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# Caucasus & Central Asia (CCA) Review

**Vol. 2, No. 4**

**November 2008**



## Caucasus and Central Asia (CCA) Review

The Caucasus and Central Asia (CCA) Review regular, monthly, regional, online English language publication is a part of capacity building projects within EPIN network financed by United Nations Development Programme (UNDP) coordinated by International Center for Economic Growth (ICEG) European Center.

The project involves experts of research institutions and universities of Caucasus (Armenia, Azerbaijan and Georgia) and Central Asia (Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan) in preparing country analyses in specific group of topics: reform of the post-communist state (i.e. public administration reform, decentralization, anti-corruption, and human rights/access to justice); spatial poverty (i.e. interactions between geography, economic policies and activities, and living standards); economic, environmental and social impact of public economic policies (e.g. migration, employment, trade liberalization, inflation and administrative prices); rural development and agricultural reforms; financial access and microfinance.

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## **Dutch disease and its socio-economic implications in Azerbaijan**

*Namig Tagiyev and R. Rzayev*

*In this article, the effects of Dutch Disease on the Azeri economy have been investigated on the basis of labor productivity and wages. In the result of the analysis, it has been concluded that in order to increase competitive production, the government should create necessary environment for direction of internal and external investments toward the non-oil sector of the economy and explore intellectual and labor potential of the country.*

### **Mechanisms of Dutch disease and methodology of the analysis**

Dutch disease has an influence on the economic development as a result of boom in the extractive industry sectors which causes appreciation of the national currency. Boom could stem from the discovery of the new oil wells or the increase in the export prices of the extractive industry sectors.

It is worth mentioning that in recent years, the intensive production and export of natural resources is the main factor effecting the growth of the economy. Econometric research done by Sachs and Warner (Sachs and A. Warner, 1996) on the countries exporting natural resources (in particular, empirical researches on 97 countries between the years of 1970-1990) claims that countries exporting raw materials have lower economic growth in the long-run, than their resource poor counterparts.

In 1994, Azerbaijan and number of famous oil companies have signed "Contract of the Century" over the exploration of hydrocarbon resources in the Azeri sector of the Caspian Sea. The vulnerability of Azerbaijan to the Dutch disease has become an important issue after the "Contract of the Century" signature and other oil contracts which caused to the entrance of huge oil money to the economy.

To assess if there is a Dutch disease in the Azeri economy, it is essential to analyze the main indicators of this ailment. As it would need wide and comprehensive research object, in this article we mainly focus on labor productivity and dynamics of the salaries.

One of the most significant indications of Dutch disease is the decreased level of profit and efficiency indicators. Movement of the labor from tradable sector toward the non-tradable and boom sector has influenced the capital-labor ratio.

### **Analysis of labor productivity and salaries**

Flow of the labor into the booming sector has decreased the fixed capital per worker and also usage of capital in other sectors of the economy. In spite of increment of level of capital-labor ratio as a result of capital flow the marginal product of labor is being decreased. These changes find its reflections according to the dynamics of productivity. Dynamics of the level of labor productivity according to economy, oil and non oil sector with the inclusion of agriculture, hunting and forestry, non-oil industry, construction and services is given in *Table* below. Apparently, in 2006 level of labor productivity in the oil sector was 9.52 times more than the productivity of labor in the non-oil sector, 2.85 times more than productivity in agriculture, hunting and forestry, 11.3 times more than services and 7.3 times more than the overall economy.

**Table 1. Dynamics of the level of real labor productivity according to economic activities, (thousand AZN/per capita)**

No	Economic activities	2000	2001	2002	2003	2004	2005	2006
<b>1.</b>	<b>Oil sector</b>	<b>29.7</b>	<b>30.2</b>	<b>36.3</b>	<b>33.4</b>	<b>33.4</b>	<b>45.9</b>	<b>65.7</b>
1.1	Oil and Gas Production	32.9	33.4	41.3	37.2	37.0	51.3	74.2
1.2	Oil Refinery	10.6	8.6	8.5	9.2	10.0	11.1	11.2
<b>2.</b>	<b>Non-Oil sector</b>	<b>2.6</b>	<b>2.9</b>	<b>3.3</b>	<b>3.7</b>	<b>4.1</b>	<b>5.3</b>	<b>6.9</b>
2.1	Agriculture, hunter and forestry	8.5	16.3	20.6	21.9	27.5	23.5	23.0
2.2	Fishery	4.7	10.5	18.6	23.5	20.4	16.4	17.8
2.3	Non-Oil refinery industry	1.3	1.4	2.0	2.5	2.7	2.8	3.0
2.4	Electric power, gas and water supply	3.6	3.7	4.3	4.8	5.1	5.1	5.2
2.5	Construction	4.3	4.5	8.4	15.8	20.2	20.1	20.3
2.6	Services	2.0	2.2	2.2	2.3	2.4	3.8	5.8
	<b>Total</b>	<b>3.6</b>	<b>4.0</b>	<b>4.4</b>	<b>4.8</b>	<b>5.1</b>	<b>6.8</b>	<b>9.0</b>

Source: State Statistical Committee of Azerbaijan, own calculations

Level of labor productivity has formed 3000 AZN/person according to non oil refinery industry. It is not possible to raise the real living standard of the population without raising level of labor productivity in commerce and non commerce sector. So, rising of real labor productivity gives opportunity to increasing real wages without making extra inflation. Dynamics of the real labor productivity's index in the investigation period is given on the *Table 2*.

Real labor productivity's index in the non oil sector (calculated as real additional value divided by average annual quantity of the hired workers) raised higher rapidly This basically is a result of low level real labor productivity in non oil sector and its sub areas in 2000.

**Table 2. Dynamics of the real labor productivity's index according to economic activities, with percentage (2000=100%)**

No.	Economical activities	2000	2001	2002	2003	2004	2005	2006
<b>1.</b>	<b>Oil sector</b>	<b>100.0</b>	<b>101.5</b>	<b>122.3</b>	<b>112.5</b>	<b>112.6</b>	<b>154.4</b>	<b>221.2</b>
1.1	Oil and Gas Production	100.0	101.5	125.5	113.0	112.5	155.8	225.6
1.2	Oil Refinery	100.0	81.4	80.9	86.8	95.1	104.7	105.9
<b>2.</b>	<b>Non-Oil sector</b>	<b>100.0</b>	<b>111.8</b>	<b>125.8</b>	<b>142.7</b>	<b>156.6</b>	<b>203.1</b>	<b>264.4</b>
2.1	Agriculture, hunter and forestry	100.0	191.0	241.9	257.3	322.2	276.2	269.6
2.2	Fishery	100.0	222.2	394.0	498.8	432.3	348.6	376.5
2.3	Non-Oil refinery industry	100.0	107.6	151.8	189.3	208.6	216.3	227.8
2.4	Electric power, gas and water supply	100.0	102.9	118.3	133.5	141.6	141.7	143.1
2.5	Construction	100.0	105.5	195.7	368.7	471.5	470.6	473.8
2.6	Services	100.0	108.9	108.1	113.7	118.3	192.3	288.8
	<b>Total</b>	<b>100.0</b>	<b>109.7</b>	<b>121.6</b>	<b>132.5</b>	<b>141.6</b>	<b>186.1</b>	<b>247.1</b>

