



**UN HABITAT**  
FOR A BETTER URBAN FUTURE



# Addressing Urban Poverty in Uzbekistan in the Context of the Economic Crisis

TASHKENT 2010



**Policy brief**

# **Addressing Urban Poverty in Uzbekistan in the Context of the Economic Crisis**

Tashkent - 2010

---

### **Working group members:**

Research coordinator:	Bakhtiyor Ergashev
Assistant to research coordinator:	Alina Akhmerova
International experts:	Terry McKinley, Centre for Development Policy and Research, (Team Leader)
	Anna Badyina, UNECE
	Jean-Yves Barcelo, UN-HABITAT
	Tatiana Roskoshnaya, UN-HABITAT

This report reflects opinions and views of the working group, which may not coincide with the official point of Center for Economic Research and United Nations Development Programme.

© Center for Economic Research, 2010

© United Nations Development Programme, 2010

All copyrights belong to the Center for Economic Research and United Nations Development Programme. Any presentation of this report or use of its parts can only be done with the written permission; reference to the source is a must. With regard to the questions about copying, translation or acquisition of the printed versions, please refer to the following address: Center for Economic Research, Uzbekistan, Tashkent, 100070, Usman Nosir Str., alley 1, building 5.

All rights reserved. No part of this document may be reproduced, stored in a retrieval system or transmitted, in any form or by any means without prior permission of UNDP.

---

## Acknowledgements

This Policy Brief was funded through a contribution from the Government of Norway. It is part of a series of crisis response the Poverty and Social Impact Analysis (PSIA) initiatives aimed at generating policy responses to protect human development gains in countries affected by the crisis and to stimulate a broader policy dialogue. The UNDP Poverty Group manages the PSIA initiative and provides technical guidance to country teams conducting the analysis.

This Policy Brief is the fruit of the efforts, contributions and support of many people and institutions. We would like to thank the United Nations Economic Commission for Europe (UNECE), the United Nations Human Settlements Programme (UN-HABITAT), the UN Development Group (UNDG), and the United Nations Development Programme (UNDP).

We would like to express our special gratitude to the public institutions of the Republic of Uzbekistan, in particular to the Ministry of Finance, the Ministry of Labour and Social Protection, the State Committee on Land Resources, Geodesy, Cartography and State Cadastre, the State Committee for Architecture and Construction, the State Property Committee, the administration of Tashkent, Tashkent region and Chirchik, Uzkommunkhizmat Agency, ToshkentboshplanLITI, Qishloq qurilish loyiha Project Institute, Tashkent Institute of Architecture and Construction, and Ipoteka Bank.

Many thanks to the Association of Homeowners of Tashkent City and to the Gabus LLC construction and investment company.

We would also like to acknowledge the contribution of representatives from the World Bank Country Office in Uzbekistan, the Europa House and the UNDP Country Office in Uzbekistan.

The report benefited greatly from the expert advice and guidance of Ms. Diana Alarcón (PSIA project manager at UNDP), Mr. Ben Slay, Ms. Ambreen Malik, Ms. Hideko Hadzialic and other colleagues from UNDP. They provided many useful suggestions on the draft Policy Brief.

Special thanks to Ms. Uyanga Gankhuyag and Ms. Renata Nowak-Garmer, who were actively involved into arrangement of current paper discussion in Poverty Reduction Network.

This publication made possible with the support of the UNDP Country Office in Uzbekistan. We would like to thank Ms. Anita Nirody, Ms. Kyoko Postill, Ms. Sitara Syed, Ms. Shirin Dosumova, Mr. Sherzod Akbarov, and Mr. Hurshid Rustamov for their active contribution in developing of this publication.

The hard work and dedication of the whole project team was critical. This Policy Brief could not have been prepared without their generous contribution. We thank all of those involved directly or indirectly.

---

## Summary

The Policy Brief reviews information on urbanization trends, particularly trends in urban poverty, and documents the most recent economic trends in light of the global economic and financial crisis. The analysis also includes some medium- and longer-term trends, such as underlying demographic changes and migration patterns, environmental factors such as the national water supply, and structural changes in agriculture and the economy as a whole.

The Policy Brief provides policy recommendations on urbanization in general and housing conditions in particular, specifically:

1. Develop comprehensive policy papers on urbanization trends in Uzbekistan and on the prospective mid- and long-term options for dealing with those trends.
2. Significantly improve research about and the monitoring capacities of urban issues.
3. Develop capacities and instruments to promote integrated spatial development at the regional, district and city levels in order to adequately address the broad variety of challenges related to human settlements.
4. Improve the instruments for the property market and the management of real estate, and boost the capacities of housing market stakeholders, such as private and community developers, in order to diversify the housing types available to city residents. Meeting the housing needs of low-income groups should be a priority.
5. Develop a national Housing Country Profile that would provide comprehensive assessment of the housing sector's performance and assist the government in designing an appropriate action plan.

---

## Contents

<b>Summary</b> .....	4
<b>Contents</b> .....	5
<b>I. Introduction</b> .....	8
<b>II. Regional Impact of the Crisis</b> .....	10
<b>III. Economic Trends and Policies</b> .....	13
A. Recent Economic Trends .....	13
B. Recommendations for Economic Policies .....	15
<b>IV. Urban and Rural Poverty Trends</b> .....	18
A. National Trends .....	18
B. Regional Trends in Poverty within Uzbekistan .....	19
<b>V. Internal and External Labour Migration</b> .....	21
<b>VI. Some Major Demographic Trends</b> .....	23
<b>VII. Urbanization Trends and Related Policies</b> .....	24
A. Urbanization Trends .....	24
B. Policy Recommendations Related to Urbanization .....	25
<b>VIII. Housing Trends and Policies</b> .....	28
A. The Coordination of National Policies .....	28
B. Housing Affordability .....	28
C. The State of Public Utilities .....	29
D. Homeowners Associations .....	30
E. The Construction of New Housing .....	31
F. Housing Construction in Rural Settlements .....	33
G. Recommendations for Housing Policies .....	33
<b>IX. Concluding Remarks</b> .....	35
<b>References</b> .....	36

---

<b>Tables</b>	page
1. Key Macroeconomic Indicators (% change year on year)	13
2. Geographical Composition of Uzbekistan's Exports and Imports, % of Total, 2008–2009	14
3. Poverty Trends	18
4. Changing Demographic Conditions	23

<b>Figures</b>	
1. Urban and Rural Population in 1994–2025, (million people)	9
2. Uzbek Exports (in percent)	10
3. Exports from Uzbekistan to Selected Countries (in millions of USD)	11
4. Uzbek Demographic Data 1997-2007 (in thousands)	16
5. Houses completed in Uzbekistan in 1996–2006	30

---

CCA	Caucasus and Central Asia
CER	Center for Economic Research
CIS	Commonwealth of Independent States
GDP	Gross Domestic Product
IMF	International Monetary Fund
UN	United Nations
UNDP	United Nations Development Program
UNECE	United Nations Economic Commission for Europe
UN - Habitat	The United Nations Human Settlements Programme

## I. Introduction

As of late 2009, Uzbekistan appeared to have escaped the worst of the global financial and economic crisis. Yet, while the country's economy fared better than that of other transition economies, the full impact of the crisis could still hit Uzbekistan in 2010 secondarily through the effects of the crisis on Russia and other CIS countries.

Moreover, the medium-term prospects in Uzbekistan for generating broad-based productive employment remained significantly constrained. The more capital-intensive sectors of the economy, particularly the fuel and energy sectors, are the engines of prosperity. Continued growth is still contingent on an increase in commodities exports, but international commodities prices are likely to be subject to considerable volatility.

This Policy Brief focuses on the impact of such financial and economic trends on urbanization in Uzbekistan and on urban poverty in particular. Our hypothesis is that a constellation of factors could lead in the medium term to a more rapid, and unplanned, rise in urbanization and an attendant spread of urban poverty.

Until now, the government has focused its attention – for good reasons – on rural poverty, which is more prevalent and deeper than urban poverty. But there are plausible reasons to fear an eventual upsurge in migration of rural households to urban areas and an attendant increase in urban poverty.

