

UNITED NATIONS DEVELOPMENT PROGRAMME UZBEKISTAN

SUPPORT TO REFORM PROCESS IN UZBEKISTAN

**RECOMMENDATIONS TOWARDS SUSTAINABLE
DEVELOPMENT OF THE CENTER FOR ECONOMIC RESEARCH**

Prepared by Leonid Polishchuk

This report is based on UNDP project documents, materials of the Center of Economic Research (CER), consultant's prior work experience with CER, and interviews held in Tashkent on November 24-29 with CER's stakeholders, senior management and staff. Opinions and recommendations presented in the report are consultant's own and, unless explicitly stated otherwise, do not represent official positions of UNDP and/or CER.

November-December 2008

Table of Contents

Executive summary	3
1. Background: demand for policy analyses in Uzbekistan	5
2. CER's role and capacity	5
3. Revenue base: what is sustainability?	7
4. Capacity building	9
5. Governance and operations	10
6. Dissemination and outreach	11
7. Thematic scope	12
8. Relations with international development agencies	13
9. Relations with government	15
10. Relations with private sector	16
11. Regional focus	17
12. Education and training	18
13. International cooperation	20
14. Concluding remarks	21
Annex. Interviewed individuals	23

Executive summary

Uzbekistan is faced with massive and increasingly sophisticated policy-making agenda which requires ongoing professional support. To provide such support, the Government of Uzbekistan and UNDP have jointly established the Center of Economic Research. *Demand for CER's services is likely to grow bigger*, to accommodate ambitious modernization and development goals of the nation and find proper responses to external challenges.

CER maintains strong leadership among public policy analysis units in Uzbekistan. *It has accumulated valuable professional and institutional assets*, including strong reputation, trust and credibility with stakeholders, good outreach channels, capable team of policy analysts, and necessary project management expertise.

Due to its nature as a public policy think tank, *CER cannot achieve sustainability without committed support from the Government of Uzbekistan and international development agencies*. Such support should combine “untied” core grants and contracts, and be augmented (but not substituted) by CER’s own revenue-generating activities.

CER needs to enhance its professional capacity to be able to use in its studies modern quantitative tools of applied policy research – this would increase soundness and precision of policy recommendations and provide decision-makers with data necessary for informed policy selection. The necessary know-how can be acquired through pilot projects implemented jointly with international experts.

To achieve greater transparency and accountability and strengthen performance incentives, *CER needs a governance reform that would establish a representative Board to Trustees and/or Advisory Board*.

To improve its communication and outreach with the private sector, *CER could launch a periodic newsletter* featuring business environment reviews and government policy updates, domestic and international market surveys etc. Net revenues generated by such newsletter can be used to cross-subsidize publication of the “Economic Review” magazine.

CER should position itself as an inter-disciplinary policy analysis organization which specializes in institutional and policy reform and development studies. An endorsement of such focus by the Government of Uzbekistan and UNDP would send a useful signal to CER’s stakeholders about the Center’s intentions and capacity and suggest a “division of labor” with other think tanks, under the assumption that various policy institutions will be competing with each other primarily in quality of their products.

Donors should coordinate their work with CER viewing the latter as a jointly maintained and utilized development resource for the country. A coordination effort involving all major development agencies present in the country should be jointly initiated by the Government of Uzbekistan and UNDP.

CER needs to maintain its close relations with the Government of Uzbekistan, while presenting credible evidence to other stakeholders that such connectivity does not compromise its independence. CER's communication with government counterparts should not be affected by internal divides in the executive branch. Engagement of the Center with the national legislature should proceed well beyond its present rudimentary stage.

CER could facilitate dialog between the private sector and the Government of Uzbekistan, by helping the business community to better articulate its position vis-à-vis the government, and the latter – to get a succinct first-hand assessment of the situation in the private sector. Such activities could be an additional source of revenues for the Center.

Work on regional development strategies opens a promising market for CER; its specialization on regional strategies would produce benefits of the economy of scale; facilitate coordination of regional strategies with each other; dissemination of best practices; and benchmark comparisons of strategy implementations in various regions. Regional strategies also provide an opportunity to enliven dialog between government, society and the private sector over public policy and development problems.

Integration of CER with universities would help advance economic education reform in Uzbekistan and widen the revenue base of the Center. CER could offer applied economic policy courses and programs on reforms, governance, institutions and development, provide internship for university students and graduates and open graduate programs. It should also participate in training programs for government officials and public and private sector executives.

Two main objectives of international contacts of CER should be professional capacity building and cooperation with policy institutions and experts from across Central Asia. This would enhance opportunities for peer reviews, professional exchanges and debates, and help create a regional “market” for policy ideas, leading to identification and broader dissemination of better-performing approaches.

1. Background: demand for policy analyses in Uzbekistan

Since independence Uzbekistan followed its own economic policy course, at times at odds with liberal economic orthodoxy, which emphasized socio-economic security and income and welfare maintenance. This strategic choice allowed the country to avoid a deep transitional recession experienced by its neighbors, but at the cost of significant macroeconomic imbalances and suppressed incentives in the private sector. Policy adjustments that ensued emphasized macroeconomic stabilization and market development. Over the last several years the national economy was growing steadily with annual growth rates in the 6 to 10 percent range. Nonetheless a number of serious socio-economic problems persist and require appropriate policy response. These problems are compounded by formidable external challenges, especially posed by the global financial crisis.