Source: State Statistical Committee of Azerbaijan, own calculations

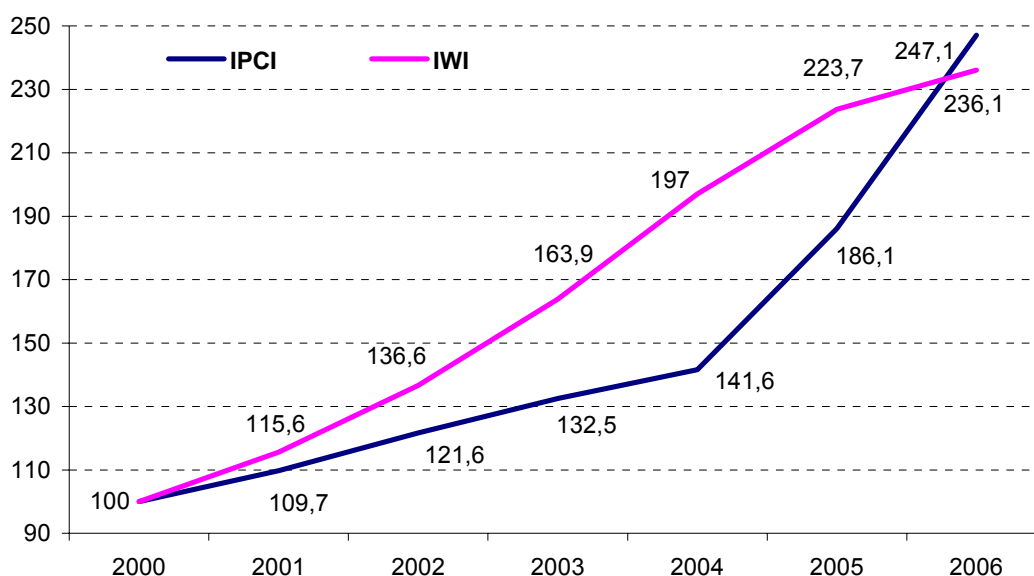
High level of labor productivity in the oil sector gives opportunity to raise level of nominal wages and this makes pressure for other spheres. But, because of labor productivity level is low in other spheres (especially it is not possible to raise level of labor productivity in short term) it is not possible to raise level of wages.

On the other hand high level of wages in the oil sector makes additional demand and prices are also being raised accordingly. High level of prices in the national market is based on raising lucidity level of economy (one of main result of globalization) and high level of prices in the foreign trade members countries (specially having unstable economy) and note that, this fact is being observed in last years and in such a way, level of real wages of the workers are low relatively. In other words, in spite of raising level of nominal wages, real wages are getting decreased. Thus, raising level of nominal wages as a result of oil sector pressure, if other terms are constant cause decreasing of benefit and efficiency indicators of the companies in other spheres and at the same time social efficiency of the wage is also getting decreased.

Note that, economically non efficient wages can not be socially efficient as well. When growth of real labor productivity ( $I_{PC}$ ) is exceeds the growth speed of real wages ( $I_W$ ), real wages can be both economically and socially efficient.

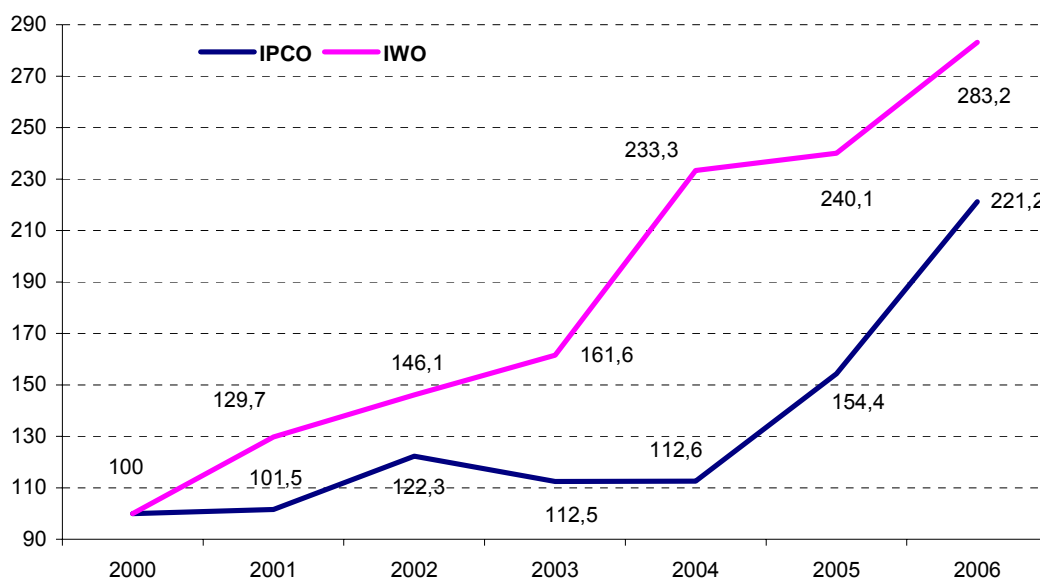
As we can see dynamics of the real labor productivity's and real wages index from graphics Economy (I-graphic 1), oil sector (O-graphic 2), non oil sector (NO-graphic 3) real wages index according to economy and non oil sector raised faster than real labor productivity's index.

**Chart 1. Dynamics of the real wages and real labor productivity's index according to economy, with percentage (2000=100%)**



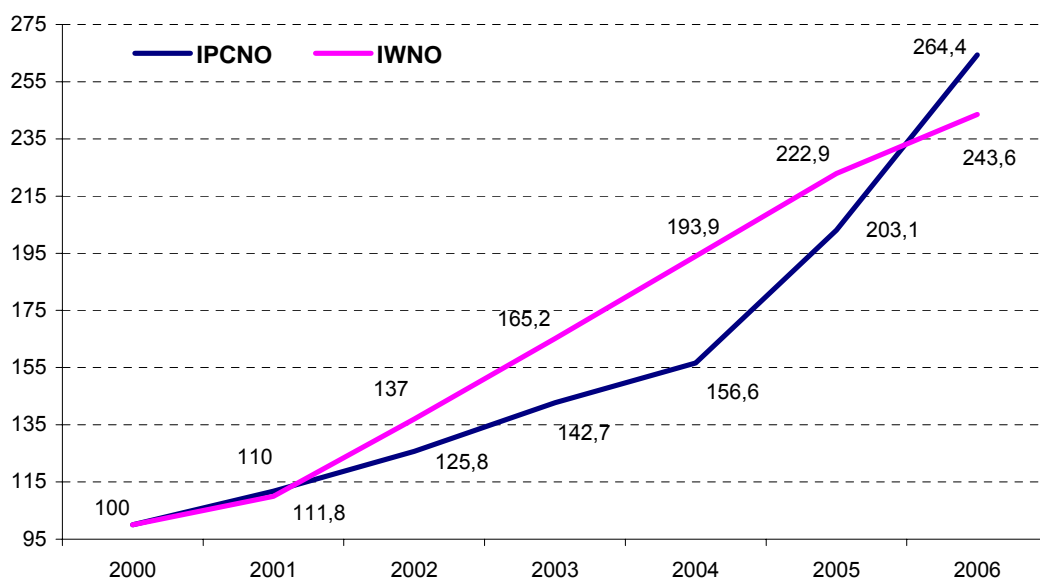
Source: State Statistical Committee of Azerbaijan, own calculations

