

IMPLEMENTATION OF POVERTY REDUCTION STRATEGIES IN THE NIS
DESK STUDY: UZBEKISTAN (NO PRSP)
JUNE 2004

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TIME LINE OF THE PRSP PROCESS IN UZBEKISTAN

Stage in PRSP Process	Date	
Approval of the ADB TA <i>“Preparing a Comprehensive Medium-term Strategy for Improving the Living Standards of the People of Uzbekistan”</i>	Nov	2001
ADB Supported Training for Uzbek Government Official in Tokyo	Dec	2003
First Draft Living Standards Strategy	May	2004

Tentatively called – **“Comprehensive Medium-Term Strategy for improving the Living Standards of the People of Uzbekistan”**

PREFACE

EC-PREP is a programme of research to enhance collaboration between the European Commission and the UK Department for International Development (DfID). Its objective is to enhance the poverty impact of the European Community's development assistance and contribute to achieving the International Development Target of halving the number of people living in extreme poverty by 2015. DFID has assigned £1,750,000 to EC-PREP for research projects which will be funded on a competitive basis. A further £250,000 has been set aside to fund Commissioned Studies. The Studies are designed by DFID or the European Commission and aim to respond to specific and topical issues.

This document has been prepared as an input into the EC-PREP commissioned study "Implementation of Poverty Reduction Strategies in the NIS". PRSPs are being prepared by seven Newly Independent States (NIS) of the former Soviet Union and, of these, five countries have completed full PRSPs and have started implementation. This overall study will identify the key challenges facing NIS governments in implementing full PRSPs and set out recommendations for addressing them. The purpose of the study is to provide useful insights to be used by the EC in the policy dialogue with partner governments in the NIS on PRSPs, and as input for the preparation of the next generation of Indicative Programmes (2007-12) and for the development of Action Programmes from 2004 onwards.

The consulting process involves the preparation of (a) five desk studies (Azerbaijan, Georgia, Moldova, Tajikistan and Uzbekistan); (b) two in-depth case studies (Armenia and the Kyrgyz Republic); (c) a comparative study examining global experience with implementation of PRSPs (d) a synthesis report bringing together the findings, lessons and recommendations from the other reports.

ACRONYMS AND ABBREVIATIONS

CIS	Commonwealth of Independent States
HBS	Household Budget Survey
I-PRSP	Interim Poverty Reduction Strategy Paper
JSA	Joint Staff Assessment
MTEF	Medium Term Expenditure Framework
PRSP	Poverty Reduction Strategy Paper
PRS	Poverty Reduction Strategy

1. INTRODUCTION AND CONTEXT

1.1 BRIEF COUNTRY BACKGROUND

At independence Uzbekistan inherited a difficult economic situation and one of the lowest standards of living in the Soviet Union. Its economy was reliant on the production of raw materials such as gold, cotton and natural gas, while heavily dependent on imports of food, oil and most manufactured goods. Uzbekistan also has to content a rapidly growing population, especially in rural areas where little off-farm employment was available. Its geographical position is also problematic with long porous borders and land-locked.

Against this background, the government adopted an import substitution development strategy that was intended to transform the economy from heavy dependence on agriculture and natural resources to a modern industrial economy. Although, since 1997 exports have contracted and Uzbekistan has become an increasingly closed economy, recently the government has begun to address some of the deficiencies in its policies. Since 2000, it has successively reduced exchange market distortions and the overvaluation of the official exchange rate, tightened its fiscal stance, and followed more conservative borrowing policies. A comprehensive reform program that addresses these structural constraints and rigidities needs to be implemented along with the planned current account convertibility.

1.2 THE NATIONAL DEVELOPMENT PLANNING FRAMEWORK

From the outset of the transition, five general principles of the reform were established, setting the framework for future development strategies:

- The adoption of a gradual, evolutionary process of reforms.
- The maintenance of the state's role of developer and implementer of reforms particularly as the “collective entrepreneur”, “production regulator” and investor in the priority sectors of the economy.
- The de-ideologicalisation and de-politicisation of reforms.
- The establishment of a legal foundation as the basis of reforms.
- The development of a strong social policy with guarantee of social protection.

