

NATIONAL HUMAN DEVELOPMENT REPORT 1996



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2. Features of the Report

Whereas the 1995 NHDR was the first major review of the status and challenges in the areas affecting prospects of human development during the transition, the 1996 Report examines basic relationships between economic growth and human development. To do this, it assesses the conduct of market reforms which contribute to human development; identifies problems and challenges in the rural areas; outlines the emerging issues of habitat discusses the reforms required to strengthen the social infrastructure of health and education; and analyses poverty and its different dimensions.

The Report represents an attempt to initiate dialogue and discussion on these key issues, as such it is considered as only the beginning and serves as an invitation to more thorough discussions involving decision-makers, academics and development practitioners.

The Report contains a number of proposals to make future economic growth in Uzbekistan job-intensive, equitable and ecologically sustainable.

3. Overall Trends

Despite Uzbekistan's rich natural resources and skilled labor force, by the end of the 1980's, per capita income, labor productivity, and real wages also experienced decline. Since 1991, reforms were initiated to reverse these trends and overcome their disruption caused by the break-up of the Soviet Union. The initial stages of reform have generated high social costs, but the government took the view that for reforms to succeed, it was necessary to reduce these high social costs. The decline in inflation helped to stabilize incomes and the real value of social subsidies. Equally, special programs undertaken by the government helped to reduce infant and maternal mortality rates and produce an increase in life expectancy.

4. Governance Trends

The Government has enjoyed a period of stability as it adapts its institutions to the needs of a market economy. The former state planning agencies of the previous centrally planned system have been abolished, and new organizations are being established. The activities of central economic bodies and ministries are under reorganization, but the full benefits of such reforms will take some time to realize, due to the need to refrain cadres and build up a supply of newly educated technicians and managers.

At the same time, an integrated legal system has been formulated and consolidated into a book of statutes, leading to the formation of new legal institutions. This system includes more than 100 principal legislative laws and comprises components relating to laws which: regulate the principles of state management and self-government, establish new property relations and equal

treatment of all types of property; regulate business and create a new market infrastructure; ensure the constitutional and legal rights for all people and guarantee popular social support.

The main thrust of institutional reform has been in the sphere of international relations. The recently established Ministry of Foreign Economic Relations analyzes international services and commodity markets, designs strategies for international economic activity, facilitates the few remaining items of export and import under the state order system, and coordinates all foreign economic activity conducted by organizations in the republic.

5. Economic Trends

In 1995, Uzbekistan achieved considerable success in macroeconomic stabilization. Measures taken by the government helped slow down the decline in production, led to a noticeable decrease in the inflation rate, encouraged investment, and contributed to the maintenance of a low state budget deficit. Institutional reforms and policies directed toward priority areas also helped to foster positive results, particularly in the oil, gas, and agricultural sectors.

A substantial part of Uzbekistan's success derives from the Government's macroeconomic policies. Unlike the governments of many CIS countries, the Uzbek government has rejected the shock - therapy approach. Instead it has followed a slower, more cautious and balanced approach, so that the short - term goals of stabilization have not been so rigidly pursued as to strangle any potential for economic growth.

Taking 1990 as a base year, economic decline in Uzbekistan has been relatively moderate. Its level of GDP in 1995 was only 18.2% lower than its 1990 level. This contrasts with the dramatic drops in GDP that have occurred in surrounding CIS countries, in which the levels of GDP have been between 40 - 60% lower, over the same period. The biggest drop in

Uzbekistan's GDP occurred in 1992, when it fell by about 11%. In comparison, the fall in 1995 was only 1.2%.

