

POVERTY IN UZBEKISTAN: Concepts, Measurement and Policies

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The paper is concerned with the emergence of poverty in Uzbekistan during the transition from central planning to a more market oriented economic system. Three concepts of poverty are discussed: income poverty, capability poverty and social deprivation. The fragmentary data on the extent of poverty are evaluated and suggestions are made as to the most appropriate policies to reduce poverty.

Poverty is a new phenomenon in Uzbekistan. It has emerged as an unintended consequence of, first, the transition from a centrally planned to a more market oriented economic system, second, the disruption of the links which bound together the members of the former Soviet Union - particularly trade and investment arrangements and intra-Union budgetary transfers, and, third, the readjustments which occurred at the time of independence - including the emigration of large numbers of managerial, professional, technical and high skilled workers.

Prior to independence everyone was guaranteed a job, wage and income differentials were narrow, there was an extensive and highly effective system of social services and rates of aggregate economic growth were positive. None of this is true today. Growth rates of real income per capita have been negative and hence average incomes have fallen. Wage and salary differentials have widened and hence those at the bottom of the income distribution scale have been doubly harmed. Job security has diminished and although massive open unemployment has not appeared, a guaranteed employment scheme has not yet been put in place to provide an alternative arrangement for job security. And finally, the old system of social services has been sharply curtailed and an effective, reformed system is only gradually being created. The result has been a sudden increase in poverty.

I. The Concept of Poverty

It is natural to ask what exactly is poverty and how can it be measured?

How many poor people are there in Uzbekistan and how serious is their poverty? What policies can be and should be adopted to eliminate poverty?

These questions are difficult to answer, partly because of a lack of statistical information, but more fundamentally because the concept of poverty is itself somewhat imprecise. Poverty is a social phenomenon: it is created in and by society; perceptions of poverty are necessarily partly subjective and are related to our notions of deprivation; and ultimately the concept of poverty is relative, not absolute. That is, poverty is a relational concept: it refers to the relationship between one thing and another, and not to the state of being of an individual in isolation. The issue then becomes: relative to what?

a) *Income Poverty*

There are three different ways to define poverty, [Griffin, (1995)]. The first and most common way - which we shall call income poverty - conceives of poverty as a relationship of a person to a bundle of commodities. Sometimes this bundle is specified as a list of "basic needs" with a norm or threshold established for each basic need. A person is then considered to be poor if his/her level of consumption is below the norm or threshold for any of the basic needs.

It is more usual, however, to aggregate the bundle of commodities and specify a minimum standard of living or a minimum level of income. This minimum level of income is then designated the "poverty line" and a person is considered to be poor if his/her income is below the poverty line. Often the poverty line is based on nutritional standards, for example that level of income which is sufficient to prevent malnutrition. The minimum income standard then in effect becomes tied to one basic need, namely food, which implicitly is regarded as more fundamental or more important than other basic needs.

In practice estimates of income poverty usually are obtained from household sample surveys and the precise concept used may vary from one survey to another. That is, there is a cluster of concepts which have been used to approximate the more general concept of income poverty. We shall note six variations on this theme.

- i) Sometimes investigators use the concept of a minimum household *per capita expenditure*. This raises the issue, common to several concepts in the cluster, of how to value income originating outside the market, e.g., crops grown for self-consumption, meat and milk products obtained from animals owned by the household, the services of owner-occupied houses.
- ii) It is equally common to base the poverty line on a minimum household *per capita income*. The problem here is that, particularly in times of falling real incomes, as in Uzbekistan today, household expenditure may exceed

