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Technical Assistance to CIS countries

Case study of Uzbekistan

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1. Country Background

Uzbekistan is the most populous double landlocked strategically located country in the Central Asia with the highest density of population. Its GDP per capita by PPP was 1869 USD that makes this country poor, especially in the rural areas. During the Soviet time Uzbekistan was developed as a leading center for cotton production that led to economic distortions and environmental problems. There are significant deposits of oil and gas in the Republic which diminishes country dependence on the external world.

Table 1. Selected country indicators in 2005

	Surface area (thousand sq m)	Population density (people per sq. km)	Population, total, thou.	GDP per capita, PPP (current international \$)
Uzbekistan	447	62	26209	1,869

Source: World Development Indicators 2006

After the break up of the Soviet Union domestic production in Uzbekistan dropped sharply due to the trade shock and economic dislocation, but the level of decline was the smallest among CIS countries. During 1992-1996 decline in output was 18%, but in 1996 the growth resumed with average 4.8% and accelerated in 2004-2005¹. During the period from 2000 to 2004 average share of agriculture in GDP/share in GDP growth was 33.4%/36.3%, industry 17.1%/13.4%, trade and services 49.5%/50.4% (ADB 2006). This shows the economic growth in the republic was mainly driven by agriculture and trade and services.

This exceptional low decline can be explained by favorable conditions Uzbekistan had at the beginning of the transformation process. Firstly, the country was loosely incorporated into the Soviet-Military industrial complex and specialized on natural resources which were easily to direct to international markets. Secondly, energy reserves made Uzbekistan self-sufficient in energy. Thirdly, Uzbekistan conducted gradual reforms that could also contribute to lower decline (Alam and Banerji 2000, ADB 2006).

Table 2. Selected EBRD transition indicators

	1992	1995	1998	2002	2005	2006
EBRD index of small-scale privatization	1.00	3.00	3.00	3.00	3.00	3.33
EBRD index of large-scale privatization	1.00	2.67	2.67	2.67	2.67	2.67
EBRD index of price liberalization	2.67	3.67	2.67	2.67	2.67	2.67
EBRD index of forex and trade liberalization	1.00	2.00	1.67	1.67	2.00	2.00
EBRD index of competition policy	1.00	2.00	2.00	2.00	1.67	1.67
EBRD index of banking sector reform	1.00	1.67	1.67	1.67	1.67	1.67
EBRD index of reform of non-bank financial institutions	1.00	2.00	2.00	2.00	2.00	2.00
EBRD index of infrastructure reform	1.00	1.00	1.33	1.67	1.67	1.67

Source: EBRD

¹ It is necessary to mention that there are serious concerns regarding the quality and reliability of the statistics in Uzbekistan.

In general, Uzbekistan opted for gradual reforms of the economy. The main strategy was to build a socially-oriented market economy with developing industrial and manufacturing capacity in predominantly agricultural economy using high level of state guidance and support (Gemayel and Grigorian 2005). Data from the table 2 shows that Uzbekistan did not succeed much with the transition to market economy, only some light positive results were achieved in small-scale privatization, but with most of the transition indicators Uzbekistan lagged behind.

The state support was based on three pillars: trade and exchange control, directed credit and large public investment. This policy might have prevented output at the beginning, but later led to the social-economic problems and distortions. After 2000 the Government made steps to address macroeconomic distortions: it liberalized exchange market, tightened fiscal and monetary policy, more conservative borrowing policy (Gemayel and Grigorian 2005). Another important problem is that informal networks that gained the power in early 1990s and had vested interest blocked political and economic reforms (e.g. land reform, foreign exchange convertibility) (UDNP 2005).

Uzbekistan is one of the few post-Soviet states that has not gone through a series of constitutional stages, and almost immediately created a super-presidential state. The country's constitution was adopted on December 8, 1992 and it provided the president with extraordinary powers (Abazov 1998). This made political regime in Uzbekistan oppressive and authoritarian.

