
- supporting the integration of disabled children in basic educational schools through creation of specialized groups in them;
- Supplying equipment and supplies to “Sahovat” and “Muruvvat” houses, increasing their level of welfare;
- creation of opportunities to engage individuals with special needs in physical activities and sports through the provision of sports institutions with special equipment, organization of mass sports activities, including regular national Paralympics games;
- organization of staff training for the provision of social services to individuals with special needs in colleges and higher institutions of the country, including the training of labor therapists in the issues of medico-social and professional rehabilitation.

428. Allocations from central and local budgets as well donor resources and the realization of concrete programs with the financial support of international charity funds are envisaged to financially support these measures for strengthening the social protection of individuals with special needs.

### **5.6.3. Improving the Pension System**

429. Improving the pension system in the medium and long run will be carried out along with the strengthening of market mechanisms and a gradual transition from the principles of distribution to insurance and savings.
430. The Law of the Republic of Uzbekistan and a government decree on the introduction of an individual retirement savings account system of pensions were adopted in December 2004. According to these documents, the individual savings account pension system took effect from 1 January 2005 through individual retirement savings accounts for all workers (referred to hereafter as individual accounts) in the Halq bank with guarantees on the security of the accrued capital.
431. Payments of the accumulated funds from individual accounts will be made in equal monthly payments after a worker reaches the pensionable age. Workers of a pensionable age whose accumulated pension was built up for a period less than 5 years have the right to receive the total amount within 2 years according to a special schedule.
432. This step allow for introduction of the main elements of the personalized registration of workers, to open individual savings accounts in banks, and psychologically prepare society for the transition to the new pension system.
433. In the medium term it is envisaged to set up a combined retirement system with a pension consisting of the following two parts:
- Minimum pension guaranteed by the state and established by the Government, paid in equal amounts to all retirees entitled to a full pension, regardless of the amount of contributions made to the Pension Fund. The state-guaranteed minimal pension will be formed from payroll deductions paid by the employer at the established amount;
  - An Accrued increment to the guaranteed minimal pension, based on the duration and amount of contributions from the payroll made by the employers to the Pension Fund for each employee. This increment to the guaranteed minimal pension will be accrued through employer deductions at the established amount from the payroll and transferred strictly to the individual retirement savings accounts of employees, opened in the branches of the Halq bank.
434. Those who would like to participate in the new pension system and have previous working experience of over 3 years can introduce a special mechanism that allows for the payment into their own account these conditional savings (pension rights).
435. The benefits from social insurance, compensation, and other payments prescribed by legislation and currently paid from the Pension Fund will be financed by the obligatory payments of enterprises (currently 0.7% of the amount of sales).

### **5.6.4. Education**

436. The main instrument in achieving identified the goals and objectives of the national policy on education is the completion of the National Programme on Personnel Training for the period of 1997-2009 and the National Programme on School Education Development for the period of 2004-2009. The main results from these reform programs in the medium term include:
- Increasing the effectiveness and quality of the education process and teaching methodology, updating curricula, textbooks and teacher materials;

- Upgrading the qualifications of teachers and better incentives for faculty, especially in rural areas;
- Strengthening and improving schools' infrastructure, laboratories, and other learning equipment;
- Improvement of the control and measurement of the use of resources and learning achievements;
- More comprehensive orientation to the needs of the general professional educational market, including a greater number of female graduates;
- Ensuring better access to higher education for women and men from disadvantaged families;
- Improved access to preschool education through expanding the network of non-traditional forms of preparing children for school, including short-term groups, preparatory classes and Sunday schools;
- Ensuring better access and quality of education for children with disabilities and special needs via the introduction of integrated general groups in basic educational schools;
- Provision of better opportunities for continuous and life-long education;
- Ensuring more effective use of state resources for education through improved management of the state educational system and its restructuring at the rayon (district) level.

### Preschool education

437. The aim is to substantially **increase the coverage of preschool education for children aged 3-6**. The Government **does not aim to increase the coverage of preschool education for children below 3 years of age**, instead providing mothers with partially paid maternity leave which also counts towards their work record. This approach allows for greater individual attention to a child at his most difficult age, preventing the risk of infection from many diseases, including infectious diseases that spread quickly among children.
438. The aim of the increased coverage of preschool education of 3-6 year olds, and especially 5-6 years old children, is to better prepare them for school and his/her adaptation to social life.
439. It is envisaged that by 2015, the number of children attending traditional preschool education institutions will increase by 1.5 times for children aged 3-4, and the overall coverage will increase from 23.7% to 32.8% of the respective age group. These indicators will increase 2.7 times respectively for children 5-6 years old and the growth of coverage will rise from 18.6% in 2005 to 50.5%.
440. The main mechanisms for increasing the coverage of preschool education of children at the higher preschool age are:
- Strengthening and expanding the traditional forms of preschool education, including through more active creation of private educational institutions. For this purpose, the Government has substantially widened the privatization program of existing and underused buildings of preschool education institutions at zero purchase price to those who plan to create private educational institutions. In addition, these institutions will benefit from tax benefits;
  - Development of non-traditional and alternative forms of preschool education for children, for example free preparatory groups set up under state kindergartens attended by disadvantaged families, special preparatory groups in schools that start working in the period of March-May aimed at a fast track preparation of children for school and providing them with the necessary knowledge and skills.
  - Continued allocation of subsidies from central and local budgets to cover preschool education expenses, especially for children from disadvantaged families;

- Development of standards and curricula for non-traditional forms and short term daycare centers for preschool preparation for children as well as the provision of additional paid services in preschool preparation.
441. The special focus of this strategy is to deliver high quality preschool education through the following measures:
- Development of state standards on the preschool preparation of children, and ensuring the implementation of these standards through licensing;
  - Introduction of innovative methods that help develop basic skills and satisfy the needs and interests of children;
  - Enhancing the professional skills of teachers via an improved system of training, retraining, and upgrading of qualifications;
  - Improving the standards and quality control of food products and medical services provided at preschool institutions.

### **Elementary and Secondary Education**

442. The main objective at the primary education level is to improve the quality of teaching and student performance while at the same time sustaining the universal coverage and completion rates.
443. As a follow up to the realization of the School Education System Development Program for the period 2007-2009, 185 new schools will be built to replace old ones serving a total of 68,000 students; major renovation will be carried out in 1,639 schools serving 563,000 students, major refurbishment will be carried out in 2,371 schools. 4,800 schools will be equipped with computers, and 56,300 new textbooks will be distributed.
444. Along with investment in the school infrastructure, efforts will be focused on the provision of schools with qualified teaching staff, especially in rural areas and the provision of satisfactory remuneration to teachers. A special program of Child Friendly Schools will be introduced in Teachers Training Institutions (TUI). Methodologists and inspectors will be retrained to provide more qualified practical assistance and tutoring to teachers and to provide feedback to the TUI.
445. Further modernization and rationalization of teaching methods and learning materials will be carried out. They should become more interactive and child oriented with and some subjects will be may be removed in order to provide a more manageable load for learners. At the same time, schools will pay more attention to physical education and sports aimed at improving children's health.
446. The school curriculum will include a vocational orientation to prepare pupils for their choice of future professional education upon graduating from Grade 9. Schools will widen the spectrum of extracurricular activities and will create improved opportunities for talented children to stimulate the development of their professional interests and creative abilities.
447. More attention will be paid to the curricula for children with special needs to ensure appropriate conditions and equipment as well as to improve the quality of the teaching program, oriented towards maximizing the life opportunities for pupils. Special emphasis will be placed on integration into the basic educational schools of children with special needs through the implementation of educational policies aimed at the inclusion of these children in education.
448. The financing of schools will be carried out on a per capita basis to ensure the most effective use of resources, improved quality of education and social equality. Information management systems will be used in education to ensure proper resource allocation and appropriate, timely, and well-founded decision-making. Information management systems will be also used to monitor pupils' attendance and to take appropriate corrective measures. Specific measures are already being taken and this process will continue to support children from disadvantaged families, i.e., raising support ceilings in the number of textbooks, food and clothes financed by government. A system of temporary loans of

textbooks will also be employed thus helping with the provision of textbooks at 30% of their original cost.

### **Secondary Vocational Education**

449. Continuing with the introduction of the compulsory general professional education in Grades 10<sup>th</sup>-12<sup>th</sup> (in line with the National Programme of Personnel Training for the period 1997-2009) is the main strategy for developing a qualified work force that is capable of competing internationally. Ensuring the full introduction and total coverage of the new system of professional education by 2009 will be the priority.
450. 651 new vocational colleges and academic lyceums for 380,000 students will be built in 2007-2009 thus providing nearly 100% access to specialized vocational education for the graduates of secondary schools who have completed 9 years of education. The total costs for these targets is 1078.8 million USD, of which 1,031.4 million USD is allocated from the state budget and 47.4 million USD will be attracted from the IFIs and loans of international banks with subsequent repayment from the state budget in the future. The key objective of the strategy is to repay these investments by more effectively utilizing state expenses on education.
451. 64,000 teachers will be trained to work in this new system. It is essential to form a backbone of qualified professional faculty and staff to ensure the quality of vocational education. A system of training and testing of teaching staff and accreditation of educational institutions will be created based upon an improved legal framework. Vocational educational programs will include the elements important for playing an active role in public administration and private business, such as management and communication skills as well as knowledge of legal issues, foreign languages and information technologies.
452. The main aim of this strategy is to ensure the matching of demand and supply of skills in the labor market in light of the strategic orientation to further integrate the economic development of the country into the international economy through its increased competitiveness. Professional educational programs will be developed and regularly updated based on the monitoring of demand in the labor market. This monitoring system will be created in the form of partnership between the state and private sector. It will feature a new classification and database of professions.
453. The government has declared universal access to free professional education as a strategic goal. This will require a large amount of state resources. Using the full capacity of lyceums and colleges will be achieved through strategic planning based on the evaluation of supply at the local level and demographic structure, as well as via the increased intensity of usage of educational institutions up to the mid-level of 1.5 shifts per day.
454. The general concept of further development of vocational education will be developed around these aims and will be directed at:
  1. Ensuring total coverage of secondary school graduates with vocational education
  2. Improving the quality of education
  3. Increasing the competitiveness of vocational college graduates in the labor market.
455. This envisages the introduction of multi-disciplinary colleges, each of them offering training in 10-15 different key sectors. The key sectors of education will be identified based on the grouping of adjacent professions and specialties, which should be taught in the SSPIs (secondary specialized professional institutions). This will allow students of vocational colleges to acquire several professions within 3 years of education, thus increasing their employment opportunities in the labor market. This will also enable colleges to introduce short term courses of vocational education in partnership with the private sector to widen the program of continuous training.

456. In addition the prospects of opening branches of vocational colleges at existing secondary schools (mainly in mountainous and remote areas) to ensure wider access to vocational education to graduates of secondary schools is being considered. This will enable students to have a choice and access to different professions and reduce household expenses for transportation and other expenses related to acquiring a vocational education.
457. Measures will be taken to include those graduates of a 9-year education that remain outside the vocational education system through evening schools to ensure universal access to and completion of their general education. Special courses promoting women's participation in the labor market, including special courses aimed at promoting the more active participation of women in small businesses and individual professions will be introduced to improve the gender imbalance in vocational education.

### **Higher education**

458. The system of higher education in Uzbekistan envisages the provision of broad access to education, including the issues of gender equality, satisfaction of need for specialist in the modern sectors of the economy and the more effective use of financial resources. Increasing the share of university students by 25-30% is the medium run target.
459. The reform of the curricula and teaching methods will continue to focus education on the needs of the labor market. This will require a substantial improvement in the monitoring of demand for qualified personnel in the labor market.
460. Further special measures for improving the effectiveness of higher education will include:
- **Increasing the independence of higher educational institutions** in issues such as teaching practices, management of budgetary allocations and resources attracted from other sources, and staff development.
  - **Improving the internal management of higher education institutions** aimed at strengthening the collegial management of institutions and enhancing the professionalism of management staff and clarification of division of responsibilities.
  - **Improving the system of quality assurance** based on the modernization of internal audits, state attestation and accreditation as well as the development of mechanisms of public control.
  - **Transition to new methods of financing higher education** that involve per capita financing along with an increased proportion of funding for research activities of higher educational institutions on a competitive basis. Under consideration is the possibility of putting the voucher financing model into practice, that is when students who successfully pass state examinations receive individual grants for pursuing education in the higher educational institution of their choice.
  - **Development of private educational institutions.** The creation of private educational institutions can complement those of the government sector and is a necessary precondition for creating a competitive environment in the market of educational services.

### **5.6.5. Healthcare**

461. An important mechanism FOR achieving these goals will be the implementation of the current healthcare reforms in Uzbekistan. The following will be important instruments in the medium run:
- Strengthening and improving the quality of medical services in primary healthcare, development of a free of charge basic package of medical services for the primary medical and inpatient care, in line with international standards and accessible to all, especially to the most vulnerable groups of the population.
  - Unification of the network of health institutions through the establishment of oblast general healthcare centers on the basis of the existing multi-disciplinary oblast hospitals and some

special healthcare institutions; establishment of oblast child health centers fully government funded; setting up diagnostics centers in each oblast capital; establishment of rayon health alliances to replace the rayon hospitals, child and adult polyclinics while at the same time closing down the poorly resourced, poorly equipped and ineffective healthcare institutions. Substantial improvement in the infrastructure and resource base of the newly established health centers and alliances;

- Continue policies to set up large high-tech special health centers co-funded by the government and their own revenues and strengthen their infrastructure, resource base, and availability of equipment.
- Upgrading the qualifications of medical workers in line with international standards and the introduction of a system of certification and licensing that is more results oriented.
- Revising and updating the curricula of medical universities and colleges aimed at providing training in the knowledge and skills that correspond to the professional requirements of the medico-sanitary and inpatient care.
- Continued rationalization of the healthcare infrastructure in order to optimize the number of hospital beds and specialized care facilities in favor of widening the network of primary medico-sanitary care facilities.
- Standardization of healthcare at different levels and strengthening vertical links aimed at timely referral of patients in need of inpatient or more specialized care.
- Improving healthcare management through improving the statistics based on registration and the development of a healthcare information system that corresponds to international standards.
- Introduction of clinical audit as a measure of quality assurance, including the certification and licensing of medical institutions. Clinical audit should replace the existing system of quality control in healthcare.
- Further improvement of drug policy and procurement. The basic package of medical services should also include basic essential drugs.
- Improving healthcare financing through accumulation and resource management at the oblast (regional) level, combining per capita resource allocation and financing based on treated cases (performance based) both in the primary medico-sanitary care and in inpatient care.
- Introduction of a financing system through health insurance.

### **Primary Healthcare**

462. It is envisaged to build and supply modern equipment to 400 rural health centers (SVPs) with a capacity of 15,000 visits per month during the period 2007-2010, which will strengthen primary healthcare as a pillar of the healthcare system.
463. The basic package of primary health services should cover basic needs in medical care, including drugs for the most vulnerable groups of the population.
464. The financing of healthcare at the primary level should be based both on the number of recipients in the catchment area and indicators related to the work of the facilities. Performance related pay encourages health workers who will make an effort to keep up to the standards of medical care at the least possible expense.
465. Each year 500 new general practitioners (GPs) will be trained to supply the primary level with qualified medical personnel. Their efforts will be complemented by short term courses that in the course of 2-3 years will prepare an optimal quantity of medical workers, doctors and nurses in line with international standards.

466. Health reporting standards will be updated to ensure their conformity with international standards. The improvement of medical statistics will be complemented by the strengthened monitoring and analysis of health indicators. The monitoring of health indicators requires first of all the availability of laboratory and diagnostic equipment.

### **Specialized care**

467. The quality and effectiveness of medical care will improve through the development of the system of specialized clinics that work in partnership with the primary healthcare institutions. Further development of specialized care will be focused on the equal coverage of all oblasts (regions) of the country, the provision of timely high-technology equipment and the upgrading the skills of specialists. The system of specialized care will consist of large hospitals and clinics in the administrative centers (i.e. close to the location of patients) providing both diagnostics and the treatment of major diseases. The main priority is to strengthen cardiology through the establishment of the Republican cardio-surgery centre, as well as endocrinology, obstetrics, gynecology, pediatrics, therapy and medical rehabilitation, dermatology and venerology, phthisiatrics and pulmonology centers.