Contemporary views of development and reform reject standard “one-size-fits-all” approaches and encourage customized selection of socio-economic policies reflecting conditions and realities of particular nations; Uzbekistan’s heterodox reform strategy is consistent with such views. However a “made in Uzbekistan” approach to policy-making requires a strong domestic capacity for policy analysis and formulation. Cognizant of this need, UNDP over the last decade has been supporting the Center for Economic Research (CER) – a non-governmental think tank with the mandate to provide analytical support to policy reform in the country.

The need in such support remains strong. In order to be successful, a controlled gradual transition strategy requires ongoing institutional adjustments that would accommodate a growing economy and ensure technical and institutional modernization and improvement of living standards. Institutions and policies that were adequate at earlier stages of transition could become obsolete and turn into obstacles for sustained growth in the future, and policy reactions to such mismatches should be prompt and well-targeted. Expert support must therefore be ongoing, too. Over time the reform agenda is becoming more ambitious, sophisticated and knowledge-intensive, and demand for think tanks products is likely to grow. Another important reason to seek think tanks’ inputs is the need to develop proper policy responses to external “shocks” that affect terms of trade, access to capital, global commerce, international commodities and labor markets etc. Finally, economic development in Uzbekistan cannot be disengaged from legal and political reform, social processes, traditions and culture, and think tanks need to expand their thematic agendas beyond economics to include a broader range of social science issues and disciplines.

2. CER’s role and capacity

Nearly ten years since its inception, CER remains the primary think tank in Uzbekistan. Established as a joint venture of UNDP and the Government of Uzbekistan, CER has been continuously supplying the government and other stakeholders with economic

analyses, assessments, forecasts, and policy proposals and blueprints. CER also sees its role in fostering a broad dialog on reform and development in Uzbekistan, which involves government officials, private sector, civil society, international donors and expert community. An important part of CER's mandate is informing the public on policy and development issues; this is accomplished through various dissemination channels, including the popular "Economic Review" magazine.

Thematic scope of CER has been very broad all along, covering economic growth, fiscal and monetary policy, international trade, labor market, social services and welfare, regional development, information technologies and industrial policy, political reform and public sector governance, etc. While some policy studies were initiated by CER (the "upstream" part of the Center's project portfolio), others were produced at requests of various government agencies, often on a tight schedule. Since it would be clearly impossible to accumulate in a relatively short time period an in-house professional capacity sufficient for such an ambitious workload, CER relied on external resources and formation of ad hoc project teams that included outside experts, some of them government officials.

Although CER has clearly demonstrated the advantages and potential of the think tank model in Uzbekistan, no other policy NGOs of comparable significance has yet been created in the country, perhaps due to high entry barriers and difficulties in reaching minimal efficient scale. The rest of the policy analysis sector in the country comprises several government-run institutions that are successors to analytical units established before independence. These institutions underwent a series of restructuring and recently some of them have been merged into the Institute for Macroeconomic Analysis and Forecasting with over 150 staff members – another major player on the national think tanks scene and a potential CER's rival. The government is also in a process of setting up two more think tanks, one of which will be specialized in monitoring of social trends, and the other deal with legal reform.

The ability of CER to meet the needs of the nation in policy analyses and to compete with rival organizations will depend on professional and organizational assets accumulated by the Center and its comparative advantages over other similar institutions. Most valuable and prominent among such assets and advantages are as follows:

- Reputation and name recognition of the national center of excellence in applied policy research
- Trust, credibility and good outreach and communication channels to key stakeholders, including the government of Uzbekistan and international donors and development agencies
- Facilitation of stakeholders' dialog; "point of contact" between policy-makers, international organizations and business community
- A solid track record of successful applied policy reform projects
- Project planning, design and implementation tools
- A strong indigenous team of policy analysts with solid first-hand knowledge of Uzbekistan's socio-economic situation and development problems

- Good grasp of policy-making process in Uzbekistan and knowledge of international donors' project management and reporting requirements
- Effective dissemination instruments, including the popular "Economic Review" journal
- Access to modern economic literature and various sources of socio-economic data

Accumulation of expertise in using modern tools and techniques of applied policy analysis, such as econometrics, impact assessment (cost-benefit analysis), performance measurement, etc. was less impressive. In most of CER's projects only basic tools of data processing and presentation were used. This is a significant bottleneck in the Center's ability to produce professionally sound policy recommendations.

3. Revenue base: what is sustainability?

Since its inception CER has been massively supported by its two main donors – UNDP and the Government of Uzbekistan. Such support had no alternative at early stages of setting up a "greenfield" institution, but could not be available in perpetuity at its current level and in the present format. Donors rarely commit to long-term funding of their partner organizations that are expected to ultimately "graduate" from such assistance and assume financial and operational independence. As for the government, think tank's reliance on public funding is not entirely consistent with the vision of an independent policy NGO. It is therefore important to develop and implement an appropriate and realistic sustainability strategy for CER.

The simplistic vision of sustainability whereby a think tank is expected to earn sufficient income by selling its services to various clients is misguided. Indeed, think tanks deal with *public* policy issues and their main products are intended for "public consumption" (by government or other stakeholders). As it is the case with producers of other "public goods", think tank's operations cannot be funded solely on a commercial basis – otherwise a think tank would be transformed into a private consultancy and fail to fulfill its core role. A functional think tank should thus have a long-term source of revenues for public policy studies not intended for commercial sale.