1.1. *Attitude of the Government and the Society towards Democracy and Market Economy*

At the beginning of the transformation process Uzbekistan partially accepted “shock therapy“ concept, but very soon has chosen “its own way of development” referring to Chinese, Korean experiences with strict government control and gradual reforms. President of Uzbekistan, who concentrated all power in his hands, applied the concept stability “at any cost” in his economic and political reforms (Abazov 1998).

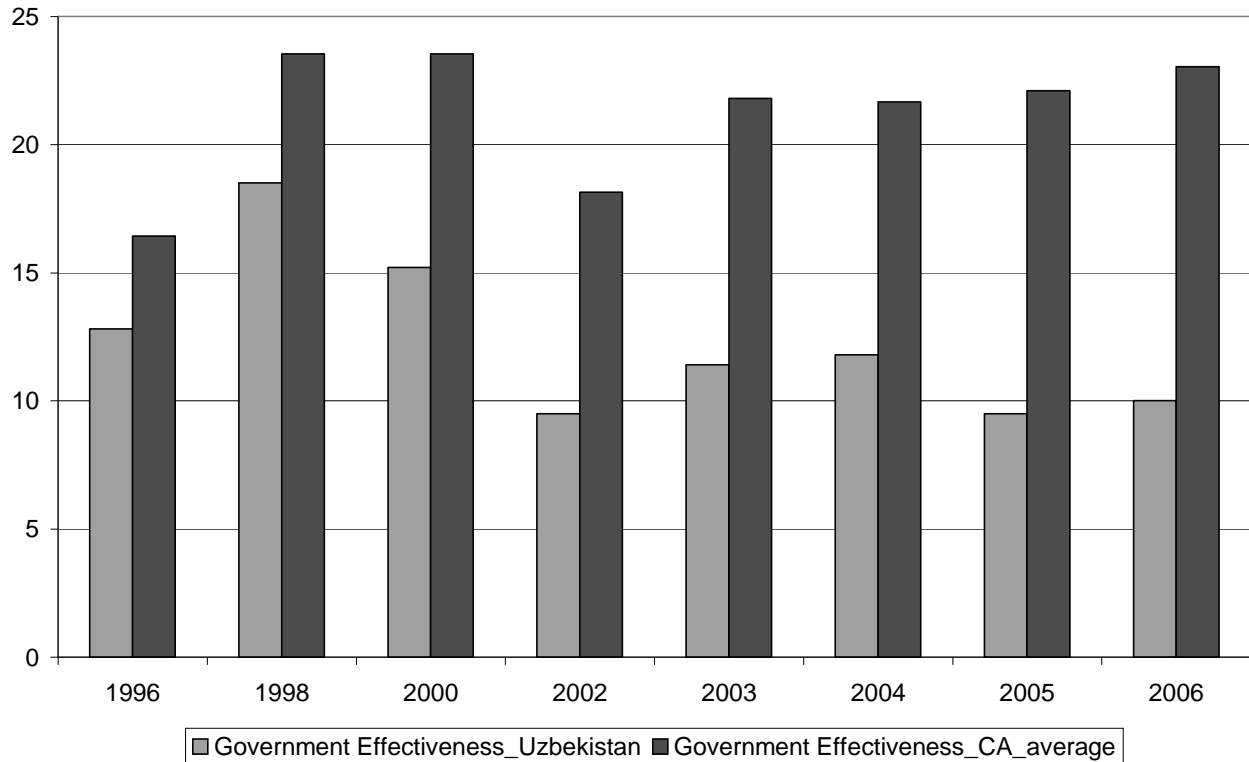
In general, some reforms are occurring in Uzbekistan, but for external observers it is often not clear how much, how quickly, and in what areas Uzbekistan is moving ahead. Very often reforms are conducted in areas which are not considered as a priority by the donors’ community. Commitment and progress with the reforms is very much different across sectors and among different members of government, but in general there are strong vested interests which prefer status quo and oppose any reforms which can threaten their positions (Abazov 1998, UNDP 2005).

1.2. *Technical Capacity of the Country*

As the main recipient of TA in Uzbekistan is government, one indicator of particular interest for us is government effectiveness which measures the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy

formulation and implementation, and the credibility of the government's commitment to such policies (Kaufmann, Kraay, Mastruzzi 2007).