**Chart 2. Dynamics of the real wages and real labor productivity's index according to oil sector, with percentage (2000=100%)**



Source: State Statistical Committee of Azerbaijan, own calculations

**Chart 3. Dynamics of the real wages and real labor productivity's index according to non oil sector, with percentage (2000=100%)**



Source: State Statistical Committee of Azerbaijan, own calculations

As shown on the graphs, increase in real wages exceeds the increase in productivity. While the real productivity exceeded the real wages in non-oil sector, in oil sector this has been vice versa in 2006.

### Conclusions and recommendations

In order to keep the welfare of the population at the previous level, wages and social benefits in state organizations should be increased which is being done or planned. This in turn, requires respective wage

increment in private sector. However, in the private sector, raise of the wages is impossible without increase in the productivity, on the other hand, it is socially inefficient. In order not to let the economy go into Dutch disease, integral productivity of production factors has to be increased as the necessary policy. Currently Azerbaijan is at the development stage which bases on production factors, but, production factors, especially, labor and intellectual potential cannot be utilized completely and efficiently. That's why it's necessary to cross over the development and competition stage which bases on investment. Specially export products on which elasticity coefficient on revenue is high, it's necessary to organize them on the basis of new technology. In order to direct internal and external investments to the non-oil sector, new policies should be prepared and realized.



## Consequences of Russian intervention on Georgia's economy

David Chelidze

*Economic development of any country depends significantly on proper and stable functioning of financial system. Hence, nowadays – in the course of global financial crisis - issues of maintaining stability of financial systems have growing importance. It is extremely important to pay attention to sensible mutual dependence, between stable functioning of financial system and the process of the general economic development of a country.*

The economic policy, oriented towards stimulating solvent demand implemented through growing on-budget expenditures, often resists to the principles of overcoming the inflation processes. From this point of view, the dynamic of main parameters of economic development of Georgia is very important (Table 3).

**Table 3. Data on macroeconomic development<sup>1</sup>**

Data	unit	2003	2004	2005	2006	2007	I-VI. 2008
<b>Real Sector</b>							
<b>Nominal GDP</b>	<i>Mln GEL</i>	8564,1	9824,3	11621,0	13789,9	16998,6	4182,5*
<b>GDP per capita</b>	<i>GEL</i>	1972,1	2276,7	2689,1	3133,1	3868,0	954,5*
<b>Industrial Production</b>	<i>Mln GEL</i>	2447,6	2610,8	3242,9	3952,7	4748,2	482,4*
<b>Agricultural Production</b>	<i>Mln GEL</i>	2483,4	2419,9	2585,4	2341,7	2515,3	40,1*
<b>Inflation</b>							
<b>Consumer Price Index**</b>	%	107,0	107,5	106,2	108,8	111,0	103,2
<b>Food-Stuffs</b>	%	109,4	113,6	108,4	109,3	111,4	101,2
<b>Non-Food Stuffs</b>	%	105,1	103,4	103,3	109,2	107,9	104,0
<b>Service</b>	%	99,9	100,1	104,3	107,3	113,1	106,1
<b>State Budget</b>							
<b>Revenues</b>	<i>Mln GEL</i>	932,4	1773,7	2607,9	3293,4	5600,8	3007,2
<b>Share of Tax revenues</b>	<i>% of revenues</i>	59,6	74,5	70,4	64,7	69,4	90,3
<b>Expenditures</b>	<i>Mln GEL</i>	1207,1	1930,2	2618,6	2667,2	4666,1	2325,8
<b>Net Operating Balance</b>	<i>Mln GEL</i>	-	-156,5	-11,0	626,2	934,7	-213,2
<b>%- of GDP</b>	%	-	-1,6	-0,1	4,5	5,5	-

\* January-March; \*\* December of every last year is has been taken as a base of consumer price index<sup>1</sup>. Source: [http://www.nbg.gov.ge/uploads/publications/bulletinstatistics/statbiul/nbg7\\_6stat\\_isticbulletingeo.pdf](http://www.nbg.gov.ge/uploads/publications/bulletinstatistics/statbiul/nbg7_6stat_isticbulletingeo.pdf)

The data shown in the table uniquely prove those progressive tendencies of the country's economic performance that imply significant growth of gross domestic product and state budgetary revenues. At the same time the data show dangerous tendencies concerning inflation. It should be noted that inflation problem has considerably came forward since 2006-07 caused both by internal and external factors. Among

<sup>1</sup> The table is composed according to the data published in Monetary and Bank Statistics Bulletin by National bank of Georgia.

internal factors were: significant growth of budgetary expenditures within comparably short of period of time, growth of deficit of trade balance caused by hardening of national currency. External factors were: growing prices for energy bearers and wheat, Russian embargo on Georgian products etc.

To overcome this situation, the National Bank of Georgia (NBG) has significantly activated the process of working-out and implementing anti-inflation actions since 2006. This is proved by statutes on issuing, selling, flowing, registering and compensating depositary certificates of the NBG, and statues on selling state bonds by auction. Anti-inflation activities manifested in the resolution #5634-II of the Parliament of Georgia on *General Directions of Monetary and Monetary-Creditor Policy of Georgia in 2008* by December 18, 2007. According to this resolution utmost prognosed feature of inflation is set to be below 8%. To achieve this goal, the resolution introduces impressive package of actions based on market principles. It should be noted that deviation from 8% is only considered if influence of external factors cannot be overcome by the monetary policy of NBG

At the same time, on 14 March, 2008 by the correction of the Law on the National Bank of Georgia, the Parliament has to raise the issue of resignation of a president of the National Bank if the average annual inflation rate will be more than 12%. The existence of these legislative bases is the logical consequence of improvement and stabilizing consumer price index (CPI) according to the first six month data of this year compare to the data of the last year. (*See Table*).

Unfortunately the war of the Russian Federation against Georgia and occupation of Georgian territories in August 2008 has slowed this process and brought notable problems not only for the country's political sovereignty, but also for the Georgian economic development.

In 2007-2008 Georgian government and international society made steps to participate in the process of solving -the frozen conflicts and make real conditions for internationalizing the peace process. It was proved by the resolutions #1781 and # 1752 of the Security Counsel of UN by 2007. However the Russian Federation began military intervention against Georgia.