### **Child health**

468. The Government will implement a range of measures directed at improving child health and decreasing infant and child mortality in order to reach the MDG 4. To achieve these positive results, a system of continuous healthcare at all levels, starting from birth to 5 years and onwards, will be implemented.
469. Additional assistance will be required including foreign loans to reequip medical facilities for children with modern equipment.
470. Two packages of basic health services for children will be developed to ensure continuous medical care. The first one, at the level of inpatient care, is related to the survival of newborns achieved through the strengthening of neonatal resuscitation and basic medical care for newborns. In practical terms, all maternity hospitals and departments should undergo the certification as baby-friendly hospitals by 2010. The introduction of the international standard 'live birth definition' is critical to ensure the quality of medical care and the components of the basic survival package at the early stages of life.
471. Another package of quality basic services to be introduced at the primary healthcare level will be directed at ensuring under 5 child survival. This package will include interventions relating to the integrated management of the most common child diseases. It is critical that some of these interventions, for example, breastfeeding, as well as monitoring child growth and development, start at the early stages of life of children, and provide continuity as part of the service package that ensures child survival, and as a consequence, ensures the continuity of medical care.
472. Revising and updating existing clinical guidelines and protocols for both service packages is of critical importance and this process has already been initiated. In addition to the regular GP training, short term courses for doctors and nurses will be conducted to ensure that by 2009 the medical workers of maternity hospitals and primary care facilities are skilled to provide basic service packages focused on infant and child survival. Clinical guidelines and protocols according to the level of medical care will be developed. Health workers will be provided with clear instructions on the timely referral to inpatient or special care when required.
473. Child nutrition and an appropriate upbringing play an important role in ensuring positive results in the work of healthcare and the sound development of children. For this reason the service package at the inpatient and primary health care levels will include engaging families and local communities in promoting appropriate nutrition and care for children.

### **Reproductive and Maternal Health**



474. Measures for decreasing maternal mortality include the strengthening and modernization of medical care at all levels, especially emergency obstetric care and upgrading the qualifications of medical personnel in line with the reforms occurring in the health care system.
475. It is necessary to ensure the continuous management of women from the early antenatal period. Special attention will be paid to the quality of medical care during delivery. It is important to revise the existing clinical guidelines and protocols to minimize the unnecessary use of drugs; however, ensuring at all times adequate monitoring of the mother and fetus during the antenatal period. It is important to continue the development of a referral system for further treatment in case of complications during pregnancy.
476. It is also necessary to address the issue of adequate nutrition during pregnancy, promoting contraception methods, birth intervals, and preparing women for pregnancy and delivery.

### **Nutrition**

477. Ensuring the quality and sufficiency of nutrition is a priority for the government of Uzbekistan. The government is planning to develop an integrated nutrition policy that includes all relevant activities into the overall national concept. It is clear that improved nutrition in childhood is closely related to ensuring physical health and labor productivity, higher development indicators and progress at school, and a higher earning potential in adulthood. Promoting exclusive breastfeeding up to 6 months and adequate nutrition for early childhood should be promoted nationwide to ensure a “good start in life” for all children. This should become a priority in order to speed up the process of development of and prevent infants from getting into the vicious cycle of malnutrition.
478. Achieving universal salt iodization via adoption of the law and strengthening of the monitoring of the quality of produced and imported salt by 2007 will be an important input for the elimination of iodine deficiency. Flour fortification programs have already had an impact on rates of anemia. However, it is necessary to take further action to ensure the introduction of iron-supplements within the package of main services on primary healthcare level and the adoption of the law on compulsory fortification of flour with iron and important nutrients such as folic acid and zinc.
479. The supplementation of vitamin A, which plays a critical role in preventing child and maternal morbidity and mortality, should become a part of the basic medical services package in primary healthcare. One of the options is to provide vitamin A supplements during regular immunizations.
480. The nutrition programme based on this general concept will be:
- based on the principles of public health, prioritizing preventions measures to improve the health of the entire population;
  - focused on the prevention of inadequate nutrition (including inadequacy of nutrients) for children under 5;
  - facilitating adequate food quality and security controls;
  - continuing awareness raising of the entire society including households, producers, sellers, health workers, and those working in education;
  - creating a regulatory and business environment facilitating the completion of nutrition programmes;
  - setting up reliable mechanisms for the monitoring and evaluation and developing the necessary capacity to implement these activities and monitor the progress and implementation of the programme.

### **Preventive care and combating infectious diseases**

481. Immunization of the population, especially against infectious diseases is well organized in Uzbekistan. This has helped to substantially decrease the morbidity rate. The current objective of the WIS is to support the wide coverage of child vaccination at the level close to 100%. The main focus of the Sanitary-epidemiological stations (SES) should be combating such socially dangerous

diseases as HIV/AIDS, tuberculosis, and viral hepatitis. These priorities are in line with the national MDG 6. Concrete measures for combating HIV/AIDS will be developed in three key dimensions:

1. Preventive measures aimed at high-risk groups
  2. Providing better access of the infected to medical care, including provision of anti-retroviral therapy;
  3. Creation of supportive conditions for the provision and protection of the rights of people living with HIV/AIDS.
482. Combating tuberculosis requires the further strengthening of preventative measures, including the vaccination of children against TB and widening the coverage of the population with fluorography up to 80-90%. Treatment of the disease requires better provision of effective drugs, and better equipment and staffing of the institutions that specialize in the treatment of tuberculosis.
483. The prevalence of hepatitis, especially its B, C, and D forms, require urgent measures to improve diagnostics, upgrade the qualification of doctors who specialize in treating viral hepatitis, tighter medical procedures to prevent VH transmission in clinics and hospitals as well as organization of a broad coverage program to raise public awareness.
484. HIV/AIDS epidemic in Uzbekistan is at the concentrated stage, mainly amongst the most vulnerable groups of the population, such as injecting drug users (IDU). Thus, preventative interventions should be focused primarily at these groups due to the limited resources. It is important to revise and update current legislation to create a favorable legal framework to work with high risk groups.
485. The trends of mother-to-child HIV transmission cases are increasing. An immediate solution to this problem should be sought in increasing the knowledge and skills of respective health workers, the provision of better access to voluntary testing and post-test counseling, and, most importantly, provision of anti-retroviral therapy to pregnant women and their children.
486. Special attention should be paid to those infected with or living with HIV. The existing system of social protection of the most vulnerable groups of the population should include the creation of a social support system also for this category of the population.
487. Civil society organizations, as well as local authorities, should be mobilized to actively participate in the improvement of sanitary-epidemiological conditions and to combat these dangerous diseases.

### **Healthy Lifestyle**

488. The objective of improving public health and combating diseases and mortality will not be successfully achieved without active measures to promote healthy lifestyles. It is necessary to tackle unhealthy lifestyle practices – first of all drug addiction which destroys people and leads to the spread of HIV infection, and also the prevalence of smoking, especially amongst pupils of secondary school. Efforts are needed to foster higher educational and cultural standards and encourage a responsible approach to one's health. This is a challenge both for state bodies such as the Republican Health Institute, schools and colleges, NGOs and local communities. The policy for promoting a healthy lifestyle should be supported by appropriate legislation, targeted measures for combating drug addiction and smoking, and investment in sports and exercise. The health of the country's citizens is largely dependent on general standards of hygiene, which need to be improved via education and dialogue, as well as by improving the quality of drinking water and sanitation. This policy is closely connected to the strategic priorities of improving the environment through decreasing water, air and soil pollution.

### **Healthcare Financing**

489. It is necessary to increase the amount and efficiency of financing in the healthcare system taking into account the need for substantial investment in the reform and modernization of the healthcare sector. Current healthcare spending, at 3.1% of GDP, is insufficient for achieving the required improvements in public healthcare and achieving the relevant MDGs. The priority in the Welfare Improvement

Strategy is to gradually increase the allocation for healthcare in the state budget, to create extra-budgetary resources, and to attract funds from donor organizations. Increased financing will be channeled, in particular, to capital investment in the infrastructure of healthcare and also operational costs unrelated to the remuneration of health workers, especially the maintenance and upgrading of medical equipment to provide both quantitative and qualitative improvements in the healthcare infrastructure.

490. Increased financing will be implemented concurrently with the introduction of measures to promote the more effective use of public money. Therefore the government will continue the transition from the system of “estimate-based financing” of healthcare to the per capita financing of outpatient medical care. Healthcare financing will be re-oriented from the financing of specialized medical care to financing preventative and primary healthcare. Restructuring special inpatient care institutions will be continued so as to reorient the funds away from inefficiently used beds thus enabling a more rational allocation of government funding.
491. Another comprehensive approach to increasing the efficiency of financing is a more effective system of monitoring financial flows into healthcare system and a more flexible management system.
492. Government policy will ensure free access to primary and emergency medical care to all citizens; all types of health services will be free to certain groups of patients including children, the elderly, people with disabilities, those with infectious diseases, and members of other vulnerable groups. Measures will be taken for the improvement of the databases of medical facilities that provide free and commercial medical services. The rights of patients will be formulated and upheld through the development of a clear and transparent set of rules on the types of free services and a single price scale for all chargeable medical services.

### **5.7. Mechanisms and Instruments of the Housing Conditions Improvement Policy**

493. The following are the main objectives of the policy of improving housing conditions in the long and medium run:
  - 1) Improvement of housing conditions for families by means of increasing the average living space from the current 14 sq. m per person to 16 sq. m in 2010;
  - 2) Improving access to separate housing, especially for young families;
  - 3) Improving housing quality through both the construction of quality new homes and major renovations of existing housing;
  - 4) Improvement of the living conditions of the population through better access to public utilities with an emphasis on those in rural areas;
  - 5) Increasing the reliability and improving the quality of public utility services provided to the population;
  - 6) Improving the financial viability of public utility companies:
    - Resolve issues related to the companies being locked into short-term financing and supporting the financial health of companies, so that they could operate as usual, undertake technical maintenance and pay wages;
    - Improve records of the consumption and collections of payments for the services provided;
    - Review prices, their composition and payment procedures;
    - Review policies on welfare and subsidies.
  - 7) Enhancing the monitoring of final indicators of the sector and facilitating its effectiveness:
    - set up a system of monitoring the performance of public utility companies at the national and regional level, focusing on final outcomes (number of hours of continuous water supply,

- rationalization of the transportation of energy, reducing losses, increasing the number of consumers, etc.)
  - financing a computerized information system in the main areas (accounting and finances, consumer databases, billing and collections, network systems, hydraulic modeling system, etc.)
  - Improving mechanisms for incentivising the workers of utility companies;
  - Improve the incentive structure in order to improve work outcomes by implementing public-private partnerships, and contracting out with local authorities and the suppliers of services;
- 8) Comprehensive planning of capital investment through identifying priorities and the order of investments through the medium term planning of capital investment.

The following measures are envisaged to address these objectives:

- Support for improving the billing and collections system including a public awareness raising campaign on the need to pay for utility bills. Providing incentives for the timely collection (payments) for collectors;
- Active government support for efforts to improve commercial databases (consumer databases, billing and payment systems). Providing technical assistance and training. Facilitating experience sharing amongst service providers;
- Implement long-term financial planning instruments at the national and regional levels;
- Undertake a clear government policy for financing this sector taking into account the major investment gap in the sector;
- Provide incentives and finance technical assistance and training in preparing medium and long term investment and financial plans;
- Develop operational models for utility companies based on pricing levels, people's ability to pay, efficiency rates and essential investment in order to establish the approximate amount of public funding for these needs;
- Capacity building for workers at utility companies of all levels to implement their objectives effectively.

### 5.7.1. Access to Housing<sup>29</sup>

494. The population of Uzbekistan is young and a majority live in rural areas, and it is also expanding. If the average growth rate for last five years continues, then more than 60,000 new families will appear on average each year and they will demand independent housing, in addition to those families that have been waiting for the allocation of land plots for home construction (about 180,000) or are officially on the waiting list for flats (more than 85,000).
495. Thus the average annual construction of new homes at 54,000 units for recent years is not sufficient to meet the existing demand.
496. In order to solve these problems the Government intends to use the following instruments in the medium run to expand access to housing:
- **Development of a primary mortgage market.** This will require the development of standards for mortgages, and the identification of priorities for target markets that will be supported by Government sponsored loans. For this purpose, short term crediting will be needed at market interest rates for the renovation and exchange of flats, the development of the banks' technical potential in the area of retail loan evaluation, and the management of market risks, operations

<sup>29</sup> This section draws from material prepared with World Bank technical assistance within the framework of the project 'Development of Housing Financing in Uzbekistan'

and systems development. At the same time *Ipoteka Bank* will provide long term bank mortgages for families with low incomes using the resources of the Mortgage Fund, first of all in rural areas, and at preferential interest rates. The technical potential of banks in the area of construction projects management will be enhanced and their technical potential in issuing mortgage linked securities will be developed. The involvement of the private sector will also be promoted in terms of increased construction and full support to private contractors, providing them with long term loans.

- **Development of the real estate market** will require the development of a legal framework to enhance possession rights of land plots for housing construction, the expansion of city land allocated for housing, ensuring it is accessible for households with medium level incomes. A revision of national standards and programs for financing city planning, land management and zoning will be required in order to provide sufficient amounts of affordable housing. Transparent and efficient mechanisms for allocating land for housing, the sale of plots of land to builders, and a system that ensures that households are able to invest their incomes in new construction must be established. The plan is to introduce pilot targeted programmes for providing credits to low income families.
- **Providing the legal framework.** Measures will be taken to increase awareness of the population about the state of the real estate market, prices for housing and new construction, based on assessments by independent assessment agencies and realtors. National legislation will be passed that would allow the issuing of mortgage bonds and securities guaranteed with mortgages. International standards of property evaluation and brokerage operations with property will be ensured.
- **Providing support for access to housing including for young families.** Measures will be taken to contain inflation at the rate of 5-7% in order to make long term financing as accessible as possible. In May, 2007, the President of Uzbekistan's Decree was passed providing tax exemption for income and support from employers used to purchase housing, as well as for the repayment of mortgage loans and any accrued interest on them. At the same time employers have the right to exempt from their profit or single tax payment tax base (up to 10%) any amounts given to young families to repay mortgage loans or purchase housing. It is planned to use vacant dormitories, and other unoccupied buildings to provide rental accommodation, at preferential rates, for young families. Also to be considered is providing incentives for the development of the home rental market including the possibility of reducing taxes for landlords, and undertaking major renovations of rented homes.
- **By 2010, to finish the renovations of apartment blocks built before 1991 and privatized without any previous renovation.** A total of 9,846 such houses are to be renovated (average of 2,460 houses annually) with budget subsidies covering up to 70% of the cost.

### 5.7.2. Access to public utilities

497. The Welfare Improvement Strategy sets the following targets for expanding access to public utilities, improving their quality and the sophistication of accounting:

- in the period 2006 to 2009, according to the approved programmes, 1,312 additional areas will be provided with centralized drinking water supply and service pipes to connect consumers (houses, flats) will be built
- in the period 2006 to 2009, 861.8 km of water pipelines will be repaired (replaced)
- in the period 2006 to 2009, 2,399 outmoded and inefficient boilers in public sector institutions will be replaced by up to date energy efficient boilers – in places such as schools and hospitals, including 961 replaced at the expense of the government budget, while the replacement of

- others will be funded by local budgets. The total amount of investment needed will be the equivalent of \$15 million
- in the period 2007 to 2009, a further 7,713 outmoded and inefficient boilers in public sector institutions will be replaced by domestic boilers with natural circulation. The total amount of investment needed will be the equivalent of \$9.5 million
  - in the period 2006 to 2009, a total of 515 km of depreciated heating networks will be reconstructed
  - by 2009, the installation of cold water meters in individual houses and apartment blocks (total need for 2006-2009 is 979,500 and 602,000 units respectively), and of hot water meters (627,800 units) will be completed.
498. In order to increase the level of supply of drinking water as well as access to the sewerage system, 17 projects are either underway or being prepared with the assistance of IFIs and foreign banks with a total amount of about \$600 million, \$200 million of which will be financed from the national budget and the rest financed by means of attracting foreign loans.
499. There is urgent need to carry out additional projects for expanding and reconstructing the network's pipes and cleaning facilities, with \$100 million of capital investment needed, of which \$65-70 million should be external financing.
500. **The following are the main tasks for further deepening economic reform in the system of housing and public services in the medium run:**
- stage by stage transition of public utilities to financial sustainability;
  - securing government control over the protection of housing and public facilities;
  - securing a diversity of property forms and the market principles for their functioning;
  - improvement of pricing that would promote greater transparency in price-setting;
  - development of a mechanism for the targeted support of disadvantaged population groups;
  - improving operations and maintenance and the financing system of housing and public utilities;
  - securing sustainable financing in the development of inter-regional water pipe-lines construction, the replacement of boiler equipment and measurement and control instruments in the heat supply facilities;
  - enhancing the management system, development of regulatory documents, pursuing a targeted scientific and economic policy;
  - securing the efficient use of resources, including energy transportation;
  - development of regional programmes of economic reform in the area of public services.
501. **These tasks will be implemented in the following ways:**
- stage by stage reorganization of the existing public services management system taking into account the ownership of the public sector facilities;
  - improvement in the management and supervision system, increasing economic independence and responsibility of public services enterprises for the uninterrupted supply of quality public services to the population;
  - the development and introduction of subordinate legislation providing effective mechanisms to promote competition at the local level in the operations and maintenance of housing in order to reduce prices;
  - developing mechanisms for attracting long term financing from various sources for the development of urban engineering and public infrastructure;

- undertaking measures to prevent the unauthorized transformation of flats into multi-storey apartment houses, and the timely implementation of housing repairs;
- setting prices for public services on the basis of their cost, the need for some profit, and also taking into account the disposable income of the population;
- enhancement of the infrastructure, and attracting investment for its development;
- increased role of local self-government bodies (mahalla) in the regulation of housing and relations with public services.