The first reason is that there is a relative shortage of productive employment in rural areas, particularly after the elimination of shirkats<sup>1</sup> and there has been a consolidation of land by larger private farms.

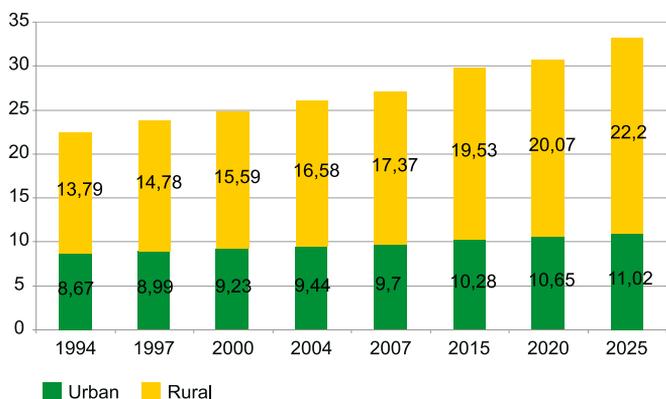
A second reason could be the pressure exerted by demographic factors, such as the need to integrate many new workers into the labour force every year in addition to the growing number of workers unable to make a living in the rural economy. Indeed, the rural population in Uzbekistan continues to grow more rapidly than the urban population, with estimates by the Center for Economic Research projecting that the rural population will grow to over 22 million by 2025 (see Figure 1).

The third reason could be attributable to impending adverse environmental changes. Arable land is already in short supply in Uzbekistan and a significant share of it needs to be rehabilitated. But there is also the growing danger of a widespread shortage of water for agricultural purposes. During the last 25 years, for example, irrigated

---

*Until now, the Government has focused its attention on rural poverty, which is more widespread and deeper than urban poverty. But there are plausible reasons to fear a future upsurge of rural migration of rural households to urban areas, and the increase of urban poverty*

---

**Figure 1. Urban and Rural Population in 1994–2025, (in millions)**

Source: CER calculations based on the data of the State Statistics Committee of the Republic of Uzbekistan

land per inhabitant has declined from 0.22 to 0.12 hectare (Center for Economic Research 2009a).

These factors are likely to hinder agricultural development and thus to drive a many rural workers to urban areas or abroad. Employment in construction and other low-skilled sectors of the Russian and Kazakhstan economies has so far provided a ‘safety valve’ for growing pressure on the urban labour market in Uzbekistan. But the global crisis has seriously disrupted such employment opportunities and neither the Russian nor Kazakhstan economy is expected to regain robust growth in 2010. Thus, fewer Uzbek workers can expect to find jobs in the CIS region in the near future and will presumably seek opportunities in the urban areas of Uzbekistan.

But such employment opportunities have been adversely affected by the global crisis; and neither the Russian nor Kazakhstan economies is expected to regain robust growth in 2010. Thus, fewer Uzbek workers can expect to find jobs in the CIS region in the coming period, and will be obliged to seek opportunities in the urban areas of Uzbekistan.

## II. Regional Impact of the Crisis

What is the outlook for the countries in the region? In its May 2009 Regional Economic Outlook for the Middle East and Central Asia, the IMF projected that real GDP for the Caucasus and Central Asia (CCA) would grow by only 0.9% in 2009, after having achieved growth of 6.3% in 2008 (and 12% in 2007).

In its World Economic Outlook published in October 2009, though, the IMF projection for CCA growth in 2009 was revised upwards to 1.5%, due mostly to the improved growth prospects of the energy exporters in the region.

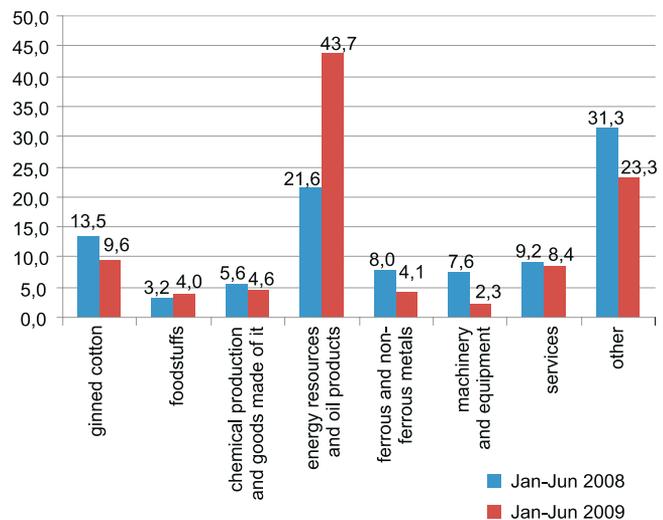
While the IMF noted that Uzbekistan grew by 9% in 2008, it predicted that its growth would drop to 7% in 2009. Along with Azerbaijan, Uzbekistan was forecast to be least affected by the global financial crisis. This projected performance was partially attributed to improvements in the hydrocarbon sectors of these two economies. For example, the share of energy exports in the total exports of Uzbekistan increased between early 2008 and early 2009 as other export items declined (see Figure 2).

---

*Along with Azerbaijan, Uzbekistan was forecast to be affected the least by the global financial crisis. This projected performance was attributed, in part, to favourable developments in the hydrocarbon sectors of these two economies*

---

**Figure 2. Uzbek Exports (in percent)**



Source: State Statistics Committee of the Republic of Uzbekistan

In contrast, countries such as Armenia, Kazakhstan and Georgia were expected to face recession while others such as the Kyrgyz Republic and Tajikistan were expected to have slow growth. The IMF assumed that the sharp contraction of the Russian economy would pull down growth across the Caucasus and Central Asia because of Russia's extensive trade, remittance and financial links with these economies.

For some countries, such as the Kyrgyz Republic and Tajikistan, a slowdown in remittances was assumed to be crucial. In Uzbekistan, where recorded remittances were almost 11% of GDP in 2007, the IMF assumed that there could also be a significant adverse effect.

While Uzbekistan was expected to benefit from rising gas prices despite significant declines in other exports, declining remittances and exports were expected to reduce the country's current account surplus from 12.8% of GDP in 2008 to 7.2% in 2009.

The IMF noted that countries that had ample foreign-exchange reserves, such as Uzbekistan, were not expected to face serious exchange rate pressures. Moreover, Uzbekistan undercut the basis for any sharp shocks to its currency's value through a continuous process of 'crawling peg devaluations.'

The danger for Uzbekistan is that the major CIS countries with which it trades were projected to experience sharp falls in GDP in 2009. Russia's economy was expected to shrink by 6.7% and Ukraine's by 14%. And even Kazakhstan's growth was expected to drop by 2%. This is bound to have eventual knock-on effects for Uzbekistan's economy in 2010.

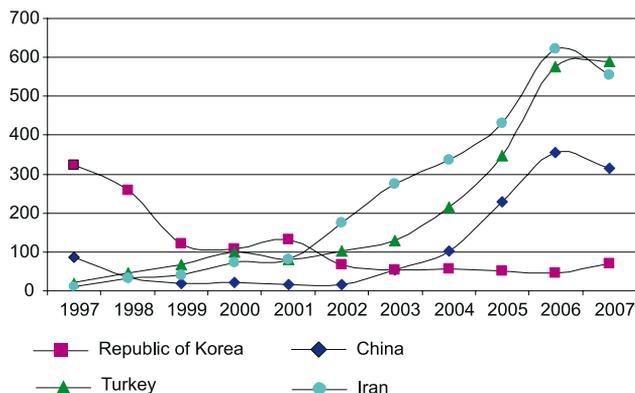
Over the medium term, the growth rates of Russia and the CIS as a whole are projected to remain modest, rising to only moderate levels by 2014. For example, the projected GDP growth rate for Russia in 2010 is 1.5% and that for the CIS is 2.1%. By 2014, Russia's growth is

---

*The predicted impact of the declining growth in the Russian economy on CIS countries could be mitigated because of the potential for their increasing trade and financial links with non-CIS countries.*

---

**Figure 3. Uzbek Exports to Selected Countries (in millions of USD)**



Source: State Statistics Committee of the Republic of Uzbekistan

projected to rise to only 5% and that of the CIS to only 5.3%. Such a slowdown in the growth rate in Russia, which peaked at 8.1% in 2007, is certain to have a telling effect on the sustainability of Uzbekistan's current growth rate.