Figure 1. Percentile rank, according to governance effectiveness indicator for Uzbekistan and average for three Central Asian Republics (Kyrgyzstan, Tajikistan and Kazakhstan)



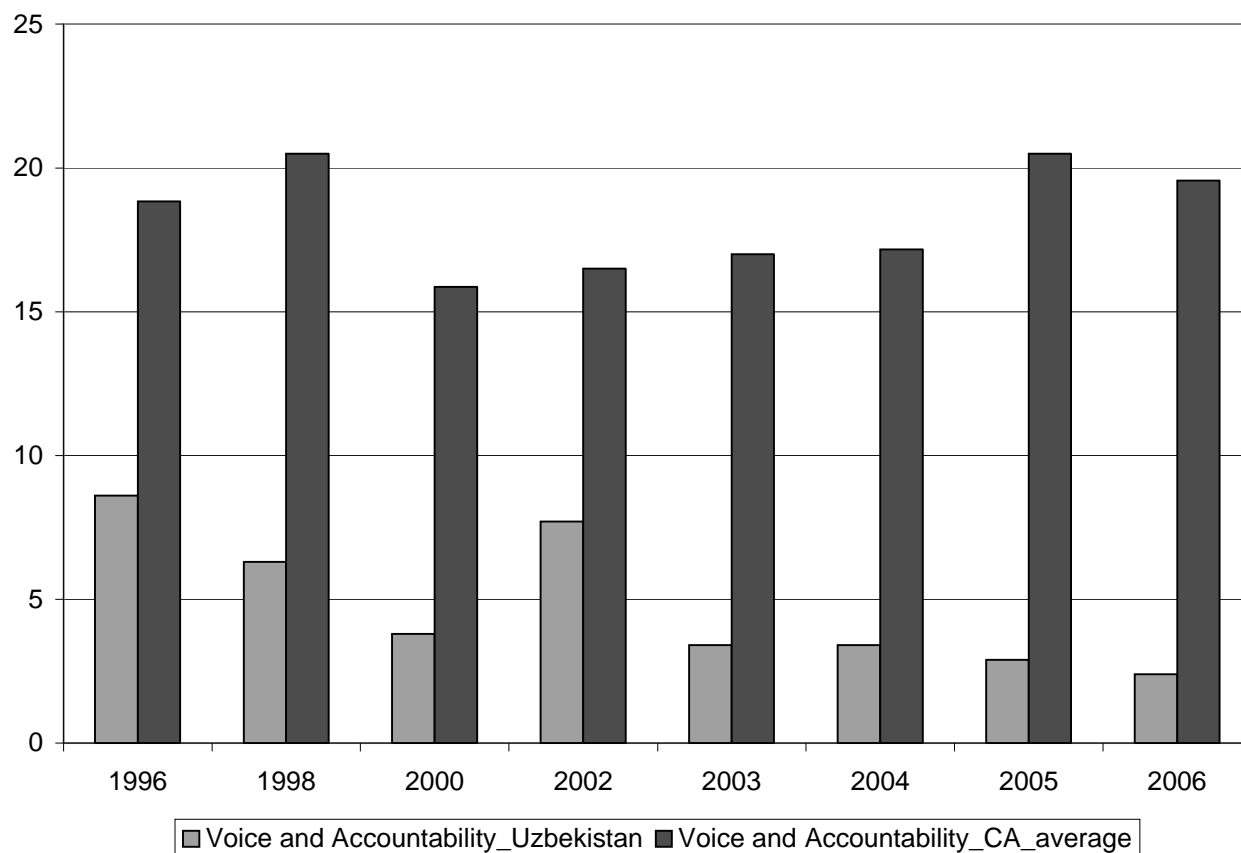
Source: World Governance Indicators, author's calculation.

The data from figure 1 shows that the position of Uzbekistan based on its government effectiveness was very poor in 1996, and what is important that the situation has not improved and have become even worse by 2006, while in average three Central Asian countries managed to improve their government effectiveness.