### **5.7.3. The main areas for improvement in public services management**

502. **The following is envisaged as the main area for improving public services management:**

503. 1) Dividing up the functions of management and service provision, management of service providers, and on this basis organizing a system of relations between:

- the owner of the property and/or managing organization (customer);
- contracting agencies providing public services (suppliers);
- regulatory bodies authorized to exercise government supervision in the sphere of communal services.

504. **Asset management is envisaged as an efficient form of managing housing and public facilities.**

505. **2) Promoting a competitive environment in the housing and public services sector.** The most important direction of public services reform is demonopolization and the establishment of a competitive environment in the provision of communal services that would ensure a sufficient quantity and quality of works and services at acceptable prices.

506. This will be realized in the following ways:

- deepening of the processes of denationalization and privatization of the enterprises in this area along with securing measures for their demonopolization;
- forming of orders by the house owners and managing organization for the maintenance and development of housing and communal facilities by communal services providers irrespective of their type of ownership;
- improvement in the collection of payment for services based on contracts as well as the application of economic and administrative sanctions in cases of the violation of contract obligations;
- Providing incentives to create and foster a competitive environment in the housing sector by setting up alternative companies to service the housing sector and setting up private management companies and removing barriers to fair competition;
- development of competition, organizing tenders for specialized works including the maintenance of elevator machinery and facilities;
- introduction of state standards for the quality of services provided.
- demonopolization and development of a competitive environment in the area of the management and maintenance of housing by means of transferring the enterprises of a natural monopoly into trust management by managing companies using a bidding process;
- establishment of a competitive environment in selected areas of service provision (seasonal repair works, fuel, materials procurement etc.) by contracting out to organizations with any type of ownership;

- Introduction of concessions and other such agreements into management practice such that a private investor is given the right to use communal property for a specified period at no cost as well as the right to carry out activities that constitute a natural monopoly;
  - providing technical assistance and training for regulatory bodies exercising oversight in monitoring and analyzing information on the activities of public utilities;
  - providing technical assistance/training and equipping companies to provide transparent reports on performance indicators;
507. At the same time, where there are possibilities to establish a competitive environment in some sectors of the housing and public utilities (sanitary purification and waste management, settlement gardening, ritual services), certain structural changes are called for, namely separating the main and support operations.
508. **3) Optimization of the government supervision system** in the area of housing and public services. The following are the main directions of government regulation and supervision in the area of housing and communal relations:
- formation of a legal, regulatory and operational framework that creates the conditions necessary for this branch to function;
  - enhanced independence of companies so that they can shift to contractual relations in the area of providing home maintenance and utility services;
  - creating healthy competition in the home servicing market;
  - preventing changes in the operational profile of privatized public utility companies and the licensing of some types of activities in this sphere;
  - ensuring a guaranteed level of service for consumers of public services in compliance with set standards;
  - defining standard consumption levels, minimum standards of services to be provided and priority groups of consumers that must be provided with these services;
  - supervision over the pricing of public services by natural monopoly providers by means of evaluating their expenditures and profits;
  - coordination of measures for the introduction of individual meters and controlling consumption of water, heat, gas and other energy supplies;
  - enhancing the material and technical base of the branch by means of a targeted programmes approach, structural changes, a balanced tax policy, and the attraction of foreign investment;
  - providing technical assistance and training for institutions exercising oversight and regulation to monitor and analyze information on the activities of public utilities;
  - providing technical assistance/training and equipment for companies to provide accurate reports on performance indicators;
509. **4) Optimization of the price setting system and financing.** At the existing system of pricing, companies are not interested in carrying out resource saving measures because as soon as the enterprise will reduce costs it will have to reduce its prices, though not proportionally to cost reduction, and resulting savings will be counted as profit and subject to taxation payment.
510. This method of regulating tariffs, blind to cost cuttings, and limited profitability do not create incentives for public services to increase their efficiency since any decrease in costs is offset by a price decrease. This kind of approach creates incentives for enterprises to increase costs rather than reduce them.



511. This utilization of a standard cost value as a basis for calculating prices results in a disconnect between the pricing structure and the real financial needs of an enterprise since it continues to operate using energy inefficient, obsolete technological equipment and other fixed assets.
512. Regulation must be based on the following main principles:
- need to establish a government system of price regulation, which would enable an enterprise to use the economic pay off of investment to repay loans and interest.
  - consistency and predictability of price changes in order to ensure the predictability of a public service enterprise's operations, increase their investment appeal and reduce the loan capital value;
  - transparency of prices to gain the trust of each individual consumer, and of society as a whole;
  - introduction of clear policy of price setting and development of practical tools (software modeling of price setting and financing), transparent and standardized price-setting procedures);
  - introduction of financial modeling. Provide technical assistance/training to the company staff to introduce this procedure.
513. The task of price regulation of natural monopolies entails the redistribution of this rent for the consumers benefit and providing monopolies with incentives and resources for increasing their efficiency.
514. In order for this system to be the most efficient, it is necessary to ensure the following at its establishment:
- incentives for public service enterprises to efficiently use their financial and natural resources;
  - incentives for investors to invest in promising and well managed public service enterprises;
  - maximum involvement of the consumers, investors, and tax payers in the regulation process;
515. Service providing activities must be separated from the executive bodies' regulatory role in the area of services.
516. The regulating body must have authority not only to regulate prices for monopoly enterprises services in the utilities sector but also develop prices for public services which, as it was mentioned earlier, may include a mix of regulated and market prices.
517. When defining the general principles and methods for regulated prices it is necessary to set:
- the regulation period – i.e. period when the set price is effective;
  - conditions that allow for, where appropriate, a reconsideration of the price within the regulation period;
518. It is necessary to ensure the transparency of the price regulation process for the stakeholders, as well as a policy of involving consumers' representatives (consumers' rights protection societies) in the regulation process.
519. The regulatory system must ensure that the regulating body is responsible for the decisions it makes. This must be provided by using reporting forms for the regulating body for record decisions made, as well as procedures for appealing against the decisions of the regulatory body.
520. Characteristics of new stage of public services system reform are changes in the tactics of pricing towards a smoother change of prices taking into account the real income growth of the population along with measures to reduce costs and energy intensity, an increase in economic efficiency and the optimization of the cash flows in utility companies.

## **5.8. Improving Governance for Effective Implementation of Welfare Improvement Strategy (WIS)**

521. Based on the experience gained as well as the lessons learnt from the positive and negative experiences of other transition economies, the Government believes that the state should play the leading role in carrying out further reform and the development of a market economy. At the same time, there is an understanding that the methods and tools of economic regulation used at the previous stages of reforms will affect the efficiency of policies directed on the implementation of the objectives and tasks of the Welfare Improvement Strategy.
522. In this context further reform of the government management system will be aimed at achieving two basic objectives:
- Introduction of tools of economic regulation based on the principles of the market economy. Further growth of the economy and expansion of the private sector necessitates constant improvement of the institutions, norms, methods and tools of economic regulation to guarantee the forecasted development of social and economic processes with, at the same time, a reduction of the administrative barriers hindering private sector development.
  - Improvement of the institutions of industrial policy in order to stimulate investment and qualitative structural changes. To achieve diversified and comprehensive growth, the government will continue its implementation of support measures and stimulate the inflow of investments into the economy. The government will continue investing in priority sectors, however non-market preferences distorting the competitive environment among industries and impeding the competitiveness of the economy as a whole will be gradually abolished.

### **5.8.1 Improvement of Policy-making Mechanisms**

523. In recent years in Uzbekistan significant constitutional changes have been implemented directed at strengthening the role of the Oliy Majlis (parliament) in the policymaking process, in particular, through expanding the accountability of the Government to the new bicameral Parliament. Moreover, reforms are still ongoing for optimizing mutual relations between the executive and legislative authorities within the framework of policy preparation and decision making.
524. Future work will be concentrated on the following:
- Clearer delineation of policy making powers between the executive and legislative authorities, improving the procedures of interaction between the executive and legislative authorities in policy making and decision making. These changes will extend to both the central and regional levels of governance.
  - Development of mechanisms for collaboration between the Government, Parliament, private sector and civil society in policy and decision making to incorporate the opinions and interests of a wide range of public groups, in particular, the disadvantaged population.
525. In this regard, the main efforts to improve policy formulation mechanisms within the framework of the implementation of the Welfare Improvement Strategy, and for subsequent years, will be focused on the continuation of the political transformation towards the comprehensive implementation of the principles of power sharing and ensuring a balance of power both at the central and local levels, the improvement of mechanisms providing for the transparency of the decision making process and involving the private sector and civil society into this process. Parliament's role in the policy making process will be ensured through:
- strengthening Parliament's controlling functions with regard to the executive power, primarily in the issues of the development, adoption and implementation of the state budget (annual and medium term budgets), as well as medium term and long term national development programs.
  - development of clear procedures to ensure collaboration between the executive and legislative powers, including an improvement in how information is supplied to the legislative;

- re-orientation of Parliament's lawmaking activities from the development and adoption of framework laws to the development and adoption of directly applicable legislation so reducing discretionary policy making by the government agencies and local authorities;
  - specifying the limits and scope of competence of government bodies in the development and adoption of agency regulations in directly applicable laws;
  - expanding the Parliament's powers in appointing judges of all levels (national, regional, district and city).
526. Enhancing the involvement of civil society and the private sector in the process of decision making, and enhancing transparency and accountability in the activities of executive bodies will be achieved through:
- institutionalization of a consultation process between the Government, Parliament and stakeholders within the framework of the formulation, implementation and monitoring of strategies and development programs, lawmaking and drafting other decisions
  - facilitating free access to information on the activities of government bodies, including clear legislation of the procedures for citizens' access to information as well as approval of the lists of information which must be made available and their publication in the media including on the web sites of ministries, departments, and local authorities. In this context, the Law "On providing access to information on the activities of government bodies and the procedures of access to information at the citizens' request" should be adopted, along with amendments and additions into the Civil Code and the Law "On Individual Petitions".

#### **Introduction of Electronic Governance**

The introduction of elements of electronic government should be focused on establishing an integrated database of all state statistics and the provision of free access of all stakeholders to basic statistical data. In addition, the introduction of electronic government creates a range of opportunities for the introduction of mechanisms of "distance-based" government services.

- introduction of mechanisms for the filling out and submission of tax and customs declarations online;
- introduction of electronic forms for reporting and submitting statistical information;
- establishment of an electronic document flow system both within and among government bodies.

This will increase not only the efficiency of government bodies but also will promote higher a quality of government services in the interests of society.

- establishment of a mandatory public review of draft legal acts developed both under the Parliament as well as within the different ministries and departments. This will introduce quality expert assessment, and problems in these regulations will be identified at the development stage.
- carrying out piloting to introduce external auditing procedure over government bodies with the publication of audit findings and subsequently a wide scale introduction of external audits into the activities of government bodies.

#### **Strengthening and development of local communities and resource mobilization**

The objectives of this policy are as follows: promoting public welfare, improving local management systems and the decentralization of decision-making, community development, support for the disadvantaged and marginalized groups of the population and the achievement of gender balance.

The policy objectives for the development of local communities both provide support and capacity building for local communities (the population as a whole and self-governing institutions of citizens) in the design and implementation of local development plans and local resources management, social mobilization combining knowledge improvement, information and skills (through community mobilization and development) along with improving access

to resources and funds (through micro crediting and establishing ties with different organizations), and assistance in the strengthening of civil self-governing bodies through capacity building of these organizations.

The strategy of community development using the area-based development approach envisages systematic planning and implementation in three basic dimensions:

- Support community participation in addressing local challenges and resource mobilization;
- Capacity building for local civil self-governing bodies in resource management;
- Establishment of a favorable environment for the development of local governance.

#### **Support community involvement in addressing local challenges and resource mobilization**

- Advocacy of social partnership and active cooperation amongst rural communities to enhance living standards and livelihoods.
- Participation of all members of the community in local development and projects implementations plans directed at the improvement of rural infrastructure is important both for enhancing public welfare and for the development of the community itself.
- Help local communities to make sustainable decisions in facing the challenges of the transition period by creating a ongoing process of community mobilization, in which the local self governing bodies and community population perform the following:
  - situation analysis and assessment of current local resources and capacities;
  - identifying the top priority problems and needs of the communities and their solutions;
  - developing local community development plans and specific projects to improve the infrastructure;
  - identifying both the internal and external, human and material resources required for project implementation;
  - concrete actions for their implementation with constant monitoring by the population;

#### **Capacity building for communities**

Building the capacity of communities envisages concrete measures to raise public awareness, boosting information and knowledge sharing, the introduction of modern technologies of management and civic participation, strengthening and increasing the efficiency and performance of the local self-governing bodies – both mahallas and rural councils.

Arrangements for training and information exchange aimed at strengthening communities and enhancing public welfare at the community level must be along the following lines:

- effective management skills in the community, including financial management skills
- skills in designing development plans and developing projects to improve the local infrastructure
- monitoring and accountability
- conflict resolution and team work
- resource mobilization
- development of partnership between the state and private sectors
- establishment of a network of institutions and fostering cooperation
- developing leadership skills
- gender balance

The following training elements should be focused on improving public welfare at an individual level through the formation and strengthening of micro-entrepreneurship:

- Training and advisory support for small, micro and individual entrepreneurship, encouraging the creation of

new micro enterprises and the expansion of existing ones;

- Training and advisory support to establish and develop entrepreneurship using home-based work, focusing on involving women and creating employment opportunities for the most vulnerable groups of the population;
- Support in getting technical and vocational education;
- Development and expansion of groups to gain skills in getting loans, how to use their loans and personal savings as well as in general and financial management so that they can create viable profitable enterprises.

#### **Creation of a favorable environment for developing local self-governance**

- Studying of the actual financial status of self-governing bodies in pilot areas by carrying out social studies;
- Development of methods and mechanisms for maintaining the financial sustainability of self-governing bodies in cooperation with the leadership of the mahallas and the representatives of local authorities;
- Development of streamlined mechanisms for opening special accounts of self-governing bodies and their implementation in cooperation with the local authorities in pilot districts;
- Building capacity and the improving skills of the self-governing bodies' staff in financial management and resource mobilization.

### **5.8.2. Increasing Government Efficiency**

527. The establishment of an effective state machinery and aligning economic governance with the principles and norms of the market economy and strengthening the rule of law is the basis for the implementation of the WIS objectives and tasks. Crucial tasks in enhancing the efficiency of the government sector at this new stage of development are:

- Improving the structure and optimizing government functions with the aim of introducing market based tools of economic regulation and a radical reduction in direct government interference in business;
- improvement of the government's spending management system with a view to a more efficient use of government resources as well as budget decentralization through a clearer identification of the powers and responsibilities of government bodies and their responsibility in using budget funds of all levels including extra-budgetary funds for social priorities;
- reforming the civil service including the codification of the legal status of civil servants, creating incentive mechanisms, the introduction of indicators for performance appraisal and the introduction of transparent mechanisms for career promotion.

528. This reform of the government system will last for more than three years and go beyond the Welfare Improvement Strategy for 2008-2010. However, implementation of this transformation today already requires clear objectives and measures for the medium term.

529. Long term administrative reform is supposed to be conducted stage by stage in the following ways:

1. Improvement of the organizational structure of the economic governance system and mechanisms of state decision making – clarifying the status, powers and functions of government bodies, and the introduction of uniform principles in their formation. Further analysis and fine tuning of the functions, powers and responsibilities of all levels of governance will help eliminate duplications in functions, and tasks of economic governance at odds with market principles.

#### **Vision of the Structure of Government**

The completion of the ongoing formation of a new structure of government bodies is of particular importance:

- 1) ministries and state committees – development and implementation of government priorities in conducting

economic and social policy through policy setting, strategic and executive-administrative functions

2) agencies and committees – implementation of law enforcement and executive-administrative functions, development and implementation of development projects and programs of individual sectors of the economy;

3) regulation and control centers – performance of supervisory functions, and monitoring the observance of state standards and norms.

2. Improving the management of state funds includes the following already planned for the medium term till 2010:

- completion of the establishment and development of the Treasury system;
- introduction of results-based budgeting that will expand the capacity of the ministries, departments, and government agencies to use government resources in a more flexible manner in order to achieve the specified objectives;
- improving budget-to-budget relations based on a well defined legal separation of powers related to spending resources between the budgets at various levels;
- ensuring that the medium term budget is coordination with the Government's investment program and other national programs;

#### **Introduction of the Treasury system**

The Treasury system will provide for oversight over the targeted use of budget funds. The introduction of the Treasury, the medium term expenditures framework and results-based budget planning will enhance the performance of state bodies as well as lead to the more comprehensive achievement of state policy priorities.

At the same time, reforms in state finances will involve actions to increase transparency and accountability over public spending management including the involvement of civil society organizations into the process of monitoring development projects and other projects.