Ordinarily public goods are financed by government, but in the "textbook" think tank model government funding is considered undesirable either, since it is fraught with a conflict of interest and could compromise think tank's independence. Instead, think tanks draw revenues from private donors' contributions and ideally rely on endowments that generate streams of investment income. While this model is common in North America, elsewhere in the world where private donors and endowments for various reasons do not fulfill such role, think tanks operate on different principles. Thus, in many countries (Germany, South Korea, Malaysia, etc.) think tanks receive significant financial support from governments, and this does not seem to compromise quality and impartiality of their work. In developing countries multiple international donors and agencies also step in and support local think tanks. Finally, think tanks draw revenues from consulting contracts

and sales of their products and services, but such sources of funding usually play an auxiliary role.

In case of CER all of the above sources of support have to be combined in proportions and under conditions that would ensure professional quality, independence and sustainability. It is recommended that the two main sponsors of CER – the Government of Uzbekistan and UNDP – continue their support through the next stage of the project, since presently and in the foreseeable future their contributions have no adequate alternatives, and their withdrawal cannot be compensated by other revenue sources without jeopardizing CER’s ability to fulfill its role of a public policy analysis unit.

In planning CER’s revenues two main goals have to be balanced. One is to enable CER to seamlessly operate its “institutional infrastructure”, plan its activities ahead for at least a medium-term perspective, and exercise appropriate discretion in choosing thematic priorities of its policy research. The second objective is to impose hard budget constraint and set performance incentives to ensure efficiency, competitiveness and accountability of the Center. To this end, CER should have access to several sources and modalities of revenues.

First, CER needs adequate *untied* sources of income that would cover its governance and administration, fund accumulation of professional resources, and enable CER to undertake agenda-setting “upstream” projects. Such untied funding could come from the main founding sponsors of CER – UNDP and the government, with participation of other donors and development agencies. So far CER was able to undertake “upstream” projects on an ad hoc basis; it is important to institutionalize this practice as a line item in the Center’s budget with earmarked revenue sources.

Second, a substantial part of CER budget should be *tied* to particular projects that could be awarded competitively and/or on a sole-sourcing basis. In case such projects are sole-sourced, they could be either planned ahead or the client (such as government or UNDP) could conclude with CER a retainer agreement that would provide funding for a *stream* of projects as they arise. Such projects, apart from policy studies, could also include educational and training activities contracted by the government and/or donors. To maintain incentives for quality, a growing number of projects should be awarded by donors and clients competitively.

Third, CER should augment the above two channels by panoply of other revenue-generating activities, such as sales and subscription to printed and electronic publications, including the “Economic Review” magazine; tuition-paying training courses; public events where registration fees are charged; and private consulting and policy studies prepared for clients in the private sector. It should be borne in mind however that on-demand private consulting is unlikely to generate substantial net revenues that could be used to cross-subsidize core public policy research, since private consulting is an inherently competitive activity where CER does not have clear-cut comparative advantages over domestic and international rivals.

Implementation of the above sustainability model requires a financial plan where donors coordinate their contributions (perhaps by forming a consortium) in the form of untied core grants and contracted research and training, and this funding is augmented by CER's own revenues from various sources. Such planning should be conducted on a rolling basis with short-to-medium term budget based on committed funds, and more distant projections are subject to periodic updates.

4. Capacity building

CER's handling of multiple projects on a broad range of issues and reliance on ad hoc project teams staffed with "borrowed" experts slowed down the buildup of in-house professional capacity. This could have an adverse effect on the ability of the Center to properly handle increasingly complex contemporary reform and development issues, and such capacity gap needs to be urgently closed. To be fully prepared to work that lies ahead, CER needs to have at its disposal quantitative methods of impact assessments of various factors on development indicators and outcomes; statistical methods of hypotheses testing; modern time series and panel data analysis techniques; impact assessment methods; performance evaluation tools; etc. (Box 1). Such tools could require data not available from official statistical sources, in which case market and/or household surveys should be arranged. If these surveys are conducted regularly, they would produce panel data – an invaluable resource for policy studies.

Box 1. Applied policy analysis tools

Econometrics: statistical estimation of influence of some factors (variables) on others; testing of hypotheses on significance and causality of such impact

Cost-benefit analysis: valuation of impact of policies and projects; calculation of expected gains and losses; assessment and comparison of net benefits of policy alternatives

Applied equilibrium models: analysis of impact on the economy of tax and trade policies, government regulations, etc.

Performance measurement: qualitative assessment of efficiency of government agencies, private sector firms and NGOs.

Modern methods would add substance and relevance to policy analysis products of CER; make policy recommendations more convincing, precise and operational; shed light on causality between policy instruments and outcomes; and furnish decision-makers with quantitative information necessary for informed selection of best policy options. These techniques could reveal true costs to economy and society of various obstacles to development, such as outdated institutions and policies, and provide powerful arguments in support of efficiency-enhancing reforms.

Most immediate and practical way of acquiring new analytical skills by CER personnel would be through learning-by-doing. To this end, it is recommended to launch a series of pilot projects in which international experts fluent in such tools will be collaborating with CER analysts to demonstrate modern approaches to applied policy research at work and provide necessary consultations and tutoring. This recommendation is consistent with the joint endorsement by the Government of Uzbekistan and UNDP at the CER strategy formulation meeting on April 16, 2008, of pilot projects at CER and broader international partnership and cooperation.

A series of such pilot projects plus necessary training courses should be sufficient to familiarize CER analysts with new techniques. Subsequent learning of more advanced methods could continue independently with occasional consultations provided as needed by international experts. Once CER staff members become sufficiently experienced in qualitative methods of applied policy analysis, they could in their turn start teaching such methods to their colleagues and perhaps to university students through special courses.