- household income. Households may go into debt to sustain their level of consumption or they may sell some of their assets or run down their savings. Hence studies based on expenditure can produce different results from those based on income.
- iii) Yet another alternative is to base the poverty line on a minimum holding of *per capita assets*. In some societies, particularly nomadic livestock societies, a measure of wealth may give more accurate indication of poverty than a measure of income or expenditure. Households may be “asset rich”, say, because they own land, livestock and their house, while being “income poor”. The privatization of the stock of public housing is an important consideration in Uzbekistan.
 - iv) It is possible to make rough adjustments for the age composition of households to take into account the fact that the needs of children, adults of working age and the elderly differ from one another. When survey data are expressed in per capita terms, it is implicitly assumed that each person should have an equal weight in assessing poverty. When adjustments are made for the age of each person, the poverty line is centered on a minimum expenditure (or income or assets) *per adult equivalent*.
 - v) Another variant is to focus on a minimum *per capita food expenditure*. This makes explicit a point made above, namely, that poverty often is conceptualized as a deficiency in food consumption, regarded as the most important of the “basic needs”.
 - vi) Finally, those who regard poverty as rooted in a physiological phenomenon, namely, malnutrition, may construct their poverty line around a physiologically determined minimum *per capita calorie consumption*. Note, however, that food expenditure and calorie consumption are not the same thing. A household experiencing a fall in income, as in Uzbekistan today, may reduce food expenditure while maintaining calorie consumption, e.g., by reducing the variety of food consumed, by changing the composition of the diet, or by switching to lower quality foodstuffs.

There are thus a variety of ways of measuring “income poverty.” One method is not necessarily better than the others; each method is based on a slightly different notion of what it is to be poor; and each yields different results. In interpreting published estimates of poverty, one should therefore be sensitive to the definitions used.

b) *Capability Poverty*

A second way to define poverty is as a relationship of a person to a set of “functionings” or “capabilities.” This is consistent with the human development approach popularized by UNDP, since under that approach the ultimate

objective of development is enhancement of human capabilities or the enlargement of effective choice i.e., an increase in the freedom of a person to be or to do what he/she has reason to value.¹

This way of defining poverty - deprivation in the space of capabilities - regards commodities or income not as ends in themselves but as means which enable people to function or to exercise their capabilities. The ultimate objective is capabilities, not income, e.g., the ability to lead a long life, to enjoy good health, to have access to the world's stock of knowledge, and so forth. People are regarded as poor whose freedom of choice, whose range of capabilities is severely restricted and consequently whose functionings are seriously impaired.

A lame person, for instance, will require more resources (a walking stick, crutches, an artificial limb, a wheelchair) than those who are sound of limb to be equally capable of mobility. The resources needed to achieve comparable capabilities may vary across groups as well as individuals. The elderly, for example, suffer from a double handicap: their ability to earn income may be impaired while their need for income for certain functionings (mobility, good health) may be higher than average. The poor, according to this view, are those whose capabilities or functionings fall below minimum acceptable standards. It is thus quite possible for an individual to be capability poor but not income poor.

A concern with capability poverty within a human development framework leads quite naturally to the identification of "vulnerable groups," i.e., groups of people with common characteristics who are at high risk of falling into a state of serious deprivation. Such groups might include lactating mothers, female-headed households (including young widows), the elderly, the disabled and the unemployed. The phrase "vulnerable groups" can be interpreted in several ways, but we interpret it to mean that certain people are exposed to exceptional risks which others do not normally face, risks that can plunge an individual or household into poverty.

These risks or vulnerabilities might be associated with the life cycle (such as the vulnerabilities faced by the aged), or with family structures which provide little support in emergencies (such as female-headed households) or with high fluctuations in income and assets which can threaten food security (which can occur among small independent farmers or small herders). Some members of vulnerable groups may face transient or temporary spells of poverty whereas others may face chronic poverty, and of course, some persons who are not members of a vulnerable group might nonetheless face serious risks (such as the risk of a prolonged illness).

¹On the capability approach to poverty, see Sen, (1992).