Despite peaceful attempts of the government of Georgia, on 7 August, 2008 the Russian Federation was plainly involved into the conflict on former South Ossetian Autonomous Territory and began massive military intervention into the Georgian territory. Russian regular military forces attacked not only Georgian military forces but also civil sites and peaceful citizens. Consequently, the local settlements in the conflict area were totally destroyed. At the same time Russian aviation and navy attacked Upper Abkhazian territory and also more than thirty cities, towns and villages within Georgia.<sup>2</sup>

As a result of large-scale military intervention of the Russian Federation, many lives were lost among Georgian military and peaceful population, and Georgia's economy has a huge loss. Namely, significant part of Georgian territory is still occupied. There is ongoing process of ethnical cleaning in these territories that is rude violation of Fourth Convention adopted in Geneva in 1949 and First Additional Protocols by 1997. Thousands of Georgians have been forced to flee from their homes. Their private property such as houses, commercial sites, and other positions are robbed and destroyed. Acts of violence took place towards ecclesiastics in Tskhinvali and Nikozi. Air attacks caused notable damage to Tbilisi, the country's capital and other cities and towns such as Kutaisi, Gori, Kaspi, Kareli, Marneuli, Bolnisi, Zugdidi, Poti, Oni, Khelvachauri, Khashuri, Senaki and Dedoplistskaro.

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<sup>2</sup> Resolution of the Parliament of Georgia on Occupation of Georgian Territories by Russian federation. 243., August 28, 2008 [http://www.parliament.ge/index.php?lang\\_id=GEO&sec\\_id=98&info\\_id=20046](http://www.parliament.ge/index.php?lang_id=GEO&sec_id=98&info_id=20046)

There were bombed civilians, hospitals, seaports, airports, navigation systems, international oil and gas pipelines, transportation roads, and other sites necessary for civilians. Many settlements were mined; communications and roads are blocked along the occupied territories. Irrespective of demands by International Community, humanitarian corridors are not functioning. The Russian forces exploded a railway bridge connecting the east and west of Georgia. The port of Poti and Georgian military road were blocked. Russian army has made an irreparable damage to ecology as well. By sunken ships in Poti sea port the area of water of the Black sea was polluted. Russian helicopters set fire to the forest in the biggest national park in Europe, Borjomi-Kharagauli Park, and Ateni gorge. There were destroyed hundreds of hectares of unique forest.

Russian occupying military forces allow neither Georgian government nor International humanitarian or diplomatic missions to enter the occupied territories and inspect the situation there. Consequently, it is practically impossible to identify the direct loss of the country. The same concerns to the parallel losses such as deranged contracts, expected soil erosion in burned forests, polluted sea area of water, assistance to the refugees and other unexpected problems caused by the war. Thus, for this moment it is impossible to evaluate the value of the loss as the value of the lost lives.

The level of the situation heaviness can be imagined by the decisions to allocate funds for Georgia's recovery: USD 1 billion by the United States, EUR 500 million by the European Union (EU), USD750 million by the International Monetary Fund (IMF), USD 40 million by the Bank of Asia, and USD 21 million by the Ukrainian government<sup>3</sup>.

Beyond the financial assistance, proposals, that imply free trade agreements between Georgia and EU countries and USA, made by EU and USA governments to recover Georgia's economy in very short of period of time, are very important. Signing the appropriate contracts will make Georgia deeply integrated into EU and American economic areas.<sup>4</sup>

Irrespective of the important political, moral, and economic assistance, to overcome the existing situation it is extremely essential to make complex decisions based on economic analysis. The issue is that, the financial assistance added to the country's budget and then using these funds as budgetary expenditures really can artificially harden the national currency and cause additional problems to the export potential of the country. At the same time redundant flow of the money can influence the inflation processes.

Thus, To neutralize the heaviness of the occurred problems it is advised to:

- place received financial assistance as Georgian National Bank's International Reserves instead of placing them into the State Budget's expenditure part.
- prepare draft law on special budget by Georgian government according to the 27<sup>th</sup> article of the Law of Georgia on *Budgetary System* adopted on April 24, 2007. The major part of the financial assistance should be directed to long-term projects needed for infrastructure and energy sites.

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3 We apologize that we cannot name all donors as the information on assistance to Georgia is not full. There are not listed different humanitarian aid such as food, goods of hygiene and etc., made by different international donors and countries. At the same time the country's population sees, feels and historically evaluates all efforts of the citizens and governments of those countries that did not recognize the independence of the occupied territories and did not support revision of Georgia's territorial integrity irrespective Russia's press

4 An announcement of L. Gurgenzidze, the Prime-Minister of Georgia at Government meeting on September 11, 2008. <http://www.government.gov.ge/mtavroba1162902976.php?nid=6303>

- by the draft law on special budget, the expected tendentious of worsening the index of correlation of budgetary deficit growth and tax revenues should be limited by reducing expenses on purchasing modern vehicles, furniture for state offices, organizing conferences in expensive hotels, building residences and etc. (This demand should apply to local, especially Tbilisi city budget.)
- Before adopting the special budget by the Parliament of Georgia, emergency needs should be funded only from reserved funds of Georgian State Budget, from regional future project funds accumulated in the autonomous republics and local self-governance reserved funds according to the 13<sup>th</sup>, 13<sup>th</sup>1, 14<sup>th</sup> and 14<sup>th</sup>1 articles of the Law of Georgia on *Budgetary System of Georgia*.

## **Public administration reform in Uzbekistan: achievements and further steps**

*Zulfiya Davidova*

*Having gained independence in 1991, Uzbekistan faced the necessity of formation of the new system of state governance. This paper considers the process of gradual and evolutionary creation of the system of state governance that is able to solve problems of the country modernization, formation of the market economy and democratic development. In each stage of the process, the aims and mechanisms of the administrative reform were motivated by political and economic problems faced by the country in the transition period.*

### **Introduction**

As the system of the government is a key factor in successful realization of economic, political and social objectives, the formation of a modern structure became one of the main challenges in transition.

With the heritage from the former Soviet Union, the system of the government was inefficient, bureaucratic, unfavorably structured, socially not interactive and interacted with the economy on command-based principles, focusing on sectoral management, investing by set of unnecessary functions, duplicated and redundant activities. These features demanded measures to make public administration reforms.

Public administration reform represent a complex set of actions directed on optimization of functions and structure of executive authority, modernization of its normative-legal base, introduction of modern mechanisms of public service, perfection of the system of interactions of the state services among themselves and with institutes of the civil society. The purpose of administrative reforms is the creation of the productive, compact, responsible, transparent and operated machinery of the state, promoting development and effective operation of the market economy.<sup>5</sup>

### **First stage reforms**

At the first stage (1991 - 2003) of reforms, the creation of new administrative system started dictated by transition from plan-distributive system to market economy formations of new democratic system of authority (with division of authorities, formation of parliament, a multi-party system, etc.). Based on this, steps have been undertaken on radical reform of a control system.

