

**GOVERNMENT OF THE REPUBLIC OF UZBEKISTAN**

**Welfare Improvement Strategy Paper  
of the Republic of Uzbekistan  
for 2005-2010  
Interim PRSP Document  
(I-WISP)**

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## Introduction

This Interim Welfare Improvement Strategy Paper (hereinafter “Strategy”) defines the main directions and measures aimed at improving living standards and reducing poverty among the population of the Republic of Uzbekistan for 2005-2010.

The Strategy is designed to further expand reforms in all aspects of life in our society based on the national model of economic and social development, the social values of the people of Uzbekistan, and their commitment to the processes of integration into the world community, while preserving and developing the country’s specific national features.

This Strategy has been formulated by the Government of Uzbekistan taking into consideration recommendations provided by the World Bank, United Nations Development Program, Asian Development Bank, and other international institutions.

To ensure a successful implementation of the Strategy, it is important to consider the national mentality. For this reason, this Strategy uses concepts and terminology that are normally used in the country’s legislation, such as “underprovided” (*maloobespechennie*) and “insufficient incomes” (*maloobespechennost’*). Within the context of this document these are equivalent to the concepts of “poor” and “poverty.”

While formulating this Strategy, the authors proceeded from the paradigm that, under transition conditions, poverty reduction is a direct consequence of improved living standards of the entire population because of higher incomes of the population, its access to high-quality health care services, education, healthy environment, and strong social security. These goals can be achieved by sustainable economic growth, structural reforms, and improved public administration.

A wide range of structural reform actions are outlined in this Strategy and will be further elaborated in the Full Strategy Paper through the consultation process with all stakeholders, including the parliament, national and local government, nongovernmental organizations, professionals, scholars, the poor sections of the population, the mass media, and international donors.

In the formulation of this Strategy, the most recent data have been used, including those provided by ministries and agencies, and mainly by the State Committee on Statistics; comprehensive household budget surveys regularly conducted by the State Committee on Statistics; employment surveys conducted by the Ministry of Labor and Social Security; monitoring surveys conducted by independent centers, including public opinion polls; and specialized surveys conducted for projects proposed by international organizations, donors, and potential investors. In spite of the progress achieved in eliminating some discrepancies in the data from official and other sources, work on improving the quality of statistical data is ongoing with the support from main donors.

## I. Poverty Level and Main Problems of Its Reduction in Uzbekistan

### 1.1. Assessment and Main Features of Poverty in Uzbekistan

Before the collapse of the USSR, the republic was one of the poorest regions of the former Soviet Union, with more than 45 percent of the population having incomes lower than the minimum subsistence level set in the Soviet period, that is, the minimum wage. The breakup of economic links in the beginning of the 1990s led to a 24 percent decrease in the real gross domestic product (GDP) by 1996, which fuelled the growth of poverty in the initial years of reforms. The results of a survey of 20 thousand families undertaken in 1994 revealed that 44.5 percent of the population had average per capita income levels below the minimum wage.

The economic growth and measures taken by the government to strengthen social security of the population (starting in 1996) led to positive trends in the improvement of living standards indicators. The country started to recover from the economic decline and by 2001 had practically regained its 1991 GDP level. The average GDP growth in 1998–2002 was 4.3 percent and noticeably exceeded the population growth rates. At the same time, the number of the poor population declined more slowly. During 1996–2000, the share of households with an average per capita income of less than one minimum wage decreased by only three percentage points.

**Table 1. Poverty Rate of the Population**

	2000-2001*	2003**
<i>Area</i>		
Urban	22.5	22.0
Rural	30.5	28.7
<i>Head of Household</i>		
Male	28.0	27.2
Female	25.0	22.2
<i>Economic Areas</i>		
Tashkent	13.3	16.8
Mirzachul	21.3	37.0
Ferghana	28.6	30.3
Northern	33.5	27.8
Central	21.4	24.7
Southern	47.4	26.4
<i>Uzbekistan</i>	27.5	26.2

*Sources:* Data for 2000–01 from the World Bank's Living Standards Assessment in Uzbekistan, 2002; data for 2003 are estimates based on the 2002 and 2003 Household Budget Surveys (HBSs).

Since 2000, the State Committee on Statistics has conducted a new household budget survey on a regular basis. The survey covers around 10,000 households. Based on the 2001 survey data, a living standards assessment has been conducted. According to this assessment, the poverty level in the country is 27.5 percent, or 6.8 million people. Estimates based on the results of the 2002 and 2003 household budget surveys identify major trends in the living standards of the population presented in Table 1. The data show that, in general, the poverty rate in Uzbekistan is decreasing. However, a sharp decline of this indicator in the Southern Economic Area and its growth in the Tashkent region (characterized by high salaries and incomes of the population) raises concerns and requires further study.

Poverty in Uzbekistan has clearly marked demographic features—first, the category of the poor frequently includes families with many children and with lower labor force participation rates (Household Budget Survey [HBS] 2001, Table 2), which points to the importance of strengthening measures of social protection of families with many children, as well as families of the unemployed.

Employment does not always protect from poverty, because 50 percent of the poor are families in which the head of the household is employed. However, it is obvious that families with unemployed able-bodied members are exposed to a higher risk of becoming poor. There is a high probability of falling into the poor category for households with adult members employed in the budget sector (in which the wage is around 60 percent of the average level) and in agriculture, as well as those with part-time employment, or employed in the unofficial sector of the economy.

There is also a direct link among the education level, employment, and poverty. Poverty risk is significantly higher in families headed by persons without vocational education. For instance, among households headed by people with secondary special vocational education, the probability of becoming poor is almost two times less than in households where heads of the family do not have such education. The most vulnerable are the families whose heads do not have secondary education. In these families, there is also the highest unemployment rate among working-age members.

Households headed by unemployed citizens have a high probability of falling into the poor category. The World Bank's Living Standards Assessment shows that unemployment benefits practically do not protect against poverty because of the small amount and short term of payment.

Around 70 percent of the poor population lives in rural areas. The poverty rate there is 30.5 percent versus 22.5 percent in urban areas. Other surveys also show that poverty risk remains high for the population living in small towns where the poverty situation is aggravated by more limited access to land resources than in rural areas (Djizzak oblast survey, Center of Economic Research, 2003).

**Table 2. Demographic Features of Poverty**

	Rural			Urban		
	All	Poor	Not poor	All	Poor	Not poor
1. Average household size	5.9	6.3	5.8	4.6	5.8	4.5
2. Share of children (age 0–16) in the total number of household members	40.4	45.6	39.2	35.2	43.2	33.8
share of households with 0–2 children	53.8	39.6	56.8	73.7	48.6	77.0
share of households with 3–4 children	40.3	49.4	38.4	23.3	44.4	20.5
share of households with > 4 children	5.9	11.0	4.9	3.0	7.0	2.5
3. Share of able-bodied persons (age 16–60)	51.2	49.2	51.6	52.5	50.2	52.9
4. Share of seniors (age over 60) in total number of household members	7.1	4.2	7.7	10.4	4.7	11.3
receiving minimal pension	1.8	2.1	1.8	2.3	2.2	2.4
5. Number of dependants per one person with permanent source of income	3.2	5.4	2.9	2.3	4.0	2.2

Source: Macroeconomic Policy and Poverty. Center of Economic Research (CER). United Nations Development Programme (UNDP) 2003.

Availability of land for dekhkan farming cannot guarantee protection against poverty either. More than 60 percent of families receiving benefits or social assistance have land plots. However, the productivity of such plots is sometimes insufficient to allow profitable agricultural activity, partially because of the low quality of these plots.

Taking this into account, the priority directions for poverty reduction are ensuring more productive and efficient employment in sectors other than agriculture; better matching the skills of the labor force to the demands of the labor market; and improving the opportunity for members of poor households to receive vocational and higher education.

According to the results of a survey conducted by the Ministry of Labor and Social Security, the share of the poor is quite high among families with people who have limited capabilities (disabled). The main reason for their poverty is the relatively small size of disability pensions, the difficulty in finding employment suitable for people with limited capabilities who retain the ability to work, and the high cost of basic subsistence means. Other vulnerable groups are the elderly who live alone and pensioners for whom their pension is the only source of income. The problem of elderly living alone is more acute in cities than in rural areas where family ties are stronger. The priority direction to reduce and prevent poverty in these groups is to increase the level of social assistance and pension provision.

**Demographic growth and poverty.** One of the factors indirectly affecting the poverty level in the country was the high birth rate in the 1970–80s, which reached its peak value of 36 pro mille (per 1,000 of population). In recent years, demographic trends in the republic have become more favorable, with the birth rate decreasing to 19.9 pro mille in 2003. This trend is partially a reaction to economic factors; to a larger extent, however, it reflects changes in social

preferences toward families with numbers of children closer to the average. There is also a growing sense of responsibility among families to raise a healthy generation.

**Figure 1. Population Growth and Birth Rates**



**Health and poverty.** Uzbekistan has basically retained a free health care system, which has to a large extent helped ensure adequate access to medical services for poor families. Survey data show that there is no significant difference in the number of outpatient visits and days of inpatient care for the poor and better-off population groups. At the same time, the formation of a market environment in the health care sector, and, in particular, the shift to provision of certain types of specialized medical services on a fee basis, means that there is a risk that some types of qualified medical assistance will become “inaccessible” to poor sections of the population. At present, this trend has begun to show itself in the decreased quality of certain medical services provided to poor population groups.

In the early stages of transition, certain health indicators of the population deteriorated; there was a growth in maternal and child mortality, and a growth in infectious and respiratory diseases, which was reflected in the reduced life expectancy of the population. With economic growth, positive trends started to emerge, and, in 1999, life expectancy was restored to the 1990 level and it continues to increase.

**Table 3. Some Demographic Indicators for Uzbekistan**

Indicators	1995	2002	2003
Mortality	6.4	5.4	5.3
Infant mortality	25.5	16.5	16.7
Maternal mortality	48.0	32.0	29.9
Life expectancy (years)	69.1	71.2	71.6
Women	72.6	73.2	73.8
Men	67.2	68.6	69.4

Malnutrition is one of the most dangerous manifestations of poverty, which also poses a threat to the population's health levels. One indication of the scope of the problem is the fact that members of 18.9 percent of households consume less per day than the minimum norm of 2,160 Kcal approved by the Ministry of Health. Basic consumption of poor households is composed of carbohydrate foodstuffs to the detriment of animal and plant proteins. High rates of anemia among women (64.8 percent of pregnant women), as well as iodine deficiency and insufficient weight among children under 5 years of age, are also consequences of irrational nutrition patterns among the poor population.

In recent years, infant mortality has been steadily decreasing from 25.5 pro mille in 1995 to 16.7 pro mille in 2003 (Table 3). This progress has to a great extent been achieved through immunization of children under 1 year of age, with coverage of this group reaching more than 98 percent in 2003. At the same time, child mortality indicators still remain high compared with developed countries.

Child mortality rates are directly affected by the health status of mothers. Maternal mortality decreased in 2003 to 29.9 cases per 100,000 live births compared with 65.3 cases in 1991. Decreased maternal mortality is, above all, the result of the development of an obstetrical services network, and making such services available near the mothers' place of residence.

In recent years, the tense situation regarding a number of socially threatening diseases has remained in the country; there has been a growth in the incidence of tuberculosis, endocrine and oncological diseases, and in the number of cases of HIV/AIDS. The latter is still small, but growth rates are already becoming alarming. Poor families are most vulnerable to these diseases because of the high cost of care.

**Education and poverty.** Numerous studies have established that there are no significant differences between poor and well-off groups of the population with regard to literacy levels and access to primary, general, and secondary special vocational education.

Uzbekistan has introduced a system of 12 years of school education and has established that the age for beginning school education has not been reduced (as a rule, school education begins at the age of 7). One indicator of equality in access to general secondary education for poor and well-off households is the relatively low rates of nonattendance for students of the relevant age groups. At the same time, the problems remain to guarantee access to quality education and create equal conditions for school education regardless of the place of residence. There are differences in the quality of education by regions, and by urban and rural areas.

Moreover there are certain differences in access to higher education. Because of the reduction in the number of nonpaying (grant-based) slots for students in higher education institutions, and the introduction of fee-based types of higher education, the share of people entering higher education institutions has decreased in recent years. Given the high level of payment for education, the poor sections of the population have less access to higher education compared with those who are well-off.

Enrollment of children in preschool education (around 19.2 percent in 2003) is low. Taking into account the fact that poor families have a significant number of unemployed working-age people, especially women, preschool attendance is not considered critically

important. The education value of preschool education is not appreciated by many people, and this affects the education quality of poor children at subsequent stages of their education.

**Housing and communal services.** Poverty in Uzbekistan is barely associated with the lack of access to housing. As a result of the “small privatization” in the initial years of reforms, almost all families (96 percent) obtained property rights to housing, which previously had been municipal property. Research studies did not show any significant differences in housing size between poor and well-off families.

During independence, the republic achieved significant results in providing the population with water supply. In 1990, only 50 percent of households were covered by the drinking water supply; in 2003, the coverage increased one and a half times and reached almost 75 percent. It is necessary to take into account the fact that the country is located in a geographic area with limited sources of drinking water, as well as the growing ecological crisis in the Aral Sea and the Aral Sea region.

Even more impressive results were accomplished by providing the population with natural gas. The provision of population with this important source of heating increased 3.6 times and reached 78 percent of households. The main emphasis is being placed on providing the rural population with drinking water and natural gas. However, there remain problems regarding access to utility services. This problem is not specific to poor households: it is a problem experienced by well-off households as well. This factor aggravates poverty, however because it leads to significant financial costs of obtaining essential services. A certain share of communal infrastructure facilities is in bad repair, which significantly increases the risk of reduced access to the system of utility services for the population in the near future. Thus, in addition to expanding the coverage of the population with access to the system of utility services, the task of ensuring the stable operation of this system is also becoming urgent.

**Gender aspects of poverty.** Obviously, poverty can affect men and women in different ways. The indicator for primary education enrollment of boys and girls of this age is practically the same (90.9 percent for boys and 90.5 percent for girls). At the same time, a certain quantitative and qualitative gender imbalance in vocational education can be noted: In the last 3 years, the share of women in the total number of students attending secondary special vocational education institutions has decreased from 52 percent to 44.7 percent.

Transition and the slow growth of employment has affected working women. Women are represented in all the main sectors of the economy. Their highest share is in health and education, where the share of women is 75.5 percent and 72.7 percent, respectively, of all those employed in these sectors. The wage in these two sectors is relatively low. Approximately 82 percent of jobs in the transport and communications sector and more than 87 percent of jobs in construction are occupied by men, and, in these two sectors, wages are comparatively high. Employment of women in the industry, communications, and trade sectors is decreasing, while it is growing in the services sector and the informal sector. In recent years, the number of private entrepreneurs has grown, but women represent less than 14 percent of them.

The Business Women’s Association of Uzbekistan makes active steps to increase employment of women, particularly in small- and medium-size businesses. The Association strongly supports female entrepreneurs in creating self-employment and getting access to credit resources to develop and set up businesses.

Poverty in the country also has quite marked regional aspects. The highest concentration of poor households is in the southern and northern regions of the republic, and the lowest is in the Tashkent region and certain oblasts of the central region; the poverty rate in the southern region is almost 4 times higher than in the Tashkent region.

Regional social policy is carried out through the implementation of territorial targeted programs—reform and development of education, health care, and rural social infrastructure; drinking water and gas supply to the rural population; creation of jobs; and state programs for social protection of socially vulnerable population groups and others. The establishment of new production facilities with the use of local resources is encouraged. Investment projects to develop industrial infrastructure are being implemented. Nevertheless, there are still differences in the levels of development of the regions. In the per capita production of gross regional product (GRP), the gap between the most and the least developed regions increased from 2.1 to 4.2 times in the 1991–2003 period; in industrial production from 5.4 to 23.3 times; in gross agricultural produce from 2.1 to 3.3 times; in the level of investments from 3.5 to 6.5 times; in retail goods turnover from 3.5 to 5.0 times; and in paid services from 3.5 to 11.1 times. Also, the rate of interregional differentiation in the average per capita incomes increased from 1.3 to 5.0 times, and the differentiation in the rate of provision with social infrastructure facilities increased from 3.6 to 4.6 times. Surkhandarya, Kashkadarya, and Djizak Oblasts, and the Republic of Karakalpakstan have relatively low standards of living.

It should also be mentioned that, within each region, there are relatively well-off and worse-off territories in terms of living standards. There are significant differences in social and economic conditions (availability of jobs, access to education and health care, and other social services) and living standards between urban and rural areas.

Although there are objective reasons for excessive differences in living standards among regions, they have to be mitigated through targeted state policies. For this reason, Uzbekistan actively uses such instruments as interbudgetary redistribution of incomes (that is, subsidization of less-developed regions at the expense of more-developed ones) and a unified social protection system (that is, all citizens have equal rights to social protection regardless of the place of residence). However, it is equally important to create conditions for aligning the economic potential of the regions. Here the main economic policy instrument is facilitation of individual investment projects in economically backward regions (through, among other things, state participation in, and fiscal privileges for, investments). At present, there is no unified state program for the economic development of backward districts and regions, and regional specifics are not taken into account to a sufficient degree in the development and implementation of state programs.

**Environment.** Poor groups of the population are exposed to the effects of negative environmental factors to a significantly higher extent than the well-off population. This exposure is caused by a lack of resources to compensate for these negative factors, and the need for additional resources to keep healthy while living under the impact of negative environmental factors.

There is land degradation on irrigated territories: secondary salinity affects around 50 percent of irrigated lands, more than 8 percent of irrigated areas are affected by water erosion, and more than 54 percent of these lands are affected by wind erosion. The Aral Sea, 50 percent

of which was located in Uzbekistan, is one of the most infamous environmental disasters in the world. As a result of intensive irrigation use, the water level of this important water reservoir (without an outlet to an open sea) decreased by 21 meters, its water surface area decreased by more than 2.7 times, leaving behind a salt and sand desert covering an area of 3.8 million hectares.

The environment directly affects living standards and, primarily, socially vulnerable groups. The main effects are through the following: (a) decreased yields of agricultural crops and reduced cultivated areas as a result of land salinity and degradation; (b) decreased productivity in cattle breeding and fishing because of the reduction in biodiversity caused by imbalances in the ecosystems; (c) increased morbidity rates in the republic, particularly among women of fertile age; (d) diversion of financial resources for the implementation of environment protection and rehabilitation measures, and also for health protection of the population living in ecologically unfavorable regions.

## 1.2. Problems of Income Growth, Employment, Human Development, and Social Security of the Population

**Key economic trends.** In recent years, GDP growth rates in Uzbekistan have stabilized in the range of 4.0 to 4.4 percent. In 2003, as a result of tight monetary policies, the inflation rate was significantly reduced. A rise in demand for basic export goods in the world market, as well as a significant devaluation and unification of the exchange rates, led to an increase in exports of goods and services, which was the main factor behind the GDP growth (Table 4).

**Table 4. Key Macroeconomic Indicators in Uzbekistan**

Indicators	2000	2001	2002	2003
GDP growth as percentage of the previous year	3.8	4.2	4.0	4.4
GDP deflator, percent	47.3	45.2	45.5	24.3
Consumer price index, percentage change on December of the previous year	28.2	26.6	21.6	3.8
Unemployment at the beginning of the year	..	..	4.4	3.9
Consolidated budget revenue as percentage of GDP	37.1	34.6	33.3	32.7
Consolidated budget deficit as percentage of GDP	0.8	0.9	0.8	0.2
Gross savings as percentage of GDP	19.4	20.0	22.4	26.7
Fixed capital investments as percentage of GDP	21.4	24.2	19.4	19.3
Exchange rate of soum to U.S. dollar at the end of the year	325	688	970	980
Exports of goods and services, million U.S. dollars	3,264.7	3,170.4	2,988.4	3,725.0
Imports of goods and services, million U.S. dollars	2,947.4	3,136.9	2,712.0	2,964.2

*Source:* State Committee on Statistics.

Because of the actions taken to enhance reforms, support and stimulate the small and medium enterprise (SME) development, liberalize the economy, and implement the employment program, in 2000–03, there was an increase in the share of industrial production (from 14.2 percent to 15.1 percent) and services (from 37.2 percent to 38.3 percent) and a reduction of the share of agriculture (from 30.1 percent to 28.8 percent) in GDP. The share of final consumption in the GDP declined from 80.6 percent in 2000 to 73.3 percent in 2003.

Under the Investment Program, foreign direct investments in 2003 more than doubled compared with 2002 and amounted to US\$166.71 million (US\$80.12 million in 2002). The total amount of foreign investments and loans attracted under the Investment Program was US\$602.3 million in 2003 (US\$447.96 million in 2002).

Faster economic growth does not necessarily translate into faster reduction of poverty, because its impact on poor households may be insignificant because of weak income redistribution mechanisms. Economic growth in Uzbekistan started in 1996 but was accompanied by inadequate mechanisms of income redistribution and characterized by support to strategically important, capital-intensive sectors (for example, development of the power industry, provision of food independence for the country, and so on), as well as by domination of administrative approaches in the management of the economy. This meant that, in the first stages of transition, a substantial discrepancy between the incomes of different social groups was noted—that is, the Ginni coefficient increased from 0.31 in 1995 to 0.42 in 1997. This coefficient subsequently fell to 0.39 in 2003. This was achieved through accelerated economic reform and reduction of price distortions, as well as through the implementation of government policies supporting SME development and targeted social programs for the poor.

However, the economic growth rates achieved during recent years are not sufficient to achieve the objectives set by the government that aim to increase the living standards of the population and reduce the number of the poor. World experience suggests that, to achieve the above goals, countries with a similar level of development have required economic growth rates that are at least double the 2001–03 levels. It is worth pointing out that part of the economic growth is “absorbed” by the increasing population, average growth rates for which are currently 1.1 to 1.3 percent per year.

**Key problems of development of the private sector and small business.** Accelerated development of the private sector and small business may contribute to the acceleration of economic growth. There are a number of serious problems hindering its development and, thus, the increase of income, income distribution, and poverty reduction:

- Low incentives to use existing resources effectively because of insufficient protection of private property rights, underdeveloped corporate management, and a high level of monopolies; insufficient legal protection of private entrepreneurs because of the low efficiency of the judiciary and flaws in the legislation;
- A high level of monopolization in the economy, low competition caused by administrative methods of resource allocation, low diversification of the economy, and a high level of protectionism;

- Relatively high taxation levels, which are unevenly distributed, leading to reduced competitiveness of domestic producers;
- Ineffective development of the agricultural sector because of underdevelopment of real private property owners, deficiencies in the pricing system, and underdeveloped market infrastructure in rural areas;
- Incomplete reform of the financial system, which leads to the inability of financial markets to accumulate savings of the population and enterprises and invest them; and
- Insufficient liberalization of foreign trade, as well as underutilization of the export potential of the country because of the lack of effective mechanisms for promoting local goods in external markets.

**Population Incomes.** From 1996 onward there have been positive growth rates for real per capita income. After the relatively rapid increase in the first half of the 1990s, income inequalities among the different population groups have been reducing. The rate of growth of wages was considerably greater than the rate of growth of consumer prices. At the same time, the share of wages in the total income of the population remains quite low (around 30 percent). That is caused by the relatively low salaries paid by budget organizations and agriculture, which employ more than 70 percent of all those employed. It is also worth noting that there is a tendency to conceal actual salary levels to avoid taxes and social security contributions. Income differentials between regions continue to grow: wage levels in the Tashkent region and the industrial areas of Navoi Oblast are three or more times higher than in other parts of the country.

**Employment trends and problems.** At present, the total number of employed, including those employed in the unofficial sector of economy, is 10,543,400. In 2003, the number of employed had increased by 217,500 (2.2 percent) from 2002. Of the total, 181,000 people worked in the official sector and 35,900 worked in the unofficial sector of economy.