Nevertheless, there are some bright spots. The IMF notes that the predicted impact of the declining growth in the Russian economy on CIS countries could be mitigated by their potential for increased trade and financial links with non-CIS countries. Uzbekistan is a prime example of such a trend, since it has begun to expand its trade with a number of countries in Asia and the Middle East, including China, Turkey and Iran (see Figure 3). The prospects for Uzbekistan's growth depend importantly on such strategic diversification of its trade and investment links.

### III. Economic Trends and Policies

#### A. Recent Economic Trends

The data show that Uzbekistan's gross domestic product is growing at a rate of 8.1%, compared to 2008 (Table 1). Hence, Uzbekistan is currently out-performing the IMF's 2009 forecast.

The country's industrial output, growing at 9%, is doing reasonably well; its agricultural output has a 5.7% growth rate (year on year).

**Table 1. Key Macroeconomic Indicators (% change year on year)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP	3.8	4.2	4.0	4.2	7.4	7.0	7.5	9.5	9.0	8.1
Population	1.4	1.3	1.2	1.2	1.2	1.2	1.2	1.4	1.6	1.7
GDP per capita	2.4	2.9	2.7	3.0	6.2	5.7	6.2	8.0	7.2	6.3
Industry	5.9	7.6	8.3	6.0	9.4	7.2	10.8	12.1	12.7	9.0
Agriculture	3.1	4.2	6.0	7.3	8.9	5.4	6.7	6.1	4.5	5.7
Exports	0.9	-2.9	-5.7	24.6	30.3	11.5	118.1	40.7	27.8	2.4
Capital Investment	1.0	4.0	3.6	4.8	7.3	5.7	9.3	25.8	28.3	24.8

Source: State Statistics Committee of the Republic of Uzbekistan.

Most ominously, the growth of Uzbekistan's exports has dropped precipitously, from a rate of 27.8% in 2008 (year on year) to only 2.4% in 2009.

The reduction in exports has occurred across a broad range of sectors, including cotton, chemical products, metals, machinery and equipment, and services. These declines have been offset, to some degree, by exports of energy and oil products (which have grown an impressive 240%).

Regionally, Uzbekistan's net exports to non-CIS countries have been affected most: they have declined by 22.6% rate compared to 2008, as its exports have fallen marginally and its imports have risen sharply. If Uzbekistan expects to sustain growth of 7-8% in 2010, it will have to increase its net exports to non-CIS trading partners. Since Asia's growth appears to be recovering rapidly, this region represents a key market for Uzbekistan's export expansion.

---

*If Uzbekistan expects to sustain growth of 7-8% in 2010, it will have to increase its net exports to non-CIS trading partners. Since Asia's growth appears to be recovering rapidly, this region represents a key market for Uzbekistan's export expansion*

---

Between the first quarter of 2008 and the first quarter of 2009, Uzbekistan's trade has indeed become more diversified. For example, its exports to Switzerland have skyrocketed, rising to 23.3% of Uzbekistan's total exports in the first quarter of 2009 (Table 2).

Trade turnover with China has also increased substantially, but most of this has consisted of imports. In the first quarter of 2009, Uzbekistan's imports from China accounted for 22.8% of its total imports, while Uzbekistan's exports to China rose only marginally to 6.2% of its total exports.

Uzbekistan's trade turnover with the Republic of Korea is similar, with imports from Korea accounting for 10.9% of Uzbekistan's total imports in early 2009 and only 1% of Uzbekistan's exports were destined for that country.

The precipitous drop in Uzbekistan's exports during early 2009 would have taken a heavy toll on its economy had the government not initiated a large counter-cyclical fiscal stimulus, equivalent to about 5% of GDP. Such a sizeable boost to investment in fixed capital was mandated by the government's new Anti-Crisis Program.

This investment, both public and private, has grown by 32.7%. However, while investment has increased in such areas as educational institutions, rural housing and roads, with a 32.5% growth in the construction sector, three-quarters of the total investment in fixed

---

*Uzbekistan has had the 'fiscal space' to finance an ambitious investment program. But much of the investment is directed to a narrow capital-intensive economic base, which will be unable to generate the future productive employment*

---

**Table 2. Geographical Composition of Uzbekistan's Exports and Imports, % of Total, 2008–2009**

Country	Share of Exports 1st Quarter 2008	Share of Exports 1st Quarter 2009	Share of Imports 1st Quarter 2008	Share of Imports 1st Quarter 2009
CIS Countries	33.7	41.4	50.0	41.1
Russia	17.5	24.2	25.1	19.8
Kazakhstan	4.4	7.2	13.8	8.3
Ukraine	5.7	2.8	9.2	10.1
Non-CIS Countries	66.3	58.6	50.0	58.9
China	4.4	6.2	9.2	22.8
Republic of Korea	1.0	1.0	10.8	10.9
Iran	6.9	3.1	0.4	0.3
Turkey	7.8	2.3	2.3	2.5
Switzerland	4.3	23.3	0.7	0.6
Germany	0.9	0.4	5.4	4.9

Source: CER (2009b)

capital has gone to the fuel and energy sector. Nevertheless, without the investment boost and an associated, but more moderate, increase in government consumption, the drop in Uzbekistan's exports would have substantially dragged down economic growth in 2009.

Uzbekistan has had the 'fiscal space' to finance an ambitious investment program, which will pay future dividends of faster economic growth. But much of the investment is directed to a narrow capital-intensive economic base, which will be unable to generate the future productive employment that Uzbekistan's growing labour force will need.

## **B. Recommendations for Economic Policies**

The employment intensity of Uzbekistan's growth is clearly suboptimal. Since 2000, the country's strong growth has been driven primarily by a narrow range of export sectors, namely, energy, gold and cotton. Most recently, the exports of the energy complex have been sustaining the country's growth.

The elasticity of formal-sector employment with respect to growth is low: for every percentage point increase in average income, there is only a 0.3-0.4 percentage point increase in employment (see McKinley 2007).

While the labour force continues to grow each year, the current rate of job creation remains anemic by comparison. Between 2004 and 2007, for example, the size of the economically active population increased faster than that of the employed labour force (Figure 4). This implies that workers facing a shortage of employment opportunities (especially in small towns or rural areas) migrate abroad or search for informal-sector employment in Uzbekistan's more prosperous cities, mainly in Tashkent City.

Indeed, this migration, exacerbated by the break-up of shirkats and the consolidation of production in larger private farms, is already underway and is leading to unregulated and imbalanced urbanization, which will further squeeze the available housing stock and public utilities in the larger urban areas. This is also undoubtedly leading to a mushrooming informal sector, surviving on income flows that trickle down from the narrow range of prosperous – that is, export-oriented and capital-intensive – sectors of the economy.

In response, the government has embarked on a program of rural development that hinges, in part, on stimulating the growth of small industrial enterprises. However, the experience of other countries suggests that the success of such rural industrialization largely depends on agricultural prosperity. Various constraints such as the diminishing supply of arable land could hinder this strategy from dramatically boosting rural incomes, though.