Funding for the proposed capacity-building effort could be provided by international donors and development agencies. In particular, the World Bank is willing to consider participation in such effort, as stated by the Bank's Country Manager for Uzbekistan Loup Brefort interviewed for this report. Operational budget of the Bank would not have sufficient funds for such activity, and the Government of Uzbekistan has been reluctant to borrow for technical assistance, so in Mr. Brefort's opinion it would be best to submit an application to a trust fund to raise necessary resources; other donors could join in on a cost-sharing basis.

5. Governance and operations

The Government of Uzbekistan and UNDP have endorsed a governance reform at CER that would establish a Board to Trustees and/or Advisory Board, alongside with a more efficient and streamlined Steering Committee. The proposed reform conforms to best practices of NGO/think tanks management and would serve several important purposes: (i) strengthen transparency and accountability of CER and provide safeguards against conflict of interest; (ii) improve performance incentives and quality control; (iii) solicit stakeholders' inputs into CER work; (iv) assist in fundraising; and (v) facilitate dissemination and outreach. Given the dominance of two main donors in CER's revenue base, it is especially important to have autonomous governing units in place that would ensure representation of other stakeholders, attest to independence of the institution, and ensure "value for money" in its work.

The Board of Trustees should have among its members representatives from the government, private sector, international development agencies (including, but not limited to UNDP), civil society and the expert community. The Advisory Board should report to the Board of Trustees (and some members of the Advisory Board, including its Chair, should also have seats on the Board of Trustees). The main task of the Advisory

Board will be to provide peer review of CER's products; recommend analytical tools and sources of data; alert of conferences, training programs, publication opportunities etc.; and assist in partnering with national and international experts and institutions.

Presently the organizational structure of CER comprises several thematic units dealing with social, monetary, trade, fiscal policy issues, government reform etc. Management of CER should revisit and review this structural division in light of the evolving thematic focus of the Center (see below). More generally, a delicate balance between specialization and flexibility should be found. Usually this calls for fewer (four-five) subdivisions within the Center organized around broadly defined policy research areas ("clusters"), with project teams working within such administrative units and, whenever necessary, involving other units' members.

To remain competitive, CER should be able to offer its staff members attractive compensation packages. Growing private sector lately provided good income opportunities for qualified individuals (although the global financial crisis is likely to interrupt this trend), and competition in the labor market between universities, private consultancies and government policy analysis units was also rising, not to mention opportunities for work and study abroad. It is important in choose personal compensation schemes that set strong performance incentives and offer bonuses and other types of rewards for participation in projects (a similar practice is already in place at CER), filing successful grant proposals, publications in prestigious journals and monographs and other professional achievements that benefit the organization. Rewards "in kind" should include travel grants, participation in training programs, etc.

6. Dissemination and outreach

CER has direct communication channels to the *national government* and regional administrations and is thus in a position that many other think tanks would consider enviable. In fact, much of CER's policy products are commissioned by government and such practice will continue in the future. CER was also successful in affecting government thinking about policy issues ("turning around the mindsets" of government officials, in the expression of First Deputy Minister of Economy Galina Saidova interviewed for this report) by introducing modern concepts and ideas on economic development and public policies.

The main mode of outreach to the *public* is CER's flagship publication, "The Economic Review" magazine, which is the most popular economic periodical in the country featuring in-depth analytical articles, more applied market reviews, and general interest materials. The present format of the magazine appears to be too tight for the range of issues that "The Economic Review" covers – hence suggestions expressed by those interviewed for this report that the format of the magazine needs to be expanded, by increasing either the number of pages or frequency of the publication (from monthly to bi-weekly). Either of these options (of which the second one look preferable) could be considered only if the publication generates more advertising revenues that would bring it

closer to self-sufficiency, which is unlikely against the backdrop of the present economic downturn. Overall it would be unrealistic to expect that the “Economic Review” will start generating net income in a foreseeable future; most likely it will still need subsidies which is not unusual for publications which serve important public information roles.

More promising in terms of revenue generation could be periodic newsletters circulated by subscription in printed and/or electronic formats. Such newsletters could feature business environment reviews and government policy updates, professional commentaries, interpretations of government decisions and enforcement practice analyses, domestic and international market surveys and other issues of interest and relevance for private sector firms. Profitability of such newsletters (which could be introduced as paid supplements to the “Economic Review”) will be much easier to accomplish than full cost recovery for the magazine proper.

It is recommended that to improve its communication with the *domestic and international expert community*, CER launches an economic almanac, every issue of which will feature description and express analyses of Uzbekistan’s economic trends, followed by a few professional papers produced by CER staff members and possibly outside authors. Initially such almanac could be published bi-annually and subsequently quarterly. It would be best to have this publication in English, which would increase CER’s professional audience and involve international experts and scholars in discussions of development and modernization of Uzbekistan’s economy.

7. Thematic scope

Until now CER did not restrict the thematic range of its studies, taking on projects on an “as need arises” basis. The list of completed projects and those presently underway transcends most of applied policy and socio-economic development fields. Such versatility was perhaps inevitable given the dearth of policy research capacity in the country and massive and urgent demand for policy studies. To cope with the workload, CER had to rely on “rented expertise” of outside consultants – an approach which, as it was noticed above, slowed down accumulation of CER’s own professional capacity. Increased competition in the market for policy research (especially with the entry of the newly created Institute for Macroeconomic Analysis and Forecasting) and growing need in more in-depth analyses call for clearer delineation of the area of CER’s professional expertise.