The positive shifts in the economy that have taken place over the last few years have helped to reduce the unemployment rate, which in the late 2003 was 3.6 percent of the economically active population (using International Labour Organisation [ILO] methodology).

In 2003, 430,000 new jobs were created, of which 375,000 were in small businesses and the private sector. This guaranteed employment opportunities for a major part of the growth in the economically active working-age population, as well as for redundant employees (225,000) and the unemployed.

The following positive shifts in employment emerged:

- Increased employment in the real sector of the economy. Employment at large and medium enterprises decreased by 5.3 percent but increased in small businesses, including farms, by 310,000 persons. This trend clearly demonstrates the incremental process of converting large collective farms (*shirkats*) into more manageable farms; the restructuring of unprofitable enterprises; as well as the development and support of SMEs;
- Employment growth was guaranteed mainly through the expansion of the nonstate sector of the economy, which at present accounts for the majority of all those employed; and

- There has been a small decrease in employment in the unofficial sector of 1.5 percent per year. This tendency is explained by a gradual reduction in illegal business and the shift to legal forms of business.

At the same time, there are still a number of serious problems in employment that need to be addressed. The key issues are as follows:

- A high proportion of those employed in the informal sector (29 percent of the total number of employed) are not covered by the social security system and do not have full-time jobs and regular incomes;
- There is still a high level of hidden unemployment. Each quarter, the number of employees sent on involuntary leave by employers because of production reasons amounts to around 60,000 people, or 1.2 percent, of all those employed (in industry, more than 5 percent; in transport, communication, and construction around 3 percent);
- Low motivation of unemployed and employed in the informal sector to occupy available vacancies. This can be explained primarily by low salaries offered at the vacant positions, as well as by the mismatch between the qualifications and skills of the unemployed and employed in the informal sector with those skills required for the vacancies, and the mismatch between supply and demand for labor skills determined by lack of flexibility in the training system and lack of analysis and forecast of labor demand; and
- Significant differences between regional labor markets. In certain regions, the main (if not the only) source of employment is agricultural farms and individual entrepreneurship that does not necessarily require registering as a legal entity. In a number of remote, mountain, rural areas with insufficient levels of industrial and infrastructure development and a mono-branch economy, unemployment rates are significantly higher than elsewhere in the country.

**Trends and problems of the education system.** In recent years, the country's education system has undergone broad reforms at all levels. Thanks to the National Program for Personnel Training, it has become possible to establish a system of new types of secondary vocational schools, ensure a diversity of education programs, and achieve multichannel financing of the education system within a relatively short period of time.

Along with successes, there are several problems in the system of education:

- Poor quality of education at all levels, which has a negative impact on employment;
- Inequality in access to quality education by regions, urban, and rural (where the majority of the poor population resides) areas;
- Basic education suffering from lack of resources remains a weak link in the system of continuous education. Around 40 percent of schools use inadequate and inappropriate buildings. Only 29 percent of schools have laboratory equipment, and approximately 15 percent have up-to-date computers;
- Lack of funding for education;

- Low pay levels for teachers lead to a loss of professional motivation and staff turnover, and undermine the quality of education;
- Low enrollment rates for preschool education, particularly in rural areas (19.2 percent of children of the relevant age group);
- Low effectiveness of vocational/career guidance for students. A large proportion of students enrolled at vocational colleges have no positive motivation in choosing their future career and plan their education spontaneously, with no clear vision; and
- Weak liaison, cooperation, and integration among vocational schools, higher education institutions, and employers undermine staff training and make it less targeted.

**Trends and problems in the health care sector.** The country has achieved certain successes in health reform and in improving some health indicators.

Since 1998, the State Program for Health Sector Reform has been implemented. The reform priorities focus on providing emergency medical care/services; developing primary health care, maternal and child welfare, and preservice and in-service staff training; improving the supply of medicines and mechanisms for financing the sector; improving preventive medical care; and guaranteeing sanitary and epidemiological well-being. The state guarantees budget funding for emergency and primary health care, immunization and vaccination programs, maternal/birth services, and out-patient examination and treatment for certain categories of patients with privileges (*l'gotnye*). Additionally, state funding is guaranteed for specialized medical services for socially threatening diseases and illnesses, which represent a threat to those in the vicinity, and for the organization and implementation of preventive, environmental, sanitary-hygienic, and antiepidemic actions.

It is worth mentioning the role of nonprofit nongovernmental organizations (NGOs) in addressing health problems. For instance, the “Soglom Avlod Uchun” (For Healthy Generation) Fund and “Ecosan” International Foundation actively advocate a healthy way of living; in partnership with the Health Ministry, they regularly participate in broad surveys covering populations living in remote and unfavorable areas of the country.

As a result of the implementation of the Health–I Project of the World Bank that aims to improve the system of the primary health care in pilot regions, a number of positive results have been achieved. At present, the second phase of the project (Health–II) is being finalized, and this will extend the achievements gained during the first phase to the national level.

As a result of health care reforms, a number of indicators tend to improve. Birth rates have been declining (from 28 per thousand in the beginning of the 1990s to 19.8 in 2003). The overall mortality rate fell from 6.4 to 5.3 per 1,000 persons. Infant and maternal mortality also decreased: infant mortality from 25.5 (per 1,000 live births) in 1995 to 16.4 in 2002; and maternal mortality from 48 (per 100,000 live births) to 29.9. Some progress has been made in combating certain infectious diseases. Starting from 1995, the life expectancy rate has been increasing and reached 71.2 years in 2003 (73.8 years for women and 69.4 years for men).

However, the incidence of socially threatening diseases is still alarming:

- Mortality caused by tuberculosis increased from 1995 to 2001 and reached 12.5

- deaths per 100,000 people; although there was a small reduction of this indicator in 2002 (12.3). There has been an increase in the incidence of tuberculosis, which in 2003 reached 77.6 per 100,000 people;
- HIV/AIDS incidence has also increased in the country. The total number of infected people is reported to be 1,836, of whom the biggest share (50 percent) are drug addicts;
  - The rate of diseases caused by deficiency of iodine, iron, and vitamin A remains high. Surveys carried out in the northern and southern parts of the country show that about 50 percent of children and teenagers suffer from iodine deficiency. Almost 60 percent of women of fertile age suffer from anemia caused by iron deficiency. Approximately 50 percent of children suffer from various degrees of vitamin A deficiency.

The main problems of the health sector can be summarized as follows:

- Underdevelopment of primary health care as a result of its weak material and technical basis, shortage of qualified personnel and medicines, and imperfect system of financing;
- Underequipped emergency medical service and a lack of professional and competent staff deteriorate the quality of emergency medical services provided to the population;
- Infant and maternal mortality rates remain high compared with industrial countries because of inadequate material and technical supplies and lack of qualified staff at the institutions responsible for infant and maternal care;
- Insufficient development and provision of equipment and chemicals to the chain of specialized hospitals holds back the fight against a number of socially threatening diseases such as tuberculosis, HIV/AIDS, and drug addiction; and
- Generally low wages and weakly differentiated wage levels for the staff of state hospitals also have a negative impact on the efficiency of the health care system and lead to additional expenditure for households to pay for medical services.

**Trends and issues in the public utilities sector.** The total living space in the housing sector amounted to 367.6 million square meters at the start of 2004. The per capita living space has been increasing and makes up 14.9 square meters, that is, 15 square meters in the urban areas and 13.8 square meters in the rural areas. The country's distinction lies in the fact that nearly 96 percent of families live in individual housing, that is, they own their homes.

Uzbekistan has 5,072 running water facilities in use, including 306 in urban areas and 4,766 in rural areas. As of the beginning of 2004, total length of pipelines amounted to the following: trunk water pipes, 14,200 km; street water pipes, 47,900 km; and residential area and indoor pipes, 5,400 km. Surface water accounts for 31 percent of potable water sources, while the rest is pumped from the underground water reservoirs.

From 1999 to 2002, 9,200 km of running water pipelines were built in the rural areas of the country, and 1,588 rural populated areas were provided with potable water. This brought the coverage of centralized water supply to 75 percent.

Supply of natural gas to homes started in 1961. In the years of independence, the coverage of gas supply increased rapidly and, by 2004, had reached 78.2 percent (70 percent in the rural areas).

District heating is the major source of heating in the urban residential areas. Decentralized sources of heating are used in the prevailing majority of private homes. The state of the heating infrastructure is the cause for serious concern—approximately 70 percent of boilers do not meet modern standards with a coefficient of efficiency below 75 percent. Deterioration of heating communications is a challenge to a reliable and systematic supply of heating for the urban population.

Currently, 246 sewage systems are being used, including 164 in the urban areas and 82 in the rural areas. Twenty eight percent of the population has homes and apartments provided with sewers. The existing sewage treatment facilities, which mostly employ mechanical treatment of its sediments, are not sufficiently effective.

There are 1,466 homeowners associations in the cities and district centers of the country; these associations received more than 90 percent of total multifloor apartment blocks. The remaining houses are serviced by alternative utility services. The owners of these houses had the opportunity to manage their own homes, and to accumulate and use their funds for this housing. In 2002–03, 363 public utility companies were privatized. Starting in 2000, budgetary subsidies have been annulled and the move has been made toward full cost recovery for maintenance of the housing and waste disposal.

Major problems of the utilities sector include the following:

- Territorial disproportions in the development of public utility services. Despite the substantial reduction in differences between the regions in the level of development of the housing sector, disparity between the regions is still substantial—the gap between the oblasts in the provision of potable water is 1.6 times, and with natural gas it is 1.7 times;
- High costs of services being provided because of outdated communications equipment and inefficient energy use;
- Underdevelopment of the accounting system of services to the population, particularly of heating and water supply. Penetration of meters is less than 50 percent;
- Ineffective tariff policies. Outdated techniques based on extensive factors are employed in determination of fees for public utilities, the breeding ground for mismanagement and inefficient use of resources. Furthermore, current fees indirectly affect the development of private microbusinesses forced to pay the same fees as large enterprises;
- Inadequate financial sustainability of the system dependant on the disposable income of the population and budget appropriations; and
- Low appeal of the sector for foreign investors.

**Trends and problems of ensuring children’s welfare** . Actions being taken in the country have significantly improved the living standards of children. There are significant problems and shortcomings in this regard as well. In a number of rayons and oblasts, the

indicators of maternity and childhood protection remain low or have been worsening (for example, an increase in the number of women with extragenital ailments, maternal deaths, and socially threatening diseases; children-under-five clinic infections; a high share of babies with low weight, and of school-age children with poor eyesight and damaged posture). Additionally, rayons and oblasts have experienced a drop in employment, income, and so on.

There is substantial nationwide organizational capacity for multidimensional tasks to improve the welfare of children. The existence of certain local problems and public efforts toward active engagement in addressing these problems have resulted in the creation of more than a hundred targeted and specialized public institutions engaged in the issues of children's welfare (for example, providing assistance to children suffering from certain social ailments; unification of disabled children; provision of assistance to children in difficult conditions; identification and development of gifted children; and so on).

Children's Fund and Soglom Avlod Uchun Fund are actively involved in addressing the problems related to the welfare of children, dealing with children from dysfunctional families or children suffering from socially threatening illnesses. The work of these organizations is primarily aimed at prevention of issues related to the welfare of children by providing consultation to young families about healthy lifestyles and reproductive health.

The functions of many government institutions, NGOs, and public organization are implemented from top to bottom, that is, within the country, oblasts, district/towns, and territories of *mahallas*—civil self-governance bodies, farms, and enterprises. These institutions are represented by their branches at the grassroots level. The top-down approach is widely practiced in addressing child welfare, that is, legislative acts, programs, and other decisions are made at the top management level, which are then sent down for implementation. A huge potential for the involvement of grassroots institutions is not used sufficiently in these processes.

Problems existing in the child welfare sector stem from the following:

- Lack of properly targeted actions and indicators of welfare assessment;
- Improper coordination and duplication of efforts often occurring in the work of the institutions that are intended to ensure the welfare of families, mothers, and children;
- The one-way, top-down nature of the program actions to protect maternity and childhood;
- Exclusion of the capacity of grassroots institutions, including the families, from these processes; and
- Lack of the flow of action in the opposite direction—bottom up—aimed at improving the lot of mothers and children, that is, the underdevelopment of local initiatives.

**Trends and issues in social security nets.** Development of the system of social welfare has been the government's priority from the very beginning of the reforms. Starting from 1994, Uzbekistan was the first country in the Commonwealth of Independent States (CIS) to reject universal welfare coverage and switch to targeted mechanisms to provide benefits to needy families, which is known among international institutions as the benefits provided to families through mahallas. Transfer to new mechanisms by introducing a targeted nature of assistance allowed a five-fold increase in the amount of social benefits paid to poor families while preserving the same volume of appropriations,

The role of the mahalla public fund is noteworthy in ensuring a fair approach to the welfare of low-income populations, acting as the distributor of social benefits to needy people through local civil self-governance bodies. Also, the national societies of the disabled, deaf, and blind take an active part in addressing the issues related to the vulnerable population groups, protection of their rights, attraction of public attention to their issues, creation of jobs, and integration of disabled people into the public life.

In Uzbekistan, a comprehensive mechanism of welfare and targeted support to the population, including its socially vulnerable groups, has been created. Its implementation includes the following components:

- A social security system covering the disabled, orphans, and lonely aged citizens in need of constant care;
- Social insurance mainly to cover wage earners;
- A system to provide social benefits to poor families and needy citizens;
- A system of social privileges granted to certain population categories;
- A pension system and scheme to provide benefits to citizens not covered by the pension system; and
- A system of providing social support to the unemployed and assisting them in finding work.

Currently, almost all groups in need are covered by social benefits, and there are legal provisions for approximately 30 types of benefits, of which more than 2.2 million families, or more than 40 percent, are recipients. In 2003, the appropriations for the payment of major social transfers to the poor families amounted to 6 percent of the total state budget expenditures. Adding the pensions and benefits, the public welfare expenditures during the last few years made up approximately 23 percent of the GDP. This is a relatively high indicator in comparison with the other countries of the CIS and Eastern Europe.

**Assessment of the level of social security and its impact on improving the living standards and reducing poverty.** Despite the intricate network of social security covering a significant part of the population, problems in redistributing incomes in favor of the poor groups do exist. According to household budget surveys, only benefits to poor families with children and financial assistance to poor families ensure a relatively high impact on combating poverty (reducing its level by 5 percent). The rest of social assistance, including direct payments and financial benefits (providing indirect benefits to the recipient), serve as a safety valve preventing the socially vulnerable groups from falling into the ranks of the poor.

According to studies, benefits received by many poor households are not adequate to compensate their financial difficulties—the ratio of the amount of benefits to the income of poor households is low (less than 20 percent).

Major problems of social security are as follows:

- A high ratio of dependants. Despite falling birthrates, the share of children within the population remains at nearly 50 percent. This factor determines greater expenses on the maintenance of children and a significant demand for benefits to families with

children;

- Uneven socioeconomic development of regions and the existence of a significant number of regions that lack the capacity for industrial manufacturing or have underdeveloped industrial and social infrastructure (mountainous, remote, and inaccessible areas) make the population of these districts dependant on welfare;
- Processes of restructuring enterprises will imminently result in the dismissal of excessive employees and worsen the problem of their social security;
- Underdevelopment of the system of training social workers; training of these specialists is below the demand (according to estimates, the current demand for social workers makes up more than 1,500 a year). Professional training of social workers at the higher and vocational educational institutions is a pressing task;
- An increase in the number of retirees within the population reaching 13 percent because of the natural demographic processes will lead to a reduction in the number of working persons per 1 retiree;
- Lack of interest among the employees and employers to contribute to the establishment of the Pension Fund because of the inadequate relationship between the amount of pensions and the contribution to the pension fund, and excessive deductions to the Pension Fund;
- Exclusion of the majority of dehkan farmers from the system of pension coverage, whose participation in the system is voluntary;
- Shortage of certain essential items for disabled people, primarily wheelchairs;
- Difficulties of disabled people to secure employment despite the current mechanism of job quotas; and
- Insufficient logistical provisions for the professional training of disabled people in view of their specific requirements and so on.

## **II. Main Objectives, Tasks, and Directions of the Strategy**

Understanding the need to integrate social policy into the country's programs of economic development is the conceptual basis and a precondition for the development of this Strategy. An integrated program of social and economic development must ensure fair distribution of the results of economic growth among all the groups and sections of society, provide equal access to resources for the socially vulnerable groups of the population, and protect against economic discrimination on any basis—territorial, gender, income, and so on.

The Strategy is focused on human interests and assumes a wide participation of all persons and institutions concerned in its preparation, implementation, and monitoring.

The development of the Strategy takes into account the fact that living standards can be improved not only by the increase in the income of the population and growth of consumption, but also by the qualitative components of the living standards—the systems of education, health care,

and social protection of the population; public utility services; and the ecological and information environment.

Uzbekistan has taken up obligations to achieve the Millennium Development Goals (MDGs), approved by the United Nations' General Assembly in 2000. The MDGs are established on a global scale. The country has defined the objectives and tasks based on the peculiarities of Uzbekistan.

The basic objectives of the Strategy include: (a) improvement of the living standards of the population and reduction of poverty by half by 2015, in accordance with the main MDG; (b) guarantee of equal access to basic education, which is the main priority defined in the section on education; (c) achievement of gender equality and provision of women with their rights and opportunities through all sections of the Strategy; (d) improvement of the living standards of mothers and children; and (e) prevention of the spread of tuberculosis and HIV/AIDS. The issue of securing environmentally sustainable growth is reflected in Chapter 6 of this Strategy; the eighth MDG objective is reflected in Chapter 3.

Priorities of the development policy, aimed at sustainable economic growth and improvement of the population's living standards, provide the following basic directions for the activities and key tasks that need to be solved to achieve the defined objectives:

- Achievement of economic growth based on a wide social involvement; redistribution of investments and budgetary allowances in favor of the sectors on which people's welfare primarily depends, notably, its needy groups; creation of a favorable investment climate for increasing private as well as foreign direct investments;
- Improvement of the opportunities for the growth of employment, provision of effective employment, including self-employment, creation of sustainable sources of income and its increase;
- Improvement of the quality and provision of equal access to basic social services, primarily to education and public health care, for all sections of the population;
- Improvement of the quality of social security to socially vulnerable layers of the population, especially to those who cannot be employed in the labor market, through targeted orientation of the social programs;
- Provision of the population with equal access to basic elements of the social infrastructure, especially by providing a continuous supply of quality potable water and gas; improvement of social infrastructure; social capacity building at all levels of the civil society; and stimulation of decentralization of public institutions and social services, involving the population in public processes at the primary level;
- Reduction of regional distinctions in the living standards, including through the elimination of differences in employment opportunities, access to social services, and infrastructure;
- Improvement of the environmental situation; preservation, rational use, and restoration of natural resources.

- Provision of fair and equal access to resources, industrial assets, and financial and credit resources; removal of existing institutional barriers to economic activities of citizens; and
- Achievement of gender equality and full participation of women in social and economic processes.

Resolution of the listed issues is impossible without an integrated program of social and economic development that includes measures of economic and social policy, and deep structural reforms.

To achieve the objectives of the Strategy it is necessary to create a favorable environment for the rapid development and prosperity of the private sector, using all means, including direct foreign investments, which will become the basic source of employment necessary to increase the incomes of the population and reduce the number of the needy population. At the same time, the government will concentrate its main efforts on the social sphere and human development, as well as on the provision of legislative, economic, and financial conditions for private investments.

The government understands that the realization of structural reforms is necessary for the elimination of existing barriers faced by economic growth, including the ones hampering the growth of efficiency of utilization of the available resources and its augmentation by the growth of private investments. In particular, further reforms in the agriculture and financial sectors are required. The government will aspire to stimulate investments by continuing the process of privatization of the remaining state enterprises that will raise the level of utilization of the available capacities in the manufacturing industry and infrastructure.

These reforms will be supported by further liberalization of foreign trade and steps toward obtaining membership in the World Trade Organization (WTO). The government is especially committed to the idea of accelerating the reforms in the agricultural sector to remove obstacles to economic growth by transforming the shirkats into farms and developing a vast network of micro- and small enterprises in rural areas. Because the number of the needy in rural areas is especially high, the government thinks that the creation of conditions for rapid economic growth in agriculture and the agro-industrial sector can lead to substantial results in the form of higher incomes for citizens, and employment for and reduction in the number of the needy. The development of micro- and small enterprises, which can potentially become the main source of employment for the population, and which can be developed with rather small investments, will also have a positive effect on the reduction of the number of the needy.

Measures to create favorable conditions for the advanced development of the private sector should be supplemented with social development measures, including those for strengthening the social protection system of the population and securing adequate access to quality health services and education for all sections of the population. The government will also promote further development of microcrediting, credit unions, and cooperative societies as well as other initiatives that have proved successful in Uzbekistan.

The government is committed to the idea of elimination of weaknesses in governance in every possible way, including administrative reforms, reforms in the public finance control system (introduction of the treasury system) and the taxation system, improvement of corporate

management, and further reforms and improvements in the legislative system and regulatory acts. These reforms will increase the efficiency of governance and public service government, reduce corruption, create conditions for the development of private businesses and build the capacity of the system for the implementation of measures of the social and economic policy stipulated in the Interim and Full Document on the Welfare Improvement Strategy. The Government Welfare Improvement Policy and Strategy Matrix for 2005–10 is included in Appendix 1.

### **III. Sustaining High Rates of Economic Growth**

#### **3.1. Macroeconomic Policy**

The objective of the government's economic policy is the acceleration of economic growth to increase the population's incomes and reduce poverty. Therefore, measures of economic regulation should be directed at achieving stable high rates of economic growth and at a more equal distribution of its results among the various segments of the population.

Accelerated economic growth is possible only in case of sustained macroeconomic stability, which is the main condition for stimulating private investments. Therefore, the achievement of macroeconomic stability is a necessary element of the Strategy. To implement the Strategy, the government will continue to pursue moderately tight monetary and fiscal policies and maintain a flexible exchange rate policy.

The development priority for Uzbekistan in the medium term is to increase the rate and quality of economic growth, eliminating the gap, in terms of GDP per capita, between the level of the country's economic development and that of medium-income countries. A reduction of this gap will testify to the growth of competitiveness of the national economy, which is one of the main criteria of development in the globalized economy.

For that, the annual average GDP growth rate should increase to between 7.5 and 8.0 percent in 2005–10 – or to between 6.0 and 6.5 percent per capita, which is two to two and a half times higher than in 2000–03.

The main sources of growth and achievement of 2015 targets will be more efficient use of factors of growth and competitiveness of the national economy based on intensification of its liberalization, reduction of market imbalances, and a more efficient functioning of public institutions.

The main types of binding resources will be used more efficiently:

- Power consumption per unit of GDP will be reduced by 1.6 to 1.7 times (from 0.93 kg oil equivalent/dollar in 2002 to 0.56 kg oil equivalent/dollar by 2015);
- Efficiency of investment will be raised by 1.8 times (which will be reflected in the decline of the incremental capital-output ratio [ICOR] from 5.8 in 2002 to 3.2 in 2015);

- Water consumption norms will be decreased (by 2015, the GDP growth rate will exceed the water consumption growth by 1.084 against 1.004 in 2002); and
- Productivity of cultivated land will increase (1.09 in 2015 and 1.01 in 2002 respectively).

Measures of the economic policy that create the necessary preconditions for such growth of efficiency include the following:

- Reduction in the tax burden, restriction of the scale of the government's direct intervention in the current economic processes;
- Acceleration of the rates of economic liberalization, primarily in the monetary sphere and foreign trade;
- Simplification of the regulatory and legislative framework to attract material assets of the population into economic circulation;
- Overcoming of structural disproportions on the macro and micro levels;
- Elimination of inequality in the sphere of taxation and monetary policies, and access to material and financial resources; and
- Stage-by-stage achievement of conditions and requirements related for the entrance of Uzbekistan into the WTO, including the narrowing of the gap between the levels of domestic and world market prices on energy resources and payment for water resources.