Because a more rapid and employment-intensive process of industrialization and the growth of a more modern service sector in

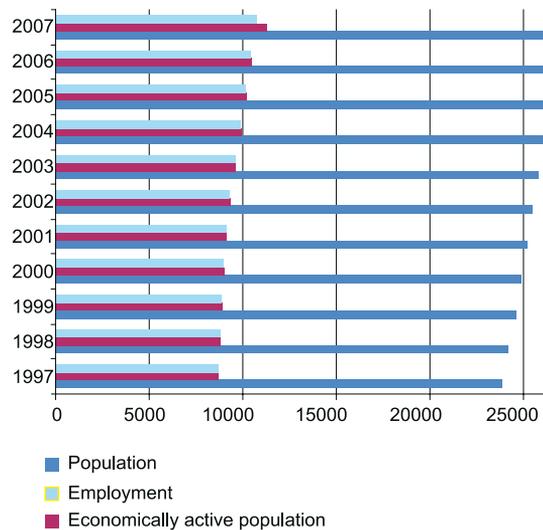
---

*A more rapid and employment-intensive process of industrialization and the growth of a more modern service sector in urban areas will draw increasing numbers of rural workers into large urban complexes*

---

*The first priority for the Government of Uzbekistan is to generate widespread and remunerative employment, which can support increases in private incomes and public financial resources*

**Figure 4. Some demographic data, Uzbekistan, 1997–2007, thousands of people**



Source: State Statistics Committee of the Republic of Uzbekistan

urban areas will drive future economic growth and development, we recommend that Uzbekistan devote additional resources to foster employment-intensive sectors.

Of course, such economic development will be impossible if there is not greater employment growth in domestic industry and services. The income from such employment will also be needed to finance the necessary increase in housing for the new workers who migrate to cities.

Creating a more dynamic process of urbanization and reducing urban poverty will have to go hand-in-hand with an industrial strategy that is more employment-oriented. Such a strategy could encompass a variety of measures, which could include explicitly channeling public investment and resources into internationally competitive employment-intensive sectors.

Such measures could also involve the use of tax and subsidies and commercial credit to promote priority sectors or the use of public-sector matching funds for approved private-sector investment projects (McKinley 2007). Currently, a comprehensive Master Plan of Population Settlement is being prepared by the Cabinet of Ministers in Uzbekistan, but its recommendations are not vitally linked to projections of industrial growth and employment generation, which would be crucial for realistic planning of the urbanization process.

We thus recommend that, while striving to develop a more comprehensive and coherent industrial policy, the government

of Uzbekistan focus on linking that policy to a well-articulated master plan for urban development. This includes the generation of widespread and remunerative employment, which can support increases in private incomes and public financial resources. It would also entail the spreading of such employment opportunities outside the Tashkent area in order to create more balanced and sustainable industrial and urban development.

This raises the concomitant issue of urbanization. In 2008, for the first time in history, the world's urban population exceeded its rural population<sup>1</sup>. Over the next four decades, urban areas are expected to absorb almost all of the growth in the world's population.

Uzbekistan is no exception to this trend, even if the process of urbanization in Uzbekistan is slower than in many other emerging and developing countries. In 2008, for example, the rate of growth of the urban population in Uzbekistan was estimated to be only 1.6% per year, compared to 3.3% in Indonesia, 3% in Malaysia and the Philippines, 1.8% in Egypt and 1.7% in Thailand

The year 2003 saw the publication of the UNDP-supported report *Growth and Poverty Reduction in Uzbekistan*, which stressed that restrictions on urban residence and difficulties in securing temporary residence for work greatly hindered internal migration to cities in Uzbekistan. Furthermore, those migrants who do secure the right of temporary residence often do not bother to register because registration brings few benefits and incurs prohibitively high costs. Hence, we recommend that the government of Uzbekistan review its policies on urban residence, both temporary and permanent, in order to allow easier migration of rural labours to urban areas and to enable a greater number of migrants to secure permanent settlement in cities.

## IV. Urban and Rural Poverty Trends

### A. National Trends

What do the available statistics tell us about the recent evolution of poverty in Uzbekistan? As one can see in Table 3, which shows the trends in national, rural and urban poverty between 2000-01 and 2007 as based on data from the yearly Household Budget Survey, the poverty rate dropped by one-quarter between 2000-01 and 2007.– a commendable achievement in such a short time. There was an even faster reduction in urban poverty, which decreased by almost 37%, although the decrease in rural poverty by about 19% was much less.

We divide the period between 2000-01 and 2007 in half in order to determine whether progress against poverty has differed from earlier to later periods. Between 2000-01 and 2004, nationwide poverty decreased by about 17%; between 2004 and 2007, though, it declined by a little less than 10%. Progress against poverty thus slowed in the mid-2000s, despite the upturn in economic growth, which had reached at least 7% by 2004.

**Table 3. Poverty Trends**

	2000-01	2002	2003	2004	2005	2006	2007
Total Poverty	31.5	26.5	27.2	26.1	25.8	24.9	23.6
Urban Poverty	27.8	21.8	22.0	18.8	18.3	17.9	17.6
Rural Poverty	33.6	29.4	28.7	30.3	30.0	28.8	27.1

*Note: the 2000-01 estimate is from World Bank 2007; 2002-2005 estimates are from the Welfare Improvement Strategy; and 2006-2007 estimates are provisional.*

How have trends in urban and rural poverty differed? Progress against rural poverty was similar across both periods: between 2000-01 and 2004, it declined by almost 10% and between 2004 and 2006 by a little over 10%. However, the trends in urban poverty over the two periods were very different. Between 2000-01 and 2004, urban poverty decreased dramatically, i.e., by over 32%. But progress slowed drastically between 2004 and 2007: the decline was a little over 6%.

Such a slow reduction in urban poverty suggests that economic growth, though more rapid in the mid-2000s, was not benefiting many urban centres in the country. While the average growth of GDP per capita during 2001-04

---

*The trends in urban poverty over the two periods were very different. Between 2000-1 and 2004, urban poverty decreased dramatically, i.e., by over 32%. But progress slowed drastically between 2004 and 2007: the decline was a little over 6%*

---

was 3.7%, it was much higher, at 6.5%, during 2004-07. Thus, identifying the urban areas where poverty has been unresponsive to growth should be a high priority. A starting-point for an analysis of this could be a limited disaggregation of the data for urban households from the Household Budget Survey.

## B. Regional Trends in Poverty within Uzbekistan

Why has the pace of reduction in urban poverty slowed? And why is rural poverty still so widespread? Some clues are contained in the results of a UNDP-supported household survey of 1,500 households that was conducted in 2005 in six districts in the Namangan Region and the Republic of Karakalpakstan (Tahlil Center 2006).

The results suggest that urban poverty might be more endemic than previously assumed, particularly in small urban towns and settlements. The results also document why the rural economy is offering so few economic opportunities.

Setting a daily caloric consumption of 2,100 kcal as the poverty line (the same as that used by the government's Household Budget Survey), the survey found that the incidence of district-level poverty varied between a low of 27.7% and a high of 34.4%, with the average across the six districts being 31.7%. The nationwide average for the same year for the Household Budget Survey was 25.8%.

In two of the districts, poverty was higher in urban areas (rayon central towns and urban-type villages) than in rural areas. In Shumanay district in Karakalpakstan, for instance, the incidence of urban poverty was 48.2%, while the incidence of rural poverty incidence was 30.7%. Across the six districts, urban poverty varied substantially but averaged 32.3%. Rural poverty was more uniform, but, at 31.8%, averaged slightly less.

Since these partial results cannot be regarded as representative of national conditions, it is difficult to draw relevant conclusions. But they do suggest that urban poverty might be more widespread than commonly assumed, especially in smaller urban settlements.

In rural areas in the sample area, the survey shows that poverty tended to be higher among households that did not own their own plot or households that had workers who relied on recruitment for seasonal agricultural labour. Households with members hired by private farms tended to have higher income even though such farms were scarce in the six districts. Income from micro-enterprises, which is usually derived from selling agricultural products or handicrafts, was low and erratic for most households.

Poverty was closely correlated with the size of a family's plot of land. The land holding of many households was only a small 'garden plot.' Though the productivity of such plots was high, their produce was used predominantly for household consumption. In some of the

---

*In rural areas, poverty tended to be higher among households that did not own their own private plot or households that had workers who relied on recruitment for seasonal agricultural labour*

---

---

*Urban poverty might be more endemic than previously assumed, particularly in small urban towns and settlements*

---

---

*It would be important to design a survey that could help policymakers identify the conditions of recent migrants into urban areas.*

---

districts, 30-70% of family plots could not be used because of poor soil or water conditions. Consequently, low-income families often became mired in a 'poverty trap,' lacking the resources necessary to upgrade the quality of their land.