The division of labor between CER and other policy research units in the country is not entirely clear at this time, and it will likely be endogenous, an outcome of “trials and errors” and competition between think tanks. Still, it would be appropriate for CER to exit the field of traditional analysis and forecasting of macroeconomic trends (this portfolio will be taken over by the designated Institute) and instead to position itself as an inter-disciplinary policy analysis organization which specializes in institutional and policy reform and development studies (we agree with CER senior management that the name “Center for Economic Research” does not adequately convey such focus, but it has

become a brand and should be preserved as such). A more detailed thematic breakdown consists of the following thematic areas of policy research which require immediate attention and where CER either already has a clear “competitive edge” or is more likely than potential competitors to achieve success:

- Impact assessment of government policies
- Human development, social welfare and labor market trends
- Institutional reform and private sector development in Uzbekistan
- Economic modernization strategies and national development model
- Uzbekistan’s global competitiveness and international image
- Interdisciplinary studies incorporating economic, social, political and legal aspects of development
- Culture and social capital as factors of development and modernization
- Public administration and civil service reform and social service delivery
- Development strategies for regions of Uzbekistan
- Natural resources (land, water, minerals) use and management
- International trade and investments; cooperation and coordination in the Central Asia region
- Impact of global economic crisis on Uzbekistan and compensatory adjustment measures

The proposed list is indicative, but its official endorsement (after modifications if necessary) would send a useful signal to CER’s stakeholders about the Center’s intentions and capacity. It will also assist the government and international donors, including UNDP, in allocating resources and contracts between various think tanks. Watertight demarcation of the policy analysis market between CER and other think tanks is neither feasible nor desirable – research agendas of CER and other institutions are likely to overlap, and yet thematic coordination at this stage seems appropriate. Such coordination in and of itself does not suppress think tank competition – we agree with Ms. Saidova, the recently appointed Director of the Institute for Macroeconomic Analysis and Forecasting, that think tanks in Uzbekistan, even if they study different policy problems, can and should compete with each other in quality of their products. Such “yardstick competition” sets moving targets in assessing performance of particular organizations and thus strengthens performance incentives without triggering “turf wars” between think tanks.

8. Relations with international development agencies

It was argued above that to perform as a public policy think tank, CER needs to have access to funding available on a non-commercial basis, and such funding can be provided by the national government and/or international donors. Donors’ support is essential for the following reasons: (i) it makes think tank’s revenue base more balanced and prevents over-reliance on government, thus enhancing independence of the supported organization; (ii) it augments government funding and gives the think tank flexibility in resource allocation that can otherwise be restricted by public sector rules and procedures;

and (iii) it facilitates think tank's integration in the international development community. In their turn donors by supporting think tanks invest in a valuable development resource and obtain a trusted implementing arm for their projects.

Since CER's inception UNDP has been its main partner and sponsor in the donor community. CER has quickly established and successfully maintained relations with other international development agencies present in Uzbekistan, including the World Bank, Asian Development Bank, EBRD, USAID, and the Europa House. Representatives of the above organizations interviewed for this report were unanimous in praising CER for its work and expressing satisfaction in their previous encounters with the Center. They also stressed the importance of CER's role as a liaison with the government ("external advice is not perceived as well as what's coming from a close source", "CER provides a channel to talk to policy-makers", etc.) and facilitator of dialog with other stakeholders. Representatives of the World Bank and the Asian Development Bank expressed their willingness to engage CER as an implementing partner in their projects or even subcontract such projects entirely to the Center.

Given the interest and stake in CER of all donors, they should coordinate their involvement with the Center. Indeed, CER is a "collective resource" for donors and international development agencies in Uzbekistan, and investments in such resource should be a joint task which requires a concerted effort. It is natural for CER's founders, the Government of Uzbekistan and UNDP, to take lead in such coordination, especially since UNDP intends to steeply phase out its "untied" funding for CER from \$300,000 in 2009 to \$100,000 in 2011 (as per the joint resolution of the Government of Uzbekistan and UNDP passed on April 16, 2008). International development agencies are very attentive to government's needs and priorities and are willing to positively respond to government requests, but need, in the opinions expressed in interviews for this report, "clear signals" to do so. The proposed coordination effort, supported by some of the donors interviewed for this report, including the World Bank, should send such signals, inviting donors to jointly maintain core funding necessary to sustain CER's operations and capacity building, and contract out to CER research, training, public events and other activities.

Donors' contributions could take various forms, including trust fund grants earmarked to support pilot projects with international partners (please see Section 4 of this report) and contracts to implement on donors' behalf various policy research and outreach initiatives (see Box 2 for a list of studies that could be contracted out to CER). Contract awards as well as trust fund application require endorsement of the government which is the statutory counterpart of donors, and such endorsement should be secured as a part of the coordinated CER support strategy involving government and donors.

Box 2. Opportunities for CER's cooperation with international development agencies

The *World Bank* is willing to consider several modes of joint work with CER, ranging from joint workshops, seminars, training events to subcontracted policy research requested by the Government of Uzbekistan to a concerted capacity-building program involving a series of partnerships between CER and international experts and/or think tanks. Topics of projects that the World Bank might be interested in supporting include vulnerability assessments; contingency plans for ups and downs of global economic conditions; impact of the global economic crisis on migrant labor; innovation and technology absorption; etc. The World Bank would apply its internal quality control procedures to policy research outsourced to CER.