The President has declared from the beginning of the reform process that the strong social protection of the population is essential during the transition and has each year identified it as a priority direction of the socio-economic development of the country. The model of transition focuses on developing a socially-oriented market economy which:

“combines fully the features of a market economy and a social economy in order to merge the efficiency of economic advancement with social guarantees and justice”¹

Uzbekistan has no explicit, broad, multi-dimensional National Anti-poverty Plan as found in many countries. Instead, issues related to increasing overall living standards are fully integrated into mainstream government structures and national development planning. Raising living standards is not seen as an add-on goal but the basis for all socio-economic activity. While other transition economies that have undertaken a rapid reform process have felt the need to develop special programmes to address the adverse social impact and rising poverty level, the Uzbekistan Government has made efforts to ensure that the gradual approach to reform will mean such programmes will not be required.

The lack of medium- or long-term planning has allowed Uzbekistan to take a flexible approach to designing its development strategy, making structural and policy changes when required and not rushing into introducing new systems and mechanisms that may not be appropriate. In the first stage of the transition emphasis was placed on making the basic adjustment to the market economy and protecting all the population. In the second stage, there has been a change of emphasis with the government firstly taking a more targeted approach to ensuring that social impact of the transition is mitigated and secondly establishing an enabling environment for increased income-generation. This move away from universal social protection to more targeted support is reflected by recent statements of the President²:

"In solving the problem of eradicating poverty, the so called 'vulnerable groups' of the population, including invalids, single mothers, orphans and old people deserve special attention. However, the social support provided must have a clear, targeted direction"

1.3 THE AID REGIME IN UZBEKISTAN

Resource intensity of aid is low in Uzbekistan with Net ODA/GNI or only 2% in 2002, the lowest in the group of countries being examined.

¹ Karimov, I (1993) *Building the Future of Uzbekistan: Its Own Model of Transition to a Market Economy*. Uzbekistan Publishers: Tashkent

² Karimov, I. (1997) *Uzbekistan on the Threshold of the 21st Century*. Curzon Press

External aid is coordinated by the Cabinet of Ministers' Department for Coordination of External Economic Activity (DCEEA). There has been no meeting of the Consultative Group for Uzbekistan since 1994, but formal and informal donor meetings for coordination and information sharing are frequent in-country. Theme meetings in Tashkent, where each donor coordinates a subject area or sector reflecting its comparative advantage, provide another forum for coordination. The World Bank coordinates groups for the environment and financial sectors, and chairs the UN/UNAIDS Theme Group for HIV/AIDS.

Top Ten donors of gross ODA (2001-2002 average (US\$ million))	
1. United States	63
2. Japan	36
3. Germany	18
4. Korea	10
5. Israel	8
6. EC	7
7. AsDF	6
8. Arab Countries	5
9. Spain	4
10. France	3

Source: www.oecd.org/dac

The harmonization agenda is not being implemented apart from one project where the European Bank for Reconstruction and Development (EBRD) has agreed to rely on the World Bank for assurance on the acceptability of financial management arrangements, including those on external audit.

2. THE PRS PROCESS SO FAR

2.1 START OF THE PROCESS

In March 2001, the Government of Uzbekistan and the Asian Development Bank (ADB) reached an agreement on a new technical assistance (TA) that will support the Government in preparing a comprehensive medium-term strategy for improving the living standards of the people of Uzbekistan, with special focus on the low-income, vulnerable, and socially excluded groups. The components, technical requirements, and implementation arrangements of the TA were discussed with various stakeholders in Uzbekistan.

More recently, given Uzbekistan's IDA eligibility, the government has indicated its commitment to prepare a Poverty Reduction Strategy Paper (PRSP). As initial steps toward this goal, it sent delegations to participate in PRSP training workshops and seminars to learn about the process, its requirements, tools for formulating an effective and monitorable strategy, and the experiences of other countries. A working group comprising members of key ministries is expected to be formally established soon, which will outline the work program for the PRSP, including a timetable and consultative activities. The working group will also start compiling the national poverty profile, designing sectoral strategies, and conducting focus group sessions with stakeholder groups. The authorities' preparation of the PRSP will be supported by the findings of the ongoing LSA being prepared by the Bank, and by substantial technical assistance grant recently approved by the Asian Development Bank (AsDB). It is expected that an IPRSP will be finalized in the fall and presented to the Boards of the IMF and Bank by December 2002, with a full PRSP to follow during 2004.