By 2015 the fiscal policy should secure a reduction in the tax burden on the non-raw-material sectors of the economy and the population, redistribution of the tax burden from manufacturers onto consumers, a more uniform tax distribution among the economic units, and simplification of the taxation mechanism. This will require the introduction of relevant amendments into the Tax Code of the Republic of Uzbekistan, upon which the currently functioning mechanism of tax regulation is based, bringing it in conformity with generally accepted requirements and standards in other countries. In terms of the directions of fiscal regulation, the following changes shall be carried out stage by stage:

- Revision of the Tax Code toward limiting the total number of types of tax withdrawals, simplifying methods of their assessment, bringing methods to determine the taxable base of the profit tax in conformity with international standards, and limiting the total sum of tax withdrawals in non-raw-material sectors of the economy;
- Revision of the rates of income tax on the population with the purpose of shifting the basic tax burden to the categories of the population with higher incomes;
- Redistribution of the tax burden from processing to mining industries, preserving the necessary conditions for a normal level of profitable production and opportunities of self-financing for the latter;
- Improvement of taxation by indirect taxes to reduce its effects on inflationary processes and decrease the tax burden on production. Initially, it is worthwhile to lower value added tax (VAT) rates on imported equipment while renovating and

modernizing production for the enterprises engaged in in-depth processing of raw materials of local origin;

- Simplification of indirect taxation, which will promote the introduction of firm rates for the excise tax on tobacco and liquors. Gradual reduction of the list of goods subject to the excise tax and stage-by-stage unification of the excise tax rate on products imported from abroad and those made in the republic (in the first stage, setting a single rate for the excise tax on the imported products within a single commodity group);
- Removal of the majority of currently effective tax privileges to create equal conditions for competition and restrict corruption in the sphere of taxation. It will increase transparency in the taxation mechanism, simplify calculation of taxes by the enterprises, and simplify control over the payment of tax duties;
- Clearing the sums disbursed to the budgetary organizations (public health care services, education, science, administration) from the state budget funds and in the form of international grants of taxes, which will promote scientific and technical progress and development of innovative activity; and
- Development and adoption of measures to ensure greater stability in the system of tax legislation, setting limitations on the frequency of introduction of new resolutions and changes in legal acts and department instructions in the taxation sphere.

At the same time, it is necessary to strengthen the role of local taxes and duties in local budgets' revenues. In the first place, it is necessary to introduce the incentive mechanism for the local authorities to strengthen the revenue base of local budgets. It is necessary to reconsider the shares of tax revenues going into the republican and local budgets. Local budgets should collect more receipts from indirect taxes, resource payments, and other tax revenues.

Monetary policy should be aimed at curbing inflationary processes and keeping inflation at the level of 4 to 5 percent a year, implementing the program of financial market development and liberalization, improving the interest rate policy taking into account the changing conditions in the financial markets, unifying cash and noncash circulation, and ensuring the population's trust in banks. Along with the development of the banking sector and stock market, credit resources for the industry and other branches of the real sector of the economy should grow rapidly.

To further develop the banking sector and the market for credit resources, as well as to attract household deposits into the banking system, the Law "On Guarantees of Protection of Citizens' Deposits in Banks" was adopted on April 5, 2002, and Regulations on the Fund for Guaranteeing Citizens' Deposits in Banks (Resolution of the Cabinet of Ministers #326 of September 19, 2002) were adopted.

Measures and mechanisms related to the following issues should provide the basic direction for the improvement of the credit policy through 2015:

- Expansion of the Central Bank of Uzbekistan's (CBU's) operations in the open market with the use of T-bonds and its own securities, including certificates of deposits and bonds;

- Expansion of the incidence of market mechanisms of the distribution of credit resources, creation of a full-scale money market and liberalization of commercial banks' interest rates;
- Stimulation of activities of the interbank credit market, the secondary market of the government's securities and the interbank currency market, and the development of the financial market via stimulation of the activity of non-banking financial institutions, including credit unions;
- Introduction of new approaches and mechanisms for monetary policy to influence investment activity. In this connection, further improvement of a privilege granting scheme is required for those commercial banks that take an active part in the implementation of priority investment projects. A significant effect can be produced by the creation of a system of guaranteed mortgage funds by commercial banks to be used in investment activity, including leasing of advanced machinery and technology;
- Creation of conditions for increased issuance of corporate bonds in the capital market;
- Effective efforts by the government to use the opportunities of the stock market in the interests of the development of the manufacturing and industrial spheres;
- Adoption of new legislative and regulatory acts in the sphere of banking regulation for the reduction of the state share in commercial banks' assets;
- Development and implementation of a series of measures to complete the unification of cash and noncash circulation;
- Strengthening control over the banking sector and restriction of marginal levels of borrowing by the state and commercial banks through issuing securities;
- Establishment of more flexible norms of capital reservation and preferential income taxation of credit banks that promote the formation and growth of credit resources; and
- Transfer of commercial banks' functions of cash execution of the state budget and control of accounts payable of economic subjects to other authorities.

The foreign economic policy for the period until 2015 is oriented toward the following:

- Further development of the export capacity caused by the development of high-tech science-intensive industries, and competitive subsectors of the light and food-processing industries and the agrarian industrial complex;
- Support of the interests of domestic, primarily private, exporters in international markets with a purpose of restoration and maintenance of their positions in the world commodity markets;
- Implementation, within the framework of standard procedures, of a policy of reasonable protectionism with regard to domestic manufacturers who are not monopolists in the domestic market;
- Prevention of critical dependence of the national economy on the importation of the most important types of products manufacture, which can be organized within the country;

- Continuous operation of transportation and other infrastructures connecting Uzbekistan with foreign markets (railway and automobile transport, main gas and oil pipelines, intersystem and interregional electricity transmission lines); and
- Further liberalization of foreign trade activities; envisaging entrance into the WTO, adjustment of foreign trade legislation (stage by stage) in accordance with the norms of international trade; organization of a permanently functioning system of assessment and monitoring of quantitative estimations of the consequences of the changes in foreign trade tariffs for sectors of the economy; and usage of the obtained estimations in developing scenarios and recommendations to optimize the process of gaining membership in the WTO by Uzbekistan.

In the sphere of currency regulation it is necessary to achieve transition to flexible regulation of the exchange rate and determination of marginal drift parameters for each forthcoming year, matching the interests of exporters of consumption goods. Doing so shall raise the level of competition and lower price disproportions.

With a view toward development and liberalization of the republic's currency market, the government passed respective resolutions (Resolutions of the Cabinet of Ministers #294 of July 10, 2001; "On the Measures of Organization of Functioning of Over-the-Counter Currency Market," #420 of October 1, 2003; and "On the Measures of Further Liberalization of Currency Transactions," #317 of July 16, 2003, "On the Measures of Further Liberalization of the Domestic Currency Market"), which create a foundation for a successful operation and development of the currency market.

Priorities of the pricing and antimonopoly policy will be determined by the objectives of stimulation of resource saving processes. For this purpose, it is, first of all, necessary to achieve the following:

- Speed up the restructuring of natural monopolies, increase the efficiency of antimonopoly regulation, create other preconditions for eliminating the disparity in prices, which emerged because of, among factors, an accelerated increase in prices on the products and services of natural monopolies;
- Carry out an in-depth reform of the housing and public utilities services leading to self-financing of municipal housing proprietorship associations by 2010;
- Develop and implement a program of a stage-by-stage reduction of the gap between the levels of domestic and world prices on energy resources and products of power-intensive sectors while ensuring accordance of the parameters of this program with the strategy of currency regulation.

Change in the regulatory and legislative framework should affect not only the provisions that determine the principles of the economic policy, but also legislation concerning the strengthening of legal guarantees of private property, lifting of administrative barriers, and fight against corruption.

Implementation of measures aimed at deepening the economic reforms will substantially improve the investment climate in the country and stimulate savings and investments of the private sector as well as the inflow of foreign investments. Liberalization of the economy, elimination of administrative methods of management and distribution of resources, and creation

of the equal “rules of game” for all economic agents will provide more favorable conditions for the development of the private sector and SMEs, and promote a more equal distribution of results of economic growth. All this will accelerate economic growth, increase employment and real incomes of the population, and reduce the share of the population with low incomes.

Projections of the macroeconomic parameters of development, prepared taking into account the implementation of reform measures envisioned through 2010, are presented in Table 5. According to these projections, implementation of the measures discussed above will lead to an increase in the annual average GDP growth rates to 8-8.5 percent in 2007-2010.

The growth of value added in industry will increase during the period reaching to 11-13 percent in 2010, and this will lead to an increase in the share of industry in GDP from 15.1 percent to 19-20 percent. For agriculture, annual growth rates are projected to be around 4.5 percent. The share of agricultural value added in the GDP will decline from 28.8 percent in 2003 to 23.5 percent in 2010.

**Table 5. Projected Main Macroeconomic Parameters**

<b>Indicators</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007–10</b>
GDP growth rates, percent	4.4	6.0	6.4	7.5	8–8.5
Per capita GDP growth rate, percent	3.2	4.9	5.3	6.4	7–7.5
GDP deflator, percent	124.3	118.5	112	109	105–106
Consumer price index, percent	3.8	4.9	6-7	5.8	4–5
Gross savings, as percentage of GDP	26.7	25	25	26	26–28
Investment growth rates, percent	4.5	6.5	7.7	8.1	10–12
Ratio of consolidated budget revenues to GDP, percent	32.7	28.7	28.4	28.2	26–27
The rate of unified social payment (as percentage of the wage fund)	37.2 <sup>a</sup>	33.0	32.0	29.5	27.5
Industry growth rate, percent	6.2	8.2	9.2	10.7	11–13
Agriculture growth rate, percent	5.9	4.5	4–5	4–5	4–5
Share of nonstate sector in GDP, percent	74.5	75	77	80	85
Share of SMEs in GDP, percent	35.5	36.8	38.3	41.3	45–50
Export growth rate, percent	24.6	9.6	10	11	10–12

<sup>a</sup> In 2003, separate payroll taxes were paid into the pension fund, the employment support fund, and the fund of the federation of trade unions. Since 2004, these payments have been replaced by a unified social payment.

Additionally, changes in the current macroeconomic policy and priorities of reforms should provide appreciable positive shifts in the parameters of efficiency of the use of resources, lower power consumption per unit of the gross national product by 23 percent as compared with

2003, and reduce the share of intermediate consumption in the gross industrial output from 74.6 percent to 65 percent.

The share of consumption in the GDP by the end of the forecast period is expected to be between 75 and 76 percent. In the structure of general consumption, government spending will decline throughout the forecast period. It will play a positive role in curbing inflationary processes and corresponding achievement of growth in the population's real incomes. At the same time, growth rates of investments into the economy will consistently grow and, by 2007-10, will be equal to 10 to 12 percent per year. This will happen because of the policies of stimulation of savings, encouragement of investment activity, and increase in the foreign investment inflow.

A significant growth of exports is explained by the liberalization of foreign trade activities, development of regional integration, and accelerated growth rates of export-oriented output.

A major tool of diversification of production and exports is the implementation of an active industrial policy that will lower the dependence of the national economy on the unstable conjuncture of the world market of raw materials, speed up economic growth rates, raise the living standards of the population, and decrease the number of low-income population. The basic directions of the country's industrial policy in the midterm perspective are as follows:

- Restructuring inefficient industrial enterprises by selling off the state's share of their property to domestic and foreign investors;
- Implementing measures on the development of a competitive environment by means of removing administrative barriers and creating equal business conditions, liberalization of foreign trade, and deepening privatization and demonopolization processes;
- Improving the system of regulation of the activities of monopolistic enterprises and natural monopolies;
- Rendering targeted support to the enterprises, which have accomplished technical modernization because of credits, via their prolongation and restructuring;
- Improving conditions for the attraction of foreign investments to processing industries;
- Expanding the sphere of market mechanisms of investment resources distribution;
- Modernizing and developing the fuel and energy sector's capacities;
- Creating effective stimuli for saving energy by introducing new technologies;
- Expanding the network of small hydroelectric power stations and rendering assistance for capacities expansion of the existing thermal power stations;
- Creating mechanisms for stimulating innovative activity;
- Creating equal conditions for national and foreign investors; and
- Adopting and implementing measures on the reduction of differences in the social and economic development of the regions.

In the first stage (through 2010) efforts will be concentrated on (a) eliminating the existing problems and disproportions; (b) forming the favored regime for the development of industry as a whole, in particular research and development (R&D) and technology-intensive manufactures; (c) maintaining a stable functioning of the fuel and energy complex, developing those sectors in which Uzbekistan traditionally has comparative advantages for entering the world market (nonferrous metallurgy, the light and food-processing industry); (d) strengthening the processes of restructuring and modernization of mechanical engineering enterprises, paying more attention to the preparation and retraining of qualified personnel; and (e) developing measures to strengthen motivation and stimulation of younger people for industrial jobs.

In the second stage (2011–15), along with the continuing implementation of the tasks of the first stage, the focus of the reforms is planned to shift to expanding the usage of existing enterprises and establishing new enterprises with competitive advantages; accelerating the development of high technology R&D-intensive branches of the manufacturing industry; and completing the formation of a basis for mechanical engineering enabling the transition to innovative technological development.

Through 2005, with a view to developing domestic production of competitive goods on the basis of local raw materials and accessories, the Program of Localization of Production of Finished Goods, Accessories and Materials on the Basis of Local Raw Materials is being implemented (Resolution of the Cabinet of Ministers, #18 of January 14, 2004).

### **3.2. Public Expenditure Management**

In accordance with a government resolution, a draft medium-term fiscal framework has been prepared, establishing, starting with 2005, targets for revenues and expenditures for the next 3 years, consistent with the medium-term projections of GDP, ceilings for the budget deficit and public borrowing, as well as with other macroeconomic parameters. A working group consisting of representatives of the Ministry of Finance, the Ministry of Economy, and the Central Bank has developed projections of main macroeconomic parameters, revenues, and expenditures of the state budget, and basic directions of the budgetary policy for 2005–07.

A preliminary draft of the budget for 2005 has been developed on the basis of the prepared target parameters of revenues and expenditures of the state budget for 2005–07, taking into account budget requests from budgetary institutions.

Budgetary projections provide for a substantial growth of expenditures of the state budget on the social sphere and social support to the population (Table 6).

Execution of the country's state budget is regulated by the Law "On the Budgetary System of the Republic of Uzbekistan," the Tax and Customs Codes, and other regulatory and legislative acts. The responsibility for the cash execution of the revenue and expenditure parts of the state budget is assigned to the Central Bank and the Ministry of Finance of the Republic of Uzbekistan, and cash execution of the extrabudgetary funds of budget institutions is carried out by the banking system of the republic through local commercial banks.

**Table 6. Projected State Budget Spending on Social Sphere and Social Support to the Population**

<b>Parameters</b>	<b>2004 basis</b>	<b>2005 forecast</b>	<b>2006 target</b>	<b>2007 target</b>
<b>GDP growth by 2004</b>		<b>124.1</b>	<b>145.4</b>	<b>168.1</b>
I. Expenditures without State Extra Budgetary Funds, total (as percentage of the base year)		126.0	135.0	150.9
<i>Share in GDP, percent</i>	22.6	22.9	20.9	20.3
1. Expenditures on the social sphere and social support to the population, total (as percentage of the base year)		130.5	153.0	176.8
<i>Share in GDP, percent</i>	10.9	11.5	11.5	11.5
Of this amount—				
1.1. Education (as percentage of the base year)		129.4	153.4	176.4
<i>Share in GDP, percent</i>	6.3	6.6	6.6	6.6
1.2. Health (as percentage of the base year)		133.4	156.5	180.8
<i>Share in GDP, percent</i>	2.3	2.5	2.5	2.5
1.3. Social security (as percentage of the base year)		128.0	147.2	170.1
<i>Share in GDP, percent</i>	0.09	0.09	0.09	0.09
1.4. Social benefits to families, including those with children		130.4	152.0	175.7
<i>Share in GDP, percent</i>	1.3	1.4	1.4	1.4

The existing system of cash execution of the state budget has a number of weaknesses, in particular:

- The possibilities for efficient management of financial resources temporarily available in the form of balances in numerous bank accounts of budgets and budgetary institutions are very limited; and
- Proper preliminary and current control, in accordance with international standards, over the targeted use of budgetary funds is not possible.

To address these weaknesses, the Public Finance Management Reform Project has been prepared in accordance with Resolution #144 of the Cabinet of Ministers of the Republic of April 26, 2002, “On the Measures of Preparation for the Implementation of the Public Finance Management Reform Project.” The basic objectives of the project are improvement of the management of public finances and provision of effective spending of budgetary funds by the means of a transition to the treasury form of execution of the state budget and improvement of the budgetary process.

Thus, the project will consist of the following two components:

- A component on improvement of the budget preparation process; and
- A component on reforms of budget execution and establishment of the State Treasury.

It is planned that budget limits (ceilings) will be set and conveyed to budget recipients, and budgetary institutions, starting with the budget for 2006, will submit their budget requests proceeding from these limits.

The Ministry of Finance has started work on a stage-by-stage introduction of the elements of budget planning based on the productivity of budgetary organizations and performance of certain operations and tasks (performance-based budgeting).

Systematic work is being carried out to eliminate the normative method of financing of various sectors and instead to allocate budgetary funds for specific issues and concrete actions. For example, in the sphere of science, starting with 2003, budgetary funds for research projects are allocated in one line (without the breakdown by articles of economic classification) on a competitive basis.

Within the framework of preparation of a legislative framework for the establishment of the Treasury System, the Oliy Majlis of the Republic of Uzbekistan adopted the Law “On the Treasury Execution of the State Budget” in August 2004, which will come into effect on January 1, 2006. The law provides for the establishment of the Treasury of the Republic of Uzbekistan, which will be responsible for the execution of the state budget. The establishment of the Treasury provides for the following:

- Consolidation of all operations concerning budget revenues and spending to a single account of the Treasury of the Ministry of Finance, maintained in the Central Bank;
- Implementation of cash execution of the budget by the Treasury with consolidation of all stages of the budgetary process, from the assignment of funds to the preparation of reports on the budget execution;
- Establishment of a single information system of the Treasury and connection to the electronic payment system of banks that will provide the daily monitoring of cash execution of revenues and spending of the state budget;
- Implementation of a three-stage control over the targeted use of budgetary funds: (a) the preliminary control is carried out during registration of agreements and contracts of budgetary organizations with the suppliers of goods, labor, and services by the Treasury; (b) the current control will be carried out at the moment of acceptance by the Treasury of invoices and other payment documents of budgetary organizations under contracts with suppliers of the goods, labor, and services; and (c) the subsequent control and the analysis of appropriateness of payments will be carried out within the framework of scheduled audits; and
- Creation of uniform standards of accounting and reporting in the public sector corresponding to international standards.

The final result will be the establishment of the following:

- The institution of the Treasury in the Republic of Uzbekistan with the central staff in the city of Tashkent and territorial divisions in regions;
- An information public finances management system with a high degree of reliability and integration focused on the interests of the user and perceived inquiries; and
- The training center of the Treasury.

Presently, information on the country's budget execution has been made available to the public through dissemination of the relevant information in mass media. In particular, it is possible to get information on budget execution, revenue, and spending along basic lines for a certain period of time on the official website of the Ministry of Finance on the Internet ([www.mf.uz](http://www.mf.uz)).

### 3.3. Structural Reforms

**Banking sector reform and creation of financial markets.** Priority areas to deepen reforms in the financial markets are commercialization and development of a competitive environment in the banking system, as well as creation of conditions for developing non-banking financial institutions. Achievement of these goals will enable a significant increase in the efficiency of financial markets' operations, encourage savings, and intensify the investment activity. The following are the most important arrangements in reaching these objectives:

- Commercial bank restructuring;
- Removal of non-banking functions from commercial banks;
- Reducing requirements for the entry and operations of foreign banks in Uzbekistan's financial market;
- Reducing the government's share in commercial banks' capital; and
- Creating conditions for the sectoral diversification of commercial banks' operations and development of a secondary securities market.

The interest rates on both deposits and loans are set by commercial banks independently. The inverse (that is, descending) structure of the nominal interest rates on commercial banks' loans reflects the corresponding inflationary expectations of households and businesses. Because of a significant fall in the inflation rate (from 21.6 percent in 2002 to 3.8 percent in 2003) and a corresponding reduction of the CBU's refinancing rate (from 30 percent to 23 percent), further decline in the interest rates is expected. Therefore, the interest rates on long-term loans are lower than those on short-term loans.

Commercial banks are the government's agents in the following two important areas:

- The arrears collection system of "debtors' files" remains the principal mechanism of ensuring timely tax collection. Under such a system, the banks must carry out debit transactions on the accounts of their clients who fail to meet payment obligations to their employees (payroll and state taxes). Such debiting may be done without the clients' approval. To further liberalize and reform the banking system, the Republic's

Banking Council has approved “The Program for the Next Stage of Reforms in the Banking Sector for 2003–04,” whose main principles have been agreed to by International Monetary Fund (IMF) experts. The program aims to gradually relieve commercial banks of their control functions, in particular by freeing banks from the obligation to collect, account for, and control receivables and payables, and maintain the clients’ debtor files. Among the first steps in this direction was abolishing the practice of controlling the payroll fund by commercial banks and strengthening the banking secret requirements.

- Commercial banks have been engaged in administering restrictions regarding the use of money by entrepreneurs and individuals.

The measures to abolish the inappropriate functions of commercial banks will be implemented in parallel with the arrangements to create the Treasury under the Ministry of Finance and improve the tax administration.

In addition to privatization of the NBU and Asakabank, the government’s actions include selling small share packages in the state-owned commercial bank’s capital. The government has sold all its shares in four commercial banks (Savdogarbank, Tadbirkorbank, Ipak Yuli, and Aviabank). The state-owned share packages in four other commercial banks (Zamin, Trastbank, Uzjilsberbank, and Privatbank) were fully sold during the first quarter of 2004.

**Privatization and small business development.** Development of small businesses will become a locomotive for investments, provision of employment, and an increase in people’s real income. To enhance the role of small businesses in the economy considerably, the following measures are planned:

- Improved access for small businesses to credit resources facilitated by the improvement of the monetary policy and further financial sector reforms;
- Reduction in the number of business activities requiring licenses and compulsory certification;
- Simplification of licensing and certification procedures;
- Reduction in the number of permits and clearances required for starting an enterprise;
- Reduction in the number of inspections of economic entities and agencies authorized to conduct such inspections;
- Improvements of the regulatory framework for private business development;
- Improvement of the system of economic (arbitration) courts and enforcements of court decisions; and
- Improvement of the mechanisms for enforcing laws and adopting regulatory legislative acts.

The denationalization and privatization of state property that took place during 1992–04 helped eliminate the monopoly of state’s ownership in the economy and form the class of owners. At this stage, the majority of enterprises in the industrial, construction, and other sectors have been privatized, and privatization of large enterprises in the economy’s basic sectors is now under way with the involvement of foreign capital.

With the aim of stimulating SME development, improving their access to lending recourses, and developing the SME credit market, the government passed Resolution # 309, “On the Measures of Developing Microfinance in the Republic of Uzbekistan,” of August 30, 2002, and “On the Measures of Further Development of the Secondary Securities Market,” of April 29, 2003.

Over the stated period, more than 80,000 state-owned enterprises have been privatized. The process of forming a multiform economy has continued in which the private sector has become dominant in almost all of its areas.

The process of developing commodity, securities, and real estate markets and creating investment institutions (as well as insurance, audit, appraisal, and consulting companies) and trust management institutions continued in parallel with the denationalization and privatization.

Despite the generally positive dynamics in the denationalization and privatization outputs, there have been certain drawbacks caused by (a) an accelerated process of transformation of almost all enterprises into joint stock companies without the adequate development of the corporate government; (b) imperfect mechanisms of state property management; (c) the retention of high public property shares in enterprises, which restrained foreign investors; and (d) a number of other shortcomings. As a result, denationalization and privatization of state-owned enterprises in some cases did not lead to the expected efficiency increase, which has resulted in a failure of some enterprises in a number of sectors to remain competitive in local and international markets. A large volume of state-owned assets in the form of shares in privatized enterprises remains unsold.