According to the research conducted by Ergashev et al. (2003) public administration in Uzbekistan has played important role at the beginning of the transformation process to smooth the effect of the transition, but in the current state administrative system may become one of the main obstacles to further reforms in Uzbekistan.

The situation with voice and accountability in the Republic is very poor and Uzbekistan stays at the lowest percentile, while the situation has been worsening every year. This significantly limits possibility for the establishment of democratic state with the market economy.

Figure 2. Percentile rank, according to voice and accountability indicator for Uzbekistan and average for three Central Asian Republics (Kyrgyzstan, Tajikistan and Kazakhstan)



Source: World Governance Indicators, author's calculation

2. Supply of TA to the Country

2.1. Dynamics of TA Flows

There are two basic sources of information on technical assistance available for the Kyrgyz Republic. One source is OECD database which shows Official Development Assistance (ODA) by donors, countries, type of aid. This source of information can be used for cross country comparison; however some donors are not reflected in it².

Another source of information about donors' projects is the database maintained by the TACIS Network Database System. This database comprises information on donors' projects in the republic (amount, sector, date, etc.). This database may be used to have a sectoral picture of donors' aid.

Table 3. Total flows of technical cooperation to Central Asia countries, mln. USD

	Technical cooperation, average year amount, mln. USD			Total accumulated technical cooperation for the period from 1992-2004, mln. USD	Total technical assistance in the period 1992-2004 to GDP ³	Share of accumulated technical cooperation to accumulated ODA	Total accumulated technical assistance per capita, USD
	1992-1995	1996-1999	2000-2004				
Kazakhstan	22.0	72.4	91.8	737.3	2%	45%	55.8
Kyrgyz Republic	12.6	38.4	65.8	514.8	24%	20%	104.7
Tajikistan	4.2	10.7	34.6	291.0	11%	16%	36.2
Uzbekistan	10.9	37.1	69.7	561.2	5%	31%	20.6

Source: OECD, World Development indicators, author's calculation

TA flows to Uzbekistan increased in the second part of 1990s, and slowed down after 2000 as in other countries in Central Asia (except Tajikistan). TA did not play so important role for the country as in Kyrgyzstan or Tajikistan and accumulated technical assistance per capita in the Uzbekistan is the lowest. Accumulated TA also holds small share in GDP – only 5%.

2.2. Technical Cooperation by Donor

Statistics on TA flows by donor (bi- and multilateral) is presented in the table 4. The data shows that until 2000 bilateral and multilateral donors hold equal shares in TA supplied, but after 2000 the role of bilateral technical cooperation drastically increased.

Table 4. Distribution of technical cooperation flows

	1992-1995	1996-1999	2000-2004	Total
Bilateral technical cooperation	59%	54%	92%	79%
Multilateral technical cooperation	41%	46%	8%	21%

Source: OECD, author's calculation

Major bilateral donors are presented in the table 5. The structure of donors has changed during the considered period and the USA started playing leading role in 2000-2004 accounted for 59% of total TA flows coming to the republic.

Table 5. Main bilateral donors

	1992-1995	1996-1999	2000-2004	Total
Germany	8%	12%	11%	11%
Japan	23%	16%	15%	16%
United States	5%	14%	59%	42%
France	5%	4%	2%	3%