The *Asian Development Bank* is willing to pursue with CER projects on water use and management; trade and financial policies; dealing with global financial and food crises; prevention of money-laundering; regional development strategies for Uzbekistan's oblasts; and cross-border regional cooperation between Central Asian nations on energy, water and environment.

UNICEF is contemplating a five year research program in which CER could play a major role, implementing projects on child welfare improvement; social budgetary process and evaluation of local government performance on children welfare; regional child welfare disparities; role of local communities in administration of safety nets; children rights; and education reform.

Sources: interviews with Loup Brefort, Country Manager for Uzbekistan, World Bank; Hong Wei, Head of ADB Uzbekistan Resident Mission; and Mahboob Shareef, UNICEF Representative in Uzbekistan

9. Relations with government

Close relations with the Government of Uzbekistan is a valuable asset that needs to be carefully preserved. It is also important to present credible evidence to other stakeholders that such connectivity does not compromise independence of CER. This can be best accomplished through clear and transparent governance mechanisms that regulate decision-making, establish reporting procedures to the Steering Committee and Board of Trustees, and set clear terms on which government funding to CER is available. The Center also needs to establish guidelines on involvement of government officials as experts in its projects (some donors see this as an obstacle to supporting such projects), and on proprietary issues and restrictions, if any, to open circulation of project materials, findings and recommendations.

CER will continue to respond to multiple government's requests for policy analyses and recommendations, although some of such requests will eventually be diverted to the newly created Center for Macroeconomic Forecasting which is closely affiliated with the

Ministry of Economy – heretofore one of CER’s main interlocutors in the government. This should give CER an opportunity to increase the share of “upstream” studies in its project portfolio and of interdisciplinary policy research addressed to multiple government agencies. CER should remain closely engaged with the Ministry of Economy which is one of key policy reform centers in the government, as well as with other departments in the Cabinet of Ministers and Office of the President; it is important to make sure that CER’s communication channels to the government are not restricted by the internal divides in the executive branch. Engagement of the Center with both chambers of the *Oliy Majlis* – the national legislature – which are presently at a rudimentary stage ought to be expanded.

Policy analyses and recommendations submitted to government should go beyond registering trends and expressing expert opinions – they need to be more precise and quantitative, allowing policy-makers to gauge the impact of various courses of action (or inaction) on national development targets. CER could also initiate a discussion with government officials on the national development strategies that would take into account existing socio-economic and cultural realities and path dependencies, address present and future challenges, and seek to accomplish Uzbekistan’s competitiveness in the global economy. Such discussion which the government is seeking (as indicated by Vyatcheslav Golyshev, State Advisor to the President, in an interview for this report) should incorporate state-of-the-art literature on institutional development and reform and result in a refined vision of the Uzbekistan model of modernization and growth.

10. Relations with private sector

The government considers private sector development as one of its priorities, and implemented a number of reforms that significantly improved the business environment in the country. However private firms still encounter serious problems which are not addressed by the government in a proper and timely fashion. This is an indication of a communication gap between the government and private sector, and CER is well-positioned to reduce such gap by maintaining dialog on economic policy issues between government and commercial enterprises.

Such dialog was piloted by the Business Forum in Uzbekistan project, jointly implemented by UNDP and the Chamber of Industry and Commerce with participation of CER. The pilot has revealed a broad range of issues that the business community would like to discuss with government officials, and demonstrated that such discussion could be substantive and constructive. CER is well-positioned to facilitate further communication between government and private sector that would serve two important purposes. First, CER could present to the private sector analyses, interpretations and assessments of government decisions, policy documents and action plans. Second, CER could solicit opinions from private sector firms on prevailing needs and concerns that require attention of policy-makers. Such grassroots input could be used by CER for the purposes of private sector monitoring and professional diagnostic that should lead to policy recommendations forwarded to the government. Monitoring results should also be shared with private

sector networks that could use CER products for collective advocacy or, when appropriate, self-regulation.

CER's partners in the private sector could be the Chamber of Industry and Commerce of Uzbekistan, the Uzbekistan Chapter of the American Chamber of Commerce and other business associations. Chamber of Industry and Commerce's mandate provides for collective efforts to improve business environment, effective representation of businesses community's interests vis-à-vis government agencies, and dialog with the government on economic policy issues. In the opinions of entrepreneurs interviewed for this report, so far private sector associations are not very effective in maintaining such communication. CER could make a difference by structuring this dialog and representation, making it more pointed and substantive and thus helping the Chamber of Industry and Commerce to better articulate its position, and the government – to get a succinct and professionally prepared assessment of the situation in the private sector. This would facilitate removal of obstacles to growth of private businesses.

American Chamber of Commerce in Uzbekistan (which has many domestic businesses among its members) has insufficient dialog with government on important and urgent problems in the banking sector, foreign exchange, customs, privatization, job creation and some other areas; the Chamber “would be delighted” (in the expression of Donald Nicholson, President of AmCham Board of Directors) to have CER as a mediator and facilitator of communication with government officials. Business community is prepared to provide funding for such dialog and cover the costs of public events, data collection and expert analyses. Such service to business community could thus become an additional source of revenue for the Center.

CER could also work with industry associations to help them produce and implement development programs on industry restructuring, modernization and innovations. These programs are currently being drafted at request of the Government of Uzbekistan, and international donors have been asked to support this work. CER could be an implementing arm of such support.