Denationalization and privatization of state property in 2005–07 will be implemented on the basis of a program, which will be developed according to the President’s Decrees of January 24, 2003, “On the Measures of Radically Increasing the Share and Importance of the Private Sector in the Economy of Uzbekistan”; of December 22, 2003, “On Improving the National Administration System”; and of December 22, 2003, YII-3366, “On Improving the Economic Management System,” as well as the requirements of the legislative and regulatory acts regarding the creation of a multiform economy based on the experience and results of denationalization and privatization in the previous years.

The main goals of the State Property Denationalization and Privatization Program for 2005–07 are the following:

- Establishment of enterprises based on private ownership, including those established as a result of privatization of state property, thus significantly increasing the private sector’s share in the economy’s structure;
- Maximal increase in the efficiency of operation of enterprises of various types of ownership and the economy as a whole; and
- Development and further improvement of the corporate securities and the real estate markets, including their secondary markets.

Achievement of the above goals depends on addressing the following issues:

- Demonopolization of the existing production and management structures;

- Reduction of the number of enterprises and entities that are restricted for privatization and revision at the legislative level every 2 to 3 years of the list of enterprises that cannot be privatized;
- Denationalization and privatization of the enterprises in the basic and other economic sectors, as well as the entities in the nonproduction sphere, while retaining the public control only for certain strategic types of production; and
- Broad involvement of the country's population and foreign investors in the economic reform process by developing the securities market with a simultaneous reduction of state ownership.

The following will become priority objects for denationalization and privatization during 2005–07:

- Basic and socially important sector enterprises (railways, chemicals, oil and gas, construction industry) in accordance with the reform program adopted by them;
- Nonproduction sphere entities in which the privatization process will be aimed at increasing their profitability and quality of services and reducing costs; and
- Social infrastructure facilities and low-profit enterprises to be 100 percent privatized with or without retaining their previous activity.

The list of entities subject to privatization will include the following:

- The enterprises in which the public ownership is less than or equal to 25 percent will be completely sold at the exchange or over-the-counter markets during 2004–07 as well as their unplaced assets;
- The enterprises and economic associations with public ownership in their statutory funds, in which it has been found expedient, will be reduced to 26 percent;
- The enterprises owned by the state that are planned to be sold out completely at the exchange or over-the-counter market, primarily into the private hands;
- A limited number of strategically important enterprises in which it was found necessary to retain the public share at a level of 51 percent or more; and
- No-prospect unprofitable enterprises offered for sale on a competitive basis, without redemption payments and subject to investment liabilities by a new owner.

**Rural sector reforms.** Deepening reforms in agriculture is an important source of raising resource use efficiency. The country's agricultural sector plays an important role in the economy, producing 30.4 percent of its GDP. Agriculture provides jobs to more than 3.1 million people, or 33.3 percent of the country's able-bodied population. In addition, more than 3 million dehkan farms are engaged in agricultural production.

However, to increase efficiency, raise incomes, and reduce poverty it will be necessary to deepen agricultural reforms in the following major directions:

- Restructuring rural enterprise and organizing more efficient private and dehkan farms on their basis;

- Implementing land reform by providing land to private farmers for a long-term lease, and improving the land recording and registration system;
- Improving the pricing system and the government purchase mechanisms for the main crops;
- Increasing farmers' independence in selecting and marketing crops;
- Abolishing administrative methods of agricultural input distribution and creating a competitive market for such resources;
- Reforming the water supply system, gradually introducing a paid water supply mechanism to encourage water saving;
- Improving the irrigation and land-reclamation systems by increasing public, private, and external investments;
- Encouraging leasing mechanisms to purchase agricultural machinery;
- Improving the rural lending system by facilitating development of the banking and non-banking lending institutions in rural areas;
- Taking measures to demonopolize the ginning industry;
- Providing government support to market infrastructure development in rural areas; and
- Promoting SME development in purchasing, processing, and selling agricultural produce.

In 2002, the government continued improving the regulation system in pricing and procurement through the implementation of the World Bank's program with the support of the Asian Development Bank (ADB). Special emphasis was given to setting fair procurement prices and ensuring timely settlements with farmers.

Beginning with the 2002 harvest, the purchasing prices on the main crops (cotton and grain) within the state were set based on world (regional) prices and the unified rate in the foreign exchange market, and the amount to be purchased by the state was set based on the actual harvest and public needs. In addition, an unconditional fulfillment of contract obligations on producing and selling crops is continuously monitored to avoid arbitrary revisions of contract terms by increasing amounts to be purchased by the state. A decision has been made to leave 50 percent of the produced raw cotton at the farms' disposal. Pursuant to that decision, a regulation has been established, along with the World Bank and the IMF, that provides for the procedures of selling raw cotton and other cotton products from the remaining 50 percent of cotton at farms' disposal. The regulation allows the farmers to sell cotton directly in the local market and through trade agents for export. For creating a competitive environment in the cotton market, the list of the allowed types of participants has been broadened. Farms can now sell the ginned cotton left at their disposal through foreign trade companies, local "Khlopkoprom" units, commodity exchanges, and other entities that specialize in buying and selling cotton. The right to sell freely half of the produced cotton in the free market has created a foundation for broader competition in the sector and the emergence of private businesses specializing in processing cotton and producing finished goods.

Beginning with the 2003 harvest, a pilot mechanism was introduced in a number of regions that involves providing direct lending to the farmers that grow crops for public needs through their commercial banks, which replaced the preceding advance payment system. Commercial banks may also be provided with subsidies for interest-related expenses of farmers.

Presently, there are three types of entities operating in the agricultural sector: rural cooperatives (shirkats), independent private farms, and dehqan farms. The President's Decree of March 24, 2004, "On Important Directions of Deepening Reforms in Agriculture," provided for private farms as priority entities in agriculture that, in perspective, would become primary sources of agricultural production.

As of October 1, 2004, the country had about 102,000 private farms, which cultivated 1.8 million hectares of the areas under crops (48 percent), including 1.6 million hectares of the irrigated land (48.8 percent), and produced 50 percent of the country's raw cotton and 43.3 percent of its grain. While in 1998 the share of private farmers in the total agricultural output was 3.5 percent (and in 2002, 9.9 percent), the figure at the end of 2003 reached 14.4 percent.

**Production and market infrastructure reforms.** Availability of a modern infrastructure is important to stir up investment activity, attract foreign investments, and enhance competitiveness of local producers. Therefore, development of market infrastructure has always been among the economic policy priorities and included the development of roads and railways, creation of a competitive road infrastructure, and implementation of regional gas supply projects. Primary attention will be paid to the following:

- Establishing modern data transmission networks and digitization of all telecommunication media;
- Restructuring transport monopolies, upgrading the means and technologies for transportation, and forming a transportation infrastructure; and
- Securing optimal transport corridors to access the world markets and exploiting in full Uzbekistan's transit capacity.

Plans also include bringing utility tariffs in line with costs. All utility subsidies, except for heating and hot water, have been abolished. It is planned to bring the heating tariffs for households to the cost recovery level by the end of 2006.

**Energy sector reforms.** The energy strategy of Uzbekistan until 2015 is based on the need to increase the efficiency of use of fuel and energy resources, and ensure sustainable supply of energy resources to all economic sectors. The highest priority remains the reduction of power intensity of production, public expenses on power supply, and hazardous environmental effects.

Public regulation of the structural reforms in the energy sector will be implemented through the following:

- *Interrelated price and taxation policies* aimed at regulating the levels and correlations of the local fuel and energy prices that ensures meeting the existing demand and competitiveness of domestic producers, as well as financial sustainability and investment attractiveness of fuel and energy companies; changing price ratios of the interchangeable energy sources (primarily of fuel and heating oil) based on their real customer value; optimizing and diversifying the country's energy budget and

liquidating, as soon as possible, the disproportions among the prices for natural gas, coal, and fuel oil by revising the natural gas prices regulated by the government; creating an even field for energy producers, including the introduction of differentiated tax burdens on oil and gas that depend on mining and geological conditions and location of deposits; and encouraging energy saving;

- *Institutional and organizational changes* in the fuel and energy sector to develop market competition of energy resource producers and parallel improvement of antimonopoly control methods applied to wholesale and retail prices in energy markets both on the national and regional levels, and regulation of natural monopolies; and
- *Improvement of the legislative and regulatory framework* of the energy sector, as well as standardization, certification, and provision of uniform measurements during the production, storage, transportation, and consumption stages of all types of energy resources.

The structural policy includes the following:

- Continuation of structural adjustment in the energy sector branches and improvement of the fuel and energy balance with regards to its diversification;
- Reduction of production costs in the energy sector and optimization of use of the existing productive capacities;
- Advancing development of electrification as a primary source of growth of production efficiency and convenience of living conditions ;
- Completion of the housing sector reform to increase efficiency in fuel consumption at least twofold over the period of time under consideration;
- Ensuring adequate coal mining volumes based on the economic, social, and environmental factors, and further development of coal preparation and complete coal processing to obtain ecologically acceptable and competitive products;
- Intensification of using local nontraditional renewable energy sources (hydro, solar, and wind);
- Restructuring of natural monopolies in the fuel and energy sector;
- Raising capitalization of Joint Services Committees (JSCs) in the energy sector, including through broader rights of shareholders in managing companies; and
- Creating conditions for efficient operations of financial and industrial groups and corporations as well as small- and medium-size businesses, ensuring compliance with their license obligations to maintain a reliable supply of energy to customers.

Among the high priorities are ensuring an optimal balance of various forms of economic management; raising the quality and level of public regulation in the energy sector; creating effective systems of state property management and natural monopoly regulation; upgrading management and developing corporate governance in the energy sector; creating a competitive environment and encouraging independent producers; and reaching optimal ratios between the centralized and decentralized heating and power supply to consumers.

**Foreign trade reforms and WTO accession.** For a greater use of advantages of the international labor division and globalization processes, the government plans to further liberalize the foreign trade, regional economic cooperation, and accession to WTO.

The primary steps to strengthen Uzbekistan's integration into the world economy will include the following:

- Improving tariff and nontariff regulation;
- Introducing international quality certification standards;
- Simplifying licensing, certification, and issuance of permits to access the external markets;
- Improving the VAT refund mechanisms for exporters;
- Creating an export promotion infrastructure, including products of SMEs, involving arrangements to simplify procedures for opening trade offices abroad by local companies;
- Further developing alternative routes and means to access the world markets;
- Intensifying free trade zone initiatives in the CIS and integrating processes in Central Asia;
- Further building the export capacity by developing high-tech, science-intensive industries, and competitive subsectors in the light, food-processing, and agricultural industries;
- Supporting the interests of domestic exporters in foreign markets to restore and maintain their positions in the world's commodity markets;
- Pursuing a policy of reasonable protection within the commonly acceptable principles regarding domestic producers that are not monopolies in the internal market;
- Avoiding a critical dependence on the import of the most important goods that can be produced domestically; and
- Ensuring uninterrupted operations of transports thruways that connect Uzbekistan to outside markets (railway and motor transport, gas and oil main pipelines, and intersystem and interregional power supply lines).

The foreign trade reform policy pursues a considerable reduction in the export of raw materials, with parallel growth in the export of goods with a higher value added, and a reduction in the import of goods that can be produced domestically with greater efficiency.

Therefore, the following steps are planned through 2015:

- Establishing organizational structures that provide real support and help the private sector to market their products abroad;
- Reducing the share of exports regulated by the government and expanding access of private businesses to the world market with regard to exporting cotton and other agro-industrial products;

- Organizing a system to monitor and analyze the situation and trends of the world market's development, and evaluate the social and economic effects of changes in the structure of important export and import items;
- Creating, on the basis of foreign analogues, mechanisms of temporary government support to the economic sectors and branches that are especially sensitive to the growth of imported goods, primarily imported inputs, machinery, and equipment used for production of high-value-added products, including consumer goods;
- Establishing a continuously operating system for assessing and monitoring impacts from the foreign trade tariff changes on the economic sectors and branches;
- Supporting scientific research and practical developments in manufacturing high-tech products, allowing the country to use its competitive advantage and occupy a corresponding place in the international labor division system;
- Gradually abolishing the import contract examination by the Agency for Foreign Economic Reduction (AFER);
- Unifying the lists of imported and domestically produced goods subject to mandatory certification;
- Abolishing ex ante registration of individual categories of export contracts by AFER;
- Unifying the excise rate for imported products with those for domestically produced goods as the local market develops and local prices approach world prices;
- Supplementing the customs legislation with provisions that prevent the import of goods that have been produced in violation of the rights of foreign owners;
- Reducing the number of taxes and simplifying their calculation, revising favorable tax rates for the enterprises with foreign investments;
- Working out arrangements to secure foreign exchange self-repayment of the enterprises with foreign investments;
- Examining imported equipment and technologies so that they correspond to the technological process and modern international standards; and
- Broadening the advertising campaign via international electronic networks (Internet) to disseminate information on the country's investment climate.

Reform of foreign trade and development of the country's export capacity prospectively implies pursuing a trade policy that is based on the negotiations on Uzbekistan's accession to the WTO, and its participation in and strengthening of its ties with the Central Asian countries, the CIS, the European Union, and other countries within the regional union framework, including the Shanghai Organization for Cooperation.

A priority area for developing cooperation of Uzbekistan with other Central Asian countries is enhancing trade and economic relations. The established free trade regime is an effective mechanism for increasing trade in the region as a whole. The main documents that lay a foundation for such favorable regime are the Agreement "On Establishing a Free Trade Zone" signed by all CIS countries on April 15, 1994, and other bilateral agreements on free trade, signed by Uzbekistan with all of the Central Asian countries. In 2003, the foreign trade turnover

of Uzbekistan with the Central Asian countries grew by 5.2 percent as compared with 2002, when the imports from the Central Asian countries grew by 6.2 percent, and Uzbekistan's export to the neighboring countries rose by 4.3 percent.

Creation of a common market within the Central Asian Region (CCAM) requires all countries to unite their efforts in various areas, such as the following:

- Removal of barriers to the movements of goods and services, liberalization of nontariff barriers, and joint solutions in export and import transactions;
- Agreement on favorable and beneficial conditions for trading with third-party countries, securing the interests of CCAM;
- Joint development of a long-term program of establishing joint ventures, including those to produce and export products from basic sectors of the chemical, energy, and metallurgical industries;
- Development of a system of privileges and incentives for the operations of joint-ventures manufacturing goods to meet domestic and external demands.

Uzbekistan has come through the preliminary stages of WTO accession and is on the eve of beginning negotiations with member countries.

Accession of Uzbekistan to the WTO will require the following steps:

- Assessment of trade tariff changes and their use for working out scenarios and recommendations to optimize the WTO accession process;
- Development of a public foreign economic and legal information system for enterprises (prices, terms of trade, dispute resolution mechanisms, and so on) to enable them to effectively use the opportunities of the WTO in international competition and retrain their managers on WTO basics;
- Establishment of a specialized center that would study international experience, and develop and introduce Programs of Technological Compliance with the international standards of labor productivity and quality of goods in various industrial sectors;
- Broadening of research and analytical works for assessing the impact of WTO accession and evaluating competitiveness of products manufactured by Uzbekistan's enterprises, the agro-industrial complex, and services;
- Organization of a continuous monitoring of negotiations on WTO accession of the CIS countries, including Russia and Kazakhstan; and
- Bringing the existing trade regime into compliance with the main requirements of the WTO.

That would require the following:

- An assessment of export capabilities of the countries that will enjoy the most-favored nation (MFN) regime after Uzbekistan's accession to the WTO;
- Reduction of customs tariffs on the import of certain goods that are not produced domestically. This will allow to maintain tariff rates for other goods in line with the

interests of local producers while at the same time reducing the average weighted customs tariff;

- Abolishment of import tariffs for intermediate goods used by some industries (for example, fabrics and accessories for the apparel industry) to encourage output and employment growth; and
- Analysis of export goods for their compliance with the WTO's sanitary and phytosanitary norms.

**Administrative reforms and decentralization.** A primary goal of the administrative reform is to create a compact and transparent government apparatus enabling further deepening of the reforms, and bring the economic management system in line with the principles and standards of a rightful and democratic society with a free market economy. The administrative reform is planned in a stage-by-stage manner in the following basic areas:

*Specification of the functions, status, and authorities of the central bodies of public administration, and introduction of common principles at their formation:*

1. Considerably reduce the operational functions of the central economic administration bodies by focusing their activity on developing and implementing the following directions of the economic and social development:

- Fiscal policy related to the preparation and execution of the national budget, and formulation of general parameters and principles in preparing and executing local budgets;
- Monetary and foreign exchange policies;
- General principles of the social policy (social security, employment, and income; education and health care policies); and
- Public regulation of privatization processes and business support.

2. Secure a functional approach to the formation of executive bodies and, following the international experience, concentrate the country-level functions on the following three types of central bodies:

- *Ministries and state committees*—as the bodies working out and implementing priority areas of the government's policies, in charge of rule-making, executive, and administrative functions;
- *Agencies and committees*—in charge of rule enforcement, executive, and administrative functions; and
- *Supervisory inspections and control centers*—performing controlling and supervisory functions over individual established standards and norms.

*Streamlining of the economic management structure by transforming, merging, downsizing, and liquidating administrative bodies in accordance with the market economy's requirements.*

It is planned to implement the initiatives through the following:

- Removal from the central bodies and sectoral administrative agencies of the functions not corresponding to the market principles of economic administration;
- Transformation, merger, reduction, and liquidation on that basis of the sectoral administration bodies and downsizing the bureaucratic staff;
- Completion of the separation of functions of the public and economic administration;
- Introduction of corporate governance methods that would limit authorities and economic associations empowered with sectoral regulation functions (concerns, companies, associations, and so on) in their rights to directly coordinate, administer operations, and appoint staff of joint stock companies, which will become the prerogative of general meetings of shareholders and supervisory boards; and
- Introduction of market mechanisms for business entities in accessing resources previously subject to limited distribution and rationing, and creation of a competitive environment in the commodity and services market.

*Decentralization of public administration, a radical reduction of the existing types, ways, and methods of administration on the part of ministries, agencies, economic associations, and regional administrations.*

This involves the following:

- Removal from the sphere of direct public administration of the sectoral associations and companies that do not have enterprises with the public share or with whom such share is insignificant;
- Continuation of the process of separation of public administration functions from those of economic management;
- From 2004, extension of the right to leave economic associations to the JSCs and enterprises of other types of ownership in which the public share is either small or absent and their activity profiles do not correspond to the common sectoral objectives;
- In the course of the upcoming reorganization of public and economic administration bodies, a clear definition of the rights and mutual obligations between a sectoral administration agency (holding, company, association, and so on) and an individual entity, ensuring the strengthening of the legal mechanisms for their relationship exclusively on the basis of agreements between them;
- For the radical reduction of the administrative and distribution methods, and liquidation of the centralized rationing and restricted distribution systems, it is necessary to revise and reduce the list of approved input-output balances by introducing a mechanism to sell resources primarily through exchanges, auctions, and direct contracts; and
- Reduce dramatically the list of national and sectoral statistical reporting and information submitted by business entities to the federal and sectoral bodies of administration.

For the purpose of decentralization and improvement of the forms and methods of the activity of regional economic and social administration, it is planned to concentrate the activity of local authorities on performing the following primary functions to provide public services to the population:

- Practical implementation of the social policy, including education, health, and social protection;
- Guaranteeing reliable and efficient operation of the housing utility sector and municipal improvements of their respective localities;
- Implementation of the public policy in the fiscal area, and broadening of taxation base to form local budgets;
- Creation of a favorable environment for the development of small, medium, and private businesses, and conditions for raising employment and creating new jobs and sustainable sources of income;
- Provision of a rational use of land and water resources in their respective localities; and
- Promotion of effective operations and development of the local self-governing bodies and civil society structures.

These efforts must be supplemented by restrictions to central authorities in intervening into the operations of local governments within their established economic policy and development strategies.

*Reduction of unreasonable interference of administrative and controlling agencies in the operations of economic entities.*

It is planned to achieve the following:

- Establish a list of controlling agencies, by reducing their number to the minimum, clearly delineating their controlling activity, and excluding duplication of controlling functions;
- Reduce the frequency of inspections of the business entities that pay taxes and other payments on time and in full (as opposed to once in 2 years at present):
  - for private entities—down to one time in 3 years;
  - for private farms—down to one time in 4 years;
  - for other enterprises and organizations, if positive audit reports are available—down to one time in 3 years;
- Upon the completion of the new stage of privatization, beginning from 2005, to leave inspection functions on economic violations of the business entities without a public share only to the tax authorities, except for inspections made within the scope of instituted criminal proceeding;
- From 2005, in accordance with the international practice, to introduce a procedure that establishes that the following can be made only on the court's decision:

- imposing sanctions such as suspending and canceling a license, or indisputable collection from its account;
- closing bank accounts, or suspending their operations for more than 10 days as well as imposing penalties exceeding 100 minimal wages; and
- Forbid *khokimiyats* (of all levels) to control directly, or through banks or regional divisions of controlling bodies, financial and business activity of the private businesses operating in their territory.

To increase transparency and strengthen social control over the activity of the public authorities the following is planned:

- Publish all regulations, instructions, and statistical materials related to running a business. Sanctions must apply only to the violations on which normative and instruction materials have been developed and made freely accessible to population and economic entities;
- Work out and introduce a mechanism to thoroughly prepare drafts that pertain to the most important government decisions. The mechanism must include the development of alternative drafts of the decisions being made, their discussions among experts, including independent ones, and subsequent parties in charge of execution, a high-quality economic and legal draft examination, identification of its strong and weak points, and development of an execution and control mechanism for the government's decisions;
- Introduce a system of prospective forecasting of regional development, including broad discussions in the local press and other mass media of the information regarding perspective regional development programs; and
- Introduce a system of regular reporting of *khokims* to the population, involving mass media channels, on the implementation of the approved annual and medium-term economic and social development programs within the respective territory, and basic local budget parameters.

*Gradual modernization and efficiency upgrade in the public administration based on contemporary information technologies, and improvement of the public service system.*

Within the program to introduce modern information technologies, it is necessary to complete the formation of the electronic channels of interaction concerning information exchange:

- Among public authorities—vertically and horizontally;
- From business entities to public authorities—statistical data, queries; and
- From public authorities to businesses and population—legal and statistical information, services of providing various electronic forms, documents, and so on.

A special part of the administrative reform will be the public service reform. This requires the following:

- Introducing a system of predominantly open competitive selection in recruiting specialists for public service;

- Clearly defining a public officer’s status with the formulation of his/her rights, obligations, criteria for career promotion, and mechanism of incentives and social protection;
- Creating conditions for making public service more attractive through various incentives for qualified, experienced, and conscientious officers;
- Gradually introducing a continuous professional training system and a mechanism for regular attestation of public servants of all categories once in three years; and
- Establishing a continuous monitoring of the training and senior staff allocation processes.