Of course, such risk would not be so important if insurance markets were well developed, but neither in Uzbekistan nor even in the most advanced market economy countries, insurance markets do cover all contingencies. Virtually everywhere the government acts as the "insurer of last resort", as in the case of floods, famine, earthquakes and severe droughts. Risk provides a powerful justification for government programmes targeted on particular groups.

It must be recognized, however, that the identification of groups exposed to exceptionally high risks or of groups with common disadvantageous characteristics (the elderly, the unemployed, etc.) has limitations. The great merit of selecting "vulnerable groups" for special attention is that specific programmes which target the intended beneficiaries can be designed: pensions for the elderly, nutrition schemes for young children, public works projects for the unemployed, and so on. The disadvantages are, first, that some members of vulnerable groups may not in fact be poor and, second, some poor people may not belong to a vulnerable group. In the latter case, some people living in poverty, and therefore deserving of public support, may be excluded unintentionally from official schemes intended to alleviate hardship.

This is not an argument against programmes aimed at specific vulnerable groups; it is instead an argument against relying exclusively on such programmes to eliminate poverty. Complementary measures are also required. What is needed is an approach to poverty that focuses on individuals rather than on groups which have some particular feature in common. The social deprivation approach allows one to do this.

c) Social Deprivation

The third way of looking at poverty is to see it as a relationship between one person and another. We call this the social deprivation approach. Income and capabilities are without doubt highly relevant - they are "intermediating" factors - but the essence of poverty according to this approach lies in relations among people. The poor are those who are socially deprived; they are people whose incomes, capabilities or other characteristics are unacceptably distant from the norms of their community or reference group. To be poor is to fall below the minimum accepted standards of one's society, to live in shame, to be indecent, to be unable to participate fully in the life of the community. Poverty here is a social construct which has little to do with physiological requirements and the like (minimum-calories, basic needs or minimum incomes) or with capabilities (longevity, literacy, numeracy, mobility and the like). A person is poor not because of deprivation in income space or capability space, but because of deprivation in social space. That is, a person is poor - and would regard himself/herself as poor - because relative to other individuals his/her capabilities or income are low.

This view of poverty leads itself to organizing anti-poverty measures at the local level, e.g., by local government or, in Uzbekistan, by local neighbourhood committees known as *mahallas*.² Often local conditions can vary enormously among small, scattered and isolated rural communities and in remote regions such as Karakalpakstan. One consequence of this is that two persons in similar circumstances, i.e., with the same real income and the same basic capabilities, might be regarded differently depending upon the general conditions in the communities in which they reside. That is, one person may be poor in the sense of being socially deprived compared to the others in his/her reference group while the other person may not be poor, since his/her situation is not markedly inferior to that of others in his/her community.

Using the *mahallas* to distribute relief to the poor enables variations in local conditions to be taken into account.³ It is a flexible system and a low cost one; it is based on a long established institution and hence enjoys the confidence of local people. No doubt, as in all systems, there is bound to be some favouritism and corruption in the allocation of funds, but periodic auditing of the accounts by the authorities should keep these difficulties within acceptable limits.

Experience indicates that those identified by the *mahallas* as living in poverty tend to belong to one of the vulnerable groups or to have an exceptionally low income, or both. The three approaches to the definition of poverty are not mutually exclusive; they should be seen instead as complementary. One approach to poverty can be used in one context and a different approach in another. For example, when estimating the extent of poverty nationwide, Uzbekistan may wish to use an income poverty approach. When designing programmes to alleviate poverty, implicitly a capabilities approach may be used, those in poverty being identified as members of a vulnerable group. And when the *mahallas* have to decide how to allocate the meagre funds they have to alleviate poverty, implicitly the social deprivation approach is used.

d) *The Extent of Poverty*

Very little is known about the extent of poverty in Uzbekistan. Data are not collected on a systematic basis and an *ad hoc* survey of 20,000 households has long been planned, but unfortunately it has encountered serious delays. There is a monthly survey of about 400 households and a quarterly survey of

² For details on the *mohallas* system for distributing relief, see Griffin, (1996).