In addition, while many families owned livestock or poultry, such assets were usually meager. Moreover, they faced a perennial shortage of fertilizers, chemical pesticides or seeds.

As a result of limited local income-generating opportunities, about one-fifth of households expressed an interest in migrating from the district. Such willingness was strongest in families that lacked a private plot or were unable to cultivate it. Most migrants from Karakalpakstan had gone to Russia or Kazakhstan, while those from Namangan Region usually had gone to Tashkent City or Russia.

Migrant workers were identified in 10-27% of the surveyed families. On average, there was one migrant worker per household. And their income was, in fact, 5-10 times higher than any other category of family income. It is not unusual for the economic conditions of rural households to improve as a result of remittance income, but the conditions of migrants in the cities to which they have moved might be relatively deprived.

There needs to be a survey that could help policymakers identify the conditions of recent migrants in urban areas. In some cities, there is now probably a poor stratum of workers (by urban standards) unrecorded in official statistics.

## V. Internal and External Labour Migration

Earlier UNDP-supported surveys of both internal and external labour migration give some clues about the scale and character of these phenomena (Abdullaev 2008). One of the surveys interviewed 1,000 internal labour migrants. According to available information, 70-80% of internal migrants seek temporary employment in Tashkent City, with most gravitating toward construction work, services or agriculture-related activities. Many migrants report that, as a result of their new incomes, the economic conditions of their families still living in their place of permanent residence have, in fact, improved.

About 80% of the migrants come from rural areas, not other urban areas, and many of them would like permanent employment. Over three-quarters of the migrants are men, most of whom are married, but there are more and more female migrants. 60% of the migrants are young, many of them never having been employed in the formal economy.

The difficulty in registering for temporary residence is one of the main problems confronting these labour migrants. Although Tashkent City does not officially restrict the number of temporary residents, administrative problems and prohibitive costs discourage most migrants from registering.

Consequently, most migrants are subject to poor working conditions and low pay, and have little bargaining power to improve their situation. Hence, facilitating the residence registration of such temporary workers could play an important role in preventing the rapid and unregulated growth of a permanent 'underclass' of poor informal-sector workers in major cities such as Tashkent.

Another UNDP-supported survey in 2006 interviewed about 1,500 external labour migrants, who cited their inability to find decent economic opportunities in Uzbekistan as the major reason for emigrating.

While such migration occurred even during the Soviet period, it is now very common; indeed, every fourth person interviewed expressed an interest in working abroad. Another change is that, whereas most émigrés were young people, there are now more and more older émigrés. Furthermore, women are also beginning to emigrate in significant numbers.

If the trends identified by these UNDP-supported surveys are representative of conditions across the country, then there will likely

---

*Currently, however, the prospects for migration abroad are bleak. Economic conditions are projected to have worsened in 2009 in the two main destinations of migrants from Uzbekistan*

---

---

*If economic conditions continue to be depressed in neighbouring countries through 2010, then it is highly likely that internal labour migration will intensify within Uzbekistan*

---

be a continuing movement of migrant workers either into larger cities, such as Tashkent, or abroad. Currently, though, the prospects for migration abroad are bleak. Economic conditions are projected to have worsened in 2009 in Russia and Kazakhstan, the two main destinations of Uzbek migrants.

While remittances from Uzbek migrants abroad were booming in the 2000s, reaching 10.7% of GDP in 2007, they began to decline from such high levels in 2009. While they had begun averaging 13.3% of GDP in the first half of 2008, for example, they were down to 8.6% of GDP in the first half of 2009.

A survey of registered Uzbek migrants in Russia suggests that the number that had arrived in 2008 declined modestly between the first half of the year and the second half. In the first half, there was a 'stock' of 120,000 arrivals, while, in the second half, there was a decline to 116,000. But there appeared to be a more dramatic reduction in the outflow of new Uzbek migrants to Russia. In the first six months of 2009, only 12,000 new migrants left for Russia, compared to 68,000 during the fourth quarter of 2008.

If economic conditions continue to be depressed in neighbouring countries such as Russia and Kazakhstan through 2010, then it is highly likely that internal labour migration will intensify within Uzbekistan, increasing pressure on urban labour markets and threatening to substantially expand the urban informal sector.

## VI. Some Major Demographic Trends

In the near term, demographic trends could be promising for Uzbekistan— if it is able to generate sufficient employment. The share of the working-age population has been growing. While this share was 49.1% in 1990, it had risen to 59.5%, or over 10 percentage points, by 2007 (Table 4).

If the economy of Uzbekistan is able to supply the rising number of new entrants into the labour force with decent jobs, it could enjoy a ‘demographic dividend.’ The larger share of employed workers in the total population could generate a higher income per person, since there would be a correspondingly lower share of young and old dependants.

**Table 4. Changing Demographic Conditions**

	1990	1995	2000	2007
Percentage of Working Age Population*	49.1%	49.6%	53.0%	59.5%
Percentage of Women of Childbearing Age*	23.4%	24.4%	26.1%	28.3%

Source: State Statistics Committee and Ministry of Labour and Social Protection.

\* Relative to total resident population, end of year.

But this ‘demographic dividend’ is a prospect, not a guarantee. For the medium term, there will be continuous pressure on the economy to provide additional jobs. However, as long as Uzbekistan focuses on channeling strategic resources to the energy and fuel complex and other such capital-intensive sectors, it will not be able to create sufficient employment opportunities.

In 1990, the share of women entering child-bearing age was only 23.4%, but, by 2007, that share had risen to 28.3%. Uzbekistan’s birth rate, which had been in secular decline since the mid-1990s and caused the current slow growth in the share of people under 16 years of age, is thus set to rise again. This will presumably lead to an eventual increase in the share of the total population under 16 years of age and could depreciate the ‘demographic dividend.’

---

*As long as Uzbekistan focuses, on channeling strategic resources to the energy and fuel complex and other such capital-intensive sectors, it will not be able to create sufficient employment opportunities*

---

## VII. Urbanization Trends and Related Policies

### A. Urbanization Trends

What do we know about current trends in urbanization? Available data do not yet show a significant increase in the urban population. In fact, between 1991 and 2005, the population in urban areas increased by only 13.5%, while that in rural areas increased by almost 35%. Hence, the share of the urban population in the total population declined from 40.3% to 36.3%. This is unusual, compared to global trends.

But there are plausible reasons to suspect that the size of the urban population is currently underestimated. Many new urban settlers are likely to remain registered by their mahallas<sup>1</sup> within their original rural communities.

Because current limitations on resident permits in urban areas (whether temporary or permanent) hamper migration to cities, informal residency in urban or periurban areas is likely to rise.

Hence, though official statistics suggest that the urban population represents a little over one-third of the total, unofficial estimates place it closer to one-half, which would be much closer to urbanization rates in semi-arid countries with similar levels of development, such as those in the Middle East and North Africa.

In addition, highly populated rural districts characterized by small average agricultural land size per household are increasingly shifting to urban patterns through a process of 'densification.' This phenomenon has been partially recognized officially through the recent re-designation of more than 1,000 villages as 'urban settlements.'

There are additional reasons to believe that the rate of urbanization will continue to increase, if not accelerate. As previously indicated, increasing numbers of younger workers are currently entering the labour force. Meanwhile, employment opportunities in neighbouring countries, such as Russia and Kazakhstan, are diminishing.

Furthermore, climate changes are likely to increase the share of agricultural land that is unfit for cultivation. Uzbekistan is projected to experience a water deficit. Currently, agriculture uses over 90% of all available water (namely, 53.5 billion cubic meters per year of a total of 56 billion cubic meters), and, by all accounts, uses it intensively and inefficiently. Hence, coherent urban planning, land use management, and policies for housing and basic infrastructure could significantly influence how cities mitigate and adapt to climate change.