**Legislative system reform.** The adopted program of special arrangements to deepen administrative reforms in the country also provides for the improvement and development of the legislative framework by accomplishing the following:

*Preparing and passing new laws of the Republic of Uzbekistan.*

1. “On Executive Power Bodies of the Republic of Uzbekistan” that provides for the following:
  - Retaining by the state’s executive bodies the functions related to strategic issues of national importance; and
  - Transferring to the local, sectoral, and economic levels the administration of operational functions of implementing the national policy.
2. “On Economic Associations,” which will retain two major organizational and legal types of economic associations:
  - State joint stock companies (including those established as holdings), with a public share of more than 50 percent only in strategic sectors, by concentrating their functions on pursuing a common technical policy, arranging for the implementation of public scientific and technical and strategic programs, attracting foreign direct investments into the sector, and organizing professional staff training;
  - Associations created voluntarily by enterprises based on their belonging to some sector, with functions and a flexible management structure established by the founding enterprises. Economic enterprises focus their activity on assisting their member entities in the areas of technical policy, marketing, and inter- and intrasectoral cooperation.
3. “On Information Technologies” and “On Electronic Document Circulation,” which provide for creating a regulatory and legal framework to introduce modern information technologies based on equipping public administration agencies with information and communication technologies; and gradual transition to electronic documentation in the government.
4. “On Public Service,” which will include the following:
  - Gradual modernization and efficiency upgrade in public administration and improvement of the public service system;

- Introduction of a predominantly open competitive selection procedures for recruiting public service specialists;
  - Provisions on the rights and obligations of public servants and a respective incentive mechanism.
5. “The Administrative Liability Code,” which will establish the following:
- Systematization of sanctions, including financial and economic ones, applied administratively;
  - The agencies authorized to apply financial and economic sanctions;
  - Application of financial and economic sanctions as a measure of administrative responsibility; and
  - Transfer of the right to apply individual sanctions directly to court.

*Amending the effective laws of the Republic of Uzbekistan.*

1. The law “On the Cabinet of Ministers of Republic of Uzbekistan”—by introducing a provision that divides the central public administration bodies into three basic types such as—

- *Ministries*, in charge of rule-making as well executive and administrative functions of the national significance;
- *State committees, committees, and agencies* in charge of enforcement, executive, and administrative functions;
- *Supervisory inspections and centers for coordination and control* in charge of controlling and supervisory functions over compliance with legislation, established standards, and norms.

2. The law “On Local Government” aims to improve the forms and methods of executive bodies at the local level, establishing their main tasks in providing public services to the population and concentrating their efforts primarily on the following:

- Practical implementation of the social policy, including education, health, and social protection;
- Provision of a reliable and efficient operation of the housing utility sector and municipal improvements of their respective localities;
- Implementation of the government’s policy in the fiscal area, broadening the taxation base to form local budgets;
- Creation of a favorable environment for small, medium, and private business development, and conditions for raising employment, and creating new jobs and sustainable sources of income;
- Ensuring a rational use of land and water resources in their territories; and
- Promoting effective operations and development of the local self-governance bodies and civil society structures.

3. The law “On Civil Self-Governance Bodies” broadens the functions and powers of self-governance bodies in the process of decentralization of public administration.
4. The law “On Guarantees of Freedom of Enterprise” establishes the following:
  - Virtually complete abolition of economic associations’ functions of distributing rations, funds, and quotas for power, natural gas, and other inputs; and
  - Introducing regulations that would prohibit economic associations to set any kinds of distribution systems or distribute directly products of associated enterprises.
5. The law “On Public Control of Business Activities” establishes the following:
  - Reducing the frequency of inspections of business entities that pay taxes and other payments on time and in full (as opposed to once in 2 years at present):
    - for private entities—down to one time in 3 years;
    - for private farms—down to one time in 4 years;
    - for other enterprises and organizations, if positive audit reports are available—down to one time in 3 years;
  - Concentration of inspection functions on economic violations of business entities without a public share only by tax authorities, except for the inspections made within the scope of an instituted criminal proceeding;
  - Introduction from 2005 of a procedure that establishes that imposing sanctions such as suspending and canceling a license, indisputable collection from its account, closing bank accounts, suspending their operations for more than 10 days as well as imposing penalties exceeding 100 minimal wages may be made only upon court decision.
6. The Criminal, Criminal Procedure, and Civil Codes will be altered to include the following:
  - Introducing a rule of holding a manager or an employee of a private business organization responsible for inflicting a property damage to such organization only on its application or with the consent of its owner; and
  - A clear definition of “an official” in the criminal law, by acknowledging that representatives of small- and medium-size businesses cannot be recognized as officials.

#### **IV. Strengthening Human Development and Social Protection**

Adoption of a strong social policy is one of the fundamental principles of the national model of a step-by-step transition to the market economy. It confirms the commitment of Uzbekistan to the universally recognized values of human development, aimed at empowerment of people, and protection of socially vulnerable population groups against risks connected with economic reforms.

#### 4.1. Access to Education

Uzbekistan is one of only a few developing countries with a practically universal literacy. The high level of education of the population is one of the greatest achievements of the country. According to UN estimates, the level of literacy among the adult population, using the summary indicator of the number of those attending an education establishment at any level, Uzbekistan has an above-average level, not only in comparison with countries with an average level of development, but also in comparison with industrial countries. During the years of independence and implementation of economic reforms, the literacy level of the population in Uzbekistan rose from 97.7 percent (1991) to 99.3 percent in 2003. The share of the adult population with specialized secondary, vocational, or higher education exceeds 75 percent. The problem of ensuring basic education for the 7- to 15-year-old age group has been practically resolved. There is virtually no difference between the number of girls and boys enrolled in primary education (90.9 percent of boys and 90.5 percent of girls).

Reforms of all levels of the education system are being implemented step by step in the country. The main objective of the National Program of Personnel Training and The Law of the Republic of Uzbekistan, “On Education,” is to improve the quality of education across all levels and transfer to a free compulsory 12-year education.

In conformity with the goals and objectives, the following measures for ensuring quality education are envisaged.

In preschool education—

- *Increase enrollment rates for state preschool institutions* through strengthening support to families with children of preschool age; increase enrollment at nontraditional, preschool educational institutions; expand kindergarten-school units, home-based kindergartens, and nonstate kindergartens, and different groups with short timetables;
- *Improve the professional level of teachers* by improving the system of training, retraining, and in-service training;
- *Continue the implementation of the Comprehensive program “Children of the Third Millennium”* aimed at preparing children for school, and raise the level of scientific-methodological basis for teaching and educational process at preschool education institutions; and
- *Design a complex of measures for organization of production of didactic materials and toys*, which help to develop basic skills and logic, and meet children’s needs and interests.

In basic education—

The main priorities of further reform are as follows:

- Strengthening and development of material-technical basis of schools;

- Provision of schools with modern learning and laboratory equipment, computers and information and communication technology (ICT), textbooks, and instruction materials;
- Improving learning standards and syllabi;
- Provision of general secondary schools with good quality teaching staff, particularly in rural areas, and provision of appropriate incentives for teachers; and
- Developing sports and improving sports facilities in general secondary schools.

The main sources of financing of the above-mentioned program, along with budgetary funds, shall be resources of organizations and companies, sponsors, foreign loans, and grants. To encourage fundraising and their appropriate use, a special extrabudgetary fund for school education was created.

With the purpose of efficient use of financial resources, improvement of quality of education and ensuring of social equity, implementation of financing on the average per capita (per one student) principle is planned.

In secondary special vocational education—

- *Improving the quality of professional guidance* through development of activities in the area of career guidance for young people, taking into consideration the current mismatch between the supply and demand in skills, as well as qualifications, territorial, gender, age, and other factors; improving the system of monitoring of job placement and settling of graduates at their place of work;
- *Improving the teaching content and production facilities* through enhancing a system of integration of vocational colleges, higher education institutions, and enterprises;
- *Increasing effectiveness and quality of the learning process* through designing and implementing teaching norms as well as provision of teaching materials; and
- *Developing an effective system of quality control of staff training*, testing of teaching staff, and accreditation of education institutions on the basis of improved normative-legal framework.

In extracurricular activities—

- *Strengthening the material-technical basis of extracurricular activities and extending the network of extracurricular institutions*;
- *Integration of basic education and extracurricular activities* through the creation of regional complexes (school plus extracurricular institutions) and establishing the appropriate regulatory and legal framework for the operation of such complexes;
- *Improving staff levels and training for staff* at extracurricular institutions, and also material incentives; and
- *Strengthening the role of the family and the makhalla* in bringing up a healthy generation.

The main objectives of the adopted programs are the provision of a state guarantee of access to and equal opportunities to obtain education at all levels as well as increase the quality of education.

With the aim of accomplishment of these objectives, the following resolutions were adopted in the area of education:

“On the National State Program for the Development of School Education for 2004–09” (Decree of the President of the Republic of Uzbekistan VII -3431 of March 21, 2004);

“On Measures for Improving the System of Training Teaching Staff for Secondary Special Vocational Education Institutions” (Resolution of the Cabinet of Ministers #400 of October 4, 2004);

“On the Program of Equipping General Secondary Schools with Furniture, Modern Learning and Laboratory Equipment, Computers and Sports Implements for 2005–09” (Resolution of the Cabinet of Ministers #493 of October 21, 2004);

“On the Program for Publication of Text-books and Educational-methodological Guidelines for Secondary Schools for 2005–09” (Resolution of the Cabinet of Ministers #548 of November 22, 2004).

#### **4.2. Access to Health Care Services**

Priority directions in the development of the health care system in the medium term are as follows:

- Capacity building in the provision of high-quality health services at the primary level; strengthening the emergency medical aid service and specialized medical care institutions by equipping them with modern medical equipment, transportation, and communication facilities; and improving the quality of training and in-service training of medical specialists;
- Implementation of special measures to prevent disease incidence, including immunization of the population (first of all, children), fortification of food products (salt and flour in the first place) with deficient minerals, and strengthening advocacy of a healthy life style; and
- Improvement of sanitary and epidemiological conditions and the involvement of civic society and civic self-governing bodies, in the first place, into these processes.

The following actions are planned:

- Expand the primary health care reform to all regions of the republic within the framework of the World Bank health project;
- Pay significant attention to programs for upgrading the infrastructure and equipment of medical institutions of the secondary and tertiary level within the framework of the current investment programs;

- Continue the gradual transition from a “financial estimate for funding” for the health care system to a system of funding based on the volume of services provided, which will help to streamline public expenditures;
- Equip primary health care facilities with specialized transport and communication means to ensure timely medical assistance in remote areas;
- Strengthen the network of medical centers for diagnosing and treatment of socially significant diseases (TB, HIV/AIDS, and so on);
- Improve the quality of health services provided to women of child-bearing age and children, capacity building at the corresponding institutions;
- Gradually increase the amount of funding allocated to the health sector, using budget funds, and also setting up extrabudgetary funds and attracting donor assistance;
- Improve the system of monitoring financial flows to the health sector and develop a flexible system to manage them; and
- Further develop the private health sector to reduce the pressure on the budget.

These priority directions underline the following resolutions adopted by the government:

“On the State Program “Healthy Generation” (Resolution of the Cabinet of Ministers #46 of February 15, 2000);

“On Measures for Further Development and Strengthening of Material-Technical Basis of First Aid Services for 2003–05” (Resolution of the Cabinet of Ministers #298 of August 22, 2002);

“On Measures for Further Reforming of the Health Care System for 2003–12” (Decree of the President of the Republic of Uzbekistan VII-3214 of March 26, 2003);

“On Improvement of Medical Equipment Production Management for 2004–06” (Resolution of the Cabinet of Ministers #490 of November 6, 2003);

“On Measures for Completion of the Experiment and Intensification of Reforms in the Health Care System” (Resolution of the Cabinet of Ministers #264 of June 8, 2004);

“On Measures for Implementation of the Project ‘Improving the Health of Women and Children’ with the Participation of the ADB for 2005–10” (Resolution of the Cabinet of Ministers #515 of October 22, 2004).

The development of physical education and sports is directly linked to the development of a healthy life style and disease prevention. The importance of physical training and sports development is emphasized in the state program for reforming the health care system and the National Program for Personnel Training. Analysis has shown that, despite the successful performance of Uzbek athletes in top sports on the international arena, the level of physical fitness for more than half of the total number of the young population cannot be considered satisfactory, and about 60 percent of the adult population do not have a satisfactory level of physical fitness.

The government has approved a number of integrated programs for the development of child and youth sports, particularly in rural areas. Priority is given to sports that do not require expensive sports facilities; special attention is being given to the creation of conditions to involve children from poor families, orphans, and disabled children in physical education and sports. Government programs also envisage the development of sports grounds and inexpensive sports facilities in the territory of each makhalla.

However, because of limited possibilities of funding mass physical education and sports from budgetary sources, it is planned to attract financial resources from extrabudgetary funds, NGOs and charity organizations, grants, and private investments.

### **4.3. Labor Market and Provision of Employment**

The republic was and remains a region with a large labor potential. Despite a relatively low unemployment rate, which is around 4 percent of the economically active population, the problems of providing productive employment are quite urgent.

Specific demographic trends (high birth rates in the 1980–90s) placed a significant pressure on the labor market, which is reflected in the growth of the working-age population by more than 240,000 people per year. These trends, together with enterprise restructuring, have led to a significant excess in labor supply. There are structural imbalances in the labor market, which are reflected in the substantial amount of unofficial employment, generating irregular incomes for workers.

Provision of employment in Uzbekistan envisages solving this problem through the following measures:

- Increasing employment, particularly among rural population and certain social-demographic groups, especially those who have difficulties competing on the labor market;
- Improving the sectoral and territorial structure of employment;
- Ensuring quantitative and qualitative (skills and qualifications) balance between supply and demand on the labor market; and
- Increasing the quality as well as professional and territorial mobility of the labor force.

In the medium term, the priority direction in the provision of employment is to stimulate private sector development, especially small businesses, which can quickly adapt to the market environment, through the following:

- Improving the investment climate by strengthening economic and administrative reforms, which will reduce transaction costs of businesses and legalize the unofficial sector;
- Providing incentives for the development of processing industries, particularly specializing in agricultural processing and the light industry;

- Extending microcrediting to small business, including business set up without having to register as a legal entity, particularly companies based in rural areas, as well as those that employ women, by involving donors and extrabudgetary sources of funding;
- Creating conditions and providing incentives for home-based work, particularly for mothers with many children; and
- Implementing an active regional industrial policy aimed at encouraging investment activity and job creation in areas of labor surplus and rural areas. Special measures should be designed and implemented to address issues in areas that have difficult labor market situations.

To improve the quality of the labor force and increase competitiveness in the labor market the following is envisaged:

- Ensuring closer conformity of specialization and courses taught at vocational colleges with the current demands of the labor market and ongoing structural reforms;
- Creating specialized training colleges in all regions for the training of production managers in small businesses by changing the profile of the existing vocational colleges, which at present provide training for young specialists in skills that are not in sufficient demand in the regional labor markets;
- Reestablishing the system of on-the-job training at production units and in-service training of personnel;
- Upgrading and motivating the development of professional training in handicrafts using the *Usto-shogird* (master classes) method; and
- Developing employment and recruiting services in the area of training, retraining, and in-service training of unemployed. A large share of the training should be provided on the basis of vocational colleges and on a contractual basis.

To increase employment and create workplaces in priority economic areas, regional khokimiyats will develop and adopt at the local level appropriate medium-term programs of job creation and provision of employment, which are interrelated with corresponding territorial programs on social and economic development of the region.

The following outcomes are expected as a result of implementation of the abovementioned activities:

- An increase in the number of employed up to 11.9 million people in 2006 and up to 13.2 million people in 2010;
- A decrease in the unemployment rate (number of those seeking employment as a share of the economically active population) from 3.6 percent in 2003 to 2.8 percent in 2006 and 2.0 percent in 2010;
- A decrease in the share of employed in the informal sector from 29 percent of the total employed in 2003 to 25 percent in 2010 through legalization of their businesses as a result of reduction in transaction costs and increased trust in economic policy; and

- Positive changes in the sectoral structure of employment; an increase in employment in the processing industries and services sector, and a reduction in the number of those employed in agriculture. Between 2005 and 2010, employment in industry is expected to increase by 60 to 65 percent, in construction by 32 percent, in transport and communication by 37 percent, and in trade and public catering by 32 percent, and to decrease employment in agriculture by 15 percent.

#### **4.4. Public Utility Services**

The most important feature of public utilities is its pronounced social function, that is, provision of vital services to all members of society, and its efficiency is vital for the development of the country's economic potential. The system of public services is one of the main consumers of natural resources (water, energy, and so on) and also has environmental protection functions.

The concept of strengthening economic reforms in the public utility services system, which is being implemented in the Republic of Uzbekistan (approved by the Resolution of the Cabinet of Ministers #461 of 1998), envisages the achievement of the following goals:

- To provide quality standards of housing conditions;
- To reduce costs while retaining quality standards in public utility services, and thus reduce tariffs for services provided;
- To soften the process of transition to economically justified rates and tariffs for services provided to the population;
- To abandon the expenditure approach to pricing;
- To create a competitive environment and alternative structures for providing services to homes;
- To upgrade the system of calculating energy consumption by installing metering devices;
- To develop a mechanism of state control over the condition and preservation of housing; and
- To transfer to a non-loss-making system.

To resolve the problems associated with housing development and communal services, the government has approved and is implementing a number of concrete programs and long-term solutions:

- The program to repair apartment houses built before 1991 (approved by Resolution of the Cabinet of Ministers #74 of March 1, 2002), involving additional funding from local budgets and other non-budget sources;

- The program to provide water meters to apartments (houses) with centralized system of water supply in 1999–04 (approved by Resolution of the Cabinet of Ministers #99 of March 28, 2002);
- The program for provision of rural settlements of the Republic of Karakalpakstan and regions with centralized water supply in 2003–05 and natural gas in 2003–05 (approved by Resolution of the Cabinet of Ministers #405 of September 17, 2003);
- “On Measures for the Implementation of the Project ‘Improvement of Water Supply System of Tashkent City’” (Resolution of the Cabinet of Ministers #93 of February 27, 2004);
- Programs for the provision of remote, difficult to access, and sparsely populated rural settlements with alternative sources of water supply in 2003–09 and liquefied gas and other types of fuel in 2003–05. By implementation of the abovementioned programs it is planned to provide 2,323 rural settlements with centralized water supply and 949 difficult-to-access and sparsely populated rural settlements with alternative sources of water supply; 1,458 rural settlements with natural gas; and 922 rural settlements with liquefied gas and other types of fuel; and
- The targeted program of investment projects for 2005 (approved by Resolution of the Cabinet of Ministers #560 of November 30, 2004), implemented using international loans guaranteed by the government, contains the list of investment proposals for the key directions of housing and public utility services reforms.

In the medium term, main efforts will focus on the implementation of a range of targeted projects for the development of housing and public utility service infrastructure and provision of the population with access to drinking water and heating. The following are identified as priority projects:

- Development of the regional Shakrisiabz-Karshi water pipe using the water intake WU-5. The implementation of the project, together with utilization of the existing engineering infrastructures, will improve provision of a quality water supply for the cities and towns of Shakrisiabz, Karshi, Kamashi, and Kasan; the district center of Bakhoriston, and rural settlements adjacent to the water pipe (serving about 250,000 people);
- Improvement of the quality of water supply to Ferghana, Margilan, and settlements adjacent to the water pipe. Although the amount of water extracted from the underground water sources in Fergana Oblast is sufficient, its quality does not meet the requirements of sanitary and hygienic norms. After implementation of the project, quality drinking water will be supplied to 565,000 people;
- Development of the water supply of Bukhara, Navoi, and Samarkand regions from the Damkhodji underground water field in Samarkand Oblast. Implementation of the project will improve drinking water supply to 1.2 million people;
- Implementation of the project to provide gas to rural, remote, and mountainous settlements will provide uninterrupted energy supply to 2.5 million people;

- Renovation of heating plants in the city of Tashkent and introduction of market principles of service provision. The aim is to improve heating supply to the city of Tashkent and to implement a computerized system for utility payments; and
- Improvement of the sanitary cleaning system of Bukhara and Samarkand.

Priority activities for improving the housing and public utility sector operation will involve the following:

- Design of a method for calculating technological waste of piped water and waste in the provision of utility services;
- Improvement of the system for tariff setting, that is, developing a payment system, based on only the actual use and volume of consumed utilities (water, gas, and heating);
- Improvement of the management structure of heating generation enterprises to reduce the cost of service provision; and
- Competitive selection of potential investors for implementation of projects on the construction of interregional water pipelines, main interdistrict water pipelines, and interdistrict gas pipelines, and on the reconstruction and development of the sewer systems.

Implementation of the proposed activities will allow for 100 percent coverage of rural settlements to receive quality drinking water, including alternative sources of water supply by 2010, and energy supply, including liquefied gas and other types of fuel, by 2006.

The following drafts of program documents have been designed and are under consideration by the government: “On the Program for Strengthening Economic Reforms in the Public Utility Services System of the Republic of Uzbekistan for the Period up to 2010,” “On Measures of Improving the Tariff Policy and Raising Consumer Responsibility for the Timely Payment for Public Utility Services,” and “On Measures of Housing Construction and Housing Market Development.”

#### **4.5. Child Welfare**

Uzbekistan has peculiar features of social and demographic development. High birth rates and natural population increases, the age structure of the population, and other indicators lead to a progressive type of development. Children of 18 years and under constitute 41.7 percent of the population.

From the first days of independence, the issues of strengthening maternal and child care and creating conditions for comprehensive harmonious development and education of children in the spirit of universal humane values were stated among the most important state objectives. The following were identified as the top priorities of the policy to ensure child welfare:

- Improvement and development of the legal framework for the protection of the family, as well as maternal and child interests, in line with the international standards and legal system;
- Creation of economic conditions for the consolidation of families and welfare of children, and the prevention of cases of homelessness among children and teenagers;
- Implementation of the national education program, which provides for free compulsory 12-year school education;
- Improvement of the reproductive health care system;
- Further development of the system for the early detection of congenital and hereditary pathologies in newborns and pregnant women, “Mother and child screening”;
- Strengthening of the material-technical basis of child and maternity institutions;
- Provision of social protection for vulnerable groups of children—disabled, orphans, and children from poor families;
- Development of the system of providing continuous education, raising the level of skills of specialists and knowledge of the population in the field of reproductive health, and increasing medical awareness; and
- Broadening of international cooperation to improve reproductive health of women, as well as the birth and upbringing of children.

The main instruments for implementing these policies are government decisions and targeted programs, financed by the state and donor funds. The programs are aimed at creating the necessary legal and economic conditions to promote the interests of women and children, and bringing up a physically healthy, spiritually rich, and harmoniously developed generation.

The United Nations Children Fund (UNICEF) survey, “Social Monitoring 2003,” shows that the volume of government spending on health care and basic and secondary specialized education in Uzbekistan is the highest among Central Asian countries, and that a number of indicators, which demonstrate the welfare of mothers and children, exceed the recommendations of International Forums for the short-term period.

A special session of the UN General Assembly (May 2002) attended by leaders of states and heads of governments, ratified a World Development Declaration and Action Plan for the creation of a world suitable for children to live in, and defined goals, strategies, and measures aimed at improving child welfare in the period up to 2015. These documents underline the following aspects of child welfare:

- Integrated definition of welfare reflecting basic conditions for establishing and maintaining a family;
- Maternal and child health—the indicator characterizing the health status of women of child-bearing age, antenatal child care, the health of newborns and infants under 1, children under 5, children 6 to 12 years old; and teenagers and youth (age 13 to 18);
- Education and upbringing, including preschool education; basic education, and secondary professional education; and

- The family’s welfare—employment of its able-bodied members, parents in particular, and family income.

From the targets of the document, “A World Fit for Children,” a series of indicators has been formulated to assess different aspects of child welfare, identifying current and future trends.

This Strategy for the further improvement of child welfare in 2005–09 is based on priority government policies, which have been outlined above. The efforts and resources of government organizations, and the attention and actions of social organizations, will be focused on implementing and intensifying the existing social programs and designing and implementing new targeted programs to promote the interests and development of children, with the donor support of international financial and foreign institutions.

A significant contribution to the welfare of the children of Uzbekistan in the coming period will be made by the existing Country Cooperation Program, which ended in 2004, and the new Country Cooperation Program for 2005–09 between the Government of the Republic and UNICEF.

The key characteristic of all programs and activities aimed at improving child welfare will be their clear orientation toward achieving the best possible results in meeting Uzbekistan’s country-specific MDGs, strengthening cooperation of different organizations, promoting local initiatives, and mobilizing grassroot organizations.