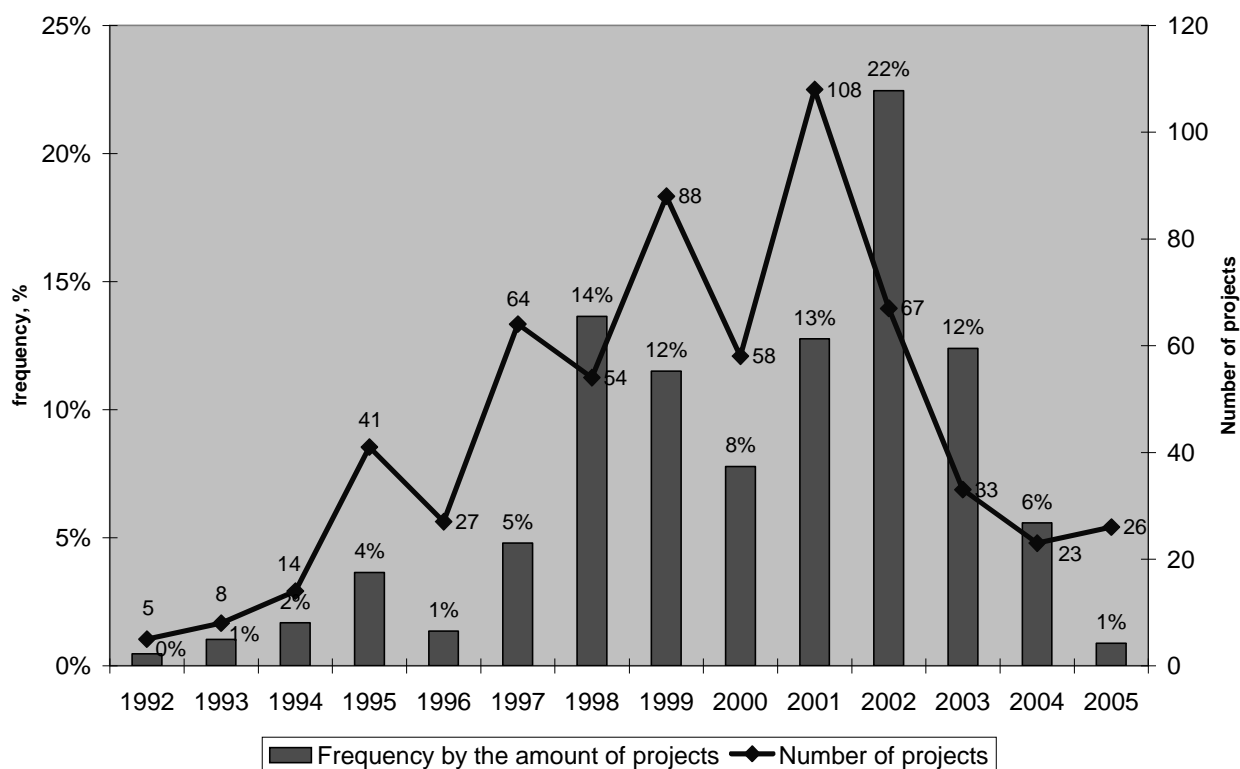
Source: OECD, author's calculation

More comprehensive picture can be obtained through the analysis of the database maintained by the TACIS database of projects. Unfortunately, there are projects in the database where the amount or dates of the implementation are not specified. These observations will be excluded from the analysis.

² There is significant discrepancy between OECD and UNDP databases (OECD underestimates TA flows), but as it was mentioned, OECD database a good source for cross-country comparisons.

³ GDP for 2004.

Figure 3. Structure of TA flows by the number of projects and their share in total amount of TA during the period from 1996 to 2005