At the same time, the goal of limiting budget deficits to less than 3.5% of GDP has been achieved, and the government has also succeeded in directing 40–50% of previous social cost allocations to current social needs. The proportion of the budget allocated to investment has increased from 3.9% of GDP (10,4% of total expenditures) in 1994 to 6,7% of GDP (18,4% of total expenditures) in 1995. Thus the current policy, combined with a functioning state apparatus, has helped to maintain and stimulate production growth in some sectors. This includes not only agriculture, but also energy and power, chemicals and petrochemicals, mechanical engineering, and metal- working. Moreover, the average monthly rate of inflation has decreased considerably and totaled only 6,7% in 1995 compared with almost 24.50/0 in 1994.

A substantial portion of the Uzbek population lives and works in rural areas. Problems of excess labor supply in rural areas have existed for some time and remain a priority issue in the country's economic reform. Compulsory employment, which occurred under the Soviet regime, was not conducive to improving human development or stimulating economic growth. At the same time, this policy did not create sufficient employment opportunities in regions with labor surplus, such as the Central Asian republics.

The state artificially created the conditions for employment by encouraging the rural population to grow cotton. Visible unemployment did not exist because all individuals worked as collective farmers or employees of the sovkhozes. Low levels of labor productivity and incomes resulted from this policy.

Since transition, the Government has tackled employment problems in conjunction with economic reform efforts, and the measures adopted have helped to generate employment opportunities, alleviate the threat of mass unemployment and decrease individual dependency on the state. However, for the period between 1996 and 2000, about two million new jobs will need to be created, and more than 950,000 people will need to be trained or retrained.

6. Poverty

The Report identifies three types of poverty: income poverty (those with incomes which fall below a certain level of consumption), capability poverty (ability to live a lone life, enjoy good health, have access to knowledge, particularly vulnerable groups), and social deprivation poverty (where incomes and capabilities are unacceptably lower than the norms of their community).

It is estimated that 44% of the Uzbekistan population fell in the category of poor, in terms of income poverty, and this increased to 75% by 1991, during the period of perestroika, due largely to inflation. It has been relatively stable since then, for which the slight reduction in crime rates since 1992 is an indicator.

The Report puts forward a set of seven proposals to reduce poverty in Uzbekistan:

- a. To reduce income poverty:
 1. Resumption of economic growth, so as to assure more sustainable levels of incomes;
 2. Emphasis should be placed on employment intensive growth, instead of relying on capital intensive energy and mineral sectors, so as to absorb the surplus labor in agriculture;
- 3) Promotion of small and medium-scale enterprises, and the removal of obstacles to their full expansion;
- 4) Establishment of a guaranteed employment scheme to provide productive employment to those working in declining sectors of activities.
 - a. To reduce capability poverty:
 1. Investment in human capital through education and training, to reduce capability poverty;
 2. Strengthening of health services, particularly of preventive health services, e.g. water, smoking, alcohol.
 - a. To reduce social deprivation poverty:
 1. Provision of transfer payments to vulnerable groups, and/or community support groups to such groups (aged, disabled, women, children, etc.)

In addition, suggestions are put forward to promote social support programs for poor families and other vulnerable populations, for instance, the disabled and pensioners.

7. Social Trends

The reduction in state budgets for social services of health and education has had a critical effect on the level of services, causing most funds to be directed towards maintaining only minimal levels of health care. To offset reductions in state financing, non-governmental financing has

increased, and a network of self-financing medical establishments has emerged, as well as pharmacies and clinics. Furthermore, new mechanisms are being sought for health care financing reform, including through private insurance. While state funds continue to provide well over 80% of all health financing, the portion of health care financed by private means increased from 1,5% in 1990 to 5,8% in 1995, while the share of the total national budget devoted to health increased from 8,6% to 10.5% in 1994, largely for salaries.

In the education sector, despite limited budgets, the government is carrying out an ambitious program to restructure the educational system, to train more teachers, to produce more text books, and to overcome the shortage of financing, by shifting part of educational financing away from the state budget to enterprises and students.

8. Women and Gender Trends

No specific section is devoted to women and gender considerations.