Sharp reduction in the number of the ministries, the state committees has been achieved. Sectoral ministries were liquidated. In early 90's Uzbekistan operated about 60 ministries, state committees and other agencies.

The Uzbek reform model recognized the necessity of preservation leading role of the state to carrying out economic reforms in the transition. Taking into consideration this aspect of economic reform in Uzbekistan besides ministries and state committees was found the system of bodies of economic management. Government bodies of economic management are associations, the state joint-stock companies and concerns, which have replaced former sectoral ministries. Activity of economic management bodies had been focused on introduction of market principles in the regulation of enterprises, branches. However, if

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5 "Reforming the System of Executive Power in Uzbekistan" CER Policy Papers 7/2003

economic management bodies externally changed cardinally, the essence of their activity (distribution of resources, personnel selection in the enterprises, the investment policy) has remained unchanged.

By 2001, all problems and deficiencies of the new system were more sharply apparent. First of all, number of ministries, departments and various bodies of economic management remained significant that resulted finally in the increase of administrative personnel. Economic management bodies as associations, while changed their names, in many respects kept Soviet style and methods of management.

By this time, as a result of privatization there was a significant segment of private enterprises, of which activity despite of their private ownership, in many respects was influenced by sectoral bodies. Functions and powers of state bodies remained rather wide; frequently functions of various bodies were duplicated. These characteristics led in 2003 to launch the second stage of large-scale administrative reforms.

## **Second stage reforms**

In 2003, at the Cabinet of Ministries of the President Islam Karimov<sup>6</sup> five directions of realization of public administration reform were defined.

*The first direction* targeted the reduction of state intervention in the economy, the liquidation of former command system elements and forms of centralized management, the change of structure of government bodies; enhancing transparent functioning at all levels of governance. More functions and powers of the state should be transferred to public organizations, NGOs and the organs of local self-government.

*The second direction* was aimed at the decentralization and transfer of powers from the central bodies of the government and management to local levels. The essence is in the minimization of intervention of state bodies in activities of managed subjects, and also in increase of the level of competence and the responsibility of authorities on places. Local authorities should bear the responsibility for realization regional and local reforms, decision-making regarding economic and social problems, improvement of wealth.

*The third direction* referred to the optimization of the structure of state bodies (liquidation of duplicating and creation of missing control linkages) and rationalization of the number of civil servants.

*The fourth direction* took aim improving efficiency by amending considerably quality and mechanisms of planning, decision-making and execution.

And, at last, *the fifth direction* wanted to modernize and increase stage-by-stage operating efficiency of the system based on introduction of information and communication technologies, reductions of the unnecessary reporting and paper document circulation. Thus, synchronizing processes of public administration reform and introducing elements of e-Government.

These principles became the basis of public administration reform conducted in the country since 2003. The measures conducted as a part of the public administration reform include inventory of functions of state regulatory agencies in order to locate and prevent their duplication, limitation of intervention of regulatory agencies in business and concentration of regulatory agencies' activity on more successful conduction of their duties. As a result, 27 state regulatory agencies that conducted different functions of regulatory agencies were liquidated since 2004. Remaining firms are not allowed to conduct functions of regulatory

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6 Performance of the President Republic of Uzbekistan at session of the Ministry Cabinet "About results of development of economy and social sphere for the first half-year 2003 and realization of measures in the major priority directions of reforms in these spheres" On July, 18th 2003

agencies anymore. Following the decree, regulatory state agencies now include 13 ministries, 11 state committees, 9 agencies, 3 committees, 7 centers and 3 inspections.

The number of top personnel is reduced significantly. Since 2003, the structure of the system has been considerably optimized and functions of state bodies have been cut leading to decrease in overall number of civil servants. Only in 2004, public administration reform has allowed to reduce nearly 40 thousand managers<sup>7</sup> that are 2.5 times more than in 1991-2003. Also the quantity of assistants of *khokims*<sup>8</sup> (– from 1270 to 623 persons) was reduced. The administrative personnel on 1000 inhabitants reached 6.1 in 2006 that is the best among CIS countries. (See *Table*) The given process of reduction of number of civil servants proceeds and today, the truth not in such scales as in 2004.

Number of the administrative personnel of state bodies on the countries

Country	Number of the administrative personnel on 1000 population, the person.	Relative density of the administrative personnel in a population at able-bodied age, %	Relative density of the administrative personnel in number of the employment population, %
Azerbaijan	32,3	6,0	7,1
Armenia	8,1	1,2	2,3
Belarus	14,9	2,7	3,4
Georgia	16,3	2,3	4,2
Kazakhstan	19,2	3,4	4,0
Kyrgyzstan	13,3	2,6	3,6
Moldova	15,3	3,4	4,4
Russia	22,1	3,9	4,9
Ukraine	20,0	3,5	4,5
Uzbekistan	6,1	1,3	1,6

Source: *Administrative Reform - the catalyst of economic rise. / The people's call, March 11, 2006.*

Other important direction of public administration reform is the decentralization of government functions. Within the limits of realization of measures on decentralization has been created the new control system on places in the focus of them institute of *khokims*. Many functions of central bodies' economic management have been transferred to local ones, connected with licensing, establishment of standards, accommodation of resources, preservation of the environment, a cultural heritage, regulation of automobile and passenger transport, town-planning, rendering of municipal and other special services to the population.<sup>9</sup> It allows to consider most full local specificity and to raise efficiency of realization of these functions.

Besides with a view of improvement of quality of social services local bodies transferred a part of functions to self-government institutions, nongovernmental organizations or private sector. For example, city transportation was privatized through a tender to private concerns. Instead of housing-operational offices (HOO) companies of proprietors of habitation are created. In cities local bodies created associations, cooperating with private enterprises on the basis of social partnership.

7 Aloc Shekhar "The assistant to prime-minister of Uzbekistan, Rustam Azimov about reform of administration managerial control" <http://www.centrasia.ru/newsA.php?st=1079449980>

8 Khokims are the representative bodies of authority in regions, districts, cities and towns, except in towns subordinate to district centers, and city districts. They shall act upon all matters within their authority, in accordance with the interests of the state and citizens

9 Human Development Report/ Decentralization and economic development. UNDP, 2005

Integral part of administrative reforms in Uzbekistan is the formation of e-Government. The purpose of introduction ICT in activities of the state authorities improves transparency and the accountability that in turn reduces exposure to corruption, grants access to information (acts, statistics), and assists participation of civil society. Concerning the e-Government and ICT development, several programs and laws were created.<sup>10</sup> These laws planned to provide general implementation of ICT in activities of governance, by computerization, formation of databases, and creation of portals. According to the program of introduction of ICT in the government by 2010, equipment of the state bodies and computer techniques of authorities should reach 100% penetration, interdepartmental paperless document circulation should be reduced significantly.

## Results and current state of reforms

The analysis of public administration reform in Uzbekistan in 2003-2008 shows, that: it was possible to (i) take measures on optimization and reduction in functions of state bodies regarding economic management; (ii) reduce considerably the number of an administrative personnel and (iii) reduce the number and to improve the structure of state bodies of economic management.