3. Decentralization of governance, and improvement of the forms and methods of the activities of local authorities. In order for local government bodies to be more focused in their activities the following measures are to be taken:

- precise delineation of the functions, tasks and responsibility of central and local authorities;
- expansion of the powers and independence of local authorities in the design and implementation of the budget of the corresponding level;
- improvement of inter-budgetary relations, increasing the role and responsibility of local authorities;
- clear separation of the executive and legislative branches of authority at the local level;
- transparency of the area-based development programs adopted by local authorities and accountability before the population for their implementation;
- the improvement of regional statistics, methodology and methods of household survey, and sociological studies;
- establishment of an effective monitoring system of living standards across the regions;
- support for the effective functioning and development of civil self-governance bodies and civil society institutions.

4. Conducting civil service reform. The basic measures for the long term will be:

- adoption of the Law "On Civil Service", determining the status, rights and obligations of civil servants, criteria for promotion, mechanisms for incentives and the benefits of civil servants. The priority is the introduction of a classification of civil servants within the levels of state service, the responsibilities of the various positions, functional groups, qualification categories and the sphere of competence of executive bodies activity.

- new system of classification of civil servants that will allow for: the delineation of powers and functions of civil servants; various salary scales for an adequate differentiation of wages for civil servants; a transparent promotion scheme for civil servants;
- development of a system of incentives to motivate civil servants through improving the wages and benefits policy, including increases in salaries by at least 2.5 times in the medium run up to 2010, the provision of wider benefits, including soft loans to buy homes upon condition that the employee remains in the civil service for the duration of the loan period. Introduction of mandatory health insurance for civil servants and granting loans for their children's education in higher educational establishments;
- development and codification of the procedures and requirements for the competitive selection of civil servants (specialty, work experience, skills);
- stage-by stage introduction of a system for appraising civil servants' performance (development of indicators, introduction of new techniques for staff appraisal and establishment of an integrated system for the regular certification of state employees). In particular, objective-based and results-based management techniques will be introduced in pilot schemes, which will allow for systematic control over the civil servants' performance;
- development of a professional training system of civil servants through the introduction of a training course on "Governance" into the higher educational system. Improvement of the in-service training system and refresher courses for civil servants by introducing such courses as "State Finance", "Municipal management", "Municipal economics" and "Crisis management"

### 5.8.3. Development of Institutions Promoting Economic Growth

530. Critical for the completion of reforms aimed at replacing the institutions of administrative control over business with indirect regulatory mechanisms including monetary and fiscal policies, is the need in the long run for:
- gradual reform of the system of managing various sectors, involving the transformation of the current bodies of economic management (state joint-stock companies, associations, holdings) and changing their methods for regulating business activities;
  - at the same time capacity building for national and local executive authorities in the formulation and implementation of sectoral development programs.
1. Reforming sectoral management and delineating the functions of governance and management of business in a stage by stage manner by conducting the following activities in the long run:
- Changing the powers of the Cabinet of Ministers with regard to business enterprises. In order to bring them into compliance with current legislation. The provision that gives the Cabinet of Ministers direct regulatory powers over "other government and business management bodies", in addition to its oversight of ministries and departments, should be excluded from the Law "On the Cabinet of Ministers of the Republic of Uzbekistan".
  - Conducting detailed functional analysis of the economic management bodies and on the basis of the analysis considering transferring government functions assigned to business associations to the existing ministries or those state structures (ministries or agencies) established to perform such functions.
  - To revise earlier adopted decisions on the establishment of associations, specifically abolishing the powers the Cabinet of Ministers have over economic enterprises – including approval of the membership of associations, defining their management structure, governing bodies, setting objectives and basic directions of activities, and assigning associations with distributive functions.

- Implementation of corporate management methods, limiting the rights of state management bodies and business associations having the functions of industry regulation (concerns, companies, association, etc.) in direct coordination, management and staff appointments, which are prerogatives of the general meeting of shareholders and supervisory boards of joint-stock companies
  - Clearly determine the rights and mutual obligations amongst industry management bodies (holdings, companies, association, etc.) and companies included into their structures, strengthening the legal mechanisms governing their relations exclusively on a contractual basis.
  - To revise government decisions to establish a number of joint-stock companies with a view: ending their regulatory functions; bringing into compliance with legislative requirements the company's activities including meetings, supervisory boards and executive bodies, as well as transparency of information.
  - Introduction of market mechanisms to allocate companies' access to resources which were earlier apportioned by state bodies, fostering a competitive environment in the commodities and services market. Review and reduce the list of approved balance sheets, having introduced the mechanism of selling material resources mainly at stock exchanges, auctions and by direct contracts.
2. Improvement of state property management. The basic objectives in improving the processes of state property privatization management are:
- Securing conditions for fair competition in bidding for government assets being sold off. Improvement in the sale mechanisms at stock-exchanges and organized off-exchange biddings of state stocks and shares in authorized funds of companies, as well as real estate, state enterprises being fully sold off and other types of state property.
  - Development of mechanisms of the pre-privatization preparation of state enterprises where it is planned to sell off state packages of stocks (shares) by: a) pre-privatization management, during which the state takes measures to improve the financial status of the enterprise, writing off debts to the state; b) improvement of the management and performance of other activities aimed at the company's sustainability. These procedures will be regulated by law.
  - Introduction of procedures to manage the implementation of state property privatization contracts by types of property sold in competitive biddings. The aim of these management procedures should be focused on: a) assistance to address disputes among investors and government bodies; b) to protect the enterprise from the groundless intervention into its activities by state bodies, intrusion upon its property, and limitation of its entrepreneurial rights and freedoms.
531. The main objectives for improving the efficiency of the management of state stocks and shares in the authorized funds of companies are as follows:
- Precise and concise formulation of the objectives, principles and tasks of state property management depending on its type. In particular, a precise definition of "state property management in the government's interest" by disclosing the content of the definition of "state interest" in a particular sector of the economy or in the sector, in which the state property is used.
  - Introduction of efficiency assessment indicators of state property management and ensuring the transparency of assessment findings using these indicators.
  - Improvement of trust management tools of state packages of stocks (shares), including options for their subsequent redemption. Here, it is required to determine in the legislation



the conditions under which the government delegates the right to manage the shares to a trustee manager, including:

- formation of the “portrait” of an asset manager having the required capacity for effective management of the state package of stocks;
  - mechanism of arranging competitive bidding to win asset management rights over state stocks(shares);
  - concrete powers of asset managers in decision making during the asset management period of state stocks depending on a specific enterprise (group of identical enterprises), including the issues of independent decision making on the formation of an executive body of a company, the state stocks (share) of which were transferred to him/her for asset management.
  - specific powers of the state body exercising the functions of manager of the state property by transferring the state stocks into trustee management, estimation of the effective performance of a trustee manager;
  - the form and mechanism of remuneration for the asset manager;
  - the period, after expiration of which it is possible to make a decision on selling stocks to the asset manager;
  - criteria based on which the decision was taken to sell the shares to the asset manager but not other persons;
  - specific grounds for the termination of an asset management agreement as well as the procedures the government must take after the termination of the agreement on asset management.
- Improving functioning mechanisms of stock-exchanges and bringing them to the level so that they comply with international standards and the operating principles of stock-exchanges (including the introduction of mechanisms allowing repeated buying and selling of stocks of the same company in one trading session).
3. Private-public partnership. The case for basing project implementation on private-public partnerships in Uzbekistan at the present stage stems from the necessity to gradually move away from administrative measures of regulation to market mechanisms through the involvement of private enterprises in the provision of public infrastructure and social services, which were previously a state monopoly.

#### **Private-Public Partnership in Uzbekistan**

Private-public partnership (PPP) is a form of partnership between the public and private sector in which the government grants the private sector the rights to build, finance, and manage infrastructural and social facilities as well as to provide these services under specific conditions.

PPP envisages the sharing of costs, earnings, obligations and risks related to the implementation of such projects between the authorities and the private enterprises. Moreover, the government specifies the areas of public and infrastructural services with the aim of conducting an appropriate industrial policy based on national interests and the interests of the socially vulnerable sections of the population. It is notable that the government retains the right of control and regulation of the issues of pricing, quality of service, safety and the environment.

PPP is an important instrument for implementing the WIS as it creates additional opportunities for investing private capital that will increase employment, the population's incomes and the expansion of a class of property owners.

532. The government has already accumulated some experience in introducing some forms of PPP. There are Production Sharing Agreements (PSA) between the Government of Uzbekistan and its authorized bodies and foreign companies in the area of geological surveys and hydrocarbon production in various regions of the country. In addition, private companies are providing their services in housing and utility services.

533. PPP implementation within the framework of Welfare Improvement Strategy gives the private sector the opportunity to participate in the provision of socially significant services and in doing so increasing the:
- quality of services rendered to the population;
  - efficiency of resource use through optimization of their production costs.
534. The main areas for PPP implementation in the medium run in the country are as follows:
- housing and communal utilities services (water, heat, electricity and gas supply, housing maintenance)
  - irrigation infrastructure;
  - railway and air cargo and passenger transport;
  - telecommunications;
  - education;
  - public healthcare
535. For PPP to be effectively organized, the Government intends to undertake following measures:
1. Development of PPP tools including a pre-project analysis and feasibility study, methods and procedures of the competitive selection of implementing parties, mechanisms of making contracts and control over their implementation as well as carrying out the necessary training for the personnel involved.
  2. Implementation of a number of pilot projects at the regional and local levels, and the systematization and disseminating of the gained experience on a national scale.
  3. Set up a system for collecting accurate and reliable information on consumers to provide to the investors
  4. Create legal frameworks for conflict resolution
  5. Capacity building for organizations involved in the oversight and regulation of PPP contracts.
4. Ensuring the rule of law and enhancing legal safeguards. The implementation of judicial and legal reforms will continue with the aim of strengthening the independence of the judicial system, increasing its effectiveness and accessibility, completing the establishment of the judicial system as the main institution for the protection of property rights. The basic objectives in this area are:
- Expanding access to justice through the establishment of magistrate courts to address economic disputes between private owners with minor lawsuits, revision of the amount and payment mechanisms of court fees.
  - Establishment and development of a special court system for tax and customs disputes, and training for judges specializing in tax and customs law.
  - Strengthening judicial independence by (1) strengthening parliamentary oversight in appointing the judges of regional, inter-district, district, municipal, and economic courts and military tribunals, (2) elimination of the non-procedural management of local judges; (3) improvement of the mechanism of financing the courts.
  - Enhancing the Constitutional Court's role in ensuring the legitimacy of the decisions of various government bodies through (1) its empowerment to review the constitutionality of the decisions made not only by the Prosecutor General but also by all the territorial divisions of the prosecutor's office, (2) inclusion into the competency of the Constitutional Court powers to review the constitutionality of the rulings and guidelines of the Supreme Court and High Economic Court, and the orders and intra-agency decisions of government bodies at all levels.
  - Promotion of the faster establishment of extra-judicial institutions for the protection of property rights by (1) the development of legislation in the area of alternative dispute

resolution; (2) clear regulation of the procedures for the implementation of arbitration tribunal rulings, in particular, courts issuing writs for the mandatory implementation of arbitration awards.

- Promotion of the equality of rights of lawyers and members of the prosecutor's office regarding access to information on the status of trial proceedings and appealing against court rulings.

## Chapter 6

### Cost Estimates for Implementation of the Welfare Improvement Strategy

536. To successfully implement the Strategy, the Government has elaborated a mid term development plan for 2007-2010 which includes estimates of levels of investment and total government expenditure for the main sectors and industries of the economy.

#### 6.1. Investing in Development

537. The increase of investment in the economy is identified in the WIS as one of the most important contributors to economic growth and welfare improvement. The total amount of investment in the country in the medium term will gradually increase and reach 24% of GDP by 2010, representing an increase of 2.2 times compared to 2006.

**Table 6.1**

#### Projected Growth of GDP and Investment in Economic Development

(in billion soum)

Years	2006	2007	2008	2009	2010	2007-2010
GDP	21,708	27,353	33,405	39,941	47,550	x
Equivalent in USD (based on average exchange rate for the year)	17,812	21,623	25,384	29,542	34,159	x
Amount of investment	4,041	5,373	7,014	8,970	11,250	32,607
Equivalent in USD	3,316	4,247	5,330	6,635	8,082	24,294
Amount of investment as % of GDP	18.6	19.6	21.0	22.5	24	
For reference: average annual exchange rate	1,218.7	1,265	1,310	1,352	1,392	x

538. The growth of investment in the energy sector, agriculture, and communal services will be the highest in terms of total investment. Large amounts of investment financing will also be maintained in the education, transport and telecommunications sectors.
539. Existing sources cover up to 92% of the total amount of planned investment, 45% of which are enterprises' own resources and bank loans, 18.4% from the government budget and extra budgetary funds and 36.7% from foreign investment. The investment deficit is estimated at 7.8% of the total need or at approximately USD 2 billion.
540. *1) Industry (excluding energy providers and the power industry).* The amount of required capital investment for 2007-2010 is 6,222 billion soums (USD 4,685 million in equivalent), or 17.6% of the total amount of investments required for implementing the WIS. Financing of the industry will be carried out mainly through its own resources and loans of local banks (61%), extra budgetary funds for the development of industries (10.1%) as well as through foreign direct investment (26.6%). The preliminary deficit of funds is estimated as an insignificant (1.2%) and in the process of program implementation it will be supported via additional measures for promoting foreign investment.
541. *2) Energy carriers and the power industry* will attract the largest amount of investment for its development and technical modernization, making up over one third of the total amount of capital investment (38.6%). The industry can almost completely meet its own investment needs through its

own funds, local bank loans (52.1%), and foreign direct investment (47.3%). A small resource deficit (0.6%) will exist only in the power industry where additional sources of foreign investment will be required for the modernization of power stations.

542. **3) Agriculture and irrigation.** According to the WIS the amount of investment in the sector should sharply increase and constitute 18% of total budgetary investment in the country. Considering the difficult financial situation of this sector and the slow cost recovery of capital investment in irrigation and drainage projects, only 14.1% of the required investments can be made through the sector's own resources. It is planned that government funding will cover 19.3% of the required amount and confirmed foreign investment – another 23.3%. At the same time, the resource deficit in this sector is large and approaching USD 760 million. Most of this funding is required for implementation of the program on the sustainable supply of irrigation water to the rural population, in other words for projects related to irrigation, drainage, and the rehabilitation of pumping facilities.
543. **4) It is envisaged to invest into transportation and the communications sector** 9% of the total amount of investments. The industry has good sources for its own financing as well as relatively easy access to foreign investment. Currently the resource deficit for these industries' needs is less than 6% of the total amount required.
544. **5) The communal services (utilities) sector** requires a relatively large amount of resources for projects related to public access to clean water, the sewage system, the replacement of boilers, and the installation of gas, water, and energy meters. The total need for four years is estimated at 1,017 billion soums (equivalent of USD 765 million) which makes up 2.9% of the total required amount of investment. The industry has virtually no resources of its own and it is planned to invest mainly through foreign investment under government guarantees as well as partially through government funds.
545. **6) Home Construction** according to estimates will absorb 1.9 trillion soums (1.4 billion USD) including through mortgages – 86 billion soums, of which 35 billion soums (USD 26 million) must be raised through foreign loans.
546. **7) Education** will be the largest recipient of capital investment from the state budget and extra budgetary funds to complete the programs already launched. More than 66% of all government and extra budgetary funds allotted for implementing the WIS will be channelled to this sector. It is envisaged to simultaneously increase foreign investment up to 269.1 billion soums (USD 200 million). Additionally, the resource deficit (mainly for the development of higher education and the modernization program) will be the equivalent of USD 526 million.
547. **8) Healthcare** will require 416 billion soums, the bulk of which (202 billion soums) is provided by long term foreign soft loans under state guarantee with subsequent repayment from the government budget. Direct budgetary expenses will constitute 58 billion soums and will be aimed mainly at continuing the construction of RHCs and other primary medical care facilities. The resource deficit is an estimated 156 billion soums (USD 117 million) that needs to be raised from foreign sources in the process of program implementation.

Table 11.2

**Investment Requirements for WIS implementation by sectors of economy**  
(in billion soum)

#	Sectors	Requirements for 2007-2010	Predicted resources, total	Including				Financing deficit
				Own resources of enterprises and the population, credits of local banks	State budget	Extra budgetary funds	Foreign investment raised	
	Total, including:	35,379	32,607	14,560	2,577	3,490	11,980	2772
1	Industry (without energy providers and the power industry)	6,222	6,150	3,794	71	629	1,656	72
2	Energy providers and the power industry	13,642	13,565	7,112	0	0	6,453	77
3	Agriculture and irrigation	2,334	1,325	329	451	0	545	1009
4	Construction industry	813	813	177	0	0	636	0
5	Transportation and communications	3,182	2,990	1,158	25	557	1,250	191
6	Communal services (excluding the electricity and gas network)	1,017	728	57	70	0	601	289
7	Other industries and sectors in the private sector, including small businesses	336	336	22	0	0	314	0
8	Housing	1,910	1,902	1,840	35	0	27	8
	Incl. mortgages	86	78	16	35	0	27	8
9	Education	4,892	4,193	0	1,620	2,304	269	699
10	Healthcare	416	260	0	58	0	202	156
11	Other government sectors	615	345	71	247	0	27	270

## 6.2. Financing Non-capital Expenditures of WIS social sectors

548. Increasing financial resources of the government and society will be channelled for implementation of WIS main priorities in development of social industries.