---

*In addition, Uzbekistan has very few sizeable urban centres. Tashkent City alone has 2.3 million official residents, which is nearly one quarter of the total urban population*

---

At the same time, the population has grown much more rapidly than the area of irrigated land. Consequently, as previously mentioned, the hectares of irrigated land per person have declined from 0.22 to 0.12 (CER 2009a) over the past 25 years. And this trend is expected to continue, if not intensify. Hence, rural areas will presumably continue to send substantial numbers of surplus workers into the larger urban areas.

Recent estimates suggest that the deteriorating state of agricultural land, in combination with the concentration of agricultural production in larger private farms, will increase the labour surplus in rural areas. Agricultural employment could fall from its current level of 3 million workers to 2 million in roughly the next 15 years, (CER 2009a).

Satellite maps highlight another major challenge facing Uzbekistan: an unbalanced distribution of the population, with very dense networks of villages and cities in the fertile part of the country and very low population density in its arid regions. In the dense population areas, there consequently is intense competition between urban settlements and agriculture for available land.

Another problem is that Uzbekistan has very few large urban centres. Tashkent City alone has 2.3 million official residents, which is nearly one-quarter of the total urban population. Other major urban centres, such as Namangan, Samarkand, Andijan and Bukhara, are much smaller. Effectively, Uzbekistan is a country with one large city and a large number of small cities.

The growth of small and medium-sized cities, which were established during the Soviet era and were usually linked to major industrial enterprises, has been stagnant. Since very few Soviet-era industrial enterprises have survived the transition, the working populations in these cities have faced severe economic difficulties. In some ways, their economic prospects are worse than those found in small townships and village-like settlements, where the working population has retained at least some access to land. Urban poverty is consequently likely to be high in such settings. Thus, diversification of the economic base of Uzbek cities is becoming a major challenge urgently requiring attention.

---

*It is necessary to develop comprehensive policy papers on trends in urbanisation in Uzbekistan and the prospective mid- and long-term options for dealing with them*

---

---

*It is important to dramatically improve research and monitoring capacities on urban issues.*

---

## **B. Policy Recommendations Related to Urbanization**

Following is a summary of some priority policy recommendations to address the increasingly important issues related to urbanization in Uzbekistan.

1) Develop comprehensive policy papers on trends in urbanization in Uzbekistan and the prospective mid- and long-term options for dealing with them. The aim would be to evaluate various mid- and long-term policy options for:

- Balancing the urban network with foreseen industrial and agricultural development;

- Developing a sustainable model of urbanization to limit urban sprawl and preserve agriculture land;
- Promoting an inclusive urban framework to develop affordable housing solutions and services;
- Improving the urban governance model to capture the complex and multifunctional role of cities and address the different needs of the large variety of urban stakeholders.

2) Improve research and monitoring capacities on urban issues dramatically. This would entail strengthening capacities across a range of disciplines, such as economics, finance, demography, sociology and urban planning. It could also involve enhancing the competencies of research institutes such as the TAHLIL Center for Social Research by adding urban specialists to its roster of experts.

3) Develop capacities and instruments to promote integrated territorial development at the regional, district and city levels in order to adequately address the wide variety of challenges related to human settlements. This approach is currently being implemented regionally under the program Enhancement of Living Standards in the Republic of Karakalpakstan and Namangan Region (see section IV.B). This approach is contained in the General Scheme of Settlement Allocation up to 2050, which is awaiting approval by the government.

Many countries have recently completed their urban planning systems so that the main stakeholders and all relevant sectors can formulate a common plan for the socioeconomic development of urban territories. The City Development Strategy is a commonly applied instrument for medium-sized and large cities, or for networks of small cities.

Uzbekistan has an advantage since it did not dismantle its former network of planning institutions for urban and territorial development. Not needing to recreate them, it has only to improve their capacity and strategic planning, drawing on the relevant practices and methodologies of other countries.

The City Development Strategy would help cities to look beyond short-term planning to where they should be in 20 years while also helping them to identify the steps necessary to achieve those goals. In Uzbekistan, particular attention should be paid to regional networks of cities, small urban centers and villages because of competition against agriculture for land use.

4) Improve the instruments for the emerging urban land and property market and the associated management of real estate – including boosting the capacities of housing market stakeholders, such as private and community developers – in order to diversify the kinds of housing available to city dwellers. One priority should be to provide housing for low-income groups. The resultant land market, which should be free of speculation and supported by a progressive tax

---

*It seems necessary to improve the instruments for the property market and the management of real estate, including boosting the capacities of housing market stakeholders, such as private and community developers*

---

system, could significantly improve the so-called 'investment climate' in Uzbekistan's cities.

5) Undertake urban profiling for Uzbekistan, starting with several pilot cities and culminating with nationwide urban profiling. This exercise would use a participatory approach to identify bottlenecks to urbanization and ways to hasten its successful development. An institution such as the Centre for Economic Research could lead this effort.

6) Create a national platform, such as a National Urban Forum, for discussions related to urbanization. Such an organization could include representatives from central and local government, civil society, academia and the private sector and could make recommendations to municipal, regional and national authorities.

It would be particularly useful to create a national Housing Country Profile. This has already been done in many other countries (such as Bulgaria, Poland, Slovakia, Lithuania, Romania, the Republic of Moldova, Albania, Armenia, etc.) and has demonstrated the value of providing a comprehensive assessment of the housing sector's performance and helping government make appropriate plans.

## VIII. Housing Trends and Policies

This Policy Brief devotes particular attention to the issue of urban housing. Earlier UNDP-supported reports have highlighted housing shortages as a major constraint on rural residents wishing to migrate in search of more prosperous lives in cities (Cornia 2003). As the rate of urbanization increases in Uzbekistan, shortages of housing—and particularly of affordable and well maintained housing—will become increasingly critical.

### A. The Coordination of National Policies

---

*The Government needs to develop a comprehensive vision on how the housing sector as a whole should contribute to tackling the disparities in living standards across regions and across cities.*

---

While the government is making remarkable efforts to codify regulations for the housing sector, it lacks a comprehensive vision of how the housing sector as a whole should deal with the disparities in living standards across regions and across cities. Currently, the Cabinet of Ministers establishes housing and utility reforms, coordinates the activities of local authorities, and designs procedure for housing allocation and utility services, but no one single national body is responsible specifically for housing policy. Housing policy still needs to be governed by a coherent strategic vision.

There is also a need for plans with clear targets, links to related programs, and monitoring and evaluation mechanisms that can assess their impact on socio-economic and spatial disparities. Overall, government departments are not clear enough about their respective needed contributions to national housing priorities. This has often resulted in uncoordinated activities and sometimes even in conflicting outcomes.

### B. Housing Affordability

While not enough data are available to provide a clear statistical picture of housing affordability in Uzbekistan's cities, interviews with authorities suggest that affordable housing is still a problem. If we make the common, reasonable assumption that monthly mortgage payments should not exceed 30% of household monthly income, then decent housing is probably unaffordable for many middle-income and low-income households.

The Ipoteka Bank, which was established in 2005, does provide long-term subsidised mortgages, yet it stipulates that mortgage payments

should not exceed 70% of household monthly income. While this certainly extends the possibility of mortgages to a greater number of households, it also vastly increases the risks of insolvency and is thus clearly not an ideal solution to the stubborn problem of housing affordability.

During their fact-finding mission for this Policy Brief, researchers examined a typical case in which a young family is offered a 64 sq. meter subsidised apartment for \$28,000 at a mortgage interest rate of 14%, with a three-year interest-only payment period and a required 25% down payment.

The interest-only payment for the first year (after the down payment) would be \$2,940, or about 40% of the total wage income of an average household of two earners (assuming that an average monthly per capita wage in 2009 is \$300). The annual total for a regular mortgage payment schedule, with both interest and principal, would be \$4,025, or 56% of an average household's wage income. This is unrealistically high.