11. Regional focus

Socio-economic conditions in Uzbekistan exhibit deep variations between regions of the country, and many development problems, such as economic restructuring and job creation, social service delivery, environmental protection etc., are local in their nature. Highly centralized system of government in Uzbekistan did not provide for local policy responses to such problems, and hence there were limited opportunities for think tanks' regional projects going beyond registration of regional problems and trends. However a recent UNDP initiative has possibly made a difference, opening an important and promising avenue for CER's work. As part of implementation of the nation-wide Welfare Improvement Strategy, UNDP has launched work on *regional development strategies* for Uzbekistan's oblasts. Pilot strategies for Kashkadarya and Bukhara regions were the first

produced, and success of these initiatives prompted the Government of Uzbekistan in 2008 to make regional development strategies mandatory for all oblasts of the country.

Regional administrations which are responsible for such strategies lack necessary analytical capacity and expertise even in more advanced oblasts, such as Samarkand. The regional strategy guidelines prepared by the government are of little help, and so far attempts by oblast khokimiats to prepare regional strategies on their own rarely go beyond compilations of existing balance sheets and crude projections. CER which took an active part in work on pilot strategies and has the necessary know-how could fill the capacity void. Regional development strategies could involve diagnostics revealing economic and social problems of a region; impact assessment of national policies and trends for the region; coordination mechanisms for sustainable regional development; recommendations for the national government and regional administrations; and monitoring and reporting procedures.

Regional strategies encompass social, economic, and environmental problems and institutional setups in regions, which is a good match for CER's multi-disciplinary focus. This match, combined with prior experience obtained in Kashkadarya and Bukhara pilots, gives CER a strong comparative advantage over other organizations in work on regional strategies. CER's specialization on regional strategies would produce benefits of the economy of scale; facilitate coordination of regional strategies with each other; dissemination of best practices; and benchmark comparisons of strategy implementations in various regions.

Regional strategies provide an invaluable opportunity to enliven dialog between government, society and the private sector over public policy and development problems. Local nature of strategies makes them immediately relevant and tangible for regional population and businesses, which improves odds for participatory and substantive stakeholder debates that CER could organize and mediate, thus acquiring an important outreach and communication channel.

Work on regional strategies would give the Center good footholds outside of Tashkent and an opportunity to increase its presence, visibility and involvement in the regions. Such presence would be welcomed by regional khokimiats (Box 3). It would also provide CER with a long-term source of revenues, since regional strategies are not a one-off exercise – their implementation requires monitoring, impact assessment, adjustments and other ongoing professional services. UNDP should work with the Government of Uzbekistan and other development agencies to secure adequate funding for CER's involvement in preparation of strategies and implementation thereof.

12. Education and training

Think tanks around the world cooperate with institutions of higher education and offer various training courses. Involvement in education and academic research opens additional opportunities for think tanks' outreach, professional strengthening, and earning

revenues. Universities and think tanks can enter into mutually beneficial symbiotic relations, whereby think tanks offer academic courses, supervise graduate students, provide access to libraries and data, etc. Such mode of think tanks operation has shown its merits in a number of transition and developing countries, e.g. Russia and India.

Box 3. Prospects for CER's work in Samarkand oblast

Khokimiat of the oblast is charged with preparation of a development strategy but cannot produce such document on its own and would highly appreciate CER's support. The strategy should make an emphasis on revival of manufacturing and service industries, tourism, investments and job creation, modernization of social service delivery, including education and health care. It will be essential to coordinate development strategies for Samarkand oblast and neighboring regions, including Navoi oblast where a free economic zone will be established.

CER would be welcomed to hold its public events in Samarkand. In an effort to "market" the region to attract investment and boost trade, the khokimiat would be interested to launch a series of Samarkand Economic Forums that CER would help organize. The khokimiat would strongly support opening an office of CER in Samarkand, and cooperation of the Center with local universities and colleges.

Source: Interview with Uktam Barnoev, Khokim of Samarkand region

CER's integration with universities should be pursued in a broader context of the ongoing economic curriculum reform in Uzbekistan. Some Tashkent-based universities and colleges have established contemporary economics programs at the introductory and intermediate levels, but more advanced economic education is not available in the country, and opportunities for sound graduate studies remain few and far between. CER's integration with existing (or even perhaps newly established) institutions of post-secondary education could help narrow this gap by offering applied economic policy courses and programs on reforms, governance, institutions and development, providing internship and opening graduate programs. Participating CER staff members could draw part-time academic salaries, whereas the Center would collect revenues for services (such as graduate studies) offered to partner universities and share the costs of libraries and other research facilities. Westminster International University in Tashkent is one candidate for such partnership (Box 4); opportunities for cooperation with other universities in Tashkent and elsewhere in the country could be explored as well.

There are also good prospects for CER's cooperation with the Academy of State and Social Development, which is responsible for training of government officials and public and private sector executives. This is a vast market where CER could secure valuable niches, yielding significant revenues and providing the Center with new outreach channels. The World Bank has shown interest in offering such programs jointly with CER.

Box 4. Possibilities for collaboration with Westminster International University (WIU)

Established in 2002, the university offers intermediate-level programs in economics, business administration, information technologies and international law. Its curriculum conforms to international standards, and bachelor degrees are conferred by a UK partner university. WIU institutional development plans provide for opening up masters level programs (one such program in international business and management is already in place) and eventually offering PhD degrees. The university also plans to launch applied research and consulting services and offer training programs for private sector. CER could contribute to all of the above areas, and WIU Rector Abdujabar Abduvakhitov expressed strong interest in pursuing such partnership between two national centers of excellence in economic education and research. WIU pays competitive salaries to its faculty, and part-time teaching by CER staff could make a sizeable contribution to the Center's payroll.