**Table 6.3**

### Mobilization of finance for non-capital expenses for the implementation of the WIS in the social sectors

#	Priority industry and directions	2006	2007	2008	2009	2010	2007-2010
1.	<b>GDP, billion soums</b>	<b>21,708</b>	<b>27,353</b>	<b>33,405</b>	<b>39,941</b>	<b>47,550</b>	<b>x</b>
2.	<b>Education, total</b>						
	As % of GDP	6.8	7.8	8.2	8.7	8.4	
	In billion soums	1,480.0	2,142.0	2,749.6	3,485.7	3,981.4	12,358.7
	Through state budgetary funds						
	As % of GDP	6.0	7.0	7.4	7.6	7.7	
	In billion soums	1,304.9	1,914.7	2,472.0	3,035.5	3,661.4	11,083.55
	Through extra-budgetary funds, in billion soums	75.9	102.3	124.9	150.2		377.4
	Through private funds (students, sponsors)						
	As % of GDP	0.46	0.46	0.46	0.75	0.67	
	In billion soums	99.2	125.0	152.7	300.0	320.0	897.7
3.	<b>Healthcare, total</b>						
	As % of GDP	3.6	3.8	4.0	4.1	4.3	
	In billion soums	782.7	1,027.9	1,322.2	1,620.8	2,024.7	5,995.6
	Through state budgetary funds						
	As % of GDP	2.3	2.5	2.7	2.8	3.0	
	In billion soums	509.6	683.8	901.9	1,118.3	1,426.5	4,130.5
	Through private funds (patients, sponsors), in billion soums	273.1	344.1	420.3	502.5	598.2	1,865.1
4.	<b>Social protection of the population, total</b>	291.8	364.5	445.1	532.3	633.6	1,975.5
	As % of GDP	1.4	1.4	1.3	1.3	1.3	
	Including Social benefits						
	Social benefits to families, including those with children, in billion soums	278.7	350	427.4	511.1	608.4	1,896.9
	Reimbursement from the state budget of the price difference for socially important communal services, in billion soums	13.1	14.5	17.7	21.2	25.2	78.6
5	Other parts of the social sector, in billion soums	124.1	538.1	456.8	426.3	364.9	1,786.1
6	Retirement scheme, in billion soums	1,413.2	1,969.4	2,538.8	2,955.6	3,376.1	10,839.9
7	Employment Promotion Fund,	38.9	49.0	59.8	71.5	85.1	265.4

8.	<b>Total expenses from the state budget and state extra budgetary funds on non capital expenses of social industries, in billion soums</b>	3,758.4	5,621.8	6,999.3	8,289.7	9,547.6	30,458.4
	As % of GDP	17.3	20.6	21.0	20.8	20.1	
9.	<b>Estimation of non capital expenses of private sector on social priorities, in billion soums</b>	372.3	469.1	573.0	802.5	918.2	2,762.8
10.	<b>Total amount of expenses of the state and society on the social priorities of the WIS, in billion soums</b>	4,130.7	6,090.9	7,572.3	9,092.2	10,465.8	33,221.2
	As % of GDP	19.0	22.3	22.7	22.8	22.0	

549. The government intends to allocate approximately 22% of GDP for social priorities for 2007-2010 through both the state budget and state extra budgetary funds.
550. The government intends to channel largest amount of resources into the development of education, expenses for which will increase from current the 6% up to 7.7% of GDP. Government expenditures on healthcare will increase from 2.5% to 3% of GDP.
551. Including the contribution of the private sector and sponsors, the total non-capital expenditure by society to achieve the social objectives of the WIS for 2007-2010 will be 33,221 billion soums (USD 25 billion).
552. The projected total expenses for certain prioritized sectors of the WIS that most need foreign investment is described in Table 11.4. The calculations confirm that the programme is financially realistic since most of the required financing will be provided from domestic sources.

**Table 6.4**

**Estimates of Priority Expenses for 2007-2010 including Capital and Non-capital Expenses**  
(in billion soums)

WIS Priorities	2007-2010, total	Including	
		From domestic sources	From external sources (including loans)
Total	68,600.2	65,828.2	2,772
Including:			
Agriculture	5,351.7	4,342.0	1,009
Healthcare	6,411.6	6,255.6	156
Education	17,250.7	16,551.7	699
Communal services (utilities)	1,095.6	806.6	289



### **6.3. Financing Principles of the Strategy**

553. Taking into account limited government resources, the key issue in budgeting policies, programs and measures, identified in the Action Plan, is the prioritized assignment of expenses by sectors based on the following basic criteria/principles:
- actions and expenses that directly or indirectly promote welfare improvement and/or economic growth;
  - actions or expenses adequate to cover all agents inside the respective target group of the population, compared to expenses that only cover part of a target group;
  - expenditures focused on the vulnerable or poor groups of the population;
  - expenditures on measures focusing on the efficient use or conservation of resources (e.g., liquidation of loss-making companies);
  - financing well-planned measures with realistic and moderate production costs.
554. The Government will move away from the practice of planning budgets and allocating financial resources based on an annual planning cycle, and move towards a mid term (three year) system of budgetary planning (SBP) to rationalize the budgeting process. The main features of this system include a centralized approach to sectoral planning and a three-step scheme of planning expenditures:
- identification of a package of budgetary expenses based on macroeconomic projections and established macroeconomic and fiscal objectives;
  - division of the package of budgetary expenses into a series of absolute limits of sectoral financing, based on the intersectoral development priorities;
  - division of sectoral spending limits on intra-sectoral limits corresponding to separate activity fields in line with the priorities of sector development, identified by the respective sectoral agencies.
555. The new system of expenditures will support this process through the clear identification of spending parameters in each sector and based on which the priority implementation of development policies and programs will be determined.
556. Another important factor in budgeting expenses for implementing the Strategy is the current policy of reducing the tax burden, which, on the one hand creates favorable conditions for the development of the real sector of the economy, whereas on the other hand it limits the resource base for planning and allocating budgetary resources, primarily for the social sector.
557. In this regard, the emphasis will be on the promotion and effective use of alternative sources of financing for the implementation of major social projects: private-public partnerships and external assistance from international organizations and donor countries.

## Chapter 7

# Organization of the WIS Implementation Process, System of Monitoring, Evaluation and Regulation

### 7.1. Organization of the WIS Implementation Process

558. Once the WIS has been approved, the additional medium term programs and government resolutions necessary for the implementation of the WIS will be developed and adopted.
559. The primary indicators of the WIS will be given serious consideration in the development and approval of the medium term and annual projections of social-economic development of the country and state budget, and also in the annually approved National Investment Program. The goals and indices of the WIS in recent months will be considered during the adjustment of the social-economic development projections of the country for 2007 and in the development of projections for 2008.
560. Each responsible ministry, agency, and khokimiyat will develop an action plan for the implementation of the strategy at the sectoral and local levels. The appropriate ministries and agencies will be responsible for the implementation of the strategy components at the national level. Local government bodies will carry out implementation of the strategy at the local level. General coordination of the actions will be carried out by the Ministry of Economy, for which it will probably need technical support.
561. The WIS will be implemented in close collaboration with ministries and agencies as well as with local self-government bodies and other civil society organizations.

### 7.2. Monitoring and Evaluation

562. Implementation of the WIS will include the process of constant monitoring and evaluation at the national and local levels, consisting of:
- monitoring of implementation of sectoral policies and the strategy as a whole;
  - monitoring and evaluation of the achieved results;
  - assessment of the effectiveness of the implemented policies aimed at achieving the goals of welfare improvement and economic growth.
563. The monitoring of most indices, coordinated with the Ministry of Economy at the national level and the Departments of Economy at the local level, will be carried out quarterly in the framework of the analysis of the country's social-economic development results, and reported to the Government and the relevant Councils of People's Deputies in the regions. The results of the monitoring will be available for the public.
564. It appears that technical support for the development of electronic software for the monitoring of the WIS indices at the national, branch and regional levels will be needed.
565. Simultaneously line ministries will independently carry out monitoring of the realization of certain medium term programs and Government resolutions aimed at the implementation of the WIS, and report on their fulfillment to the Government.
566. Based on the results of the Monitoring and assessment of the effectiveness of the implemented policies for achieving the goals of the WIS, instruments able to make the necessary adjustment will be constantly developed. The indicators of the WIS, as they are achieved, may be adjusted, and also clarified for increasing the effectiveness of the implemented policies.

### 7.3. Indicators of Monitoring and Evaluation

567. In order to systemically monitor and evaluate achievement of the WIS goals, special indicators have been developed, as stated in the attachments to the WIS.
568. These indicators are conditionally divided into two groups – outcome (goal) and auxiliary. The final indicators are designed to reflect the achievement of the final result. Intermediate ones include indicators that reflect the process of realizing the Strategy and have a direct impact on its results.
569. The indicators of the WIS are:
- *Indices of macroeconomic stability and economic growth* – the GDP growth rate and structure, per capita GDP (by PPP), inflation rate, savings rate as a proportion of GDP, the budget deficit, amount and growth rate of investment, export growth rate, and security of the country based on indices of external and internal debts;
  - *Income and expenditures of the population* – the rate of average salary growth and net incomes of the population, comparative ratio of even distribution of income;
  - *employment* – unemployment rate with a breakdown by gender, and the number of created new jobs;
  - *public health* – indicators of life expectancy, maternal and child mortality rates, prevalence of socially significant diseases;
  - *education* – coverage of children of the relevant age categories by the relevant level of education, adult literacy rate, number of years in educational institutions. These indicators are to be disaggregated by gender;
  - *social security* – coverage of disadvantaged families by social security measures, the adequacy of pensions for the participation of citizens in the system; coverage of the unemployed by measures of social security;
  - *quality of the living environment* – access of population to drinking water, gas, and housing.
570. The main indicator of progress in achieving the WIS goals is the reduction of poverty, which will be annually determined based on the results of household budget analysis.
571. An analysis of these indicators will be conducted, wherever possible, in the breakdown of gender, regions and urban and rural areas. The list of indicators will be further improved in the framework of the Statistics component of the ADB technical assistance project, and also taking into account indicators of the Millennium Development Goals (MDG), adapted to the conditions in Uzbekistan. This will allow simultaneously both the monitoring and evaluation of the Strategy implementation process as well as the achievement of the MDGs.

### 7.4. Primary Source of Information

572. The primary source of information for monitoring living standards and poverty reduction will be the regular Household Survey by the State Statistics Committee. An important source of information will be the Workforce Survey conducted by the Ministry of Labor and Welfare since 2002. It is notable that for the analysis there needs to be improvements in the data collection methodology and instruments.
573. Government and agency statistics will be widely used for data collection. Additional sources of information on the current state and effectiveness of the Strategy implementation will be the regular surveys conducted by independent sociological centers and organizations.
574. For the purposes of improving the database on the development of industries and various areas of social development, statistics bodies and agencies will be regularly improving data collection methods and instruments, which will ensure increases in the quality of information its comparability with international standards. As the preparation process progresses, involving the technical assistance of donors and

international organizations, highly skilled staff and appropriate equipment, most of the aforementioned indicators can be monitored locally.

### 7.5. Institutional capacity for Monitoring

575. The oversight and coordination of implementation, monitoring, assessment and annual adjustment of the strategy will be carried out by the Inter-agency Council (IC).
576. The monitoring of the Strategy implementation process and its impact on living standards will be conducted by the Ministry of the Economy. These functions will be delegated to one of the existing departments of the Ministry, or, with external technical support to a special Department for Monitoring and Evaluation of the WIS implementation (DME).
577. The Ministry of the Economy (or DME WIS) will carry out:
- coordination of the monitoring and evaluation process at inter-agency and regional levels;
  - regular monitoring of various auxiliary and primary indicators, aggregation of country data;
  - assessment of the progress in achievement of the established goals and providing comments to the parties involved in the strategy implementation;
  - provision of compliance, quality and correlation of data and mechanisms of the monitoring, used by the parties participating in the Strategy implementation;
  - provision of assistance in increasing the potential of the parties participating in the Strategy implementation;
  - monitoring of progress in achieving the goals and tasks of the strategy;
  - review and analysis of the current situation in the country including a regular analysis of welfare;
  - assessment of the impact of policies planned according to the strategy;
  - analysis of interrelations between the policies of the different sectors;
  - providing policy recommendations for the Inter-agency Council and the participants of the Strategy implementation;
  - increasing the use of data for the development of practically oriented policies.
578. The monitoring of the implementation of the sector policies, as well as their outcomes and outputs, will be carried out by special groups – **Monitoring Groups**, consisting of staff members from the appropriate divisions of the ministries and agencies.
579. Coordination of the monitoring and evaluation process at the local level will be implemented by the departments of the economy of the regional and district khokimiyats. Participation of the local community in this process will be promoted by involving representatives of the local administration, public organizations, NGOs etc.
580. Monitoring Groups will render essential support to local communities providing an information flow from the national to local level by distributing appropriate materials, publications, reports, etc.
581. Regional forums will be annually organized for discussion of progress and further action plans as well as an assessment of the impact of the strategy implementation on the development of each region.
582. In addition to monitoring the achievement of the set goals and tasks, it is envisaged to develop and implement a system for monitoring the effectiveness of utilizing state and donor resources. This will ensure the transparency of funds and allow investors to maintain control of their investments.

### 7.6. Cooperation with International Organizations for the Implementation of the WIS Goals

583. For implementing the WIS goals Uzbekistan will need the support and assistance of the international community in the following main areas:

- 1) Providing long-term soft loans for the implementation of goals established in the WIS in the socially significant sectors such as: education, healthcare, drinking water supply, reconstruction and the development of drainage and treatment installations as well as the sustainable supply of irrigation water for rural population. The list of main projects and estimated need for investment is given in the Annexes to the WIS
  - 2) Providing technical assistance grants for improving the measures and policies in those sectors where immediate impact can be achieved: development of the health insurance system, improvement of the activities of water users association, the development and improvement of the treasury system, institutional support of the national authorized body as well as in the development of technical documentation for projects within the Clean Development Mechanism and so forth.
  - 3) Proving technical assistance grants for the process of monitoring and evaluating the WIS indicators
584. In order to increase the effectiveness of financial and technical donor assistance, it is advisable to change its direction from project-oriented to the programmatic approach. Project-oriented financing has several limitations that do not allow funds to be used with the maximum efficiency. Funds allocated for the implementation of a certain project cannot be speedily reprogrammed for other purposes. The limited number of projects often does not capture the whole range of priority problems of the sector. Financing needs in a certain area do not always correspond to the financing cycle of a donor. In the program approach, funds will be allocated not for a certain project but for a sectoral program with clearly defined final goals and instruments for their achievement. This will enable the flexible use of allocated funds for necessary activities at the right time and in the framework of a comprehensive sectoral approach.
585. This approach could be implemented based on the following principles:
- Joint participation of several donors and the Government in establishing a “resource fund” to be allotted for financing activities in a certain sector or thematic multi-sectoral area.
  - Using the “resource fund” for financing the activities of an appropriate sector budget based on the priorities determined by the sectoral agency (sector group) jointly with participating donors.
  - Flexibility in reprogramming funds within the sector “resource fund” on condition of the consent of the participants and prioritized nature of the new dimension of financing.
586. This approach would be most effective in the implementation of drinking water supply projects, renovation and expansion of the sewerage network and purification installations as well as in projects for the renovation of the irrigation network and pump units used in the irrigation systems.
587. In the light of this, efforts in the following areas will be scaled up:
- Expanding dialogue with donor community on project financing issues in the framework of the WIS. Although international financial institutions and development agencies are demonstrating a readiness for the closer coordination of their programs, a more active government role is necessary for achieving strategic agreements with donors and improving the forms of collaboration with development partners. In particular, it is advisable to hold regular meetings (1-2 times a year) of the government, international donors, private sector, and civil society.
  - Improved mechanisms through which the distribution and monitoring of the effective utilization of external assistance funds provided in the framework of the WIS projects is undertaken for a particular sector and regional level should also become the most important goal of changes in the system of coordination of external assistance.
  - Strengthening the state bodies responsible for the coordination of external assistance. Such a system has already been formed in general, however it is necessary to build the capacity of the appropriate structural divisions of the Cabinet of Ministers, the Ministry of the Economy, the