³ That is, the *mahallas* system, because it is based on the social deprivation approach, enjoys a conceptual superiority to other approaches; and it also enjoys an informational advantage because it permits the use of a wider range of information than is available from survey data in identifying the poor.

4050 households, but the sample for these surveys was designed in the Soviet period and does not reflect the current structure of the population. The results of these two surveys are not terribly reliable. It is therefore not possible to measure the degree of inequality in the distribution of income or to construct estimates of the extent of income poverty. The location of the poor, the incidence of poverty among the different nationalities and the characteristics of the poor are known only from anecdotal evidence.

Having said this, it should also be said that there is no visible evidence of widespread poverty. There is however indirect evidence that poverty has increased although the proportion of the population living in poverty is low compared to most other countries.

Consider first the decline in real gross domestic product per capita. According to official data, in the five years between 1991 and 1995, there was a cumulative decline in real GDP per head of 27 per cent. It is possible, even likely, that the official estimates fail to capture some rapidly growing economic activities, particularly in the informal sector, and hence exaggerate the overall decline in output, but there is no doubt that average real incomes have fallen quite sharply.

Consider next the increase in inequality.⁴ At the end of the Soviet period, prior to independence, the Gini coefficient in Uzbekistan is estimated to have been 0.285. This represents a low degree of inequality, but the estimate is plausible given what is known about the structure and payments system of Soviet-type economies. In 1995 the Gini coefficient is estimated to have been 0.341. This estimate may not be very reliable but the order of magnitude is certainly plausible. It implies that the degree of income inequality remains rather moderate but that it has increased by nearly 20 per cent in about five years.

The combination of a fall in average real incomes by perhaps as much as 27 per cent and an increase in inequality in the distribution of income by roughly 20 per cent suggests rather strongly that poverty, however defined, must have risen to levels previously unknown. Other fragmentary evidence is consistent with this view.

In 1992, for example, it is estimated that 44.5 per cent of the population of Uzbekistan received an income less than the minimum wage.⁵ One can of course argue that the minimum wage is not the appropriate yardstick for measuring poverty. Moreover, many people with incomes less than the minimum wage have additional sources of livelihood (such as a second job in the informal sector), enjoy health and education services which still are generous by

⁴ The data on Gini coefficients in this paragraph was obtained from a draft of the UNDP, (1996).

⁵ *Ibid.*, p.57.

the standards of most countries and have recently acquired their homes (a valuable asset) from the state at a nominal cost. Even with these qualifications, however, it is disconcerting to know that such a large proportion of the population is forced to survive on less than the minimum wage.

At the other extreme, the *mahallas* have identified some 500,000 households as being very poor. These households account for 12 per cent of all households in the country and 13-15 percent of the total population. This estimate can be interpreted as the lower bound of the range of estimates since the very limited resources of the *mahallas* - only 1.5 per cent of the total government budget - force them to concentrate their efforts and resources on those whose need for assistance is very great indeed.

Beyond this, can anything useful be said about the location and characteristics of the poor? The answer, unfortunately, is not much. It is clear that the poor are disproportionately located in rural areas. It is equally clear that the Uzbeks are over represented among the poor as compared to those of European nationality. The latter is a corollary of the former since the Uzbeks are concentrated in the rural areas. That is, sector of economic activity rather than ethnicity is likely to be the stronger causal factor in determining poverty.

There is some additional circumstantial evidence that is consistent with the proposition that the incidence of poverty has increased.⁶ For example, between 1990 and 1994, life expectancy for those over 60 increased in urban areas (from 13.8 to 17.8 years) whereas it actually fell in the rural areas (from 14.7 to 13.8 years). This suggests that one vulnerable group (the elderly) located in one area (the countryside) has been exposed to increased risk and has experienced increased capability poverty.