#### **4.6. Gender Equality**

The Government of Uzbekistan pays constant attention to the promotion of women’s rights, as well as to conditions of their life and labor, and their full-fledged participation in the social, political, and socioeconomic life of the country.

To raise the role and status of women in social life and their role in the family, and to create conditions for their education, employment, and health care, a number of legislative acts and targeted programs have been adopted and implemented. In particular, the law “On Additional Privileges for Women,” the Decree of the President of the Republic of Uzbekistan “On Additional Measures on Strengthening Social Security of Women,” and annual government programs—including Year of Women, Soglom Avlod (Healthy Generation), Mother and Child, Makhalla, Kindness and Mercy, Year of Health, and so on—were adopted for the achievement of these goals.

In the sphere of promotion of women’s interests; their social, political, and socioeconomic activity; and gender equality, the government (along with the appropriate government organizations) pays special attention to the activities of the social association The Women’s Committee of Uzbekistan, as well as its regional branches and women’s organizations.

In May 2004, the Decree of the President of the Republic of Uzbekistan “On Additional Measures of Supporting the Activity of the Women’s Committee of Uzbekistan” was issued, according to which the following priority objectives and activity directions were defined:

- Design and implementation of practical measures to implement the national policy in the sphere of social and legal support to women, and maternal and child care;
- Development and implementation of comprehensive measures on women’s health care and formation of healthy families;
- Design and implementation of programs, aimed at solving the issues of employment of women, particularly in rural areas, and their involvement in business activities;
- Organization of effective work at the local level (families, makhallas, work collectives, education institutions) on elucidation and observance of national and religious traditions, and protection of the constitutional rights of women; and
- Effective coordination of activities and interaction with women’s NGOs.

In the short-term period the majority of problems related to gender equality in the country will be tackled in the context of the adopted program of specific and targeted measures, aimed at the following:

- Ensuring employment and realization of social and labor rights of women, in particular, design and implementation of regional programs for provision of employment for women for 2005–07, development of a complex of measures on the promotion of female business activities, as well as a complex of measures on increasing competitiveness of unemployed women in the labor market;
- Strengthening maternal and child care, consolidating the family, and, in particular, designing a program of activities aimed at children from under-privileged families; intensifying the work of Reproductive Health Centers in regions and the Institute of Health; and improving organizational measures to promote family, women’s, and children’s sports; and
- Increasing the public, political, and social activity of women, in particular, organizing systematic monitoring of the observance of the main rights and freedoms of women, introducing quotas in public authorities, organizing roundtables and workshops on the topic “Women and Politics,” and working in cooperation with mass media, broadcasting a series of programs on raising the role of women in politics and society.

With the aim of gender imbalance elimination in public authorities, the President of the Republic of Uzbekistan introduced an initiative to establish quotas for women candidates for election to the Legislative Chamber of the Oliy Majlis of the Republic of Uzbekistan, which is now being implemented.

#### 4.7. Strengthening Social Protection of the Population

The experience in creating a comprehensive mechanism of social protection and targeted support to the population, along with indisputable positive outcomes, has highlighted a series of problems, which permits the design of measures to further improve the existing system in the following directions:

*Strengthening social protection of people with limited capabilities* will be carried out by force of the following:

- Improved provision of such people with main life-support means (prosthetic-orthopedic devices, wheelchairs, hearing aids, Braille books and text-books, and so on). It is planned to organize local production of these devices under the program for localization of industrial goods production;
- Creation of comfortable living conditions for disable people through strict compliance to requirements in the design and construction of housing facilities and entrances to administrative buildings and social and cultural facilities, and by equipping pedestrian crossings with special devices;
- Improvement of rehabilitation activities and their comprehensive nature through (a) strengthening and developing rehabilitation centers, and raising the professional level of their specialization; (b) developing and introducing modern methods of medical and labor rehabilitation that meet international standards; and (c) strengthening employment assistance to people with limited capabilities;
- Implementation of measures aimed at ensuring access of these people to the vocational education system, including higher education, through allocation of targeted credits for studying in higher education institutions and development of a computer-based distance-learning network;
- Strengthening of state support to enterprises established by people with limited capabilities and organizations that support invalids, through provision of credit and tax preferences, in line with those allowed in the current legislation;
- Promotion of the integration of disabled children into general education schools, through creation of specialized classes;
- Development of the network of *Sakhovat* and *Muruvvat* homes, equipping them and improving amenities;
- Creation of possibilities for physical training and sports for people with limited capabilities by equipping sports facilities with special devices and organizing athletic events, including regular national Para-Olympic games; and
- Organization of specialist training for social services to people with limited capabilities, including training of occupational therapists for medical, social, and professional rehabilitation in vocational colleges and higher education institutions of the country.

To finance measures to strengthen the social protection of people with limited capabilities, it is planned to make allocations from the central and local budgets, and to attract donor funds and implement concrete programs with financial participation of international charity funds and organizations.

*Strengthening targeted social protection of needy families* by the following:

- Streamlining the current system of privileges and allowances. The plan is to place a moratorium on the introduction of additional privileges and then to radically reduce privileges that are not targeted, starting with privileges granted to certain occupational groups);
- Replacing some in-kind privileges with adequate cash payments;
- Improving the method of identifying needy families through clarification of normative incomes from dehkan farming and of incomes from entrepreneurial activity, including activities in the informal sector;
- Unifying different types of social assistance, granted on the basis of the same criteria (for instance, income levels);
- Increasing independence of local authorities in decision making on providing additional assistance to the needy population, as well as redistribution of funds between budget items of social security expenditure; and
- Raising the level of training for specialists dealing with the organization of payments of benefits to needy families in self-governing bodies.

A plan for a higher level of social security for needy families includes the following:

- Attraction of funds from extrabudgetary sources, including charity organizations and sponsors for financing social protection measures; this will allow an increase in the coverage and amount of social payments made to needy families;
- Allocation of funds released as the result of the elimination of certain allowances and privileges to finance increases in targeted benefits paid to needy families;
- Improvement of the method for calculating minimum subsistence level, which also takes into account regional characteristics. At a later stage, introduction of a social standard for an increase in the minimum subsistence level is planned;
- Phased introduction of targeted subsidies to needy families to pay for housing and public utility services, which will allow them to partially compensate for the rise of tariffs caused by reduced budget subsidies to enterprises delivering these services; and
- Expansion of microfinancing institutions aimed at providing credit to socially vulnerable population groups (first of all, to needy families that have unutilized labor potential) for the development of family businesses. For this purpose, it is planned to establish a special Social Investment Fund with contributions from state extrabudgetary funds, international development projects, and foreign donors.

With the purpose of strengthening social protection and granting targeted support to vulnerable population groups, since April 1, 2003, compensatory payments have been introduced

instead of privileges on payment for housing and public utility services (Decree of the President YII-3227 of March 27, 2003).

**Pension system reforms.** The current distributive pension system, which up to present ensured social protection to pensioners, has to a significant extent exhausted its potential and soon may come into conflict with developing market relations.

In this connection, a gradual pension system reform in the direction of strengthening market mechanisms and a step-by-step transition from distribution principles to those of insurance and accumulation in pension provision is planned.

The Law of the Republic of Uzbekistan of December 2, 2004 and Resolution of the Government (of December 21) on the introduction of the accumulation system were adopted.

In the first stage (2005–06) it is planned to introduce the accumulation elements of pensions:

From January 1, 2005, an accumulation system of pension provision will be introduced, by opening individual accumulation pension accounts (hereinafter, individual accounts) for all employed persons at the Halk Bank. The safety of the accumulated funds will be guaranteed by the state through the Ministry of Finance and the Central Bank as founders of the Halk Bank.

Payment of the accumulated funds from the individual accounts will start when a worker reaches the retirement age, granting him or her a main pension by equal monthly allotments. Workers who have contributed to the accumulation accounts for less than 5 years before retiring will have the right to receive the accumulated amount within 2 years, according to a special schedule.

The Halk Bank will be responsible for the accuracy of management of individual accounts; the correct accrual of interest on the accumulated pension amount, not lower than three-quarters of refinancing rate of the Central Bank; payment of the accumulated pensions to citizens in their place of residence; and providing regular information for citizens about the status of their individual accounts. It is also proposed that the Halk Bank service the individual accounts on a gratuitous basis, compensating lost incomes at the expense of prolongation of the current tax privileges for 3 years (2005–07).

Implementation of the first stage will allow the Halk Bank to introduce the main elements of personified records of workers, open individual accumulation accounts, and psychologically prepare the society for transition to the new pension system.

At a second stage (from 2007), formation of a mixed system, which envisages formation of pensions from two parts, is planned:

- A minimum pension, guaranteed by the state and fixed by the government, paid in the same amount to all pensioners entitled to full pension, irrespective of the amount of their contributions to the Pension Fund. The minimum pension, guaranteed by the state, will be formed out of employers' contributions as a fixed amount of the wages fund; and
- An accumulated supplement to the guaranteed minimum pension, based on the records for each individual worker of the amount of contribution paid by employers

to the Pension Fund. The accumulated supplement to the guaranteed minimum pension will be formed out of employers' contributions as a fixed amount of the wages fund and transferred to workers' individual accumulation accounts, opened at the Halk Bank branches.

For those who will participate in the new pension system, but had already been employed for more than 3 years, it is planned to introduce a special mechanism that allows taking into account their conditional accumulation (pension rights).

Social security benefits, compensation, and other payments, currently paid out of the Pension Fund, will be paid out of compulsory assignments of enterprises (at present, 0.7 percent of the volume of products sold).

The following measures are proposed for implementation by the end of 2004 as necessary preparatory measures on the improvement of the pension system:

- Ensure the opening of individual accumulation accounts at the Halk Bank for all workers who are employed in the official sector of economy;
- Develop and improve appropriate regulatory and directive documents, and ensure notification of all employers about the procedure for contribution to individual accounts; and
- Conduct extensive explanatory activities among the population.

During 2005, the material-technical basis of the Halk Bank will need to be improved, first of all, by provision of hardware and software for management of personified records of contributions and insurance period.

During 2005, the concept and specific mechanisms for the formation of a new pension system will be developed, including the following:

- Particular features of payment of pension contributions and formation of accumulative parts of pensions for workers engaged in the agricultural sector;
- Detailed mechanism of transition to the new pension system for different age groups;
- Particular features of payments of pension contributions and formation of accumulative parts of pension for private entrepreneurs; and
- Possibilities of formation of voluntary accumulative pensions in addition to compulsory ones, and depositing the respective contributions to the same individual accumulation accounts.

*Strengthening social support to the unemployed* by the following:

- Increasing the level of training and retraining of the unemployed, including use of resources of local vocational colleges;
- Increasing the participation of the unemployed in paid public works, mainly in the area of land improvement, transport infrastructure development, and services for older citizens living alone;

- Optimizing the job placement process for the unemployed by expanding the information base for job selection and increasing the quality of job searches by district offices of labor, employment, and social security; and
- Allocating microcredits to families of the unemployed to establish their own businesses in priority sectors of economy.

## **V. Aligning Regional Development**

The Poverty Reduction Strategy for Uzbekistan requires taking into account the differences in the social and economic development of the regions of the country (Republic of Karakalpakstan, oblasts, and the city of Tashkent).

Within the framework of the Strategy, two objectives of the economic policy are set: (a) reduction of the regional differences in the living standards and (b) creation of conditions to increase the economic potential of the regions.

The instruments to achieve the above objectives are as follows: national social and investment programs, and programs for the establishment and modernization of infrastructure, as well as the reform of the local authority and decentralization of the public administration.

The following steps are envisaged to provide stable social and economic development in the regions:

- Development and implementation of targeted territorial social programs aimed at the reduction of the percentage of people with low incomes, and creation of jobs in the poor regions (mountainous territories, territories with water supply and ecological problems, small towns, and so on);
- Development and implementation of comprehensive programs for the social and economic development of the regions;
- Elaboration of the action program (in the context of each rural administrative tuman) for the accelerated development of services in rural districts based on makhallas and guzars (community centers);
- Elaboration and implementation of the targeted national programs for the development of specific sectors of the social sphere (housing and public utility services, education, health care) taking into account the specificity of each territory (province, city (town), tuman, rural settlements);
- Elaboration of a scheme for the long-term location of people; this scheme will envisage passportization of the settlements, including the rural ones, and classifying them according to the criteria of the social and economic development and prospects;
- Provision of government support and stimulation of the comprehensive development of the regions regarding the development of their industrial infrastructure facilities, improvement of their investment attractiveness, and placement of small manufacturing enterprises in the rural districts;

- Strict differentiation of functions, tasks, and responsibilities between the central and local instances of authority;
- Extension of powers and independence of the local instances of authority in terms of formation and performance of the budget of the related level;
- Improvement of the interbudget relationship and an increase of the role and responsibility of the local authority;
- Reform of the local authority, and strict separation of the executive and legislative powers at the local level;
- Improvement of the regional statistics and of the methodology and methods of the HBSs and sociological investigations; and
- Establishment of an efficient system to monitor the living standards in the context of each region.

Intensification of the economic reforms should play an important part in lowering the differentiation level in the social and economic development of the regions, especially in the agrarian sector, which is the main source of the rural population welfare growth.

Implementation of the above measures will allow for the following:

- To reduce differences in the living standards and quality of life in the context of regions;
- To ensure equal access to social services regardless of the place of residence;
- To improve quality of public services at the local level;
- To enhance responsibilities and initiatives of the local management authorities; and
- To enhance the efficiency of public finance use.

## **VI. Improvement of Environment**

The policies and measures taken in the field of environmental protection and rational nature management are based on the fundamentals noted below:

- Integration of the economic and the environmental policy to conserve and rehabilitate the environment as a necessary condition for improvement of the quality of life;
- Turning from the protection of separate elements of nature to the general and comprehensive protection of ecosystems; and
- Responsibility of the whole society for environmental protection, preservation of its diversity and improvement of its state, and establishment of living conditions favorable to people.

Strategic tasks aimed at the provision of environmental sustainability as one of the main factors for the living standards improvement and reduction of poverty, as well as provision of conditions for an accelerated sustainable economic growth, are defined below:

- Further development of environmental legislation regulating environmental protection and nature management;
- Nature management planning and forecasting, and development of programs and schemes for environmental protection and sustainable nature management;
- Promotion of resource-saving and environmentally safe technologies, and modernization and improvement of current production processes;
- Creation of economic incentives aimed at the rational use of land and water in the agricultural sector;
- Improvement of the system of environmental control and norm-setting; development of a system of economic and administrative sanctions against violations of the rules of nature management and environmental protection;
- Development and further improvement of the system of environmental education;
- Establishment and implementation of scientifically grounded economic and legal mechanisms for environmental protection and nature management; elaboration of international cooperation programs on the problems of environmental protection, nature management, and protection against natural calamities;
- Formation of a system of economic instruments aimed at ecologization of production technologies; consideration of the factors of acceptable environmental risks while taking economic decisions;
- Creation of environmental and economic mechanisms for the innovative activity;
- Development and harmonization of the mechanisms of the intercountry relationship on transboundary environmental problems (namely, in the Aral Sea region);
- Attraction of donor funds to finance activities aimed at solving environmental problems of the interregional and global nature;
- Introduction of a unified system to monitor the environmental situation and its impact on the improvement of the nonprofit indexes of poverty in compliance with the indicators of the MDGs and environmental zoning; and
- Involvement of the civil society and NGOs in environmental assessment and in the elaboration of approaches for solving environmental problems as a part of the institutional reforms in this sphere.

Main trends of activity and measures to solve the above tasks are reflected in the Program of Actions on the Environmental Protection in the Republic of Uzbekistan in 1999–05 (Resolution of the Cabinet of Ministers #469, dated October 20, 1999).

At present, the draft resolution of the government “On the Program of Actions on the Environmental Protection in the Republic of Uzbekistan in 2006–10” is in the process of harmonization.

## VII. Action Plan for Preparation of the Full Paper on the Welfare Improvement Strategy

### 7.1. Institutional Preparation for the WISP

The government of the country deeply understands that preparation of the WISP has nationwide significance and requires active participation by all state powers and state management authorities, the NGOs, the civil society institutions, and the citizens themselves.

For purposes of arrangement and high-quality implementation of these processes, it is envisaged to establish the following:

**A. The Steering Committee** at the Cabinet of Ministers, headed by a Deputy Prime Minister of Uzbekistan, that shall conduct preparation of the WISP at the political level, study the drafts and proposals made by the working group, and take decisions on them.

Top executives of the entities as follows will be included into the Steering Committee:

- Committee on Social Matters and Employment of the Oliy Majlis (Parliament of the Republic);
- Consolidated Informational and Analytical Department of the Cabinet of Ministers;
- Ministries of Economy; Finance; Labor and Social Protection of the Population; Public Education; and Health, Higher, and Secondary Education;
- Committees—State Committee on Property, State Committee on Statistics, State Committee on Nature Protection;
- NGOs—Soglom Avlod Uchun and Makhalla Foundations, and Kamolot Youth Movement; and
- Heads of the Representative Offices of the World Bank, the UNDP, and the ADB in Uzbekistan may be included into the Steering Committee on the agreement with the international organizations.

**B. The Interministerial Working Group (IWG)** is subordinated to the Steering Committee and responsible for the elaboration of the WISP; it will ensure both the harmonious work of all the participants in the process and cooperation with the International Financial Institutions (IFIs). The IWG will be headed by the First Deputy Minister of Economy and include representatives of the Cabinet of Ministers' Informational and Analytical Department for foreign relations; the Ministries of Economy, Finance, and Labor and Social Protection of the Population; the Center for Economic Research; and the Women's Committee of Uzbekistan.

**C. Sectoral Working Groups (SWG)** will develop the related sections and issues of the WISP. A preliminary outline of the WISP is developed (see Appendix 2) to correctly orient the working groups, concretize the trends of their activities, and optimize the composition of the working groups. In compliance with this, formation of the following SWGs is envisaged:

#	SWGs Composed of the Representatives on:	They develop sections and issues of the WISP <sup>a</sup> as follows:
1.	Macroeconomic policy on the acceleration of the economic growth—Ministries of Economy and Finance, Center for Effective Economic Policy (CEEP), CBU Institute, CER, and the State Committee on Statistics.	Sections 3.1, 3.3, 3.4, 3.6, 5.1, and the related issues in Chapters 4, 6, and 7.
2.	Institutional reforms, improvement of the state management and regulation system—Ministries of Economy, Justice, Finance, Labor and Social Protection of the Population, State Committee on Statistics, and State Committee on Property.	Sections 3.2, 3.5, 5.2, and the related issues in Chapters 4, 6, and 7.
3.	Development of the human capital—Ministries of Economy, Finance, Health, Labor and Social Protection of the Population, Public Education, State Committee on Statistics, and State Committee on Nature Protection.	Chapter 2, sections 3.6, 5.3, and the related issues in Chapters 4, 6, and 7.
4.	Strengthening the system of social security of the population—Ministries of Economy, Finance, Labor and Social Protection of the Population, Health, Public Education, State Committee on Statistics.	Chapter 2, sections 3.6, 5.4, and the related issues in Chapters 4, 6, and 7.
5.	Determination of expenses required for the implementation of the Strategy and its integration into the state budget—Ministries of Economy and Finance.	Chapter 6 and the related issues in section 7.3.
6.	System of monitoring indicators, provision of statistical data, analysis, and interrelations with the elaboration of policies—Ministries of Economy, Finance, Labor and Social Protection of the Population, Public Education, and State Committee on Statistics.	Sections 2.1, 3.6, 4.3, and Chapter 7.

a. Sections of the full WISP are presented in Appendix 2.

SWGs work under the supervision of the IWG and in compliance with the working program for the WISP preparation. The NGO and civil society representatives will be involved in the activity of the related working groups.

## **7.2. Public Consultations in the Course of the WISP Preparation**

Problems that affect living standards improvement are problems of a nationwide scale, and all the structures of the state power and management and the civil society institutions should be involved in their solution; participation of each citizen of the Republic of Uzbekistan in such solution should be ensured. Important significance is attached to the support that is rendered to the country by the world community and by the international financial and donor organizations.

The government understands that the WISP should be directed first to the lower-income strata of the population. Therefore, the Strategy elaboration process should be targeted at a constructive dialogue, partnership, and cooperation among all the concerned groups of the population of Uzbekistan, especially with the lower-income ones. Such dialogue will unite the concerned parties with a sense of the nationwide involvement in the Strategy development process; the concerned parties will take the Strategy as their own, and this sense will contribute to the quality and prospects of the preparation of workable and feasible measures of the economic policy and to their successful and sustainable implementation.

However, participation of the lower-income strata in elaboration of the policy in Uzbekistan faces certain difficulties, because the voices of the low-welfare people are often weak, and they are not duly represented in decision-making circles. The civil society organizations and NGOs should obtain certain legal status and reputation before the lower-income strata will consider them as the mouthpiece of their interests. At the moment, the established traditions of relationship and consultancy between the civil society and the government are rather unstable.

The government adheres to the idea of involving the public in the process of the WISP formulation, implementation, and monitoring. Based on the study of the current level of the public participation in Uzbekistan, a complete analysis of the concerned parties will be carried out, and the list of the most significant organizations in the spheres relating to the WISP process will be composed. After that, precise and transparent selection criteria will be determined; this will be done to select representatives for participation in the consultations aimed at providing wide representation of the local and international stakeholders in the Paper's preparatory work.

Preparation of a strategy of informing the public is envisaged. This strategy will facilitate a wide dissemination of information on the WISP process among stakeholders and will contribute to their involvement in the preparation process, as well as in the WISP implementation and monitoring.

The Steering Committee will define a reputable and experienced organization that, in cooperation with the local partners, will assist and support the WISP management process. In the course of the WISP preparation, the Working Group will develop the Public Participation Plan orientated at achieving the final results of the WISP.

Two rounds of workshops with the participation of the stakeholders will culminate in public participation in the WISP; the workshops will take place in April and October 2005. The first round of consultations will be held for purposes of (a) informing the stakeholders on the WISP process, its major priorities, and the correlation of the WISP with other strategic

government documents; (b) revealing preliminary opinions and collecting proposals from the stakeholders—such opinions and proposals will reflect the state and scale of the poverty problem, the economic growth factors, the most appropriate priority measures of the poverty reduction policy, and the institutes that are able to prepare and implement them; and (c) discussing the issues that may help the stakeholders play a more effective role in the achievement of the WISP goals.

Participation in the Strategy preparation consists of a wide range of discussions of its objectives, trends, and major steps aimed at (a) consideration of peoples' needs, their desires, and capacity; (b) replenishment of information about the reasons that retard improvement of the living standards and about the factors that condition poverty; and (c) formation of the sense of people's involvement in the Strategy development (this final condition is principally important for its successful implementation).

This process will be ensured by continuously informing people about the essence and goals of reforms conducted by the government in all spheres of society, including the use of public opinion polls, organization of focus groups, and targeted roundtable discussions in which the representatives of the state power and management authorities, as well as the representatives of the international organizations, will take part.

The main partners of the government in the Strategy elaboration process are the NGOs and public organizations, including women's organizations and trade unions, local self-governance bodies (makhalla committees), and research centers that have presented valuable information about the living standards of the population.

The main target of participation in the Strategy implementation consists of consolidating the efforts and resources of the state, civil society, and international organizations to raise living standards and reduce poverty by provision of accelerated economic growth, institutional reforms, and further social development.

**The Role of the State.** The main functions of the state and government in the implementation of the Strategy are identified below:

- Creation of economic, social, and legal conditions providing accelerated economic growth; attraction of investments in the material and social spheres that facilitate the improvement of living standards and poverty reduction;
- Coordination of efforts to further reform activity, mobilization of resources available within the state (first of all, budgetary ones), and the redistribution of resources considering the increase in their utilization efficiency and orientation to improve living standards and the provision of the lower-welfare strata with access to resources and outputs of the economic growth;
- Provision of state support to the socially vulnerable strata of the population;
- Implementation of comprehensive measures aimed at management and control improvement, and the elimination of administrative barriers against any private initiative and free entrepreneurship; and
- Support to the formation of sustainable civil society institutes.

