

# ECONOMIC DIVERSIFICATION AND POVERTY REDUCTION IN UZBEKISTAN

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**Abstract.** Since gaining independence in 1991 and moving away from a centrally planned economy and toward a more market-oriented framework, Uzbekistan has made notable progress in reducing poverty. The main tactics and laws used by the Uzbek government to combat poverty are examined in this abstract, including infrastructure development, social welfare initiatives, and economic diversification. In order to generate jobs, the nation has concentrated on raising agricultural productivity, advancing education, and encouraging entrepreneurship. Furthermore, foreign investment and collaborations have been essential in promoting economic expansion. Notwithstanding obstacles like regional inequalities and the effects of worldwide economic volatility, Uzbekistan's dedication to eradicating poverty has resulted in quantifiable advancements in healthcare, education, and living standards. This article highlights the significance of inclusive economic growth and sustainable development strategies for the future while analyzing the current initiatives, achievements, and opportunities for further development in Uzbekistan's fight against poverty.

**Key words.** poverty reduction, economic diversification, social welfare programs, infrastructure development, agricultural productivity, education improvement, entrepreneurship, employment opportunities, international partnerships, economic growth, living standards, healthcare access, sustainable development, inclusive economic growth.

## Introduction

The historical and culturally rich country of Uzbekistan is at a turning point in its economic growth. The nation, which is home to more than 34 million people, has advanced significantly since gaining independence in 1991. But there are still issues, especially with regard to economic diversification and poverty alleviation. Uzbekistan, which has historically relied heavily on a small number of industries, particularly agriculture and natural resources, understands how urgent it is to diversify its economy in order to promote sustainable growth and raise living standards.

The government has carried out a number of reforms in recent years with the goals of boosting social welfare programs, promoting entrepreneurship, and boosting economic activity. These programs are crucial for lowering poverty rates and generating employment opportunities, especially in rural areas where subsistence farming is a common source of income.

In order to support a more robust and dynamic economy, this strategy also includes investments in infrastructure, healthcare, and education.

The significance of international collaborations is becoming more and more clear as Uzbekistan develops. The resources and experience required to expedite economic diversification initiatives can be obtained through partnerships with international organizations and foreign investors. By emphasizing inclusive growth and sustainable development, Uzbekistan hopes to build a more just society in which everyone can profit from economic advancement.

This article examines Uzbekistan's multipronged strategy for reducing poverty via economic diversification. It looks at the effects of different policies meant to boost education, encourage entrepreneurship, and increase agricultural productivity in order to create a more prosperous future

for the country.

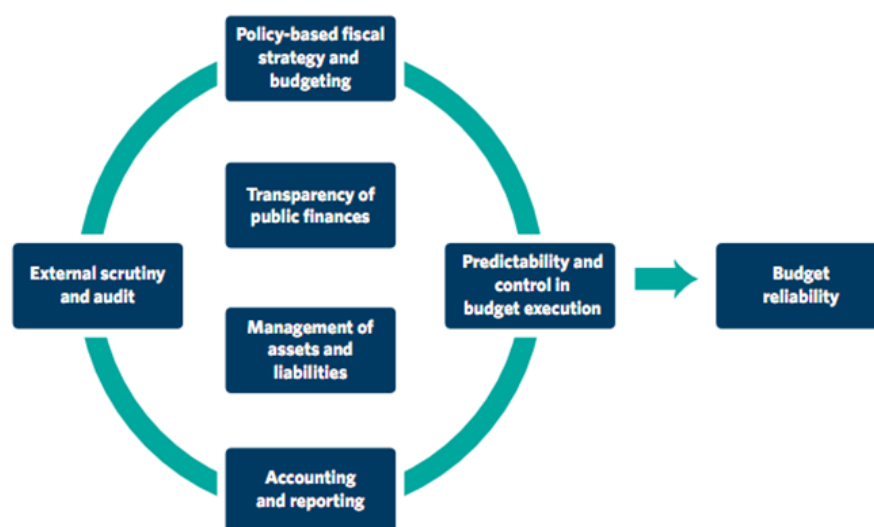
### Material and Methods

#### What Are the Measures of Economic Diversification?

Of the three economic diversification metrics used by economists, the Theil Index is currently the most popular, even appearing in the IMF's Export Diversification Index (EDI). According to Olivier Cadot and others, it is favored in part because it can be divided into groups of export lines[1]. More specifically, a country's active export lines i.e., goods that the country has previously exported and inactive export lines i.e., goods that the country has not exported can be used to measure diversification independently. According to Cadot and others, the latter is known as the extensive margin, or its «between» component, while the former is known as the intensive margin, or the «within» component of the Theil Index[2]. Nigeria, for instance, exported 491 of the 31,048 distinct products listed in the 2017 United Nations Harmonized Commodity Description and Coding Systems (HS) in its most comprehensive classification (HS-6). Changes in concentration at its extensive margin, which includes products like maple syrup and (presumably) snow plows, as well as at its intensive margin, which includes commodities like petroleum and cocoa, would both be taken into account when calculating the Theil Index for Nigeria for 2019. Therefore, the index results would show whether Nigeria's diversification came from products it did not previously export or from further diversification in the products it did export.