9. Environmental Trends

Agriculture in Uzbekistan relies heavily on irrigated lands. There are 4.2 million hectares of irrigated lands, compared with 27 million hectares of irrigated lands. Recent analyses indicate that the quantity of irrigated lands suffering from low and medium levels of salinity has increased noticeably. In addition, drainage waters which flow into the Upper Amudarya River, when combined with the salination of the soil in the upper layers, hamper agricultural production in the Aral Sea region. Due to poor water resources management, and the absence of appropriate user fees, water consumption has tended to be high and inefficient. A result of this has been the progressive increase in the proportion of saline land to about 53% and the fall in the level of the Aral Sea.

The development of industrial society, a larger population, and greater affluence, have intensified pressure on the environment. Households now use far more energy from non-renewable resources in the form of electricity, gas, petroleum and other fuels. Use of these resources has lowered the air quality. Household garbage today contains far more non-biodegradable materials than in the past, and reusable waste is seldom recycled or returned to the soil. A higher population density, centralized water and sewage systems, and thermal power and gas have gradually turned houses into sources of environmental pollution. Counteracting the contamination of the environment requires tremendous financial resources.

10. Housing and Human Settlements

In Uzbekistan, 90% of the estimated 4.7 million families, which make up the population of 22.5 million, own their own apartments or houses, while 7% live in housing owned by construction cooperatives or enterprises, 2% rent privately and 1% live in hostels. After the beginning of the transition period in 1991 - 93, over 1.2 million dwellings were privatized.

Population growth, at 2.3% per annum is quite high in Uzbekistan, and the Government has pursued a range of policies to maintain a rate of housing construction that will meet the needs of the increasing population. The Report considers that the Government has been very successful compared to most other governments of countries in transition. Housing construction has more than kept pace with population growth, especially in the rural areas, due largely to policies which provide plots of land and building materials to citizens at subsidized rates. However, in the urban areas, shortage of housing and space is becoming a problem. Furthermore, the transition period

has been accompanied by falls in investment in housing construction. New terms and incentives have been promulgated but in 1994 and 1995, banks were only able to satisfy up to 14% of the demand for credit. The Report therefore suggests possible steps which could be taken to promote a fully developed housing market.

11. Recommendations for SHD Strategy

Each of the chapters in this Report link a particular aspect (Economic transformation, rural development, housing, social infrastructure, and poverty) to their relationship with the human development paradigm, in the context of their contribution to an eventual sustainable human development strategy. The report argues that a growth strategy centered on human capital will be more successful in raising a country's average level of human development for any growth rate of GNP. However, there is no mechanism that automatically translates growth into greater human development. Growth contributes to human development to a greater extent when employment is encouraged, when human development is emphasized as the engine of growth, and when a more equal distribution of income is promoted.

HUMAN DEVELOPMENT INDEX (HDI) (1)	1996	0.679
HDI Ranking out of 174	1996	94
LAND AREA ('000 sq. Km)	1996	447.4
POPULATION		
Estimated population (million)	1995	22.6
Population growth rate (%), Fertility	1994	1.9 4.1
Population density (per sq. Km)	1994	50.4
Rural population (%)		61.4
Urban population		38.6
ECONOMY		
Total GDP (US\$ billion)	1992	...
Real GDP per capita (\$PPP)	1994	2,390
Annual GDP growth rate (%)	1994	-3.5
Inflation (%)		
Employment (%), - Agriculture - Industry - Services	1993	 44.6 14.1 28.5
Unemployment (%) : Open	1994	0.3
Unemployment ('000)		
EDUCATION		
Adult literacy rate (%)*		98.7
School enrollment rate (% Age 6-23)*	1994	50.8
Mean years of schooling		11.4
HEALTH		
Av. Life expectancy (years)*	1994	70.4

Men	1993	
Women	1994	75.7
GOVT. EXPEND. AS % OF GDP		
Defense		
Education	1994	9.7
Health and welfare	1994	5.2
Social Security		

1. From 1996 Global Human Development Report (based on 1993 figures)
2. * Lines in calculation of HDI