**B. Participation of the Civil Society.** NGOs and the private sector may contribute a lot to the implementation of the Strategy. Their contribution should, in the first place, consist of the following:

- Holding public campaigns to attract wide attention to the measures conducted by the government in the sphere of living standards improvement and reduction of poverty; formation of an adequate understanding of the targets; and objectives of the reform process and in executing social control;
- Providing feedback between the government and the public by its participation in monitoring the Strategy implementation outputs, their popularization among the people, and the study of the public opinion of the problems (this should be done to make the related corrections in the Strategy implementation processes);
- Attraction of material and intellectual resources to achieve the basic objectives set up by the Strategy; and
- Accomplishment of concrete measures designed to enhance the protection of the socially vulnerable strata of the population, and promotion of their interests in all spheres of public life.

The experience of NGOs will be used to mobilize external and internal resources when the social and economic problems are solved, primarily at the local level.

Mass media publications of the regular reports on the Strategy implementation will ensure awareness of the reform advancement, and the Strategy's transparency and accessibility. The media will promote participation of the people in the process of Strategy implementation.

### **7.3. The Programmatic Approach to Analytical Work**

Achievement of the Strategy goals mostly depends on the actual assessment of the financial resources, correct prioritization of the trends of their use, and efficient management. The Strategy Interim Paper specifies the general targets and objectives of the government that are aimed at the reduction of poverty and improvement of living standards. The Strategy links these objectives with the current problems and major trends of the economic policy. However, several trends require additional work to define the adequate measures of the state policy, set up their priorities, and evaluate the cost of various measures of the social and economic policy. The Strategy Interim Paper does not show the exact cost of the measures designed for the reduction of poverty and improvement of living standards.

The government considers the Strategy Interim Paper as a key element to mobilize donors' financial aid, and it expects that the World Bank Country Assistance Strategy, as well as the ADB Country Development Strategy will be built based on the priorities of the Uzbekistan Government expressed in the Poverty Reduction Strategy Interim Paper.

The government understands that not all of the targets and objectives stated in the Strategy Interim Paper may be solved within the next 3 to 5 years. To identify which of the targets and objectives should be solved in the first place, it is necessary to conduct additional

investigations and analytical work; for this purpose, the assistance and support of foreign donors is required.

The comprehensive assessment of poverty includes an investigation program conducted by the donors jointly with the State Committee on Statistics and other institutions of Uzbekistan to evaluate the poverty level; to reveal causal and statistical links between economic growth and poverty as well as between employment and poverty; and to influence specific programs of the government in health care, education, and infrastructure on the accessibility of such services to the lower-welfare strata. Development of a specific system of social security of the population will also require additional investigations. In connection with implementation of the analytical work program, training and refreshment courses for the officers of the State Committee on Statistics and of the other institutions of Uzbekistan should be envisaged.

The programmatic review of the public expenditure envisages an investigation program to analyze the status and efficiency of the public expenditure and to develop recommendations to use more efficient financial mechanisms, such as per capita financing in the health care and education systems, and to use the final results of the social programs as financing targets to link these budget tasks with those specified in the WISP. A more profound investigation of the problems to create efficient employment is also required.

Implementation of the Strategy goals is connected with current government programs for international financial cooperation and with goals initiated by the government for the future. Major projects are implemented by the World Bank, the Islamic Development Bank, and other development partners. The Strategy is also linked to programs in cooperation with the international donor community, including the European Union, the International Finance Corporation (IFC), German Agency on Technical Cooperation (GTZ), Japan International Cooperation Agency (JICA), U.S. Agency for International Development (USAID) and such UN agencies as the United Nations Development Programme (UNDP), United Nations Educational, Scientific, and Cultural Organization (UNESCO), UNICEF, United Nations Population Fund (UNFPA), United Nations Office on Drugs and Crime (UNODC), and the ILO. From 2005–09, the Government of the Republic of Uzbekistan and UNICEF will continue their cooperation within the framework of the Country Cooperation Program.

In the course of this Strategy implementation, the required adjustments and additions will be made to the current cooperation programs. The government intends to attract foreign private companies for the resource support of the Strategy implementation.

#### 7.4. Work Plan on the Preparation of the Full WISP

The work plan on the preparation of the full WISP includes the following stages:

<b>Main Stages of Work</b>	<b>Activities</b>	<b>Executors and Stakeholders</b>	<b>Time Schedule</b>
I	1.1.	Establishment of the Steering Committee on the WISP, the WISP-IWG, and SWG.	Government
	1.2	Submission of applications for receiving technical assistance of the World Bank to prepare the WISP.	Government
	1.3	Discussion and assessment of the I-WISP at the World Bank.	World Bank, IMF
II	2.1	Selection of an advisor to define the group of stakeholders and a set of appropriate mechanisms for the public consultations.	Steering Committee, Government
	2.2	Sending of the I-WISP for review by the World Bank and the IMF Board of Directors.	Government
	2.3	Development of scenarios of the economic growth and basic macro indicators for the years 2006–09, preparation of a draft medium-term public expenditures framework (MTEF) program; elaboration of the draft strategies of development and poverty reduction in the context of specific sectors (activity matrices) for the years 2006–09.	Working Groups
	2.4	Development of the monitoring indicators system, revealing incomplete statistical data; and elaboration of proposals on the regular and timely collection, analysis, and publication of the monitoring of poverty and welfare level.	SWGs, IWG, donors
III	Holding the first round of public consultations aimed at discussing the I-WISP, the draft MTEF program and the draft strategies for social and economic development and welfare improvement in the sectoral context.	SWGs, IWG, Steering Committee, Donors	March–April 2005  May–June 2005

Main Stages of Work		Activities	Executors and Stakeholders	Time Schedule
IV	4.1	According to the discussion results, updating the economic growth scenarios and basic macro indicators for 2006–09, the draft strategies of development and poverty reduction in the sectoral context and the draft MTEF program (costing of the strategy measures).	SWGs, IWG, Steering Committee	July–October 2005
	4.2	Conducting additional analytical work.	SWGs, IWG, and donors	
	4.3	Analysis of the findings of the Household Budgets Survey for the year 2004.	IWG and the World Bank	
	4.4	Update of the poverty level and profile.	SWGs, IWG, and the World Bank	
	4.5	Preparation of the Programmatic Public Expenditure Review in Uzbekistan.	World Bank	
V		Holding the second round of public consultations aimed at discussing the updated draft strategies of development in the context of economy as a whole and in the context of its sectors, as well as the MTEF program for 2006–09 (costing of the strategy measures), and reaching public consensus on the WISP.	SWGs, IWG, Steering Committee, Donors, Public Organizations	November–December 2005
VI	6.1	According to the discussion results—finalization and approval of the WISP.	IWG, Steering Committee, Government	January–February 2006
	6.2	Presentation of the WISP for review by the World Bank and the IMF Board of Directors.	Steering Committee, Government	March–April 2006

### 7.5. Monitoring and Evaluation

Monitoring and assessment is the most important component of the Strategy implementation; the main targets of monitoring and assessment will be management of the quality of the Strategy implementation, provision of efficient use of resources available, changes and relevant corrections to be made to the policy in the course of the Strategy implementation process.

**Monitoring and evaluation indicators.** Two groups of indicators and indexes will be taken to accomplish systemic monitoring and assessment: basic and auxiliary. Basic indexes will

reflect achievement of the final results (that is, increase in employment rates, income, level of attendance at education institutions, and reduction of maternal and infant mortality). Auxiliary indexes include those that reflect the Strategy implementation process and that directly influence the results (for example, teachers' salaries as a factor of the education quality improvement).

The main index of progress in achieving the Strategy objectives is the reduction of the poverty level in the country compared with the current one; this level will be estimated every year based on the analytical data of the HBSs. Other indexes of monitoring and assessment will also be used; they are reflected in the index matrix attached below:

- *Macroeconomic Stability and Economic Growth*—the GDP volume and structure, inflation rate, GDP expenditure for consumption and accumulation, public expenditure components and volume; and the other macroeconomic indexes describing the economic and social development of sectors and regions;
- *Demographic Growth*—the size of the population, birth and mortality rates, and migration indexes;
- *People's Incomes and Expenses*—consumption, level, and structure of incomes and expenses, and distribution of incomes;
- *Employment*—the unemployment level, structure of employment, level of job creation, and level of the labor market equilibrium;
- *Public Health*—maternal and infant mortality, morbidity level for socially dangerous diseases, availability of the required equipment and medication in all types of patient care institutions, immunization level, and so on;
- *Education*—coverage of children of relevant age categories by the related levels of education, availability of required equipment and training material educational establishments;
- *Social Security*—the level of fulfillment of the demand of certain categories of people for life support products; addressed allocation and payment of social allowances; the level of adequacy of pensions to the level of citizens' participation in the system; and extension of social security measures to unemployed persons; and
- *Life Environment Quality*—the level of the potable water and natural gas supply, housing, and other basic needs.

Analysis of these indicators will be conducted separately in terms of gender, region, and city and rural districts. The list of indicators will be updated in the future within the framework of the Statistical Component of the ADB Technical Assistance (TA) Project and with consideration for the indicators of the Uzbekistan-specific MDGs. This will permit to conduct simultaneous monitoring and assessment of the Strategy implementation and of the MDGs achievement .

The main source of information to monitor living standards and reduction of poverty will be the HBSs that are regularly conducted by the State Committee on Statistics. The Survey of the Labor Market that is conducted by the Ministry of Labor and Social Security of Population since 2002 is also an important source of information. The Survey data need methodological and

instrumental improvement; the latter is the subject of the Statistical Component of the ADB TA Project.

For purposes of updating the database related to development of the economic sectors and various spheres of social development, the statistical authorities and agencies will regularly improve methods and tools of data collection; this will provide both a higher quality of information and its comparability with the international standards. In the course of preparation, most of the above indicators may be tracked at the local level, provided the technical support of the donors and international organizations is arranged, the skilled personnel is attracted, and the related equipment is available.

Public opinion polls, as a rule regularly arranged by independent sociological organizations, will become additional sources of information on the status and efficiency of the Strategy implementation.

**Institutional Potential for Monitoring.** In cooperation with the key ministries and agencies, the State Committee on Statistics will carry out the monitoring of the Strategy implementation and its impact on living standards. To constantly improve the monitoring methodology and instruments, a wide-range partnership of the State Committee on Statistics with the scientific and research institutes, sociological centers, international organizations, and other interested parties is envisaged. In this context, besides the household surveys and other regular statistical observations, such alternative sources and methods of data collection as selective surveys based on the quantitative and qualitative methods will be used. This approach will ensure selection and comparability of different types of information and their use while changing and amending the current policies in the course of the Strategy implementation.

In addition to monitoring the achievement of targets and objectives, it is envisaged to develop and accomplish a system to monitor the efficient use of public and donor resources. Doing so will provide transparent use of available funds and allow the investors to control targeted consumption of the funds.

To enhance the monitoring and react in a timely way to the changes in various spheres, it is intended to develop close and diversified cooperation with foreign organizations experienced in monitoring and implementation assessments. It is planned to realize such cooperation through TA Projects and other partnership mechanisms. To improve the monitoring quality in the sectoral and territorial context, it is also intended to build the institutional capacity of some ministries and agencies. Doing so will provide an opportunity to decentralize the information flows and decision-making processes.

## **Abbreviations**

ADB	Asian Development Bank
AFER	Agency for Foreign Economic Relations
CBU	Central Bank of Uzbekistan
CCAM	Central Asian Region
CEEP	Center for Effective Economic Policy
CER	Center of Economic Research
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
GDP	Gross Domestic Product
GRP	Gross Regional Product
GTZ	German Agency on Technical Cooperation
HBS	Household Budget Survey
IAPA	Individual accumulative pension account
ICOR	Incremental Capital-Output Ratio
ICT	Information and communication technology
ILO	International Labour Organisation
IFIs	International Financial Institutions
IFC	International Finance Corporation
IMF	International Monetary Fund
IWG	Interministerial Working Group
JICA	Japan International Cooperation Agency
JSC	Joint Services Committees
MDGs	Millennium Development Goals
MFN	Most-favored nation
MTEF	Medium-term public expenditures framework
NGO	Nongovernmental organization
R&D	Research and development
SME	Small and Medium Enterprises
STC	State Tax Committee
SWG	Sectoral Working Groups
UN	United Nations
UNDP	UN Development Program

UNESCO	United Nations Educational, Scientific, and Cultural Organization
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNODC	United Nations Office on Drugs and Crime
USAID	U.S. Agency for International Development
VAT	Value Added Tax
WB	World Bank
WF	Wage Fund
WHO	World Health Organization
WISP	Welfare Improvement Strategy Paper
WTO	World Trade Organization

### Appendix 1: Policy Matrix on Welfare Improvement Strategy of the Republic of Uzbekistan for 2005–10

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
<b>Macroeconomic policy and ensuring sustainable economic growth</b>								
<b>Monetary policy</b>	2005–10	Central Bank						
<ul style="list-style-type: none"> <li>Ensuring macroeconomic stability and sustainable low inflation rates;</li> </ul>			Inflation rate, percent	Reduction of inflation to 3–3.5 percent by the end of 2010				
<ul style="list-style-type: none"> <li>Gradual transfer to indirect tools of cash flow control;</li> </ul>			Monetization rate, percent	Growth of monetization level by 1.8 percent per year on average				
<ul style="list-style-type: none"> <li>Expanding market mechanisms for loan resources allocation.</li> </ul>			Commercial bank loans share in the total volume of investments, percent	2.7	3.5	4.0	4.5	7–8
<b>Financial markets development</b>	2005–10	Central Bank, Ministry of Finance (MinFin)						
<ul style="list-style-type: none"> <li>Restructuring of commercial banks and liberalization of requirements determining the procedures for entering and operating foreign banks in the financial market of Uzbekistan;</li> </ul>			Growth of savings in percent to GDP	26.7	25	25	26	26–28
<ul style="list-style-type: none"> <li>Decreasing the share of the state in the commercial banks capital, development of the secondary stock market.</li> </ul>								
<b>Budgetary and taxation policy</b>	2005–10	MinFin						
<ul style="list-style-type: none"> <li>Decreasing tax burden and more even distribution of it;</li> </ul>			Share of income of consolidated budget in GDP, percent	32.7	28.7	28.4	28.2	26–27

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
			VAT, percent	20	20	20	Gradual reduction	
			Profit tax, percent	20	18	15	15	15
			Social contributions in percent to the gross salary before tax	37.2	33	31	29.5	27.5
<ul style="list-style-type: none"> <li>Rationalization of the state contributions and improvement of their efficiency by establishing the treasury.</li> </ul>			Social sphere expenditure share and social support to the population in the budget expenditure, percent	46.1	47.6	Gradual increase of income share		
			Investment expenditure in percent to GDP	3.3	2.5	2.4	2.3	2.0
<b>Administrative reform</b>	2005–08	Cabinet of Ministers						
<ul style="list-style-type: none"> <li>Optimization of the structure and functions of the central and local government;</li> </ul>								
<ul style="list-style-type: none"> <li>Decentralization of the public management functions;</li> </ul>								
<ul style="list-style-type: none"> <li>Elimination of the administrative approach in resource allocation</li> </ul>	2004–06	Ministry of Economy (MoE), MinFin						
<b>Private sector SME development</b>	2005–06	State Committee for State Property (GKI) and MoE	SME share in GDP, percent	35.5	36.8	38.3	41.3	45–50
			Number of operational legal entities representing SMEs, thousand units	229.6	Growing number of SMEs at 5–6 percent per year on average			
			Commercial banks' loans share for the development of SMEs in the total volume of loans, percent	9.3	9.5	10.1	10.6	16–18
			Nonstate share in GDP, percent	74.5	75	77	80	85

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
<ul style="list-style-type: none"> <li>Improving legal framework for private entrepreneurship development;</li> </ul>								
<ul style="list-style-type: none"> <li>Improving the system of economical (arbitrary) courts and implementation of trial resolutions;</li> </ul>								
<ul style="list-style-type: none"> <li>Enhancing mechanisms of accessing loan resources;</li> </ul>			Volume of loans for SME in percent to GDP	2.9	Share growth of 0.5–1 percent per year on average			
<ul style="list-style-type: none"> <li>Development and implementation of the mechanisms of supporting SME development particularly in the rural areas.</li> </ul>			Number of legal entities representing SMEs (apart from farmer communities) in the rural area, thousand units	35	Growing number of SMEs at 6–7 percent per year on average			
<b>Integration with the world economy</b>	2005–10	Agency for Foreign Economic Relations (AFER), MoE	Export growth, percent	24.6	30	10	12	12–14
<ul style="list-style-type: none"> <li>Improving tariff and nontariff regulation;</li> </ul>								
<ul style="list-style-type: none"> <li>Improving the mechanisms of VAT refunds to exporters;</li> </ul>	2005–06	MinFin	SME export share in total volume of export, percent	7.3	8.2	9	10	11–16
<ul style="list-style-type: none"> <li>Establishing the infrastructure for export facilitation, including SME produce.</li> </ul>	2004–05	CBU, MinFin, AFER						

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)					
				2003	2004	2005	2006	2010	
<b>Deepening the agricultural reform</b>	2004–10		Growth dynamics of agricultural production, percent	5.9	Growth of rate at 4–5 percent per year on average				
<ul style="list-style-type: none"> <li>Restructuring of agricultural enterprises and their conversion into effective farms and farmer communities;</li> </ul>	2004–10	Ministry of Agriculture and Water Resources (MAWR), MoE, MinFin, State Committee for Land	Production share of farmer communities in the total volume of agricultural production, percent	14.1	17.3	20.5	23.1	26.6	
			Number of farms, thousand units	87.5	101.9	119.5	130.5	150.9	
<ul style="list-style-type: none"> <li>Implementation of the land reform by providing the land to farmers on the basis of the long-term rent;</li> </ul>			Share of the farm land in total volume of agricultural area, percent	36.9	47.5	54.6	69.3	76.9	
<ul style="list-style-type: none"> <li>Improving the pricing system and state procurement for the main types of agricultural products and providing more independence to farmer communities in choosing products of agricultural cultivation as well as their trading;</li> </ul>									
<ul style="list-style-type: none"> <li>Elimination of the administrative methods of allocating agricultural inputs;</li> </ul>	2004–06	MinFin, MoE							
<ul style="list-style-type: none"> <li>Improving the system of water consumption, irrigation, and amelioration;</li> </ul>		MAWR, MoE, MinFin							
<ul style="list-style-type: none"> <li>Improving the system of loans provision to agriculture;</li> </ul>	2004–10	MinFin							
<ul style="list-style-type: none"> <li>Supporting market infrastructure in the rural area by the government;</li> </ul>		MAWR, MoE							
<ul style="list-style-type: none"> <li>Facilitation of SME development for producing, manufacturing, and trading agricultural products;</li> </ul>		GKI, MoE, MinFin		Growing number of enterprises at 7–8 percent per year on average					

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
<ul style="list-style-type: none"> <li>Implementation of programs establishing competitive environments and setting restrictions for monopolies;</li> </ul>		State Committee for Demonopolization						
<ul style="list-style-type: none"> <li>Improving the foreign investment environment to channel investment into the development of the agricultural processing and production industries.</li> </ul>		MoE, MinFin, CBU, GKI	Share of foreign direct investments in the total volume of investments, percent	7.1	14.4	15	16	20–22
<b>Development of the market infrastructure</b>	2004–10		Share of service of the market infrastructure in GDP, percent	9.6	Share growth of 1.5–2 percent per year			
<ul style="list-style-type: none"> <li>Modernization and development of the production capacity of the fuel and power supply sectors, as well as taking appropriate decisions related to demonopolization, privatization, and reorganization of the power supply enterprises;</li> </ul>		MoE, GKI, State Committee for Demonopolization Uzbekenergo Uzbekneftegaz	Share of investments to the power sector in the total volume of investment, percent	2.3	Share growth of 1–2 percent per year			
<ul style="list-style-type: none"> <li>Restructuring of transport monopolies, upgrading facilities, and establishing the transportation infrastructure;</li> </ul>		State Committee for Demonopolization, MoE	The volume of investment in the transport infrastructure Cargo turnover growth dynamics, percent					
<ul style="list-style-type: none"> <li>Developing projects directed to the improvement of the regional gas supply system.</li> </ul>		MoE, Uzbekneftegaz, Uzkommunkhi zmat						

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
<b>Employment and income generation policy</b>								
<b>Active policy of employment and labor market regulation</b>	2004–10	Ministry of Labor and Social Protection (MoL), Karakalpakstan Council of Ministers, oblasts Khokimiyats	Creation of jobs in the framework providing employment and labor force growth, leaving employees and a part of population in need of employment	Not less than 250–300 thousand new jobs every year				
• Creating jobs by enterprises, commercial banks' loans, foreign investments, budget, and outside budget sources of funding;	2004–10	Employers, Khokimiyats	Level of employment in real sector of economy	3 percent per year on average				
• Improving sectoral and territorial structure of employment;	2004–10	Appropriate line ministries, managements, Khokimiyats	Growth of the share of jobs in the rural area, percent	70	72	74	75	80
		Khokimiyats	Employment growth in the areas facing unemployment crisis	4.5 percent per year on average				
• Decreasing employment in the informal labor market;	2004–10	MoE, MoL	Share of employed in the informal sector, percent	28	28	1–2 percent annual decrease in average		
• Decreasing the number of people who need employment and unemployment rate.	2004–10	MoL	Unemployment at the beginning of the year, percent	3.9	3.6	3.0	2.6	2.0
<b>Increasing the role of salaries and incomes of the population</b>								
• Increasing the minimum wage	2004–10	MinFin	Minimal salary growth	Rates are not lower than inflation rates on average				
• Increasing actual salaries.	2004–10		Actual salary and income growth	7–8 percent per year on average				

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
<b>Improving methods of labor force research and analysis of living standards</b>								
<ul style="list-style-type: none"> <li>Design and develop a complex system of evaluation and assessment of the welfare improvement strategy impact on employment and income. Living standards monitoring, including the issues of comprehensiveness recording and assessment of incomes.</li> </ul>	2004	MoL, State Committee for Statistics	Regular monitoring of employment and income and accurate assessment and evaluation of its results, percent		90	90	92	95
<b>Increasing access of people to education</b>								
<b>Preschool education</b>								
<ul style="list-style-type: none"> <li>Increasing the access of children to traditional and nontraditional forms of preschool education.</li> </ul>	2004–10	MoPE, local governments	Coverage in percent	31.6	35	37	40	50
<b>Basic education</b>								
<ul style="list-style-type: none"> <li>Improving the provision of learning and instruction materials (curriculum, learning materials, and textbooks). Improving socioeconomic status, learning, and teaching materials; continuation of the TRS implementation;</li> </ul>	2004–08	MoPE, MinFin, local governments	Level of stage-by-stage provision of basic textbooks to students in the framework of the Textbook Rental Scheme, percent	25	40	65	80	95
<ul style="list-style-type: none"> <li>Provision of supplementary materials, science, fiction, and reference books (dictionaries, encyclopedias and so on) in Latin script for basic schools libraries in Uzbek language;</li> </ul>		MoPE, MinFin, local governments	Level of provision of library books to basic education schools in Latin script and Uzbek language, percent	10	20	40	60	80