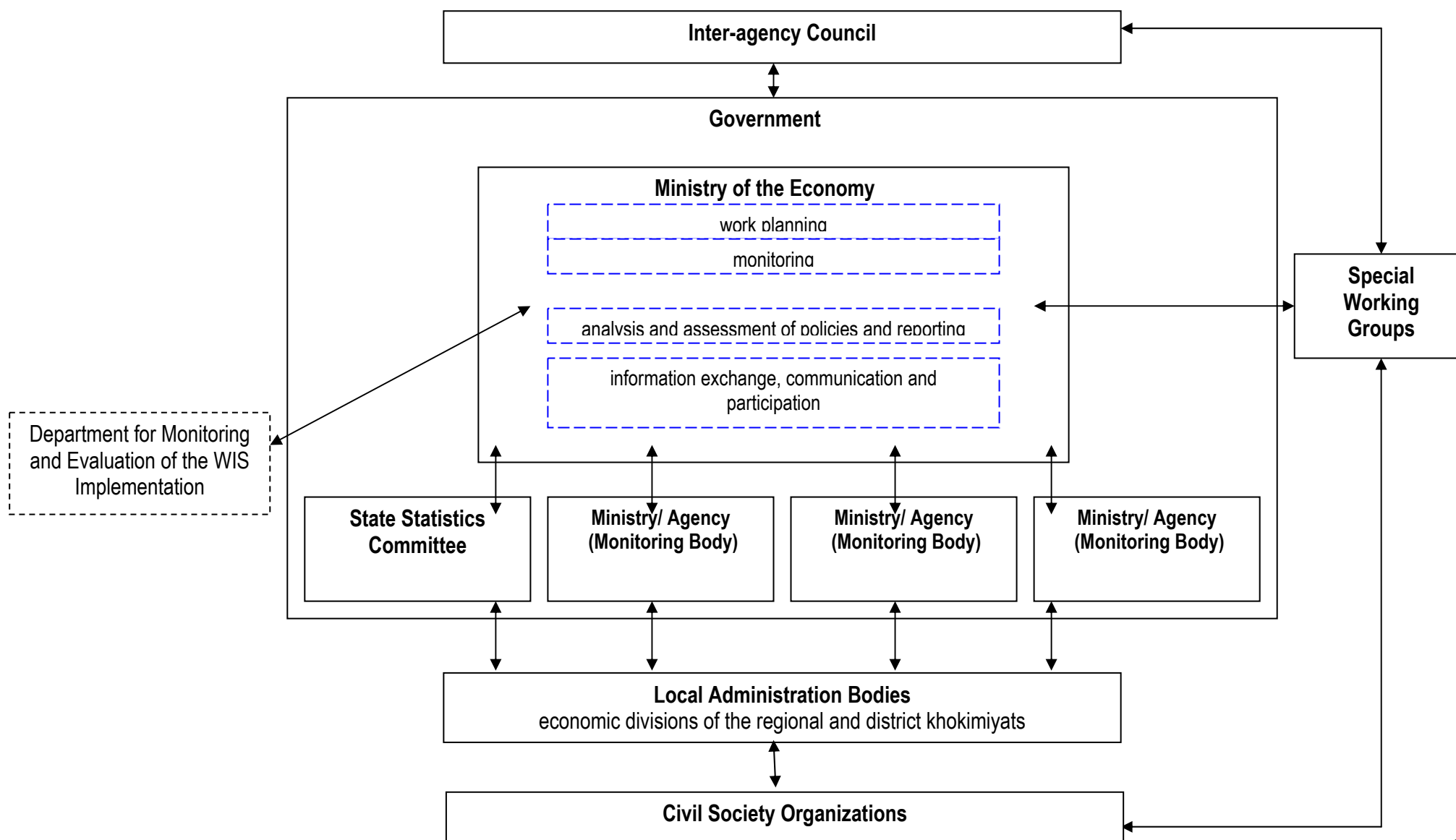
Ministry of Finance and the Ministry of Foreign Economic Relations, Investments and Trade in such directions as:

- monitoring of the implementation of the WIS goals and priorities;
- analysis of effective use, and determination of medium term needs, of financial resources for the implementation of priority programs in the framework of the WIS and other development programs;
- mobilization and allocation of funds provided in the framework of external assistance, increasing the effectiveness of state investment and fund management in the framework of development assistance programs;
- system analysis and development of strategic recommendations for the improvement of procedures in which the government and development partners can collaborate with the purpose of enhancing the effectiveness of external assistance.

588. For strengthening the monitoring and timely response to changes in individual areas, it is planned to develop a close and multi-dimensional mode of cooperation with international organizations that have good experience in the area of monitoring and evaluation of implementation. This will be carried out through Technical Assistance projects and other partnership mechanisms. It is also planned to improve the institutional capabilities of some ministries and agencies in order to improve the quality of monitoring in the industrial and territorial sectors, which will facilitate the decentralization of information flows and decision making.

589. To this end, the first stage during 2007-2009 will be several activities in the area of capacity building in the monitoring and evaluation of healthcare and education programs in the framework of a pilot project financed through a World Bank grant. Subsequently, the institutional framework that will be developed, together with the acquired skills and experience will be used in other sectors.

# ORGANIZATIONAL STRUCTURE OF THE WIS IMPLEMENTATION MONITORING AND EVALUATION SYSTEM



## Annex 1

**Investments Needs for the Implementation of Social Sector Projects (including foreign investments and loans)**  
( \$ million)

№	List of Activities	Donor	Total investments	including			Current status of foreign investments by projects as of 1.06.2007.	
				budget	extra budgetary funds	Need in external funds	Disbursed	To be disbursed
	<b>Total:</b>		<b>3, 747.7</b>	<b>597.5</b>	<b>4.1</b>	<b>3 164.1</b>	<b>337.4</b>	<b>2 826.8</b>
	<b>I. Housing and communal services</b>		<b>954.9</b>	<b>145.1</b>	<b>4.1</b>	<b>806.0</b>	<b>143.2</b>	<b>662.8</b>
	<b>Projects in progress and ready to start</b>		<b>673.6</b>	<b>82.1</b>	<b>4.1</b>	<b>588.0</b>	<b>143.2</b>	<b>444.8</b>
1	Water supply of Bukhara and Samarkand	IBRD, IDA	58.0	8.0		50.7	31.5	19.2
2	Improvement of the water supply system in Gulistan, Jizzakh and Karshi	ADB	55.6	19.6		36.0	24.8	11.2
3	Clean water, sanitation and health	IBRD	88.2	13.2		75.0	66.3	8.7
4	Improvement of drinking water supply in the Republic of Karakalpakstan and Khoresm oblast	ADB, EDBI	65.0	15.0		50.0	19.7	30.3
5	Improvement of the water supply system of Tashkent	EBRD	14.7	-	4.1	10.6	0.9	9.7
6	Major improvement of the water supply of Ferghana, Margilan and adjoining settlements to the conduit	Exim bank of PRC	38.1	2.1		36.0	-	36.0
7	Equipment of housing with domestic cold and hot water meters	EximBank of PRC	17.3			17.3	-	17.3
8	Municipal water supply and sanitation of the rural areas of Navoi and Kashkadarya oblasts	ADB	29.6	4.6		25.0	-	25.0
9	Municipal water supply and sanitation of the rural areas of Jizzakh and Syrkhandarya oblasts	ADB	29.6	4.6		25.0	-	25.0
10	Modernization of Damkhoja interregional water pipe (1st phase)	PRC (People's Republic of China) Government Loan	2.3	0.1		2.1	-	2.1
11	Improvement of the waste water treatment system of Samarkand	PRC Government Loan	1.1	0.1		1.0	-	1.0
12	Improvement of the waste water treatment system of Bukhara	PRC Government Loan	1.1	0.1		1.0	-	1.0



13	Reconstruction of the water intake facility WF-1, WF-3 for water supply to the rural population of Chinaz, and part of Yangy-Uyl rayon of Tashkent oblast	PRC Government Loan	20.1	1.0		19.1	-	19.1
14	Improvement of the water supply of Jizzakh	PRC Government Loan	42.1	2.1		40.0	-	40.0
15	Expansion and reconstruction of the sewage treatment plants of Chirchik	PRC Government Loan	20.9	1.0		19.9	-	19.9
16	Reconstruction and expansion of the sewage treatment plants of Namangan	PRC Government Loan	15.8	0.8		15.0	-	15.0
17	Reconstruction of the sewage treatment plants of Karshi with after-treatment and sediment treatment	IDB	11.8	1.8		10.0	-	10.0
18	Development of the water pipe network in the cities and settlements of the Republic Karakalpakstan	PRC Government Loan	15.1	0.8		14.3	-	14.3
19	Interregional waterpipe Tuyabuguz-Bekabad	PRC Government Loan	63.2	3.2		60.0	-	60.0
20	Improvement of the system of collection and reclamation of hard waste in Samarkand and Bukhara	PRC Government Loan	84.2	4.2		80.0	-	80.0
	<b>Projects with no sources of financing yet</b>		<b>281.3</b>	<b>63.0</b>	<b>-</b>	<b>218.0</b>	<b>-</b>	<b>218.0</b>
21	Expansion and reconstruction of the sewerage systems and treatment plants of Gulistan	not determined	15.5	6.3		10.5		10.5
22	Expansion and reconstruction of the sewerage treatment plants of Jizzakh	not determined	14.2	4.2		10.0		10.0
23	Water supply of Jizzakh from the Zeravshan river	not determined	106.9	34.8		72.1		72.1
24	Expansion and reconstruction of the water supply and sewerage systems of Andijan	not determined	30.5	3.1		25.9		25.9
25	Reconstruction of the sewerage treatment plants and re-laying of the 9km sewerage collectors of Urgench	not determined	15.5	6.5		9.0		9.0
26	Improvement in the collection and reclamation of hard waste system in Samarkand and Bukhara	not determined	83.2	3.2		80.0		80.0
27	Reconstruction of the sewerage network and treatment plants in Termez	not determined	15.5	5.0		10.5		10.5

<b>II. Water facilities construction</b>			<b>1 482.1</b>	<b>171.7</b>	<b>-</b>	<b>1 328.1</b>	<b>104.6</b>	<b>1 223.5</b>
<b>Projects in progress and ready to start</b>			<b>601.7</b>	<b>171.7</b>	<b>-</b>	<b>447.7</b>	<b>104.6</b>	<b>343.1</b>
28	Drainage project of Uzbekistan. Project on drainage diversion from south Karakalpakstan	IBRD, IDA	74.5	14.5		60.0	20.5	39.5
29	Rehabilitation of the machine canal system Amu-Zang	ADB	110.1	36.9		73.2	12.8	60.5
30	Equipment delivery from the PRC for the hydro electric power plant-2 at the Andijan water reservoir	Exim Bank of PCR	10.6	0.5		10.0	-	10.0
31	Equipment delivery from the PRC for the mini-power station at the Akhangaran water reservoir	Exim Bank of PCR	6.2	0.3		5.9	-	5.9
32	Rehabilitation of the pump station "Ulugnar" in Andijan oblast	Chinese Government	12.5	3.7		8.8	-	8.8
33	Rehabilitation of the pump station Gulbakhor1 <sup>st</sup> stage in Andijan oblast	Chinese Government	9.0	3.0		6.0	-	6.0
34	Rehabilitation of the pump station "Raish Khakent-1" in Andijan oblast	Chinese Government	5.4	1.6		3.7	-	3.7
35	Rehabilitation of the pump station "Alat" in Bukhara oblast	Chinese Government	14.2	4.4		9.7	-	9.7
36	Rehabilitation of the pump station "Kuy-Mazar" in Bukhara oblast	Chinese Government	12.7	4.5		8.1	-	8.1
37	Purchasing of pump equipment for the pump station "Karakul" reconstruction in Bukhara oblast	Chinese Government	7.2	1.3		5.9	-	5.9
38	Improvement of the meliorative network of arable land of central Ferghana	Chinese Government	10.1	20.5		8.1	-	8.1
39	Support for infrastructure development, as well as restructuring the farms in Akaltinsky district of Syrdarya oblast	ADB	70.9	34.1		36.0	28.1	7.9
40	Support of agricultural enterprises	IBRD	40.3	4.1		36.1	33.9	2.2
41	Grain productivity increase	ADB	36.6	10.6		26.0	9.3	16.7
42	Improvement of the melioration status of lands in Bukhara, Navoi and Kashkadarya oblasts (II phase)	ADB	87.5	17.5		70.0		70.0
43	Improvement of the melioration status of lands in Jizzakh and Syrdarya oblasts	KFAED	94.1	14.1		80.0		80.0
<b>Projects with no sources of financing yet</b>			<b>880.4</b>	<b>-</b>	<b>-</b>	<b>880.4</b>	<b>-</b>	<b>880.4</b>
44	Land improvement through rehabilitation of the main reservoirs in the Republic of Karakalpakstan	not determined	100.0			100.0		100.0

45	Improvement of the meliorative status of lands in the Andijan, Namangan and Ferghana oblasts	not determined	150.0			150.0		150.0
46	Construction of the Karaman water reservoir for irrigating lands in Jizzakh oblast	not determined	93.4			93.4		93.4
47	Construction of the Shorbulak water reservoir for improvement of the water supply of the Republic of Karakalpakstan	not determined	29.4			29.4		29.4
48	Reconstruction of pump stations in Samarkand and Navoi oblasts	not determined	70.0			70.0		70.0
49	Reconstruction of the pump station "Asaka-Adir" in Andijan oblast	not determined	7.0			7.0		7.0
50	Reconstruction of the pump station "Abdusamat" in Ferghana oblast	not determined	6.0			6.0		6.0
51	Reconstruction of the pump station "Galaba 1" in Namangan oblast	not determined	7.1			7.1		7.1
52	Reconstruction of the pump station "Besharik" in the Besharik rayon in Ferghana oblast	not determined	6.0			6.0		6.0
53	Construction of pump stations for guaranteed water supply on the lands of Izboskan and Pahtaabad rayons in Andijan oblast	not determined	29.5			29.5		29.5
54	Construction of the hydro power station "Shaudarskya" on the canal "Dargom" Samarkand oblast	not determined	3.0			3.0		3.0
55	Rehabilitation of the main collectors in Khorezm oblast	not determined	100.0			100.0		100.0
56	Increase of the water supply of suspended lands to the canal of "Buzton" in the Republic of Karakalpakstan	not determined	100.0			100.0		100.0
57	Water resources management improvement in Surkhandarya oblast (reconstruction of the Khazarbag-Akkapchigay canals)	not determined	70.0			70.0		70.0
58	Rehabilitation of the Amu-Bukhara irrigation system	not determined	109.0			109.0		109.0
<b>III. Training</b>			<b>930.7</b>	<b>159.0</b>	<b>-</b>	<b>771.7</b>	<b>71.7</b>	<b>700.0</b>
<b>Projects in progress and ready to start</b>			<b>413.7</b>	<b>159.0</b>	<b>-</b>	<b>254.7</b>	<b>71.7</b>	<b>183.0</b>
59	Assistance in the development of professional education in personnel training for small business	Government of Belgium	6.0	0.9		5.1	0.02	5.0
60	Development of special vocational education	Korean	28.3	1.3		27.0	0.1	27.0

		Government						
61	Development of special vocational education	ADB	71.1	32.0		39.1	38.1	1.0
62	Assistance to the development of professional education in the sector of information-communication technologies	KfW	13.4	3.2		10.2	6.3	4.0
63	Improvement of the system of textbooks and educational literature publication for basic educational schools (II phase)	ADB	54.9	29.9		25.0	11.3	13.7
64	The program of education sector development	ADB	97.1	58.6		38.5	5.0	33.6
65	Equipment with computer classes of 1900 basic educational schools of the Republic	Exim Bank of CPR	20.0	1.0		19.0	10.9	8.1
66	Construction and equipment of basic educational schools in the Republic of Uzbekistan	IBD	12.9	2.6		10.3	0.0	10.3
67	Construction and equipment of 5 professional colleges	IBD	12.7	2.2		10.5	0.0	10.5
68	Information penetration in basic educational schools	Exim Bank (Korea)	42.9	12.9		30.0	-	30.0
69	Construction and equipment of secondary schools II phase	IBD	11.5	1.5		10.0	0.0	10.0
70	Introduction of Information communication technologies into basic educational schools	ADB	43.0	13.0		30.0	0.1	29.9
	<b>Projects with no sources of financing yet</b>		<b>517.0</b>	<b>-</b>	<b>-</b>	<b>517.0</b>	<b>-</b>	<b>517.0</b>
71	Construction and reconstruction of higher educational establishments	Not defined	517.0	-	-	517.0		517.0
<b>IV. Public health care</b>			<b>380.0</b>	<b>121.7</b>	<b>-</b>	<b>258.4</b>	<b>17.9</b>	<b>240.4</b>
	<b>Projects in progress and ready to start</b>		<b>256.5</b>	<b>121.7</b>	<b>-</b>	<b>134.9</b>	<b>17.9</b>	<b>116.9</b>
72	Health -2 (reform of tprimary health care)	IDA	118.1	78.1		40.0	9.2	30.8
73	Improving the health of women and children	ADB	70.0	30.0		40.0	0.7	39.3
74	Medical equipment for the Republican Research Center of Emergency medicine and its regional (oblast) affiliates	IBD	30.0	6.2		23.8	8.0	15.8
75	Equipment of cardio-surgery equipment in Tashkent	IBD	11.5	1.0		10.5	-	10.5
76	Medical equipment of 171 rayon affiliates of the Republican Research Center of Emergency medicine	KFAED	26.9	6.4		20.6	-	20.6
	<b>Projects with no sources of financing yet</b>		<b>123.5</b>	<b>-</b>	<b>-</b>	<b>123.5</b>	<b>-</b>	<b>123.5</b>
74	Radiological and hemodialysis equipment for		10.5			10.5		10.5

	units of oncological dispensaries and nephrological centres							
75	Equipping of oblast children hospitals with diagnostic and medical equipment		15.0			15.0		15.0
76	Medical equipment of oblast diagnostic centres		10.5			10.5		10.5
77	Equipping with up to date medical equipment of the Research Institute of Obstetrics and Gynecology, 4 affiliates and 9 oblast maternity complexes		10.5			10.5		10.5
78	Equipping with medical equipment of the Republican specialized centres of surgery, urology, cardiology and microsurgery of eyes		10.0			10.0		10.0
79	Construction, reconstruction and equipment of oblast health care facilities		67.0			67.0		67.0