At the same time, proceeding from purposes and priorities of economic development which consist in necessity of formation of industrially-innovative economy, transition to export development (increase of investment activity), is necessary to realize new program of measures on perfection of administrative system.

Besides, it is necessary to consider that country owes a complicated social and economic structure. Significant class of proprietors was generated, so, there are farmer firms that were allocated 5,830.7 thousands of hectares of land in the country<sup>11</sup>. Small and medium-sized enterprises share of GDP reached 46% at the end of 2007.<sup>12</sup> In the country there is a process of capital concentration, formation of industrial and financial-industrial groups and holdings. This means that the structure and the participants of the economic sphere have changed significantly.

The government should be capable to work with these new players and treat these new structures. The major problem is the maintenance of gradual transition from existing mechanisms of direct control to regulation by economy and economic processes. It means transition from the management of economy, branches and the separate enterprises to long-term strategic planning, definition of strategic priorities, breakthrough directions and branches. In this regard, the government should propose laws that would regulate the rules and norms for the behavior of all economic players and provide equal opportunities for their access to raw materials.

Important direction concerning public administration reforms is the improvement of transparent and accountable character of decision-making process. For maintenance of a transparency of accepted decisions and process of development of decisions and monitoring of their execution from state bodies, it is necessary to create transparent system of interaction of the government and citizens. In this direction it is important to

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<sup>10</sup> Decision of the President of Republic Uzbekistan from July, 8th, 2005 № PP-117 " About additional measures on the further development of information-communication technologies ", the decision of the Cabinet of Ministry of Republic Uzbekistan from November, 22nd, 2005 № 256 " About perfection of normative-legal base in sphere of information ", the decision of the Cabinet of Cabinet of Republic Uzbekistan from August, 23rd, 2007 № 181 " About measures on the further perfection of interaction of bodies state and an economic management, the government on places with legal and physical persons with use of information-communication technologies ".

<sup>11</sup> [www.regnum.ru/news/1082801.html](http://www.regnum.ru/news/1082801.html)

<sup>12</sup> The report of the President Republic of Uzbekistan Islam Karimov at session of the Ministry Cabinet, devoted to results of social and economic development of the country in 2007 and the major priorities of a deepening of economic reforms in 2008. on February, 8th 2008



carry out a following complex of measures: a) creation of system of public examination of accepted governmental decisions; b) use of external audit of the state bodies with promulgation of results of audit; c) maintenance of an easy approach to the information on activity of the state bodies, procedures of reception of the information by inquiries of citizens, the statement of lists of the information accessible without fail and their accommodation in mass-media.

Increase of efficiency activity will be promoted by introduction in their activity of modern ICT opportunities. Efforts on introduction of ICT are necessary for focusing on following directions: to continue work on creation of mechanisms for "contact less" granting the state services; to provide high-grade functioning official a web-sites of the state bodies with introduction of electronic forms of the reporting and granting statistical information on these web-sites; to provide the further introduction of electronic document circulation both inside of the state bodies, and between them<sup>13</sup>.

The given measures will allow raising efficiency of interaction of the state with business and a society, a level of openness and a transparency of activity of the state bodies, will raise efficiency and quality of granting of the state services to the population and will lower costs as businessmen and the population, and the government bodies.

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13 CER Policy Papers #7/2003 "Reforming the System of Executive Power in Uzbekistan"

## Stylized facts and comparative analysis of labor markets in the CCA countries

*Tamás Borkó*

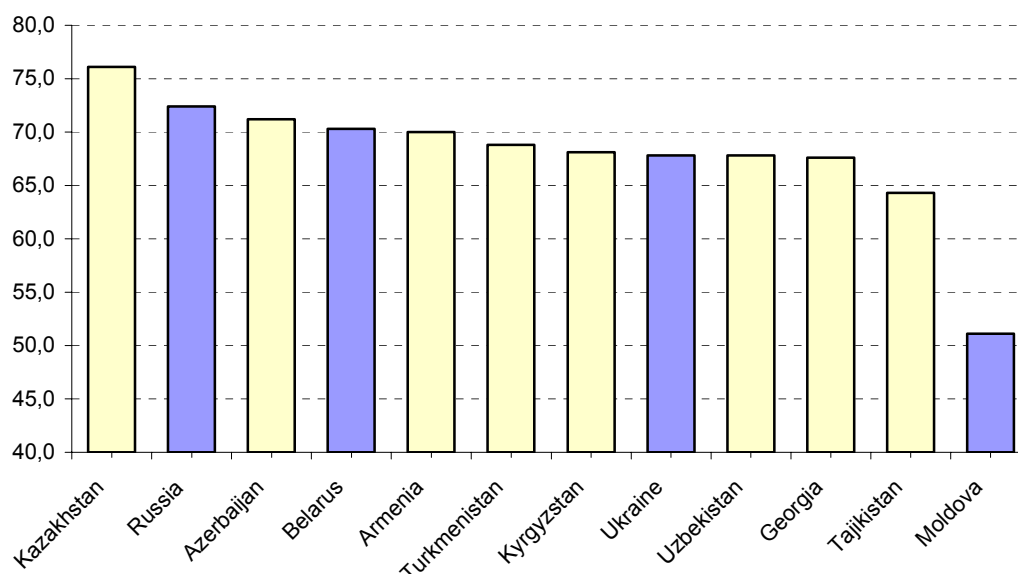
*While situation of labor markets vary in Countries of Caucasus and Central Asia (CCA) and rather comparable to even EU member states by macro indicators, its structure show rather unfavorable conditions that need to be addressed by both macroeconomic and microeconomic type policy measures.*

### Overall situation

Investigating the activity rates of CCA countries, one can see that these economies have quite high participation rates (15-64) - ranging between 64% and 77% of the total population -, especially as compared with some new EU member states, like Hungary (61.8%), Poland (63%). Within the CCA region, Kazakhstan is the best with its 76% activity rate, followed by 71% in Azerbaijan, 70% in Armenia, 67-68% in Turkmenistan, Kyrgyzstan, Uzbekistan and Georgia, and finally 64% in Tajikistan. (See *Chart 4*)

This means that the share of inactive population in the CCA region is quite low, even in international comparison.