The Cabinet of Ministers will be the Executing Agency for the TA and the Implementing Agencies will be the (i) IC for the strategy planning and formulation component, (ii) State Department of Statistics (SDoS) for the statistical component, and the (iii) Center for Economic Research (CER) for the training and technical capability component. Before the start of the TA, the Government will issue a resolution creating an IC and seven WGs that will take charge of the component on strategy planning and formulation. The head of the Information and Analytical Department will chair the IC. The IC will be responsible for writing and disseminating the strategy document and the working papers, and will oversee implementation in the first year.

Seven WGs will be established, six of which will be organized according to the six priority areas (para. 6) that were identified by the Government. They are the WGs on (i) labor market and employment, (ii) income generation, (iii) consumer basket and living standard indicators, (iv) regional

aspects of living standards, (v) social assistance (for the vulnerable) and social protection (for all), (vi) human development, and (vii) the WG on strategy formulation. The WGs will work closely with the IC in the strategy planning and formulation component. The chairs of the WGs will be Government representatives appointed by the IC, and the members will represent multisectors. Each WG will conduct an analysis of its area of concern; prepare technical studies and other analytical papers; and develop action, budget, and communication plans. Each WG will use consultation meetings and other participatory processes to determine the needs and concerns of the low-income, vulnerable, and socially excluded groups. Their work will be integrated in the comprehensive medium-term strategy report, and will be posted in the web site that will be lodged in the Social Policy Department of the Ministry of Macroeconomics and Statistics. The consultants will work closely with the WGs and the IC by providing technical analysis, studies, and policy and institutional recommendations.

The SDoS will oversee the implementation of the statistical component, ensuring complementation and strong collaborative work with WB's Living Standard Assessment Project on the living standard indicators.⁶ The consultants for this component will work closely with SDoS in identifying the living standard (quantitative and qualitative) indicators that will also be used for monitoring and evaluating the poverty reduction measures and will be incorporated in the household survey; improving the labor survey module of the household budget survey; and giving training in the use of the improved survey design. SDoS will conduct the improved survey. The consultants will also assist the WG on the consumer basket and living standard indicators in developing the living standard indicators for use by all Government agencies and the institutional mechanisms for monitoring and evaluating the poverty reduction measures.

The CER, together with the consultant, will develop a training and capacity building plan for the members of the IC and the WGs. The plan is to be approved by ADB. For this component, ADB may also coordinate with the Asian Development Bank Institute (ADBI) in providing additional financing for specialized seminars and conferences on strategy formulation for high-level policy makers, using regional and international experiences.

2.2 POVERTY ANALYSIS

In 2000/01 the Uzbek statistical authorities carried out an improved and nationally representative Family Budget Survey (FBS). Since 2000/01 was the first year of implementation of the revised nationally representative survey, the new survey is considered by the Statistical Authorities to be a pilot. This is also the first time the data have been used for poverty analysis, and the exercise has yielded important feedback for further strengthening the survey. Despite these important caveats, the

FBS does provide the first comprehensive information on living standards in the country, and represents the best available information at this time. Results that appear to contradict conventional wisdom cannot be rejected a priori, since they represent the responses of about 10,000 households. They must be verified with future rounds of the survey as well as special studies. In addition to the FBS, the report uses other sources of information, including surveys of firms, farms, institutions and individuals, as well as administrative data. The study also uses international evidence to compare and contrast Uzbekistan's living standards and policy outcomes relative to other countries, including CEE (Central and Eastern European) countries and other CIS (Commonwealth of Independent States) countries.