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
<ul style="list-style-type: none"> <li>Provision of ICT and computers as well as Internet connectivity to basic education schools;</li> </ul>	2005–10	MoPE, MinFin, local governments	Level of the Internet connectivity, percent		1.5	10	19.5	35
<ul style="list-style-type: none"> <li>Establishment of resource centers for distance learning in a range of regions around the country to provide better access to the in-service training and retraining of teachers and education system staff;</li> </ul>	2005–08	MoPE, MinFin, local governments						
<ul style="list-style-type: none"> <li>Retraining and in-service training of basic education teachers.</li> </ul>	2004–09	MoHSSE, MoPE, MinFin, local governments						
<b>Specialized secondary, vocational, and higher education</b>								
<ul style="list-style-type: none"> <li>Providing better access to vocational education, particularly to poor students;</li> </ul>	2004–10	MoHSSE, MoL, MoPE, local governments	Secondary specialized and vocational education coverage level		45	60	75	100
<ul style="list-style-type: none"> <li>Provision of modern equipment, software, and learning and teaching materials to academic lyceums and vocational colleges.</li> </ul>	2004–10	MinFin, MoHSSE, MoL, MoPE, local governments						
<b>Ensuring that vocational training meets employment market requirements and demands</b>	2004–10	MinFin, MoHSSE						

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
<ul style="list-style-type: none"> <li>Increasing the effectiveness of the system of professional orientation of students;</li> </ul>		MoHSSE, MoL, MoE, local governments						
<ul style="list-style-type: none"> <li>Improving the system of vocational training for students with disabilities.</li> </ul>								
<ul style="list-style-type: none"> <li>Defining numbers and types of skill of staff trained within secondary specialized and vocational education taking into account market requirements.</li> </ul>								
<b>Improving basic education funding and facilities</b>								
<ul style="list-style-type: none"> <li>Development of the average per capita system (cost per student or child) costs calculation for basic schools and preschool institutions;</li> </ul>	2005–08	MinFin, MoPE	Average cost per capita of a student/pupil	Gradual increase of actual expenditure per student/pupil				
<ul style="list-style-type: none"> <li>Construction of new schools in replacement of old buildings;</li> </ul>	2004–09	MoPE, MoHSSE, MinFin, local authorities	Quantity and capacity of reconstructed school buildings, number of buildings/thousands of pupils		26/ 6.8	53/ 17.6	61/ 22.4	61/ 21.6
<ul style="list-style-type: none"> <li>Capital reconstruction of basic education schools;</li> </ul>	2005–09	MoPE, local sanitary organizations, State	Quantity and capacity of reconstructed school buildings, number of buildings/thousands of pupils		8/ 2.5	284/ 90.1	382/ 124.8	591/ 204.6
<ul style="list-style-type: none"> <li>Capital repair and refurbishment of basic education schools;</li> </ul>		ArchitectSroy, MinFin, local authorities	Quantity and capacity of renovated school buildings		430/ 293.9	438/ 219.8	530/ 272.6	825/ 417.6
<ul style="list-style-type: none"> <li>Provision of learning and laboratory equipment to basic education schools (for science subjects, such as chemistry, physics, and biology);</li> </ul>	2005–09		Level of provision of sets of learning and laboratory equipment to basic education schools	16,187		2,430	2,926	10,831

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
<ul style="list-style-type: none"> <li>Provision of furniture to basic education schools;</li> </ul>		MoPE, MinFin, local authorities						
<ul style="list-style-type: none"> <li>Provision of required fitness equipment and tools to sports' facilities and gyms of basic education schools.</li> </ul>								
<b>Improving the access of the population to medical services and facilities</b>								
<b>Increasing the access of people, particularly from rural areas and the poor, to medical services</b>								
Strengthening primary health care	2004–10	MoH, MinFin, mass media, MoPE, international donors						
<ul style="list-style-type: none"> <li>Providing modern equipment, vehicles, and communication facilities to the basic health care;</li> </ul>			Share of institutions with first and emergency aid, equipped in line with the approved list of items, percent	40	45	50	60	80
<ul style="list-style-type: none"> <li>Provision of required pharmaceuticals, chemicals, and preventive resources;</li> </ul>								
<ul style="list-style-type: none"> <li>Transfer to per capita funding;</li> </ul>			Number of regions moved to the per capita funding scheme	3	5	7	9	14
<ul style="list-style-type: none"> <li>Training and in-service training of medical personnel;</li> </ul>			Percent of medical staff who received additional training: per year					
			doctors, percent	19	20	20	20	20
			middle-level medical personnel, percent	14	15	16	17	20
Reinforcing the system of emergency assistance	2004–10	MoH, MinFin, mass media,						

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
<ul style="list-style-type: none"> <li>Implementation of international standards for diagnostics and treatment;</li> </ul>		international donors						
<ul style="list-style-type: none"> <li>Provision of modern medical equipment and instruments/tools for emergency services;</li> </ul>			Share of institutions with medical emergency assistance, equipped in line with the list, percent	30	40	50	60	80
<ul style="list-style-type: none"> <li>Provision of skilful and professional personnel within the sector.</li> </ul>			Staffing: doctors, percent middle-level medical personnel, percent	93 97	94 98	95 99	96 100	100 100
<b>Increasing medical awareness in families, strengthening women's health, birth, and upbringing of healthy generation, to reduce child mortality and improve the situation with maternal mortality</b>								
<ul style="list-style-type: none"> <li>Expanding the prevention of extrogenital and gynecologic diseases;</li> </ul>	2004–10	MoH, JSC, Dori-Darmon, Institute of Health, Soghloom Ovlod Foundation, IFIs	Level of maternal mortality per 100 thousand lives born	32.0	31.6	31.4	31.2	28.0
<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 lives born	16.4	16.0	15.4	15.8	15.0
<ul style="list-style-type: none"> <li>Implementation of international standards of child and woman care;</li> </ul>								
<ul style="list-style-type: none"> <li>Provision of in-service training to medical personnel in the important areas of child birth assistance and early childhood health;</li> </ul>			Share of medical staff who received additional training: per year doctors, percent middle-level medical personnel, percent	16 14	17 15	18 16	19 17	20 20

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
<ul style="list-style-type: none"> <li>Provision of modern equipment to child birth assistance and childhood institutions;</li> </ul>								
<ul style="list-style-type: none"> <li>Development of blood transfusion and hematology services,</li> </ul>								
<b>Prevention and reduction of socially significant diseases</b>								
<i>Tuberculosis.</i> To stop tuberculosis dissemination								
<ul style="list-style-type: none"> <li>Expanding preventive activities with at-risk groups by raising awareness and providing consultations;</li> </ul>	2004–10	MoH						
<ul style="list-style-type: none"> <li>Extending vaccination coverage of infants and revaccination of children;</li> </ul>	2004–10	MoH	Reliable immune layer, percent	94.6	96	97	98	99.8
<ul style="list-style-type: none"> <li>Sustainable provision of BCG and tuberculin to health care and preventive institutions;</li> </ul>	2004–10	Research Institute of Virology and Pharmprom		100	100	100	100	100
<ul style="list-style-type: none"> <li>Provision of systematic inspections to appropriate groups of population for tuberculosis;</li> </ul>	2004–10	MoH	Share of coverage of appropriate groups of people, percent	70	80	80	90	100
<ul style="list-style-type: none"> <li>Timely hospitalisation of discovered patients;</li> </ul>	2004–10	MoH	Share of hospitalization of patients revealed for the first time, percent	78.7	82	85	90	100
<ul style="list-style-type: none"> <li>Increasing the use of standard methods of diagnostics and treatment of WHO;</li> </ul>	2004–10	MoH	Maximum complete recovery of discovered patients	50	50	60	70	80

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
<ul style="list-style-type: none"> <li>Isolation and full coverage with preventive actions of tuberculosis contacts.</li> </ul>	2004–10	Tibtaminot, Tibtehnika, MoH, international organisations	Share of contact children isolated from the center of disease, percent	79.8	82	84	86	90
			Share of coverage of contact persons by chemical preventives, percent	81.5	82	84	86	90
<i>AIDS. To reduce the speed of HIV expansion</i>								
<ul style="list-style-type: none"> <li>To reinforce and increase the quality of preventive measures for preventing and curing AIDS.</li> </ul>	2003–10	AIDS Centre, Centre for State Sanitary and Epidemiologic Supervision, Institute of Health	Number of Trust Lines	200	206	210	215	230
			Number of HIV-infected receiving retroviral treatment	--	--	200	300	350
<i>Narcotics.</i>								
<ul style="list-style-type: none"> <li>Students' education in health care and prevention of bad habits, including drug addiction;</li> </ul>								
<ul style="list-style-type: none"> <li>Active identification of drug addicts among at-risk groups;</li> </ul>	2004–10	Committee for Drug Control, MIA, mass media, MoPE, MoHSSE, Kamolot, MoH	Share of active identification of drug addicts, percent	50	54	57	61	75
<ul style="list-style-type: none"> <li>Strengthening and improving the capacities of networks of trust-lines and anonymous treatment;</li> </ul>	2004–10		Provision of sterile disposable (single-use) syringes and protection means required by target groups,	50	65	75	85	100
<ul style="list-style-type: none"> <li>Improving resource-based education using WHO standards and provision of professional staff to narcological institutions.</li> </ul>			Share of medical staff who received appropriate training, percent	5	15	30	40	50

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
<b>Improving sanitary and epidemiologic welfare</b>								
<ul style="list-style-type: none"> <li>Reinforcing measures for prevention of importing to and spreading of quarantine and dangerous diseases within the Republic;</li> </ul>	Up to 2010	MoH, MoPE, Pisheprom (Food Production Industry), mass media	Immunization of people living in natural-epidemiological areas, percent	70	80	90	95	100
<ul style="list-style-type: none"> <li>Improving the resource base of the existing laboratories within the system of sanitary and epidemiologic services;</li> </ul>	2004–07	MoH, Khokimiyats, Committee for the State Boarder Defence	Supply of bacteriological laboratories with nutrient mediums, reagents, and diagnosticums, percent	70	80	90	95	100
<ul style="list-style-type: none"> <li>Provision of centralized supply of bacterial and virus preparations for all kinds of research;</li> </ul>	2004–05	MoH, MinFin, Khokimiyats	Supply of Epidemic Control Center with bacteriological and virological agents, percent	85	95	95	100	100
<ul style="list-style-type: none"> <li>Improving the system of monitoring the sanitary and epidemiologic welfare.</li> </ul>		MoH, MinFin	Equipping of the Epidemic Control Centers with computers and modem communication, percent	20	30	40	50	80

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
<b>Access of the population to communal and utility services</b>								
<b>Provision of pure drinking water to the population</b>								
<ul style="list-style-type: none"> <li>Implementation of the government program of pure drinking water supply;</li> </ul>	2004–09	Council of Ministers of the Republic of Karakalpakstan, regional Khokimiyats, Uzkommunkhizmat Agency, MinFin, MoE	Level of supply of rural settlements: - with centralized water supply	70.4	72	75.4	80	90
			- alternative sources in remote and underinhabited settlements, units	186	361	388		
<ul style="list-style-type: none"> <li>Continuing the construction of regional and district water pipelines and implementation of investment projects involving loan money against government guarantee;</li> </ul>	2004–09		Development of water supply system in line with the approved scheme, percent	75	75.6	77	85	89
<ul style="list-style-type: none"> <li>Development of the regional water pipeline between Shakhriyab and Karshi with the capacity of WU-5 (provision of pure drinking water to the population of cities and settlements around Shakhriyabs, Karshi, Guzar, Kamashi, Kasa, regional center Bakhriston, and rural settlements around the water pipe);</li> </ul>	2004–06	Khokimiyat of Kashkadarya Region, MinFin, MoE, and others	Improvement provision of pure drinking water to Kashkadarya region, thousands of people				250	

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
<ul style="list-style-type: none"> <li>Improving the quality of water supply to Ferghana, Margilan, and communities adjacent to the pipeline settlements (coverage: 565,000 people);</li> </ul>	2004–10	Khokimiyat of Ferghana Region, MinFin, MoE, and others	Improvement provision of pure drinking water to Ferghana region, thousands of people					565
<ul style="list-style-type: none"> <li>Development of water supply to Bukhara, Navoi, and Samarkand regions from Domkhodja groundwater field of Samarkand region (coverage: 1,200,000 people).</li> </ul>	2003–10	Uzkomunkhizmat, MinFin, MoE, regional Khokimiyats	Development of water supply system in the region with the capacity of 300m <sup>3</sup> per day with the total length of 210 km					300 thousand m <sup>3</sup>
<b>Provide incentives for saving water, gas, and heat</b>								
<ul style="list-style-type: none"> <li>Implementation of the government program for the provision of power consumption meters;</li> </ul>	2003–07	Council of Ministers of the Republic of Karakalpakstan, regional Khokimiyats, Uzkomunkhizmat Agency, MinFin, MoE	Provision of dwellings with meters for tracking:					
			- gas consumption, percent			100		
			- water consumption, percent				90	
<ul style="list-style-type: none"> <li>Renovation of boiling houses in the cities of Andijan and Tashkent, as well as the implementation of market-driven principles of service provision.</li> </ul>	2004–07	Khokimiyat of Tashkent city and Andijan Region						

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
<b>Improving the system of sanitary cleaning</b>								
<ul style="list-style-type: none"> <li>Development and implementation of programs for sanitary cleaning of Bukhara, Samarkand, and Namangan.</li> </ul>	2004–07	Khokimiyat of Bukhara, Samarkand, and Namangan regions						
<b>Development of the utilities market taking into account purchasing power, particularly of the poor</b>	2005–06	Council of Ministers of the Republic of Karakalpakstan, regional Khokimiyats, Uzkomunkhizm at Agency, MinFin, MoE, State Committee for Demonopolization, MoJ	Reduced transaction costs and improved financial status of the housing and utility services					Not less than 20 percent
<ul style="list-style-type: none"> <li>Improving tariff policy, providing incentives for saving energy resources (gas, water, and heating) and the access to these services for the poor;</li> </ul>			Improved access of the poor to housing and utility services; coverage of households with subsidies, percent of all households					
<ul style="list-style-type: none"> <li>Design and implementation of the system of calculating technological costs and losses of provision of utilities;</li> </ul>								
<ul style="list-style-type: none"> <li>Analysis and review of the existing benefits for paying utilities to provide more support to poor families with the further provision of targeted subsidies of poor families for paying for utilities.</li> </ul>			Coverage of households with subsidies, percent of all households					
<b>Social protection of the population</b>								
<b>Improving the system of retirement in the Republic of Uzbekistan</b>	2005–10		Growth of actual pension	4.5	5.0	5.0	5.0	6,5
<ul style="list-style-type: none"> <li>Introduction of the revolving system of pension provision;</li> </ul>	2005–06	MoL, State Tax Committee						

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)					
				2003	2004	2005	2006	2010	
<ul style="list-style-type: none"> <li>Opening and maintaining individual accumulative pension accounts (IAPAs) for all employees of the official economy;</li> </ul>		(STC), Saving Bank (Halk Bank)	Number of opened IAPAs			4.5 million [[ok? per year?]]	300 thousand accounts per year		
<ul style="list-style-type: none"> <li>Opening and maintaining IAPAs for employees involved in individual entrepreneurship and other categories of freelance (noncontractual) workers;</li> </ul>			Number of opened IAPAs for freelance workers, thousands			220 [[accounts per year?]]	Up to 120 thousand accounts per year		
<ul style="list-style-type: none"> <li>Provision of the required facilities within social security entities for the further provision of the individual accounting;</li> </ul>		MoL	ICT and computer provision of social security agencies, percent	45	65	100	100	100	
<ul style="list-style-type: none"> <li>Prohibition of introduction of new pension benefits and rationalization of existing benefits for pension provision;</li> </ul>	2004–10	MoL	Review and termination of pension benefits		10 billion soum per year (in conditions of 2003)				
<ul style="list-style-type: none"> <li>Providing incentives to employers and employees for participation in the system of retirement;</li> </ul>	2004–10	MoL	Social contributions collections growth, percent	87	90	90.5	91	95	
<ul style="list-style-type: none"> <li>Reduction of the social charges due by employers to the Pension Fund.</li> </ul>	2004 and following years	MoL, MinFin, STC	Social contributions by employers to the Pension Fund relative to wage fund, percent	35	31.6	28.6	29.0	27,5	
<b>Increasing welfare for disabled people</b>	2005–10								
<ul style="list-style-type: none"> <li>Development of the domestic production capacity for the provision of welfare to disabled people;</li> </ul>	2005–10	MoL	Share of coverage of disabled people with main devices of living requirements, percent:						
			Wheelchairs	65	70	85	100	100	
			Prosthetic and orthopedic devices	78	90	100	100	100	

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
			Other	60–70	70–80	80–90	90	100
• Increasing the level of rehabilitation of disabled people and recovering their abilities to work;	2005–10	MoL, MoE, MinFin	Reducing dynamics of disability growth, percent	At 0.5 percent per year				
• Creating friendly jobs for disabled people;	2005–10	MoL, MoH	Securing jobs for employing disabled people, thousands	15	15.5	16	17	
• Inclusion of disabled children of school age into various education programs;	2005	MoPE, MoL	Share of disabled children covered by education, including special education and distance learning, percent		90	100		
• Equipping administrative and public (cultural, educational) buildings and premises with driveways, ramps, and facilities for indoor movement for disabled people;	2005–10	Khokimiyats	Share of public buildings equipped with driveways and ramps for disabled people, percent		All (100 percent) newly built and reconstructed administrative buildings			
• Improving capacities of health resorts as well as rehabilitation centers for disabled people;	2005–06	Khokimiyats, MoL	Satisfying demand of disabled people in health resort rehabilitation, percent	54	60	65	65	75
• Improving financial capacity and facilities of social security institutions serving elderly and disabled people;	2005–10		Growth of expenditure for one person-bed in social security institutions serving elderly and disabled people, percent		12	18	20	20
• Reinforcement of the insurance system for the compensation of damage caused by work injuries and professional diseases by establishing an insurance foundation.	2006–10	MoL, MinFin	Share of employers involved in the insurance fund insuring against damage caused by work injuries and professional diseases, percent				35	100

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
<b>Increasing social protection of unemployed</b>	2005–10							
<ul style="list-style-type: none"> <li>Reducing terms of employment for unemployed people by recruitment agencies;</li> </ul>	2005–10	MoL, MoE, MinFin						
<ul style="list-style-type: none"> <li>Organization of paid social works;</li> </ul>	2005–10	MoL	Share of population granted with the status of unemployed and involved in paid social works, percent	21	25	25	25	25
<ul style="list-style-type: none"> <li>Increasing effectiveness of professional training and retraining of the unemployed.</li> </ul>	2005–10	MoL, Khokimiyats	Share of employed <b>[[and?]]</b> unemployed that received professional training and retraining, percent	75	80	90	90	100
<b>Increasing income of poor families</b>	2005–10		Level of poverty (share of population whose consumption is less than 2,100Kkal <b>[[define? kcal?]]</b> a day), percent	27.5	26.5	25.0	24.0	20.0
<ul style="list-style-type: none"> <li>Increasing targeted assistance in the provision of benefits and financial assistance to poor families;</li> </ul>	2005–10	MoL, MinFin						
<ul style="list-style-type: none"> <li>Ensuring the growth of aid packages to poor families and their assistance in overcoming poverty threshold of household;</li> </ul>	2005–10	MinFin, MoL, Khokimiyats	Growth of actual subsidies to poor families, percent		5	5	5	5
<ul style="list-style-type: none"> <li>Decreasing the number of households receiving subsidies by involving their members in family business and private sector;</li> </ul>	2005–10	MoL, MinFin	Number of households receiving microcredits from all sources of funding, thousands	Around 3.5	5.5	10	15	50

Development priorities and key activities	Deadline	Responsible agencies	Indicators	Results (indicators)				
				2003	2004	2005	2006	2010
<ul style="list-style-type: none"> <li>Simplification of the system of allocation and payment of subsidies to poor families by unification of certain types of social contributions;</li> </ul>	2006–07	MoL, Khokimiyats						
<ul style="list-style-type: none"> <li>Improving the system of social monitoring of the positive impact of benefits on improving the living standards of poor families.</li> </ul>	2005–06	MoL, MinFin	Monitoring of poor households	Not less than 10 percent of households per year that receive subsidies				

**Appendix 2. Republic of Uzbekistan:  
Welfare Improvement Strategy Paper  
(Preliminary Outline of the Full Paper)**

INTRODUCTION

CHAPTER 1. PARTICIPATORY PROCESS IN STRATEGY FORMULATION

- 1.1. Participating actors and their roles in WISP preparation
- 1.2. Communication strategy and public consultations

CHAPTER 2. POVERTY SITUATION ANALYSIS

- 2.1. Definitions of poverty and evaluation methodology
- 2.2. Poverty and inequality in Uzbekistan: description of current situation and trends (poverty incidence, poverty profile, urban/rural poverty, regional differences in living standards, gender and poverty, income distribution, and inequality)
- 2.3. Efficiency of current social policy oriented to poverty reduction (social protection system, employment, health, education, children and poverty, poverty, and environment nexus)

CHAPTER 3. ECONOMIC SITUATION ANALYSIS AND MAIN PROBLEMS

- 3.1. Macroeconomic background, economic growth, and structural reforms
- 3.2. Problems of private sector development
- 3.3. Efficiency of investment and labor productivity by sectors
- 3.4. Rural problems
- 3.5. Style and methods of state governance and regulation
- 3.6. Factors of poverty and quantitative links between poverty and parameters of economic and social policies (poverty and economic growth, employment, access to health and education services, and so on)

CHAPTER 4. STRATEGY OBJECTIVES AND PRIORITIES

- 4.1. Relation between Millennium Development Goals (MDGs) in Uzbekistan and WISP
- 4.2. Review of all national programs in the context of MDGs and WISP
- 4.3. Forecast of welfare (poverty) levels and factors of its reduction for 2006–09 and until 2015

CHAPTER 5. STRATEGY MEASURES FOR WELFARE IMPROVEMENT

- 5.1. Economic policy for accelerating economic growth  
(Macroeconomic framework—fiscal and monetary policy, financial sector reforms, capital markets, external debt management, industrial policies, trade liberalization, regional integration and customs policy, private sector development and privatization, investment policy, tax policy, promotion of labor productivity and motivation,

deregulation and regulatory framework, small and medium enterprise (SME) development;

Supportive infrastructure—energy sector, roads and transport, telecommunication and information technologies; and

Rural development strategy—agriculture, water management, production and market rural infrastructure, developing non-farm economy in rural areas)

Regional development policy; Tourism development

- 5.2. Main target parameters and measures for improving governance and regulation (role of the state in economic development, strengthening private property rights, improving state property and corporate management; public finance management system reform, administrative and civil service reforms and capacity building, anticorruption policy, procurement reforms, promotion and protection of market competition, improvement of investment climate, freedom of information flows, improvement of statistics, electronic government, science, research and innovation, strengthening judicial system, and civil society)
- 5.3. Main target parameters and measures for investing in human capital (education, health care, physical culture and sport, drinking water and sanitation, labor market, gender equity, and rational environmental management)
- 5.4. Main target parameters and measures for strengthening social protection system (targeted social safety nets, microfinance facilities, housing financing, labor market and job creation, children and youth policy, integration of disabled people into society, pension system reform, and regional perspectives of the above policies)

## CHAPTER 6. STRATEGY IMPLEMENTATION FINANCING

- 6.1. WISP costing and resource requirements by sectors (health care expenditures, education expenditures, social protection expenditures, pensions, and so on; planned public investment program projects, direct foreign investments, and loans)
- 6.2. Mid-term state budget framework and inclusion of WISP implementation expenditures
- 6.2. Partnership and financial participation of donors in implementation of WISP

## CHAPTER. 7. STRATEGY IMPLEMENTATION MECHANISM, MONITORING, AND REGULATION

- 7.1. WISP implementation mechanism
- 7.2. WISP monitoring indicators, statistical software, analysis, and interrelation with policies development
- 7.3. Internal and external risks influencing implementation of the Strategy, measures, and costing of their mitigation

## ANNEXES

Annex 1. Matrices of action plans by sectors and directions

Annex 2. Poverty tables

Annex 3. Macroeconomic indicators for 2006–09

Annex 4. Detailed WISP cost evaluation and mid-term budget framework for 2006–09

Annex 5. Participatory process