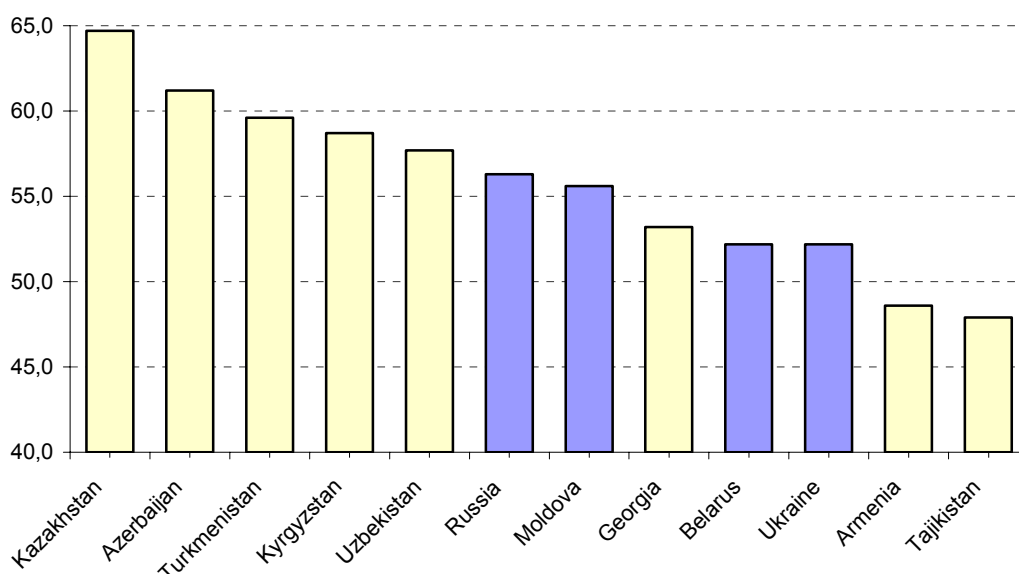
**Chart 4. Participation (activity) rate in the CIS countries, 2007 (% of total population)**



Source: ILO estimates

Based on employment (15+) data in 2006, there are two well separated groups of countries in the CCA Region. (See *Chart 5*) Central Asian countries with exception of Tajikistan have higher employment rates, as Caucasian states, except Azerbaijan. Kazakhstan is the best performer, followed by Azerbaijan and three closely similar Central Asian economies. Georgia, Armenia and finally Tajikistan have very low employment.

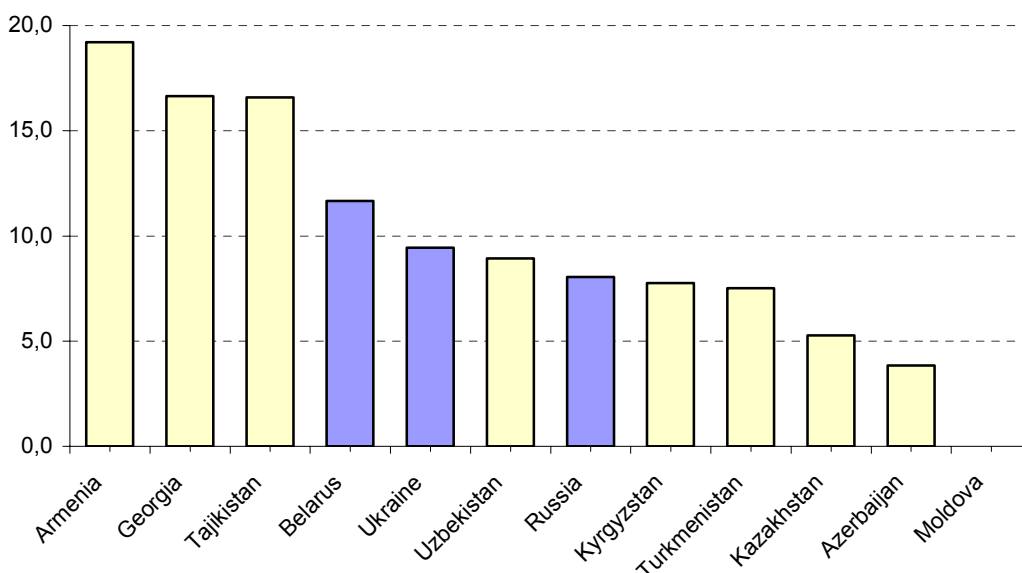
**Chart 5. Employment in the CIS countries, 2006 (% of total population)**



Source: ILO

Based on our own calculations for unemployment, Central Asian countries and Azerbaijan are the best performers, if measured unemployment to the labor force (active population). They have unemployment rate under 10%, while the remaining two Caucasian countries and Tajikistan bear unemployment above 15%. (See Chart 6) The registered unemployment is rather very low, reflecting that inhabitants of these countries find no sense to register themselves as unemployed.

**Chart 6. Unemployment in the CIS countries, 2006 (% of labor force)**



Source: ILO, own calculations

It is fair to mention that data used in the investigation are rather unreliable, as for instance the activity rate of Moldova is lower than its employment rate. That is why unemployment is not calculated for Moldova.

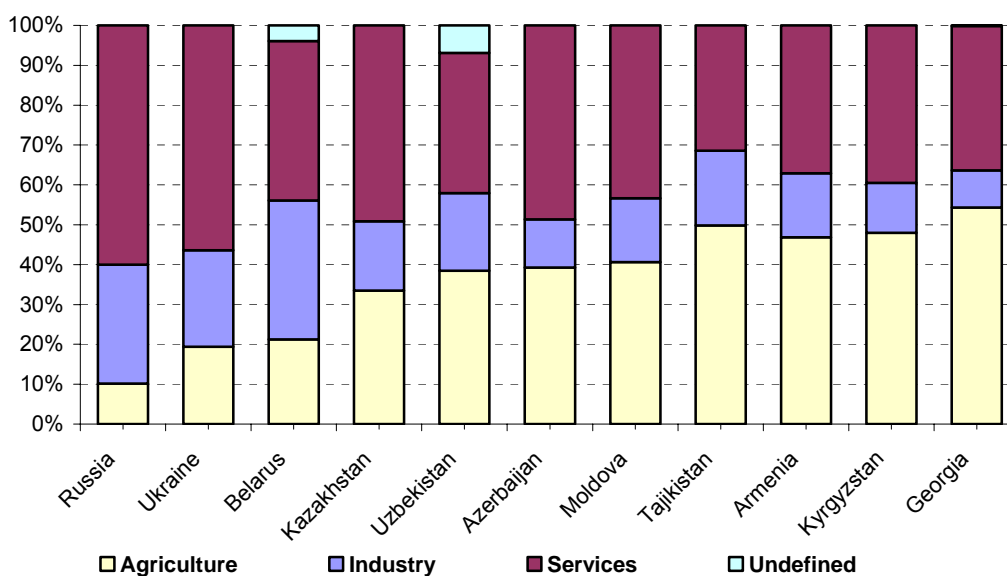
Consequently we can state, that countries of the CCA region have activity rates similar to new EU member states. This is also the case with the employment and unemployment in average, while there are individual

over and underperformances. It is worth investigating structural character of the labor markets within the questioned region.

### Structural nature of employment

The structure of employment in CCA countries varies country-by-country. Both Central Asian and Caucasian countries show rather low employment in the industrial sector, while rather considerable employment in the agrarian and service sectors. Employment in the service sector in none of the CCA countries exceeds 50% of total employment, while agriculture 52%. Close to half of employment belongs to the agrarian sector in Tajikistan, Armenia, Kyrgyzstan and Georgia, while closed to 40% in Kazakhstan, Uzbekistan and Azerbaijan. (See Chart 7) This determined clearly by the industrialization level of the country that is far from other CIS countries, but even more far from new EU members.