## Annex 2

## Matrix Logframe for Monitoring the Welfare Improvement Strategy for 2007-2015 and for the period up to 2015

Priority Development Areas and Main Activities	Timeframe	Responsible Agencies	Indicators (indices)	Indicator				
				2007	2008	2009	2010	2015
1. Macroeconomic policy								
1.1 Promoting sustainable high rates of economic growth	2008 2015	Ministry of the Economy Central Bank Ministry of Finance	GDP growth rate as % of the previous year	108.2	107.8	108.1	108.3	108-109
			GDP growth rate per capita as % of the previous year	107	106.7	107	107.2	107-108
1.2. Monetary Policy and Capital Market development								
1.2.1 Implementation of a set of measures on the effect of monetary policies on inflation	2008 2015	Central Bank	Inflation rate (CPI) by December, %	5-7	5-7	5	5	4.4
1.2.2.Complete elimination of the difference between cash and non-cash money to reduce the scope of the informal market, establishment of equal opportunities for each economic actor and the stimulation of investments;	2008 2015	Central Bank	Difference between cash and cashless transactions,%	12%	10%	8%	0	0
1.2.3. Liberalization of the exchange rate policy and containing the growth of the real exchange rate of the soum.	2008 2015	Central Bank	Change in the nominal exchange rate, %	4-5	3-4	3.5	4-5	3.5
1.2.4. Enhancing the role of the Central Bank in the use of indirect tools of monetary policy for establishing a fully fledged money market.	2008 2015	Central Bank	Monetization rate (M2), %	18	20	22-23	24-25	33-35
			Rate of re-financing, %	14	12-14	11-12	10-11	8-10
			Annual growth of credit investments of banking system. %	37-39	38-40	40-42	41-43	35-38

Priority Development Areas and Main Activities	Timeframe	Responsible Agencies	Indicators (indices)	Indicator				
				2007	2008	2009	2010	2015
1.2.5. Expanding market mechanisms to distribute credit resources to reduce transaction costs in the access to credits.	2008 2015	Central Bank	Credits of commercial banks as % of investments	2.9	3.5	4.0	4.5	7-8
<b>1.3 Fiscal Policy and Management of state expenditures</b>								
1.3.1 Reduction of the tax burden and its even distribution.	2008 2015	Ministry of Finance	State budget revenues as % of GDP	22.1	21.6	21.1	20.9	
• Reducing income tax			Rate of income tax, %	13	14	14	14	
				18	19	19	19	
				25				
• Reducing the single social payment rate			Rate of single social payment, %	24	24	23	22	
1.3.2 Tax administration reform to streamline and unify the taxation system and optimize the performance of the tax authorities.	2008 2015	Ministry of Finance	Number of taxes and mandatory payments, reduction in comparison with the previous year	1- for all sectors.	1- for all sectors	-	1- for all sectors	
				4- for trade and catering				
1.3.3 Optimization of state expenditures and increasing their efficiency in the framework of the development and implementation of the budget strategy based on methods of results based budgeting.	2008 2015	Ministry of Finance	<b>General expenditures of the state budget and extra budgetary funds on capital expenditures in the social sector</b> as % of GDP	21.6	22	21.8	20	
			Share of expenditures of the consolidated budget on investment as % of GDP	3	2.9	3.1	2.4	
▪ Optimization of health care expenditures based on per capita financing.			Government expenditures on health care, including investment, as % to GDP	3.8	4.0	4.1	4.3	
▪ Optimization of expenditures on education based on per capita financing			Government expenditures on education, including investment, as % of GDP	8.9	9.3	9.8	8.4	
1.3.4 Maintaining wage increases of civil servants, pensions, grants and benefits above the inflation rate	2008 2015	Ministry of Finance	Growth of the average monthly in the public sector, as % of the previous year	150	132	126	115	

Priority Development Areas and Main Activities	Timeframe	Responsible Agencies	Indicators (indices)	Indicator				
				2007	2008	2009	2010	2015
2. Reform of the financial sector								
2.1 Achievement of the real independence of commercial banks leading to the more efficient allocation of financial resources and increasing public trust in the banking system	2008-2015	Central Bank, commercial banks	Growth of individual bank deposits, as % of the previous year	38-40	38-40	40-42	41-43	35-38
2.2 Establishment of dynamic markets of micro-crediting and mortgage crediting	2008-2015	Central Bank, commercial banks	Volume of mortgage loans as % of total loans	1.5	2.1	2.4	2.6	5-6
			Growth rates of micro-crediting , %	122	133	135	140	140
3. Structural investment policy								
3.1 Encourage the growth in savings as a share of GDP with the aim of the maximum efficient use of domestic savings for the purpose of investment	2008-2015	Ministry of the Economy Central Bank Ministry of Finance	Share of gross savings as % of GDP	25.2	25.8	26.8	24.6	26
• Establishment of a favourable climate for domestic and foreign investors, exercising direct investment into the development and modernization of production and the services sector			Proportion of enterprises own funds in the total volume of capital investment,%	44.1	38.8	42.3	43.4	45
			Proportion of foreign investment in the total volume of capital investment,%	25.3	31.5	33.2	34.8	35.5
○ Increased efficiency of state investment through strict limitations in the areas where they are made, and monitoring of their use			Share of state investment in the total volume of investment,%	9	9.5	8.9	8.7	7.7
4. Foreign Economic Activities								
4.1 Improvement of the forms and methods for encouraging and supporting domestic producers involved in exporting	2008-2015	Ministry of the Economy Ministry of Foreign Economic Affairs.	Growth rates of goods and services exports, as % of the previous year	116,3	116	117	118	118



Priority Development Areas and Main Activities	Timeframe	Responsible Agencies	Indicators (indices)	Indicator				
				2007	2008	2009	2010	2015
		Trade and Investments						
4.2 Expansion of the opportunities for commercial banks connected with export crediting.	2008-2015	Ministry of the Economy	Change in the volume of export crediting, %	118	118	121	125	130
4.3 Establishment of the infrastructure for export promotion, including products of small businesses, measures for streamlining the procedures for domestic companies to open trade representations abroad	2008-2015	Ministry of the Economy	Turnover of export cargo, Ton/km					
			Goods and services of small businesses, as a % of its total volume	12.2	13.7	15.2	16.7	20
5. Industrial policy								
5.1 Provision of the sustainable high rate of growth of industry	2008-2015	Ministry of the Economy	Growth rates of industrial production, as % of the previous year	113.2	108.6	113.1	113.5	114.2
			Share of industry in GDP, %	23.1	23.3	24.1	25.5	27.2
■ encouragement of industries involved in the deep processing of local raw material on the basis of production localization programs of textile, food processing with the maximum possible processing of local raw materials	2008-2015	Ministry of the Economy	Production volumes of localized production as % of the total volume of industrial production , %	13	15	18	22	26
6. Development of Agriculture								
6.1 Full completion of the process of moving to private farming, strengthening of the institution of long-term leasing in order to encourage farmers in the efficient use of and long term capital investment in their leased land	2008-2015	Ministry of the Economy	Production volumes of farms as % of the gross output of agriculture	35	38	40	44	50
6.2 Doubling capital investment including government funds and foreign loans under Government guarantee to support and rehabilitate irrigation and drainage systems, and the modernization of pumping stations	2008-2015	Ministry of the Economy	Investment in irrigation and melioration as % of the general volume of investment	6	8	8	8	9

Priority Development Areas and Main Activities	Timeframe	Responsible Agencies	Indicators (indices)	Indicator				
				2007	2008	2009	2010	2015
7. Creation of Favorable Conditions for the Development of the Private Sector								
7.1 Accelerating the privatization of state-owned companies and only retaining controlling share holdings in strategic industries. Program implementation.	2008-2015	State Committee of Property	Share of private/mixed ownership out of total GDP, %	79	80.5	82	83	85
7.2 Implementation of the small business development program until 2011	2008-2015	State Committee of De-monopolization, Ministry of the Economy	Changes in the number of existing small businesses, %	120	114.5	118	119.3	120
			Share of small businesses in GDP, %	45	47.1	49.4	52	55

## Annex 3

## Matrix of Indicators for monitoring the Welfare Improvement Strategy of the Republic of Uzbekistan for 2007 - 2010 and for the period up to 2015

Development Priorities and Key Activities	Implementation Timeframe	Responsible agencies	Indicators	Forecasted				
				2007	2008	2009	2010	2015
INCREASING INCOME								
Active policy of employment and labor market regulation	2008 - 2015	Ministry of Labor and Social Protection, Council of Ministers of the Republic of Karakalpakstan, oblasts and Tashkent city khokimiyats	Creation of jobs, thousand jobs	Not less than 550,000 new jobs every year				
<ul style="list-style-type: none"><li>Creation of jobs via enterprises, commercial bank loans, foreign investment, budget and extra budgetary sources of funding</li></ul>	2008 -2015	Economic entities, Council of Ministers of the Republic of Karakalpakstan, oblasts and Tashkent city khokimiyats	Growth in the employment rate in the real sector of the economy, as % of the previous year	103.9	104.0	104.1	104.2	104.5
<ul style="list-style-type: none"><li>Improving the sectoral and territorial structure of employment</li></ul>	2008 -2015	Corresponding sectoral ministries and economic authorities	Growth in the share of jobs created in rural areas, %	68.4	68.7	69.2	70.3	71.1
<ul style="list-style-type: none"><li>Reducing the employment rate in the informal labor market</li></ul>	2008 -2015	Ministry of the Economy, Ministry of Labor and Social Protection	Share of employed in the informal sector, %	30.5	28.5	26.0	24.0	17.0
			including women, %	16.3	15.2	13.9	12.8	8.9
<ul style="list-style-type: none"><li>Decreasing the number of people who need employment / the unemployment rate</li></ul>	2008 -2015	Ministry of Labor and Social Protection	Unemployment rate at the beginning of the year, %	5.0	6-8	7.0	7.0	5.0
			including among women, %	2.7	3-4	3.8	3.7	2.6
Increasing the role of salaries and incomes of the population								
<ul style="list-style-type: none"><li>Increasing the minimum wage</li></ul>	2008 -2015	Ministry of Finance, Ministry of Labor and Social Protection	Growth of the minimum wage	Rates are not lower than inflation rates				
<ul style="list-style-type: none"><li>Increasing real wage rates</li></ul>	2008 -2015	Ministry of Finance, Ministry of Labor and	Growth of real wages, as % of the previous year	126.7	129.0	127.4	129.3	129.9

			Growth of real incomes, as % of the previous year	122.6	120.1	118.0	118.5	121.1
			Income concentration index (Gini index), %	0.38	0.38	0.36	0.35	0.30
INCREASING ACCESS OF THE POPULATION TO QUALITY EDUCATIONAL SERVICES								
Preschool education								
• Coverage of children by preschool educational institutions	2007-2015	Ministry of Public Education, Council of Ministers of the Republic of Karakalpakstan, oblasts and Tashkent city khokimiyats	3-6 years old	23.3	23.7	24.5	25.6	41.6
			of them:					
			3-4 years old	22.5	22.6	23.3	24.5	32.8
			5-6 years old (number of children in preschool educational institutions as a percentage of the corresponding age group), %	24.0	24.8	25.8	26.7	50.5
Basic secondary education								
• Coverage of children by primary and secondary schools	2008 -2015	Ministry of Public Education, Ministry of Higher Education, State Statistics Committee	Rate of coverage of children by primary and secondary schools, as % of the number of children aged 7-15 years	97.5	97.5	97.5	97.6	97.6
			- including girls, %	97.1	97.1	97.1	97.1	97.2
Admission of graduates to educational institutions								
• Increase in the number of graduates admitted to educational institutions	2008 -2015	Ministry of Public Education, Ministry of Higher Education, State Statistics Committee	Share of 9-year school graduates admitted to secondary specialized and professional educational institutions (SSPEI), %	80	84.0	94.0	100	100
			Share of SSPEI and 11-year school graduates admitted to higher educational institutions, %	7.1	7.1	6.8	6.0	
• Increase in the number of students at higher educational institutions	2008 -2015	Ministry of Higher Education, State Statistics Committee, Higher educational institutions	Number of students of higher educational institutions (per 10 thousand people)	107	107	107	107	108
			- including women	90	90	90	91	92

Full realization of the National programme of school education								
<ul style="list-style-type: none"> <li>Construction of new schools to replace old buildings that do not comply with sanitary-and-hygienic norms</li> </ul>	2007-2009	Ministry of Public Education, local sanitary organizations, State ArchitectSroy, Ministry of Finance, Council of Ministers of the Republic of Karakalpakstan, oblasts and Tashkent city khokimiyats	Number of new schools (units) / their capacity (in thousand pupils)	60 / 22.6	64 / 23.9	61 / 21.6		
<ul style="list-style-type: none"> <li>Capital reconstruction of secondary school buildings</li> </ul>	2008 -2009	Ministry of Public Education, local sanitary organizations, State ArchitectSroy, Ministry of Finance, Council of Ministers of the Republic of Karakalpakstan, oblasts and Tashkent city khokimiyats	Number of schools (units) / their capacity (in thousand pupils)	490 / 166.7	558 / 191.5	591 / 204.7	In 2009 a proposal for the next stage will be prepared.	
<ul style="list-style-type: none"> <li>Capital repairs of secondary school buildings</li> </ul>			Number of schools (units) / their capacity (in thousand pupils)	729 / 377.7	817 / 411.0	825 / 417.7		
<ul style="list-style-type: none"> <li>Routine repairs of secondary school buildings</li> </ul>			Number of schools requiring routine repairs, units	372	430	427		
<ul style="list-style-type: none"> <li>Extension of sport facilities due to capital reconstruction of existing comprehensive schools</li> </ul>			Number of newly constructed and reconstructed sport facilities of secondary schools, units.	293	342	349		
<ul style="list-style-type: none"> <li>New construction of sports complexes of different types for children</li> </ul>			Number of constructed sport complexes, units	17	19	20	21	26
<ul style="list-style-type: none"> <li>Improving the access of the population to qualitative education in secondary schools</li> </ul>	2008 - 2015	Ministry of Public Education, Ministry of Finance, Council of Ministers of the Republic of Karakalpakstan, oblasts and Tashkent city khokimiyats	Level of provision of textbooks and learning materials to schoolchildren, including in the framework of the textbook rental scheme, %	95.7	96.2	97.2	98.6	100
	2008 - 2015	Ministry of Public Education, Ministry of Finance, Council of Ministers of the Republic of Karakalpakstan, oblasts and Tashkent city khokimiyats	Retraining and the professional development of teachers, number of people	103,726	105,720	108,250	110,868	120,686

	2008 - 2015	Ministry of Public Education, Ministry of Higher Education, Ministry of Labor and Social Protection	Number of places prepared for children with special needs, coverage by inclusive (integrated) training	710	790	850	930	1,120
Out-of-school education								
• Further improvement of the conditions in specialized schools and Mehribonlik houses	2008 -2010	Ministry of Public Education, Ministry of Finance, Council of Ministers of the Republic of Karakalpakstan, oblasts and Tashkent city khokimiyats	Number of such institutions of public education, units	1. Inventory taking in 2007 of 28 Mehribonlik houses and 86 specialized schools for children with disabilities and preparation of the State programme on improvement of their material and technical base for the period up to 2015				
Full realization of the State program on the transition to secondary and specialized secondary and professional education								
• Putting into operation academic lyceums and vocational colleges	2008 -2015	Ministry of Higher Education, Ministry of Finance, State ArchitectSroy, Council of Ministers of the Republic of Karakalpakstan, oblasts and Tashkent city khokimiyats	academic lyceums and vocational colleges:					
			units	199	223	229		
			places	123285	126585	130255		
			dormitories (places)	5750	22320	23320		
• Coverage of 9-year school graduates by secondary specialized and professional educational institutions	2008 -2015	Ministry of Public Education, Ministry of Higher Education	%	80	94.8	100.0	100.0	100.0
EXPANDING THE ACCESS OF THE POPULATION TO MEDICAL SERVICES								
Increasing the access of population, particularly from rural areas and the poor, to medical services								
Strengthening primary health care	2008 - 2015	Ministry of Health, Ministry of Finance, Ministry of Higher Education, Ministry of Public Education, Council of Ministers of the Republic of Karakalpakstan, oblasts	Share of population covered by primary care, %	98	99	100	100	100
• Establishment of rural medical offices	2008 - 2015	Ministry of Health, Ministry of Finance, Ministry of Higher Education, Ministry of Public Education, Council of Ministers of the Republic of Karakalpakstan, oblasts	Number of newly established rural medical offices, units	13	27	40	60	66
			Capacity of policlinics, number of visits per shift	650	1,350	2,000	3,000	3,300