13. International cooperation

It was argued earlier in this report that collaboration of CER with leading think tanks and policy experts worldwide is essential for professional capacity building of the Center. Initially CER will be on the “receiving end” in such partnership, although over time the proposed collaboration will become more equitable and balanced.

In the meantime CER should more actively seek cooperation with policy research organizations in the neighboring countries, primarily in the Central Asian region, where the Center is one of the leading think tanks. In doing so CER needs support from UNDP which is promoting cooperation and trade in Central Asia – regional think tanks could jointly make significant contributions to such goals.

Agenda of the proposed regional think tanks cooperation could include cross-border issues – regional trade, migration, water use, prevention of drug and human trafficking etc. Participating think tanks can also jointly study economic reform and development problems and welfare improvement strategies and trends in participating countries. One advantage of such collaboration will be “economy of scale”. In each of Central Asian countries, including Uzbekistan, the number of think tanks is small, and community of policy experts with modern analytical skills are relatively “thin”. By merging ranks participating think tanks enhance opportunities for peer reviews, professional exchanges and debates, thus strengthening performance incentives within the regional think tanks community.

Another important benefit will be creation of a regional “market” for policy ideas. Central Asian countries adopted different reform strategies, and think tanks exchanges can put such strategies and their results in “public domain”. Comparisons of achieved outcomes could be valuable food for thought for policy-makers in Central Asian nations, leading to “competitive selection” and dissemination of better-performing approaches.

For CER the proposed dialog will be an opportunity to present a realistic picture of the social and economic situation in Uzbekistan which could be at odds with commonly held stereotypes. This will complement the Center's ongoing project on international image of Uzbekistan.

An integral part of the proposed regional cooperation program could be a series of Central Asia-wide conferences organized and facilitated by CER – an idea that has been endorsed by the Government of Uzbekistan and UNDP.

CER should also explore international market for its services, some of which can be successfully exported to other countries in the “South-South” technical assistance format. There are examples of successful participation of Uzbek experts, scholars and educators in research and training programs abroad, and CER could follow suit. Some of the international development agencies which work with the Center, e.g. UNDP and UNICEF, see opportunities for making CER's expertise available in other developing countries. This, apart from professional benefits, could be a yet another contribution to CER's budget.

14. Concluding remarks

The preceding analysis and recommendations summarize as follows. CER has reached organizational maturity and accumulated valuable assets, most notably skills, experience, reputation, and stakeholders' trust. All of this bodes well for sustainability of the Center. However think tanks development and indeed long-term survival require specific foundations which are not yet entirely in place in the case of CER. The Center needs adequate and predictable sources of funding available on a non-commercial basis to support its policy studies intended for public consumption, and the capacity to professionally handle increasingly complex policy reform and development problems that are on the agenda in today's Uzbekistan.

No single stakeholder or donor can unilaterally supply these missing pieces, and CER certainly, despite of its impressive achievements, cannot do it on its own. The solution lies in collective effort of CER and its stakeholders, including the founders of the Center – UNDP and the Government of Uzbekistan. Donors and clients should coordinate their support to and work with CER based on the recognition that the Center is a valuable development resource (“public good”) for the country that should be jointly sustained and enhanced. A coordination mechanism (perhaps periodic sessions of the Steering Committee) is required to achieve this important objective.

CER needs opportunities to further accumulate professional expertise required for state-of-the-art policy research, and incentives to ensure quality and independence. The former task requires international cooperation and know-how transfer, whereas the latter – peer review, quality control and appropriately structured competition with other policy research units.

Recommendations towards sustainable development of the Center for Economic Research

To further contribute to its sustainability and maximize its impact, CER needs to review and if necessary expand its outreach and dissemination mechanisms, remain actively engaged with its main stakeholders and partners, more actively work in the regions of the country, seek integration with universities, and establish and maintain a network of international partners.

Annex. Interviewed individuals

Uzbek Government officials

Vyatcheslav Golyshev, State Advisor to the President
Galina Saidova, Deputy Minister of Economy

International donors and development agencies

Pierre-Paul Antheunissens, Head of Europa House
James Bonner, USAID Country Director for Uzbekistan
Loup Brefort, World Bank Country Manager for Uzbekistan
Anita Nirody, UNDP Resident Representative in Uzbekistan
Fernand Pillonel, Head of the European Bank for Reconstruction and Development
Resident Office in Uzbekistan
Mahboob Shareef, UNICEF representative in Uzbekistan
Hong Wei, Head of Asian Development Bank Uzbekistan Resident Mission

Private sector

Donald Nicholson, President of AmCham Uzbekistan Board of Directors
Charles Rudd, President, InterConcepts Inc.
Donish Shukurov, Chairman of Supervisory Board, Elxolding Association
Sergey Uzmorsky, Director, Elxolding Association

Universities and think tanks

Abdujabar Abduvakhitov, Rector, Westminster International University in Tashkent
Yakov Asminkin, Executive Director, Tahlil Center for Social Research

Center for Economic Research

Bakhodur Eshonov
Azizkhan Khankhodjaev
Nishanbay Sirajiddinov
Ildus Kamilov
Janna Fattakhova
Khosiat Nazrullaeva
Bakhtiyor Ergashev
Farhod Sagatov