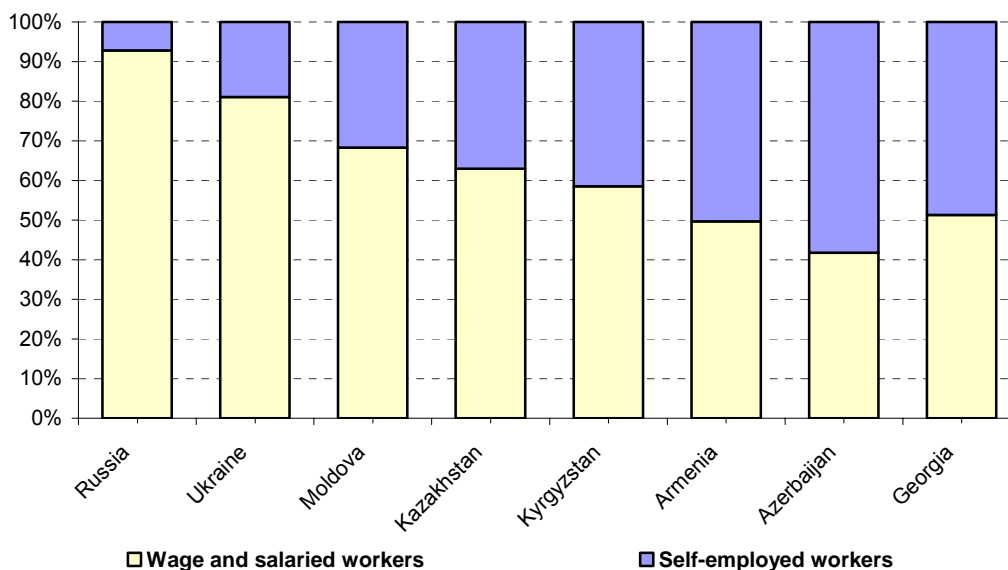
**Chart 7. Employment by main sectors in the CIS countries, 2005 (% of total employment, age group 15+)**



Note: (a) No any data for Turkmenistan; (b) Latest available data for Belarus 1994, for Tajikistan 1997, for Uzbekistan 1999, for Armenia and Kazakhstan 2004; (c) Employment in the age group 15-61 for Azerbaijan, and 15-72 for Russia, Source: ILO

Structure of employment by status of employees, show that CCA countries' workers are rather self employed, in Central Asian ones 40% of total employment, while in Caucasian states more than 50%. (See Chart 8)

**Chart 8. Employment by status of employees in the CIS countries, 2007 (% of total employment, age group 15+)**

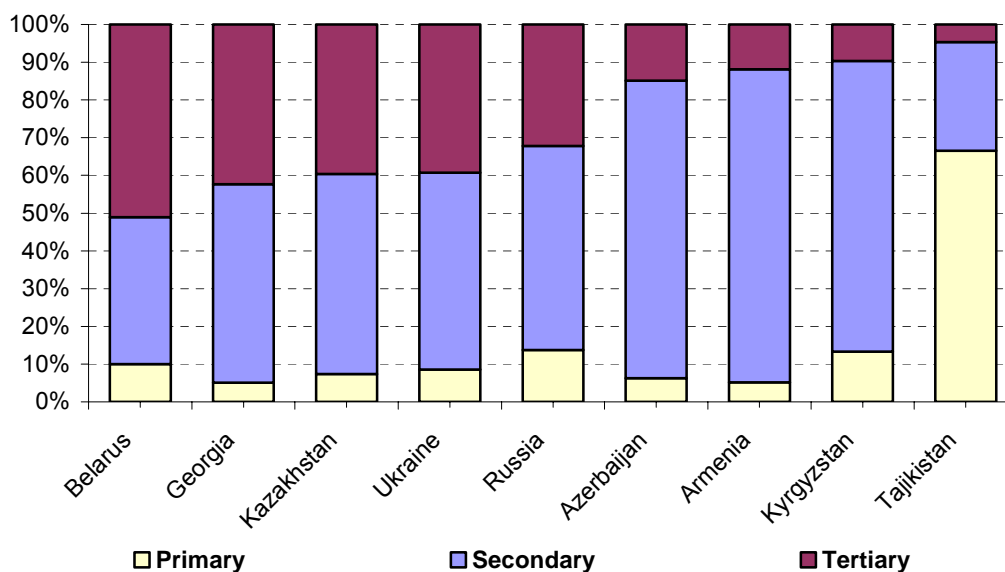


Note: (a) No any data available for Turkmenistan, Tajikistan, Uzbekistan and Belarus; (b) Latest available data for Kazakhstan 2004, for Kyrgyzstan 2006; (c) employment in the age group 15-61 for Azerbaijan, 15-70 for Ukraine, 15-72 for Russia, Source: ILO

### Structural nature of unemployment

The educational structure of unemployment show that especially in Georgia and Kazakhstan the share of unemployed with tertiary education is very high (40% of unemployed have tertiary education). In countries, like Azerbaijan, Armenia and Kyrgyzstan around 80% of all unemployed have secondary education, while in Tajikistan more than 60% of all unemployed have primary education. (See Chart 9)

**Chart 9. Unemployment by education in the CIS countries, 2007 (% of total employment, age group 15+)**



Note: (a) No any data available for Turkmenistan, Uzbekistan and Moldova; (b) latest available data for Kazakhstan 2004, for Kyrgyzstan 2006; (c) employment in the age group 15-61 for Azerbaijan, 15-70 for Ukraine, 15-72 for Russia, 15-69 for Belarus,

Source: ILO

This reflects, from one side significant share of tertiary educated inhabitants in the total population in the first group of countries, and secondary educated in the other group. From other side, it shows that there are no enough available jobs for well educated people.

The youth unemployment is relatively favorable, but still high (ratio of youth unemployment rate to adult unemployment rate) in the countries of CCA region, possibly reflecting that newly educated knowledge and skills are barely demanded by the labor markets, labor markets are rather insufficient, no enough jobs, but also that the education system is weak.

### **Concluding remarks**

Taking into consideration that parallel with rather favorable activity, employment and unemployment rates, the structure of them show several problems and asks for policy measures. Not counting with the reliability and availability of data, it is clear that the economic structure, the education system and cultural-historical specialties play role in labor market developments. These factors however change slowly.

However, there are characteristics that can be treated by policy measures, even if there are significant differences among individual countries. The operation of official labor agencies and the net of unemployment benefits are underdeveloped. This is reflected by low number of registered unemployment, as there is no sense to be registered. The other problem is the high share of informal employment, manifested either in non-taxed work, or in so called hidden employment. The third challenge is to understand the needs of labor markets. This is especially apparent regarding youth unemployment, as the education system is insufficient.

All of these show structural unemployment, a mismatch between jobs offered by employers and potential workers. This may pertain to geographical location, skills, and many other factors, for instance the problematic of seasonal jobs (agriculture).