2.3 PARTICIPATION IN THE PROCESS

Participation in the process so far has been limited

2.4 OWNERSHIP OF THE PROCESS

Even though the Uzbek government has entered the process with some reluctance it is very difficult to gauge the level of commitment or ownership of the PRSP process. One indication of weak commitment is the delays in even agreeing to start on the PRSP process. While 5 of the CIS-7 members have PRSPs (and a 6th is very close to completing the document), Uzbekistan doesn't even have an I-PRSP.

2.5 DONOR SUPPORT FOR THE PROCESS

ADB

On December 10-18, 2003, a training course was held in Tokyo, Japan under the auspices of the Asian Development Bank Institute (ADBI). The objective of the training course was to provide senior level government officials with training in the concepts and skills considered most useful for the development of poverty reduction strategies and also for successful implementation of the strategy. Fifteen top-level government officials had been invited to attend the course.

At the end of the course, the officials are expected to have a sound understanding of the rationale and purpose of poverty reduction strategies. Through their efforts, we hope that the country's capacity for managing the strategy implementation for poverty reduction will be improved.

The Uzbekistan officials will develop the final policy matrix for their nation's comprehensive living standard strategy. We hope these training materials culled from the Tokyo seminar can be used for further discussion with other stakeholders, and serve as a prototype for similar initiatives in the Central Asian region.

UNDP

UNDP has supported studies related to linking macro-economic Policy to Poverty Reduction. Building on this in the area of employment generation. The new project objective is to develop the capacity of the Government and other national researchers, such as members of the Center for Economic Research, to formulate and implement a coherent national employment generation programme as part of the Government's mid-term Living Standards Strategy. The main output of the project will be a paper containing an employment generation strategy that will help the Government of Uzbekistan implement policies that will create widespread remunerative employment. The paper will provide recommendations on 1) macroeconomic and adjustment policies that are more conducive to generating employment, 2) the outlines of an industrial strategy that will be more employment-intensive and 3) targeted interventions, such as public works scheme in rural areas, that could increase the access of poor workers to employment opportunities.

World Bank

The World Bank has supported the poverty assessment and the preparation of a Country Economic Memorandum that forms the basis of a medium-term reform strategy

IMF

The government of the Republic of Uzbekistan has notified the International Monetary Fund (IMF) that it has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement, with effect from October 15, 2003.

3. POTENTIAL ISSUES RELATED TO PRSP IMPLEMENTATION

The only indication can come from the first draft of the Living Standard Strategy. As noted already the actual implementation is not made explicit in the document. What little information there on the overall (as opposed to specific) implementation strategy can be gleaned from section VIII of the document – Participation, Resource Mobilisation and Monitoring.

The main purpose of participation in Strategy implementation is the consolidation of efforts and resources of the state, civil society and international organizations to increase living standards and reduce poverty through ensuring accelerated economic growth, institutional reforms and further social development.

3.1 INSTITUTIONAL SET-UP AND RESPONSIBILITIES

The institutional set-up is very unclear from the document. It does not indicate who will be responsible for management of the implementation of the PRSP once it is complete. Can it be assumed that it will be the same? What is the organisation of the state ie is there an overall planning ministry?

What it does do is to make clear the relevant responsibilities and role of government and civil society:

State and government role. Main functions of state and government in LSS implementation are:

- creation of economic, social and legal conditions that ensure accelerated economic growth, and attraction of investments in the material and social sphere that facilitate increase in living standards and poverty reduction;
- coordination of efforts to further stir up the reforms, mobilization of resources available to the state, and first of all budget resources, and their redistribution with account to increasing the efficiency of use and targeting to living standards improvement, and ensuring access of poor population groups to resources and results of the economic growth;
- ensuring state support to socially vulnerable layers of population;
- implementation of a set of measures to improve governance and control, remove administrative barriers for development of a private initiative and free entrepreneurship;
- support to the process of formation of sustainable civil society institutes.