Indeed there is a danger that capability poverty may increase more generally, irrespective of what happens to income poverty. Between 1992 and 1994 total spending on education fell from 11.6 per cent of GDP to 9.7 per cent and total spending on health declined from 5.5 to 5.2 per cent of GDP. Moreover these declines in proportionate expenditure occurred in a context of falling total output. That is, spending on education and health declined more rapidly than GDP as a whole. A continuation of this trend has ominous implications for capability poverty in future.

Fortunately, most indicators of social pathology do not depict a society under great stress. There is nothing comparable in Uzbekistan to what can be observed in, say, Russia. Homicides committed by men rose by nearly 64 per cent between 1992 and 1994, from 3.3 per 100,000 persons to 5.4, but the level of violence in the country continues to be low. During the same period the number of reported rapes (per 100,000 women aged 15 to 59 years) also

⁶ The data in this and the next two paragraphs were obtained from *ibid.*, draft Annexure Tables.

rose sharply (namely, by 58 per cent) but, again, the incidence of this type of violence against women remains rather low (at 3 cases per 100,000 women in 1994). On a happier note, while the number of private cars fell slightly (between 1993 and 1994), the injury rate from road accidents fell dramatically (by 70.5 per cent between 1992 and 1994). Whether this has anything to do with a higher incidence of poverty - perhaps related to lower automobile usage associated with incomes - is for the reader to decide.

There are numerous signs, however, that poverty has increased. It is safe to assume that at least 15 per cent of the population is experiencing poverty in the sense of social deprivation and a larger proportion is experiencing income poverty. The incidence of capability poverty is more difficult to quantify, even as a rough guess, but whatever the incidence today, it is likely to increase in future. Poverty, thus, has become a major policy issue.

II. Policies to Reduce Poverty

There are four distinct reasons why the reduction and then the elimination of poverty should be a high priority for public policy. First, and most obvious, the purpose of poverty elimination is to *raise the well being* of those who are materially disadvantaged. This is a conventional objective of development that commands universal agreement. Second, the purpose is to *increase the capabilities* of those whose basic capabilities fail to reach minimally acceptable levels. That is, poverty elimination is part of human development when it is interpreted to constitute the overarching objective of development in general. This is the view of UNDP and all of those who accept the human development approach.

The third purpose is to *promote economic development* by increasing human capital formation, i.e., by investing in people in order to raise the productivity of their labour. In this case the elimination of poverty has an instrumental value: it is a mean to an end, an effective way to increase output and incomes. Finally, the purpose of poverty elimination is to *increase freedom* in the positive sense of enabling people to lead a life of their choice, as well as in the negative sense of enabling people to be free, for example, of hunger.⁷

These four reasons, taken as a whole, imply that the reduction of poverty should be an integral part of any strategy designed to promote development, and it should certainly be a prominent feature of a human development strategy. The reduction of poverty should not be an afterthought or an *ad hoc* response to the "side effects" of the main thrust of policies intended to acceler-

⁷ Sen, (1992), has long argued for a two-way connection between freedom and poverty reduction (or reduced income inequality).

ate development. Even less, responsibility for coping with poverty should be relegated to the social sectors and to "social policy". Social and economic policies are indivisible and should be analysed jointly under the umbrella concept of human development.⁸ Then, what should be the main policies to reduce poverty in Uzbekistan?

First, a resumption of economic growth must be given top priority. A measure of price stabilization has been achieved. The monthly rate of inflation now appears to be about 5-6 per cent, still high but much lower than it was in 1995. The market for foreign exchange has become more competitive and efficient, and the differential between the official exchange rate and the curb market rate is quite narrow. The decline in the rate of growth of GDP may have stopped - the official data indicate GDP fell by 1.2 per cent in 1995 - but because of population growth, per capita output has yet to begin to rise. Unless average incomes begin to increase on a sustained basis, there is no possibility of preventing a further increase in poverty. Growth is essential.