Among development practitioners, the Public Expenditure and Financial Accountability (PEFA) framework is the most widely used tool to assess the strengths and weaknesses of public financial management (PFM) performance, which has implications for fiscal diversification. Under seven major pillars, it is used to evaluate and report on the PFM performance's advantages and disadvantages[3] Budget reliability is the subject of pillar one; problems that affect several PFM systems are the subject of pillars two and three; and important phases of the budget process are the subject of pillars four through seven (refer to figure 1). There are two to seven indicators in each pillar, for a total of thirty-one indicators. For instance, the constituent indicators of the Budget Reliability pillar are Revenue Outturn, Expenditure Composition Outturn, and Aggregate Expenditure Outturn. Every indicator is categorized under PEFA's seven pillars of PFM performance and rated on a scale from "A" (highest) to "D" (lowest), indicating varying degrees of adherence to best practices. A country's PFM performance on three budgetary outcomes adequate service delivery, strategic resource allocation, and overall fiscal discipline is summarized by the PEFA framework, which consists of the seven pillars and thirty-one indicators[4].

**The Seven PEFA Pillars and the Budget Cycle**



**SOURCE:** Adapted from "Framework for Assessing Public Financial Management," Public Expenditure and Financial Accountability 2016, 3.

### Results and Discussion

The pursuit of economic diversification and poverty reduction in Uzbekistan has yielded several notable outcomes that reflect the complexity and dynamism of the country's socio-economic landscape. This section delves into the key results of recent initiatives and policies, followed by a discussion of their implications for sustainable development.

### **Economic Growth and Sectoral Shifts**

Until spring 2024, Uzbekistan was one of the few countries in the world that lacked internationally comparable poverty estimates. For decades, the country had measured poverty in a way that could not be directly compared with the rest of the world, making it hard to understand how effective Uzbekistan's progressive social and economic reforms were[5].

Recent years have seen a positive shift in Uzbekistan's economic landscape, characterized by steady GDP growth. The diversification efforts have led to the emergence of new sectors, including manufacturing, information technology, and tourism. As a result, there has been a gradual decrease in reliance on traditional sectors like cotton and grain. For example, investments in value-added processing and modern production methods have greatly raised the textile industry's GDP contribution. This change reduces poverty by improving economic resilience and generating employment opportunities. conventional industries like grain and cotton.

### **Poverty Reduction Trends**

Poverty rates are declining, according to official data, especially in cities. This accomplishment has been made possible in large part by the extension of social safety nets and focused initiatives to combat poverty. Communities have been empowered by increased access to education and vocational training, which has allowed people to acquire skills that are in line with the demands of a changing labor market. But there are still problems, particularly in rural areas where poverty is more pervasive because of systemic problems and restricted access to resources.

A key element of the diversification strategy has been the government's emphasis on fostering entrepreneurship and assisting small and medium-sized businesses (SMEs). To support the growth of local businesses, a number of financial incentives have been implemented, such as grants and low-interest loans. Many entrepreneurs have been able to reduce household poverty, create jobs, and contribute to economic growth thanks to this support. Systemic obstacles like red tape and restricted market access, however, still present difficulties for SMEs, highlighting the necessity for continuous reforms.

### **Opportunities and Difficulties**

Even though there has been a lot of progress, a number of issues need to be resolved to maintain the momentum. Lack of infrastructure, corruption, and occasionally onerous regulations can all obstruct progress. Additionally, the shift to a more market-oriented economy calls for an all-encompassing strategy that incorporates strengthening governance and encouraging transparency.

On the other hand, Uzbekistan has a special opportunity as a result of the emphasis on digital transformation. Technology investments can spur innovation, improve efficiency across industries, and enable better service delivery. By enabling underrepresented groups to engage in the economy, increasing digital access can also promote inclusion. The World Bank's latest update of global poverty numbers, published in March 2024, includes new data from Uzbekistan for the first time, putting the country's poverty reduction story in a global and regional perspective. The World Bank monitors global poverty using three different global poverty lines that apply to countries at different levels of economic development.

Uzbekistan, a lower-middle income economy, has successfully reduced its poverty rate – the share of the population living below the poverty line – to 5 percent by 2022 at the lower-middle income poverty line (\$3.65 per person per day in 2017 PPP)[6].

### **Conclusion**

In conclusion, there have been notable successes and ongoing difficulties along Uzbekistan's path to economic diversification and poverty alleviation. Even though the results show improvement, especially in urban areas and developing sectors, reforms and strategic investment must continue. By removing current obstacles and utilizing entrepreneurship and technological opportunities, Uzbekistan can create the conditions for long-term economic growth that benefits. All facets of Uzbekistan's population stand to gain from sustained economic growth if current obstacles are removed and entrepreneurship and technological opportunities are taken advantage of.

A Poverty Reduction Strategy project has been developed for the period up to 2030, which includes priorities such as ensuring macroeconomic stability, implementing a balanced regional policy,

comprehensive development of infrastructure and entrepreneurship, and ensuring employment. In addition to economic mechanisms, there are plans to increase the efficiency of the education and health systems and to improve the system of social assistance and services for vulnerable groups.

A national poverty line has been established based on minimum consumer expenditure. According to this criterion, the poverty rate was 17% in 2021, decreased to 14% in 2022, and is estimated to further reduce to 12% in 2023.

The goal is to double the economy's volume by 2030 and join the ranks of countries with above-average incomes. In addition, there are plans to halve poverty by 2026.

#### **Foydalanilgan adabiyotlar ro'yxati**

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