• Providing modern medical equipment, vehicles, and communication facilities to primary health care	2008 -2015		Share of primary health care institutions equipped in accordance with the approved list of items, %	50	70	90	100	100
• Provision of the required medicines and supplies	2008 -2015		Share of primary health care institutions equipped with the necessary medicines and supplies in accordance with the approved list of items, %	60	70	85	90	100
• Improving the staffing of primary health care institutions with professional healthcare personnel (general practitioners)	2008 -2015		Share of primary health care institutions equipped with professional healthcare personnel (general practitioners) , %	60	70	85	100	100
• Improving the quality of medical services in primary health care			Share of primary health care institutions practically using the diagnostics and treatment standards, %	60	80	90	100	100
• Transition to per capita funding			Number of regions having moved to a per capita funding scheme, number / %	14 100%	14 100%	14 100%	14 100%	14 100%
<b>Reinforcing the system of emergency services</b>								
• Implementation of international quality standards for diagnostics and treatment	2008 -2015	Ministry of Health, Ministry of Finance, mass media, IFIs	Share of introduced standards (clinical guidelines) in relation to the number of groups of diseases, %	50	60	70	80	100
			Provision of modern medical equipment for the Republican Scientific Center for Emergency Aid and its branches, %	40	75	80	85	95
• Provision of modern medical equipment and tools for emergency services			Provision of modern medical equipment for the regional branches of the Center for Emergency Aid, %	30	50	80	85	95

<ul style="list-style-type: none"> <li>Improving the provision of the required medicines for emergency services</li> </ul>			Share of provision of medicines for emergency services, %: - Republican Scientific Center for Emergency Aid and its branches - regional branches	75 40	80 50	90 70	100 90	100 90
<ul style="list-style-type: none"> <li>Improving the provision of highly professional medical personnel for the emergency services with</li> </ul>			Staffing, %: - doctors - middle-level medical personnel	97 99	98 100	99 100	100 100	100 100
<i>Increasing medical awareness in families, strengthening women's health, birth and upbringing of a healthy generation. Reducing child mortality and maternal mortality</i>								
<b>Promotion of healthy life-style and medical culture</b>								
<ul style="list-style-type: none"> <li>Strengthening of health and promotion of a healthy lifestyle</li> </ul>	2007-2015	Ministry of Health, State JSC "Dori-Darmon", Institute of Health, "Soghlom Ovlod" Foundation, IFIs	Expected duration of live at birth, years including: - men - women	72.7 70.2 74.7	72.8 70.4 74.8	72.9 70.5 74.9	73.1 70.7 75.0	73.6 71.2 75.5
<ul style="list-style-type: none"> <li>Expanding the prevention of extrogenital and gynecologic diseases</li> </ul>			Level of maternal mortality per 100 thousand live-born	28.0	27.0	25.0	24.0	22.6
<ul style="list-style-type: none"> <li>Provision of good quality care for infants from the prenatal period</li> </ul>			Level of infant mortality per 1,000 live-born	15.0	14.0	13.0	12.0	11.0
<ul style="list-style-type: none"> <li>Implementation of international standards of child and woman care</li> </ul>			Share of introduced clinical guidelines (standards) in relation to the number of groups of diseases, %	40	50	60	80	100
<ul style="list-style-type: none"> <li>Increasing the qualifications of medical personnel in the important areas of child birth assistance and childhood</li> </ul>			Share of medical staff who received additional training, %	25	50	70	90	100
<ul style="list-style-type: none"> <li>Enhancing the provision of modern equipment to childhood and child birth assistance institutions</li> </ul>			Share of child birth assistance institutions equipped with medical equipment in accordance with the equipping standard, %	40	60	80	90	100
<ul style="list-style-type: none"> <li>Development of blood transfusion and hematology services</li> </ul>			Share of donor blood tested for hemotransmissible diseases, %	99.9	100	100	100	100
			Share of blood service institutions equipped in accordance with the approved list of items, %	35	50	65	90	100



<i>Prevention and reduction of socially significant diseases</i>								
<b>To stop the spread and start the reduction in the rate of tuberculosis</b>								
• Expanding preventive activities with high-risk groups of the population by raising awareness and providing medical consultations	2008 - 2015	Ministry of Health, mass media, Makhalla foundation, civil society	Coverage of population by preventive measures and domiciliary round tables, %	80	85	90	95	100
• Undertaking systematic inspections of appropriate groups of the population for tuberculosis	2008 - 2015	Ministry of Health	Coverage of appropriate groups of the population, %	92	95	98	100	100
• Increasing the use of standard WHO methods of diagnostics and treatment (DOTS programmes);	2008 - 2015	Ministry of Health, Tibtaminot, Tibtechnika, IFIs	Maximum treatment of identified patients, %	72	75	78	85	95
• Extending vaccination coverage of newborns and revaccination of children	2008 - 2015	Ministry of Health	Covered by immunization, %	99	99.5	99.5	99.8	100
• Increasing the social support to tuberculosis patients from poor families	2008 - 2015	Ministry of Labor and Social Protection	Coverage of contact persons with chemical preventives, %	88	90	90	90	100
• Treatment of tuberculosis patients within the penitentiary system with standard chemotherapy methods	2008 – 2015	Main execution department (Ministry of Internal Affairs), Ministry of Health	Treatment of penitentiary system tuberculosis patients, %	70	80	90	100	100
<b>Oncology</b>								
• Provision of modern medical equipment for oncologic institutions	2008 -2015	Ministry of Health	Level of provision of modern medical equipment for oncologic institutions, %	50	55	65	75	80
• Provision of anticancer drugs for oncologic institutions			Level of provision of anticancer drugs for oncologic institutions, %	50	55	65	70	100
<b>To stop the spread and start the reduction in the level AIDS towards 2015</b>								
• Reinforcing and increasing the quality of prophylactic measures for preventing and curing AIDS.	2008 - 2015	AIDS Centre, Centre for State Sanitary and Epidemiologic	Coverage of risk groups of the population by prophylactic measures, %	40	50	70	90	100

• Implementation of preventive interventions among groups of the population with the highest AIDS exposure risks	2008 - 2015		Coverage of most at risk groups that require special preventive programs: - injection drug users; - sex-workers; - men having sex with men	40 40 10	45 50 20	55 60 30	60 80 40	65 85 50
• Training of youth in the basics of healthy lifestyles	2008 - 2015	Ministry of Public Education, Ministry of Higher Education, Ministry of Health	Youth in education having the subject on the basics of healthy lifestyles, %	40	50	70	90	100
• Implementation of preventive measures on the prevention of AIDS transfer from mother to child	2008 - 2015	Ministry of Health	Pregnant women being tested for AIDS during the pregnancy period, %	40	60	75	90	95
<b>Drug addiction</b>								
• Extending the network of hotlines and anonymous treatment offices;	2008 -2015	Committee for Drug Control of Ministry of Internal Affairs, mass media, Ministry of Public Education, Ministry of Higher Education, Kamolot, Ministry of Health	Number of hotline offices, units	260	300	350	400	650
			Number of anonymous treatment offices, units	16	16	16	16	16
• Active identification of drug addicts among high risk groups	2008 -2015		Share of drug addicts actively identified, %	65	70	73	75	78
• Improving of the facilities, preparation in accordance with WHO standards and provision of highly professional staff of drug abuse institutions	2008 -2015	Ministry of Health	Share of medical staff who have received the appropriate training, %	50	60	70	80	85
<b>Endocrinology</b>								
• Provision of endocrinological (pancreatic diabetes) patients with pharmaceuticals (insulin)	2008 -2015	Ministry of Health, Ministry of Finance, khokimiyats	Level of provision of pancreatic diabetes patients with insulin, %	35	45	50	70	100
• Organization of a clear system of prevention of iodine deficiency	2008 - 2015	Ministry of Health, Ministry of Public Education, State Standards Committee, Pisheprom (Food Production Industry), mass media	Normative content of potassium iodide in cooking and eating salt, %	70	75	80	85	90

• Provision of modern medical equipment to endocrinological institutions	2008 - 2010	Ministry of Health, Ministry of Finance	Level of provision of modern medical equipment to institutions, %	20	30	50	70	100
<b>Improving sanitary and epidemiologic welfare</b>								
• Reinforcing the measures for prevention of importing and spreading of quarantined and dangerous diseases within the territory of the country	2008 - 2015	Ministry of Health, Committee for State Border Defence, Council of Ministers of the Republic of Karakalpakstan, oblasts and Tashkent city khokimiyats	Provision of customs posts with sanitary check points, %	85	90	100	100	100
• Improving the material and technical base of existing laboratories within the system of sanitary and epidemiologic services and building new laboratories	2007-2015	Ministry of Finance, Ministry of Health, Council of Ministers of the Republic of Karakalpakstan, oblasts and Tashkent city khokimiyats	Number of laboratories equipped in accordance with approved standards, %	90	100	100	100	100
			Number of laboratories located in premises that correspond to the approved standards, %	40	45	45	45	50
• Provision of centralized supply of bacterial and viral agents for all kinds of research	2007-2015	Ministry of Health, Ministry of Finance	Level of provision of bacterial and viral agents for all kinds of research, %	80	85	90	95	100
• Improving the system of monitoring of sanitary and epidemiologic welfare		Ministry of Health, State committee for nature protection, Ministry of agriculture and water resources	Implementation of acts of monitoring of sanitary and epidemiologic welfare, %	50	60	70	80	95
<b>SOCIAL PROTECTION OF THE POPULATION</b>								
<b>Improving the pension system of the Republic of Uzbekistan</b>			Growth of real pensions, as % of the previous year	25	27.5	30	30	30
• Development of the accumulative system of pension provision	2007 – 2010	Ministry of Labor and Social Protection, Ministry of Finance, Saving Bank (Halq Bank)	Number of participants of in the accumulative system of pension provision, in thousands of people	5,200	5,550	5,900	6,400	8,000
		Ministry of Labor and Social Protection	Involvement of dehqan farms employees in the pension system, in thousands of people	40	60	80	100	150

• Optimization and rationalization of existing pension benefits	2007 - 2010	Ministry of Labor and Social Protection	Review and ending some pension benefits	16 billion soums per year (in 2006 prices)				
<b>Increasing welfare for disabled people</b>								
• Provision of disabled people with the technical means of rehabilitation	2007 -2010	Ministry of Labor and Social Protection	Coverage of disabled people with the technical means for rehabilitation, as % of the need					
			Wheelchairs	85	100	100	100	100
			Prosthetics & orthopedic devices	95	100	100	100	100
			Other	80-90	90-95	100	100	100
• Increasing the level of rehabilitation of disabled people and recovering their abilities to work	2007 -2010	Ministry of Labor and Social Protection	Reducing dynamics of disability growth	At 0.5 percent per year				
• Creating appropriate jobs for disabled people	2007 -2010	Ministry of Labor and Social Protection	Securing jobs for employing disabled people, thousands	16.0	17.0	18.0	19.0	23.0
• Inclusion of disabled children of school age into various educational programs	2007 -2010	Ministry of Public Education	Coverage of disabled children of school age by educational programs, %	95	100	100	100	100
• Reinforcement of the insurance principles for compensation of damage caused by work injuries and professional related illnesses	2008 -2010	Ministry of Labor and Social Protection, Ministry of Finance	Share of employers involved in the corresponding insurance fund, %	100	100	100	100	100
<b>Increasing the income of poor families</b>	2008 -2010	Ministry of Labor and Social Protection, Minfin, Council of Ministers of the Republic of Karakalpakstan, oblasts and Tashkent city khokimiyats	Poverty rate (% of population that consumes less than 2,100kcal per day)	23	22	21	20	16
• Ensuring the growth of benefits to poor families	2008 -2010	Ministry of Finance	Growth of actual benefits, %	At 3-5% annually				
• Providing of poor families with additional sources of employment income	2008 -2010	Council of Ministers of the Republic of Karakalpakstan, oblasts and Tashkent city khokimiyats	Provision of cattle to poor families on a free basis , in thousand heads of livestock	30	30	30	0	0
• Implementation of targeted micro-credits to poor families for the development of family businesses	2008 -2010	Ministry of Labor and Social Protection, commercial banks	Growth in numbers of families receiving micro-credits, %	5	5	5	5	5

Enhancing social protection of the unemployed								
improvement in the provision of employment to the unemployed by recruitment agencies by;	2007 -2010	Ministry of Labor and Social Protection	Share of employed from the number of those who have applied for unemployment insurance, % - including women	85 41.5	85 41.6	85 41.7	85 41.8	90 44.1
• expansion of paid public works	2007 -2010	Ministry of Labor and Social Protection, Council of Ministers of the Republic of Karakalpakstan, oblasts and Tashkent city khokimiyats	Share of the unemployed involved in paid public works, %	15	18	21	25	25
• Increasing the effectiveness of the professional training and retraining of the the unemployed.	2008 -2010	Ministry of Labor and Social Protection , Center for Specialized secondary and professional education	Share of those employed after training courses, %	93	95	98	100	100
ACCESS OF THE POPULATION TO COMMUNAL SERVICES AND UTILITIES								
Increasing the provision of the population with communal services and utilities	2007-2015	Council of Ministers of the Republic of Karakalpakstan, oblasts khokimiyats, Ministry of Finance, Ministry of the Economy						
• Improving the provision of the population with housing			Housing per 1 person, m2/person - in rural areas	14.8 14.6	15.1 14.9	15.5 15.1	16.0 15.6	16.7 16.1
• Improving the provision of the population with natural gas			Level of provision of apartments (houses) with natural gas, % - in rural areas	81.0 76.0	81.3 76.8	81.5 77.1	81.8 77.4	82.3 78.2
• Improving the provision of the population with water supply			Level of provision of the population with the water supply system, % - in rural areas	82.6 79.0	84.0 80.0	85.1 82.0	86.8 84.0	87.1 90.0
• Improving the provision of the population with the sewage system			Level of provision of apartments (houses) with sewage system, %	31.5	31.8	33.0	38.0	46.0
			- including in urban areas - in rural areas	60.2 9.2	61.0 9.2	64.0 9.8	67.0 11.0	70.0 13.0

<b>Provision of the population with pure drinking water</b>								
• Implementation of the government program on pure drinking water supply	2003 - 2009	Council of Ministers of the Republic of Karakalpakstan, oblasts khokimiyats, Uzkommunkhizmat Agency, Ministry of Finance, Ministry of the Economy	Number of rural settlements with centralized water supply, thousands	266	299	360	400	-
<b>Improvement of the control systems and stimulation of the efficient use of water, natural gas and heat</b>								
• Implementation of the government program on the provision of power consumption meters	2005 - 2008	Council of Ministers of the Republic of Karakalpakstan, oblasts and Tashkent city khokimiyats, Uzkommunkhizmat Agency, Ministry of Finance, Ministry of the Economy, Ministry of foreign economic relations, investments and trade	Provision of dwellings with meters for measuring use of:	100	100	100	100	100
			- gas					
			- cold water	70.0	100.0	100.0	100.0	100.0
			- hot water	60.0	100.0	100.0	100.0	100.0
			- heat	4.0	100.0	100.0	100.0	100.0
<b>Government program for the replacement of obsolescent and uneconomical boilers to modern energy-efficient boilers:</b>								
• In enterprises, organizations that are financed from the national and local budgets	2007-2008		Number of boilers to be replaced - 2,399 units	380.0	2,019.0			
• In enterprises, organizations that are not financed from the national and local budgets	2005-2008		Number of boilers to be replaced - 3,370 units	1,854	641	-	-	-
• Replacement of obsolescent and uneconomical boilers to modern home resource-saving boilers with natural circulation	2007-2008		Quantity – 7,713 units	536	7,177			
• Implementation of the government program for capital repairs of public spaces and facilities of dwellings built before 1991		Council of Ministers of the Republic of Karakalpakstan, oblasts and Tashkent city khokimiyats, Ministry of Finance, Uzkommunkhizmat Agency	Number of dwellings	2,509	2,462	-	-	-

ECOLOGY								
• Share of lands returned to agricultural use (annual development of affected lands – 35%)	2008 -2015	Ministry of the Economy, Ministry of Finance, State land cadastre, Ministry of agriculture and water resources	Level of salinization of irrigated areas, %	65	64	62	62	61
			Quality of irrigated land, locality score	56.5	57	57.5	58	59
• Bringing the share of the total area of special conservation territories for maintaining the biodiversity of the environment until 2010 up to 10% of the territory of the country	2008 -2015	Ministry of the Economy, Ministry of Finance, Ministry of agriculture and water resources, State committee for nature protection, Uzkommunkhizmat Agency	Natural conservation territories, in thousands of hectares	12,231	19,700	24,100	32,000	44,890
• Full reduction in the usage of ozone destructing substances until 2030	2008 -2015	Ministry of the Economy, Ministry of Finance, Economic entities	Usage of ozone destructing substances , in tons	2.0	1.9	1.9	1.8	1.4
			Carbon emissions per capita, in tons	4.1	4.1	4.0	4.0	3.9
			Total emissions of acidifying pollutants SO <sub>2</sub> +NO <sub>x</sub> from stationary and mobile sources, in thousands of tons	443	438	421	409	331