Second, the pattern of growth is almost as important as the rate of growth. Policy should encourage (through adoption of appropriate price incentives and otherwise) an employment intensive pattern of growth and not place exclusive reliance on the energy and minerals sectors, which are inherently capital intensive. Job creation is a key component of a human development strategy centred on the reduction of poverty. Only if employment opportunities increase quickly, it will be possible to absorb the "surplus" labour in agriculture and reduce rural poverty, while simultaneously releasing the "disguised unemployment" in state-owned industry for effective redeployment in more productive activities.

Third, as part of an employment intensive strategy of development, obstacles to the emergence, expansion and development of small and medium scale private sector enterprises should be removed. This sector has enormous potential in Uzbekistan, but that potential is being frustrated by numerous formal and informal administrative barriers. It is not necessary to protect local, small and medium scale enterprises from foreign competition, nor is it necessary to provide them with special incentives (tax advantages, subsidized credit, etc.); all that is required is the removal of handicaps. If this were done, the sector would flourish, to the enormous advantage of poor and low income people.

Fourth, as has been argued elsewhere,⁹ a guaranteed employment scheme could contribute much to raising the rate of growth, restructuring the economy and providing productive employment to those currently working in declining sectors of activity. The purpose of the scheme is to raise the rate of investment

⁸ *Ibid.*, Chapters 2 and 3.

⁹ This argument is developed at greater length in Griffin, (1996).

(and hence growth) on infrastructure projects and other public works by utilizing labour with a low real opportunity cost. Such a scheme could lead to a capital construction boom and a sharp improvement in economic performance. Uzbekistan should take advantage of its (temporary) abundance of well educated and skilled labour to launch a major public works investment programme.

If these four policies were adopted and fully implemented, income poverty would fall dramatically and such poverty which remains could readily be tackled through more selective policy interventions.

On the list of desirable additional policies, those designed to reduce capability poverty and promote human development are high. This includes, fifth, investment in human capital in the form of education and training. The decline in expenditure on education is cause for concern not only because it contributes to a higher level of capability poverty in the present, but also because it weakens the longer term growth prospects of the economy. There is abundant evidence from many parts of the world that money spent on education is a good investment that enjoys high rates of return. The economic reforms currently underway will help to ensure that the returns on education are high in Uzbekistan too, and it would be a major policy error to cut back on education just when conditions are becoming ripe for education to play a significant role in the country's future well being.

Sixth, it is important that Uzbekistan preserves its impressive record in health care. Life expectancy is high and continues to rise: it was 70.4 years in 1994. Maternal mortality rates are relatively low and fell sharply from 24.1 per 100,000 live births in 1993 to 17.3 in 1994.¹⁰ The population growth rate, while still high (2.2 per cent a year in 1995), has been falling, possibly at an accelerating rate. Birth rates have declined in both rural and urban areas, where they were 33.3 and 23.2 per thousand, respectively, in 1994. Death rates are remarkably low and, curiously, in 1994 they were lower in the rural areas (6.2 per thousand) than in the urban (7.3 per thousand).

It is commendable that progress occurred even during the difficult years of the transition to a more market oriented economy.¹¹ There have, however, been some negative developments in the health sphere. Average calorie consumption per capita remains above the recommended intake of 2567 per day, but the nutritional content of the diet has deteriorated. The consumption of eggs, meat and dairy products is below the recommended level and in each

¹⁰ This abrupt decline may be due to decisions by older women, who are at greater risk during childbirth, to have no additional children - a decision influenced in part, perhaps, by the general deterioration in living standards.

¹¹ For a good description of the health system in Uzbekistan and its problems, see, UNDP, (1995).

case the shortfall between recommended and actual consumption has widened since 1990. Preventive health measures are not as strong as in the past, as evidenced by the decline in coverage of vaccination programmes for measles, mumps and other common diseases.