If, as recommended above, housing policy in Uzbekistan were consolidated into one field with a governing strategic vision, the problem of housing affordability could be better addressed

---

*Housing policy still needs to be consolidated as a unified field and governed by a coherent strategic vision*

---

### **C. The State of Public Utilities**

Public utilities have undergone major reforms in Uzbekistan. The government coordinating body is the State Agency for Housing and Utilities, which develops national policy for utilities and supervises its implementation. Utilities are provided by municipal companies (which is a state form of ownership). According to the program adopted by the president in 2007, these utilities should be privatised by 2011. Already, the suppliers of utilities are expected to be financially self-sufficient.

New water and sewerage pipelines are funded from several sources, mainly foreign investments and the state. In 2009, the overall investment in new water and sewerage networks was 150 billion Sums (about 103 million USD). At the start of 2008, modern water meters were installed in about 38% of the apartments that had access to drinking water. Access to gas was provided to almost 82% of the apartments in urban areas and 77% of the apartments in rural areas. Moreover, gas meters were installed in over 97% of the apartments that had access to gas. Metering will presumably provide more effective monitoring of costs and hopefully minimize those costs.

Though aggregate statistics show that the rural population has good access to social and public services, disruptions of water, heat, and gas supply are apparently frequent, the result of decrepit utility networks.

Based on the need to achieve full cost recovery, the State Agency for Housing and Utilities calculates utility tariffs and seeks approval from the Ministry of Finance. Overall, tariff increases have been regulated; the increase in rates in 2009 was 6%, for example. Interviews with authorities

---

*There are still unresolved issues on the balance between the desire of utility providers to recover full costs and the state's social concerns, such as maintaining affordability of utilities for low-income households.*

---

indicate that there are still unresolved issues regarding the balance between the desire of utility providers to recover full costs and the state's social concerns, such as maintaining affordability of utilities for low-income households.

On average, households pay utility rates that range between 18% and 25% of monthly income. However, the arrears for communal services are growing. As of 1 January 2007, for example, they totalled 2.5 billion Sums (about 2 million USD) and by July of the same year they had reached 3.7 billion Sums (about 2.9 million USD).

Overall, utility reforms continue to be driven largely by a concern for profitability rather than by the need to mitigate regional and socio-economic disparities.

The privatization of utilities could exacerbate inequalities in living standards between richer and poorer regions, thereby having serious implications for urban and regional development. Furthermore, programs in the utility sector are still not effectively linked with other socio-economic programs as part of the effort to reduce horizontal inequalities in nationwide living standards.

---

*Overall, utility reforms continue to be driven largely by the perceived need to improve the sector's economic performance, rather than being set within a wider national agenda for tackling regional and socio-economic disparities*

---

#### **D. Homeowners Associations**

Homeowners' associations have been formed in many cities to manage multifamily housing complexes. Currently, all multifamily housing is covered by such associations.

Before 2006, the larger associations (which cover 40-50 buildings) were usually managed by municipal housing and utilities companies, but homeowners had limited voice in such arrangements. On the basis of a 2006 law, many new self-organized 'democratic' associations have emerged, usually exercising better control over housing assets. In October 2009, such self-organized associations accounted for 40% of the total in Tashkent City, for example.

Since 2004, the state has invested in major overhauls of apartment buildings built before 1991 and the public areas around these apartments. Annually, the state funds up to 70% of the repair costs for multifamily houses; homeowners' associations are required to finance the remaining 30%. However, the associations can secure funds from other sources for such purposes and are eligible for tax abatements, exemptions from other fees, and financial support for building materials. They can also be rewarded financially by local government if they are able to collect at least 85% of fees from residents.

Nevertheless, homeowners' associations are still facing difficulties, such as in accessing public funding. The challenges are particularly acute in associations that cover 30-40 individual housing units. Since these associations were formed compulsorily by local governments, the residents have limited decision-making powers.

As a consequence, there are ongoing difficulties in collecting fees

and a growing debt for services in many homeowners' associations. In Chirchik municipality just outside Tashkent City, for example, indebtedness within large homeowners' associations is estimated to have reached 2-3 billion Sums.

## **E. The Construction of New Housing**

There are few national statistics on housing demand. Nevertheless, the natural population increase does give some indication. For example, more than 60,000 new households are formed each year and other statistics show that 85,000 families are waiting for housing. New annual housing output adds only 1-2% to the existing housing stock. Figure 5 shows not only that there has been no substantial increase in the total housing stock in recent years, but that there has actually been an overall decrease in the number of square meters of new annual housing, with an even sharper decline in the total number of new flats.

While 30% of the existing housing stock is multifamily and 70% single-family, 30% of the population live, by contrast, in individual houses and 70% in multifamily houses. In September 2009, 99.6% of the housing stock was privately owned. However, there are no aggregate data available about the physical state of existing multifamily housing or the extent of the repairs conducted on it. The scale of the deterioration of the housing stock can only be inferred from the president's 2004 report, which stated that 45% of all houses in Tashkent City alone were in need of major overhaul.

The state is no longer a major supplier of housing. Rather, housing is now constructed mostly by private developers for upper-income and upper-middle income groups and is geographically concentrated. Consequently, there is a widening gap between housing conditions in upper- and upper-middle income areas and those for the majority of the population, who often endure inferior housing conditions and infrastructure.

Currently, access to new housing is provided through two channels: 1) state-targeted programs, which are geared toward providing affordable mortgages to middle-income groups and young families and 2) private housing development.

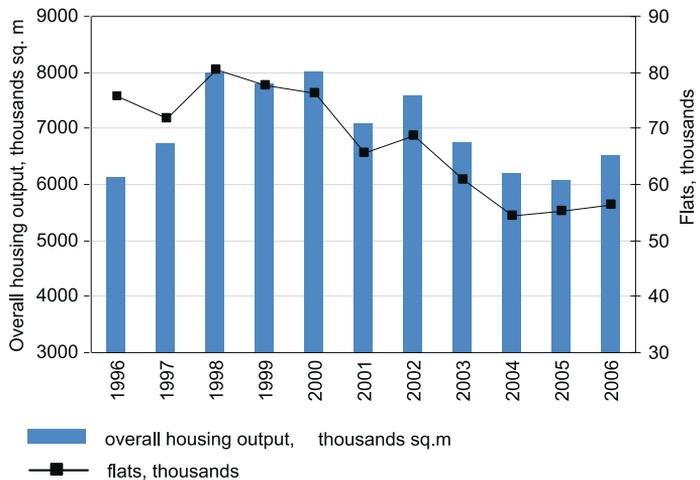
State programs are limited in scope. Between 2007 and 2009, for example, only 1,500 apartments were delivered through the state program for young families. There are no national social housing programmes for other groups that cannot afford market options. Low-income families are usually accommodated (either through rent or subsidised purchase agreements) in previously vacant and renovated housing stock (particularly dormitories).

As previously indicated, the state has supported the development of affordable mortgages since 2005. In that year, both a special Mortgage Lending Support Fund and Ipoteka Bank were introduced. The Bank

---

*Housing is constructed mainly by private developers for upper-income and upper-middle income groups. The result is a widening gap between housing conditions in the areas for the upper-income and upper-middle income groups and those for the majority of the population*

---

**Figure 5. Houses completed in Uzbekistan in 1996–2006**

*Initiatives to provide affordable housing to both middle-income and low-income households remain fairly limited. The current programs, would have to be substantially scaled up in order to make significant difference in housing conditions for such families in urban areas*

provides long-term subsidised mortgages to middle-income families and young families (typically for 15 years with an initial 3-year interest-only payment period); it also provides subsidised loans to home-builders and building-material manufacturers and attracts foreign and national investments to the new affordable mortgage system.

By 2008, Ipoteka Bank had provided mortgages for 2,357 families and expects to expand its operations. Between 2007 and 2009, it had also supported the completion of 44 multifamily houses (21 of them in Tashkent City).

The Mortgage Fund offers long-term mortgages at a 5% interest rate for a 15-year period as well as credit lines for Ipoteka Bank for further loans to builders of targeted housing. Local governments cooperate with mahallas (which compile lists of needy households) in order to ensure that the mortgage-based housing programs are actually implemented.