The draft LSS states that “Non-government organizations and private sector can make a big contribution in LSS implementation”. It goes on to identify priority areas of contribution:

- conducting public campaigns to attract broad public attention to measures taken by the state in the area of living standards improvement and poverty reduction, and to form adequate understanding of goals and objectives of the reform process, and for public control purposes;
- ensuring feedback between the government and the public through participation in monitoring of the Strategy results, popularization among population, and poll of public opinion on existing problems for the purposes to make appropriate adjustments in LSS implementation processes;
- attraction of material and intellectual resources to achieve main objectives set in LSS;
- implement concrete measures to strengthen protection of socially vulnerable population groups, and promotion of their interests in all realms of life.

Experience of non-government organizations will be used in addressing social and economic problems predominantly at local level through mobilization of external and internal resources.

Regular reports on Strategy implementation will be published in mass media which will ensure population awareness on reform progress, transparency and accessibility of LSS results, and will facilitate population participation in LSS development.

3.2 INTRA-GOVERNMENT COORDINATION

No reference to this issue in the document

3.3 CAPACITY

Uzbekistan has limited experience with many of the technical aspects of the PRS process including prioritisation and costing. It also has limited experience in the approaches used with the PRS process such as partnership and consultation. It is therefore assumed that capacity issues will play a major role in the implementation, or not, of the PRS process.

3.4 POLITICAL COMMITMENT

In a speech at a roundtable to discuss the first draft of the LSS, the First Deputy Minister of Economy was very clear about the government’s commitment, stating:

“The strategy is intended to show all, including the international community, the commitment of the Government of Uzbekistan to improve the living standards of its people.....[the government] has tried not just to write “pretty words”, but to be quite concrete. However, the strategy paper makes clear the gap between the Government’s plan (intentions) and its resources: it clearly does not have enough resources to cover all its plans.”

Ms. Saidova, First Deputy Minister of Economy, invited participants to discuss all aspects of the strategy document, and to pay attention particularly to those aspects of the strategy where international organizations and international financial institutions can provide assistance.

Western commentators have less than favourable views on political commitment of government to reform and to change in general. Given that undertaking the PRSP process would bring about considerable change to the way the government operates and interacts with society at large means that it is likely that commitment for implementation will be weak. For example a recent International Crisis Group report notes

“The main reason that the policy of engagement by Western governments has borne such small fruit is that few people in the elite have any personal interest in seeing reforms succeed. The political system is dominated at the centre by a few families who simultaneously occupy key government posts and dominate most of the key sectors of the economy. For these figures, who are the country’s decisionmakers, there is little real incentive to push for major reforms. Under the present system, they have gained considerable wealth and influence, and they face a loss at least of income under any economic shakeup. They are extremely fearful of change and believe that letting go of some of their levers of control over society will lead to unrest and loss of power.” UCG (2003)

ICG (2004) notes that *“In the past two years, the ADB has often had too charitable view of Uzbekistan’s commitment to reform, compared with the assessments of other lenders”* p25

3.5 CONSULTATION WITH OTHER STAKEHOLDERS

Apart for the issue of limited experience with consultative approaches, civil society is weak in Uzbekistan. Broad ownership of the PRS process is therefore unlikely.

ANNEX 1: DOCUMENTS REVIEWED

Key PRSP Documents

- Republic of Uzbekistan Living Standards Strategy for 2004-2006 and Period up to 2010
- Summary of Proceedings – Roundtable on the comprehensive medium-term strategy for improving the living standards of the people of Uzbekistan

ADB

- Country Strategy and Program Update 2004-06 (August 2003)
- Living Standard Strategy Formulation: The Uzbekistan Case (2004)

UN

- UN Common Country Assessment 2003
- UNDP Rapid Assessment of the Poverty Reduction Strategy in Uzbekistan (1999)

World Bank

- Uzbekistan Country Assistance Strategy 2003
- Republic of Uzbekistan: Country Economic Memorandum (April 30 2003)
- Living Standard Assessment

Other Reports

- ICG (2003) Uzbekistan's Reform Programme – Illusion or Reality? ICG Asia Report No 46, Osh/Brussels
- ICG (2004) The Failure of Reform in Uzbekistan: Ways Forward for the International Community. ICG Asia Report No. 76, Osh/Brussels

ANNEX 2: MAP OF UZBEKISTAN