Of course the health status of the population does not depend entirely, or even primarily, on the size of the medical care system. Nevertheless, Uzbekistan inherited at independence a relatively good medical system which was free of charge and readily accessible to both the urban and rural population. These features should be safeguarded while reforming the system to increase efficiency and lower costs, e.g., by switching priorities from in-patient to out-patient care and by placing greater emphasis on preventive measures as opposed to curative medicine.

The central point for policy is that investing in health enhances the capabilities of people and makes them more productive members of society. Good health, not only has intrinsic value, but it also has instrumental value. This does not necessarily imply that more resources should be allocated to the Ministry of Health - perhaps a larger impact on health could be obtained by improving the environment and cleaning up the water supply, or by launching a public health campaign to reduce consumption of tobacco and alcohol¹² - but it does imply that resources devoted to improved health have an important role to play in reducing capability poverty.

Seventh, one particularly "vulnerable group" deserves priority attention, namely, pensioners. The provision of economic security for the elderly has long been an important feature of the country's system of social protection. Indeed it can be argued that Uzbekistan no longer can afford its generous pension system, characterized as it is by relatively early retirement (age 55 for women and 60 for men), high level of payout (upto 75 per cent of previous earnings) and heavy burden on the exchequer (11.4 per cent of GDP was spent on pensions in 1993).

Assuming the objective of policy is to reduce capability poverty, it would be better to switch from an earnings-related pension scheme to a scheme which concentrates exclusively on ensuring a minimum of economic security to those older than working age.

Such a scheme would provide a basic pension to everyone as a right, and the pension would be adjusted regularly to compensate for inflation, so that its real value remains constant. The age of retirement would be raised to 65, equally

¹²According to the Annexure Tables of the UNDP, (1996), the per adult consumption of tobacco fell by 50 per cent between 1993 and 1994 and the per adult consumption of alcohol fell by 32 per cent. Why this occurred is unclear, but perhaps it was due to the fall in real incomes per capita (which lowered demand) combined with large scale emigration of non-Uzbek nationalities (who consumed relatively larger quantities of alcohol and tobacco).

for women and men, and would thereby reflect the high average life expectancy in the country. Pensioners would be free to supplement their pensions by working, and would incur no penalty in the form of a partial clawback if they chose to do so. Similarly, they would be free to supplement their basic state pension by income from private savings or receipts from private pension plans. A scheme of this sort would combine fiscal prudence with incentives to work and to save, and would guarantee economic security to all in their old age.

These three policies - investment in human capital in the form of education, investing in the good health of the population, and providing a minimum level of economic security to the elderly - when combined with the earlier policies designed to reduce income poverty, should go quite far in eliminating capability poverty.

This leaves us, finally, with the issue of social deprivation. This form of poverty, local in nature and hard to identify from afar, requires community participation and commitment to eradicate and strengthen the local institutions. Fortunately, Uzbekistan has such institutions in the *mahallas* and experience has shown that the *mahallas* constitute a low cost and effective instrument for identifying the poor and distributing assistance to them. The weakness of the *mahallas* is their paucity of resources, and this is a weakness that can be remedied only by the central government.

The hard core of poverty that remains after the other policies listed above have been implemented and can best be addressed through transfer payments. The problem is that at present the volume of transfers is too low to have a noticeable impact on the overall incidence of distress. More funds are needed during this period of transition. Exactly how much more is needed is impossible to ascertain, but a doubling in real terms of the present small allocation would be a sensible step in the right direction. The *mahallas* would have no difficulty administering such an increased flow of funds and the resulting transfers to the poorest people in the country, certainly would do much good.

These eight policies, singly and in combination, should form part of a comprehensive human development strategy that, among other things, substantially reduces in a short period of time, the three forms of poverty we have identified: income poverty, capability poverty and social deprivation. Many of the policies are desirable in their own right, even if there were no poverty in the country, but the presence of poverty, and the danger that it will increase, gives added urgency to the need for action.

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