Development of the mortgage system has also been stimulated by tax exemptions for borrowers and for private developers providing housing for the state mortgage programs. In 2009, the state considered piloting mortgages for low-income households, but Ipoteka Bank has insisted that it does not have the capacity to extend its subsidised mortgage products to such a stratum.

Hence, state initiatives to provide affordable housing to both middle-income and low-income households presently remain fairly limited. The current programs, while moving in the right direction, would have to be substantially scaled up in order to significantly improve housing conditions for such families – who constitute the majority of all families – in urban areas.

## **F. Housing Construction in Rural Settlements**

While state housing programs exist, if to a limited degree, in urban areas, they are only now being initiated in rural areas. The year 2009 was declared the year of the development and improvement of rural settlements and a special development company was formed to coordinate the construction of the standardized cottage-type residential projects. There was hope that this approach would help reduce the costs of building materials.

A Rural Development Bank was also created to provide rural families with subsidised 15-year mortgages at a 7% interest rate. There will also be tax concessions and other financial incentives for prospective homeowners. These programs are expected to produce as many as 7 million square meters of rural housing between 2009 and 2015.

---

*While state housing programs are limited in urban areas, they are only now being initiated in rural areas.*

---

## **G. Recommendations for Housing Policies**

Eight major recommendations dealing specifically with housing policies follow.

### **1. Develop a Reliable Housing Dataset**

The government of Uzbekistan should prioritise the development of comprehensive housing statistics to help it identify and understand housing problems, investigate suitable policy options, and monitor and evaluate their implementations. Such housing data, which should be collected at the regional and local levels, would include indicators of the types and conditions of housing, the characteristics of residents and neighbourhoods, and the market values of housing stock.

### **2. Formulate a Strategic Housing Policy**

Housing programs in Uzbekistan are currently fragmented. As a result, larger cities can have housing shortages (often for low-income groups), while small and medium-sized cities can suffer from housing abandonment. Addressing such imbalances would require the formulation of a clear housing strategy, which would be in line with the national Welfare Improvement Strategy and could allocate resources and implement measures in a coordinated manner.

### **3. Link Housing Policies with Spatial Development Strategies**

To have pleasant living conditions across the country, housing programs should be coordinated with area-based planning mechanisms that can provide adequate social services and public utilities.

### **4. Designate a Special Agency for Housing Policy**

A special agency should be set up to design, implement and monitor

---

*A special development company was formed to coordinate the construction of the standardised cottage-type residential projects*

---

a national housing strategy. This would better integrate housing and spatial planning into overall socio-economic development.

***5. Provide Viable Housing Options for Lower-income Households***

Current housing policies are oriented mostly to the needs of upper-income and upper-middle income residents by facilitating homeownership while shortages persist for the rest of the population. It is therefore important to stimulate the widespread development of rental, not-for-profit and social housing as alternative options to homeownership.

***6. Develop Housing Strategies at the Regional (oblast) and Local Levels***

Collaboration across all administrative levels will be necessary in order to realize a national housing plan. At the regional level, priorities for the provision of housing can be linked with other regional economic and spatial strategies. At the local level, national and regional housing policies can be adapted to fit specific contexts and local governments can involve communities and other stakeholders more closely in key decision-making.

***7. Expand the Renovation Program for Multifamily Housing Built before 1991***

Major overhaul of the pre-1991 stock of multifamily housing is a current government priority. However, institutions and mechanisms should also be developed to enable longer-term programs for the maintenance of housing. These could include a competitive market for firms specialising in housing repairs along with maintaining appropriate regulations and government standards.

***8. Encourage Democratic Forms of Homeowners' Associations***

Homeowners' associations in multifamily housing are a successful form of housing management. Nevertheless, these associations require further support and, especially, better access to financial resources in order to become fully autonomous and effective. There is a particular need for support for multi-housing partnerships, most of which remain under the management and control of local authorities and thus need to become more independent.

## **IX. Concluding Remarks**

In this Policy Brief, we have reviewed the available information on trends in urbanization, and on urban poverty in particular, and extensively documented the most recent economic trends in light of the global economic and financial crisis. We have also reviewed some medium- and longer-term trends, such as underlying demographic changes and migration patterns, environmental factors (such as the national supply of water), and structural changes in agriculture and the economy as a whole.

We have repeatedly emphasized that the development of more reliable data bases on urban conditions and on the scope and character of urban poverty should be a priority for the government. Because of the scarcity of reliable information in many areas, it has been difficult for us to come to robust conclusions on many key issues. Instead, we offer tentative conclusions in many cases.

Since one of our overriding purposes is to provide some policy guidance on how to deal with urbanization and to reduce urban poverty, we have concentrated in several areas on offering fairly detailed policy recommendations, especially concerning urbanization in general and housing conditions in particular.

This Policy Brief attaches particular importance to the impact of general economic trends and especially of employment generation. Though Uzbekistan's economy continues to grow fairly impressively, it is likely to confront major medium-term challenges as a result of the current global and regional economic crisis and its own development path.

One of the most important challenges consists in creating widespread productive employment based on a dynamic process of industrialization and technological modernization. Ultimately, this will entail redirecting the government's industrial strategy from its current capital-intensive, export-led path to a strategy based more on the achievement of employment intensity and the boosting of domestic public and private investments as the main drivers of long-term growth.

If the latter strategic direction succeeds, then Uzbekistan will undoubtedly weather the current storm of the global economic crisis, deal adequately with the likely medium-term acceleration in its rate of urbanization, and substantially reduce the likelihood of a large increase in urban poverty.

---

## References

Abdullaev, Evgeniy, editor (2008). Labour Migration in Uzbekistan: Social, Legal and Gender Aspects. Report supported by UNDP and the Gender Programme of the Swiss Embassy, Tashkent.

Center for Economic Research (2009a). "Urbanization and Industrialization in Uzbekistan: Challenges, Problems and Prospects", draft paper, Tashkent.

Center for Economic Research (2009b). "Uzbekistan Economy: Analytical Bulletin, January-March 2009". Tashkent: CER.

Cornia, Giovanni Andrea, Editor (2003). Growth and Poverty Reduction in Uzbekistan in the Next Decade. Report to the Government of Uzbekistan commissioned by the Poverty Group of the Bureau for Development Policy, New York, UNDP.

Government of Uzbekistan (2009). Statistical Review of Uzbekistan, January-June 2009. Tashkent.

Government of Uzbekistan (2007). Welfare Improvement Strategy of Uzbekistan: Full Strategy Paper for 2008-2010, Tashkent.

International Monetary Fund (2009). World Economic Outlook, October, Washington DC: IMF.

International Monetary Fund (2009). Regional Economic Outlook for the Middle East and Central Asia, May, Washington DC: IMF.

McKinley, Terry, Editor (2007). A Proposed Strategy for Growth, Employment and Poverty Reduction in Uzbekistan: an Input Report into the Welfare Improvement Strategy, International Poverty Centre, Brasilia.

Tahlil Center for Social Research (2006). Living Standards Mapping for Karakalpakstan and Namangan Region, for the Project 'Enhancement of Living Standards', EU and UNDP Country Offices, Tashkent.

World Bank (2007). Republic of Uzbekistan Living Standards Assessment Update. Report No. 40723-UZ, August 27, Human Development Sector Unit, Central Asia Country Unit, Washington DC: World Bank.

---

Center for Economic Research  
Building 5, 1 Blind alley, U. Nosir st.,  
Tashkent, 100070, Uzbekistan,  
Tel.: (99871) 150 02 02  
Fax: (99871) 281 45 48  
e-mail: [info@cer.uz](mailto:info@cer.uz)  
[www.cer.uz](http://www.cer.uz)

United Nations Development Programme  
4, T. Shevchenko street,  
Tashkent, 100029, Uzbekistan,  
Tel.: (99871) 120 34 50  
Fax: (99871) 120 34 85  
e-mail: [registry@undp.org](mailto:registry@undp.org)  
[www.undp.uz](http://www.undp.uz)