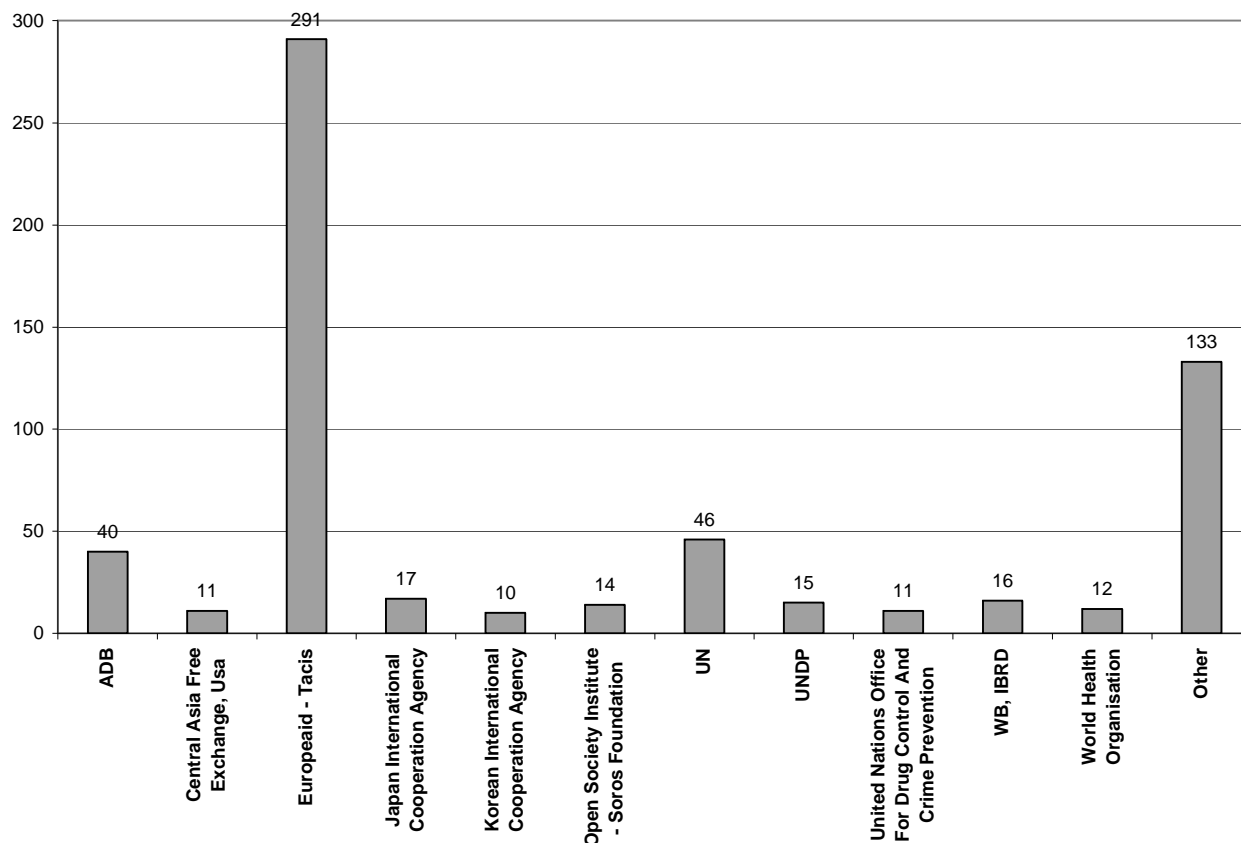


Source: www.tacis.uz, author's calculation.

The data from figure 3 confirms the pattern OECD data showed. There were two periods with sharp increase in the number of projects and the amount of TA flows – 1999-2000, and 2002-2003. The highest absolute number of projects is observed in 2001, but the highest amount of TA is registered in 2002. Average amount of projects also was changing from year to year.

The absolute leader in the number of technical assistance projects is EuropAid, former TACIS. On the second and third places are ADB and UN. Many donors had majority of projects until 2000 year. After 2000 almost all donors decreased the number of implemented projects.

Figure 4. Number of projects by the main multilateral donors



Source: www.tacis.uz, author's calculation.

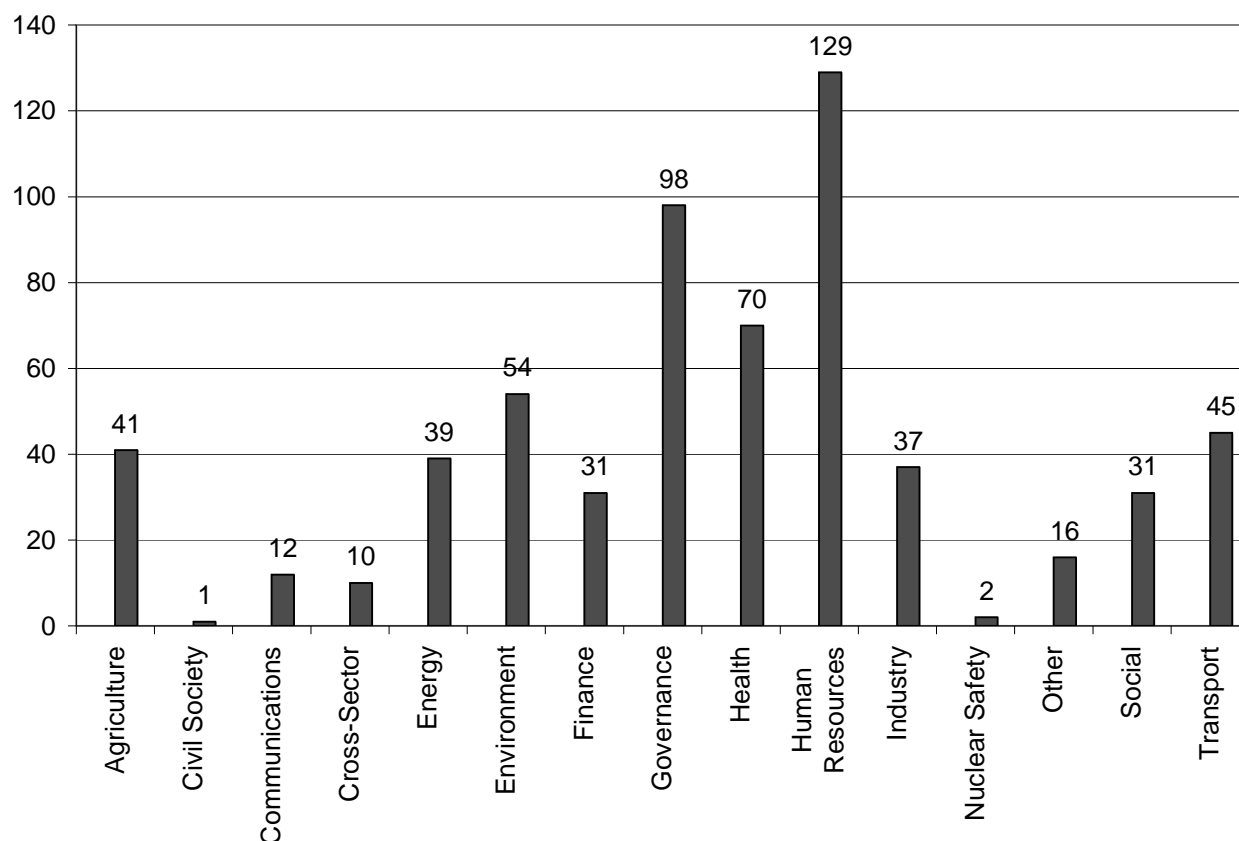
2.3. Technical Cooperation by Sector

Sectoral distribution of projects (figure 5) shows that the highest number of TA projects was targeted at developing human resources. On the second place is governance and on the third is health sector. More than 40 projects were implemented in the transport, environment, agriculture and energy sectors. There were almost no projects aimed at developing civil society in Uzbekistan during the considered period of time.

Sectoral distribution of the number of TA projects was changing with time, as it is shows in the table 6 below. There was a shift in the number of donors' projects from agriculture, energy in the beginning of the transformation process to governance, health, human resources and environment after 2000.

Considering the amount spent on different sectors, it turns out that mostly TA flows in the period 1992-2004 were directed to human resources and environment (18% each), agriculture (15%), governance and industrial development (11% each).

Figure 5. Number of TA projects by sector during 1996-2005 years



Source: www.tacis.uz, author's calculation.

Table 6. Sectoral distribution of the number of TA projects in Uzbekistan in three time periods

	1992-1995	1996-1999	2000-2005
Agriculture	10%	6%	6%
Civil Society	1%	0%	0%
Communications	3%	1%	2%
Cross-Sector	1%	2%	1%
Energy	12%	9%	3%
Environment	3%	8%	10%
Finance	4%	5%	5%
Governance	16%	14%	17%
Health	7%	10%	13%
Human Resources	19%	19%	23%
Industry	7%	10%	3%
Nuclear Safety	1%	0%	0%
Other	1%	2%	3%
Social	1%	4%	7%
Transport	10%	9%	5%
Total	100%	100%	100%

Source: www.tacis.uz, author's calculation.

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