THE IMPACT OF “TRANSITION” AND THE AFGHANISTAN CRISIS ON EMPLOYMENT AND DECENT WORK CONCERNS IN KYRGYZSTAN, TAJIKISTAN AND UZBEKISTAN

Francine Pickup

Recovery and Reconstruction Department
Geneva, November 2003
The Impact of ‘Transition’ and the Afghanistan Crisis on Employment and Decent Work Concerns in Kyrgyzstan, Tajikistan and Uzbekistan

Francine Pickup

RECOVERY AND RECONSTRUCTION DEPARTMENT

International Labour Office
Geneva

November 2003
Central Asia is experiencing challenging times. It is still in the midst of a problematic transition towards democracy and a market economy, that started a decade ago; and also has to cope with the manifold repercussions of war and regime change in neighbouring Afghanistan. The deteriorating socio-economic and political situation, affecting in particular employment, social protection, social dialogue and governance, is raising much concern among observers, national and international actors operating there.

This research paper is geared at supporting ILO and other relevant actors in their formulation of assistance programmes for the Central Asian republics of Kyrgyzstan, Tajikistan and Uzbekistan. It provides them with an analysis and valuable insights on the impact in these three countries of transition to a market economy and the Afghanistan crisis; particularly repercussions on employment and other socio-economic dimensions of ILO concern. The report ends with a series of conclusions and recommendations for ILO and others’ interventions at the policy and operational level, to tackle the priority problem areas identified.

This paper is issued jointly by the ILO InFocus Programme on Crisis Response and Reconstruction and the Subregional Office for Eastern Europe and Central Asia.

The ILO InFocus Programme on Crisis Response and Reconstruction (IFP/CRISIS), set up in 1999, is dedicated to develop ILO’s integrated and rapid response to different crises – armed conflicts, natural disasters, financial and economic downturns, and difficult political and social transitions. Knowledge and tools development constitutes one of the four pillars of its work; the others being advocacy of the relevance of employment and other socio-economic dimensions in crisis prevention and response; capacity building – of ILO staff, constituents, and other crisis-related institutions – to strengthen crisis prevention and response; and direct interventions in emergencies, for rapid needs assessment, and programme formulation and implementation. The Programme is currently advanced in all four areas.

IFP/CRISIS and the Subregional Office for Eastern Europe and Central Asia are grateful to: the author of this report, Francine Pickup; Loretta de Luca (IFP/CRISIS), who steered this work at the early stages and reviewed its drafts; Erwin Blasum, Severine Deboos, Irina Melekh, Pirjo Mikkonen and Sten Petersen (ILO Subregional Office for Eastern Europe and Central Asia) for their detailed comments.

We welcome feedback from readers and users of this working paper.

Eugenia Date-Bah  
Director,  
InFocus Programme on Crisis Response and Reconstruction (IFP/CRISIS),  
International Labour Office,  
4, route des Morillons,  
1211 Geneva 22,  
Switzerland.

Pauline Barrett-Reid  
Director,  
ILO Subregional Office for Eastern Europe and Central Asia,  
Moscow SRO,  
Petrovka 15, Apt. 23,  
107 031 Moskva,  
Russian Federation.
## Table of Contents

Preface .................................................................................................................................................... iii
List of acronyms ........................................................................................................................................... vii
Currency conversions (28/07/03) ........................................................................................................ viii
Executive summary .................................................................................................................................... ix
Map of Central Asia .............................................................................................................................. xii
Phases of the Afghan conflict ........................................................................................................... xiii

1. Introduction ........................................................................................................................................... 1

2. The socio-economic context in Central Asia .................................................................................... 3
   - Labour market problems ................................................................................................................ 5

3. The impact of Afghanistan and political and economic transition on livelihoods ....................... 9
   - Conceptualising the informal economy ......................................................................................... 9
   - The growth of the informal economy .......................................................................................... 9
   - Informal work as a survival strategy ............................................................................................ 10
   - Informal activity as a way to secure a living or for enrichment ................................................. 12
   - Increasing constraints for entrepreneurs in Uzbekistan ............................................................ 12
   - Income from informal activity ...................................................................................................... 14
   - Formal and informal social protection ....................................................................................... 15

4. The influence of Afghanistan on radical Islamic groups in Central Asia ................................... 19
   - Tajikistan ........................................................................................................................................ 20
   - Uzbekistan ..................................................................................................................................... 20
   - Kyrgyzstan ..................................................................................................................................... 21

5. The economic impact of Afghanistan’s narcotic drug production and trade in Central Asia ... 22

6. The impact of recent events in Afghanistan on migration and refugee movements ............... 24
   - Afghan refugees in Central Asia ................................................................................................. 24
     - Tajikistan .................................................................................................................................... 25
     - Uzbekistan .............................................................................................................................. 25
     - Kyrgyzstan .............................................................................................................................. 26
   - Movement between Central Asian countries ........................................................................... 27
     - From Uzbekistan to Tajikistan ................................................................................................. 27
     - From Tajikistan to Uzbekistan ................................................................................................. 27
   - Migration and trafficking from Central Asia to Russia and other countries ....................... 28
     - Kyrgyzstan .............................................................................................................................. 28
     - Tajikistan .............................................................................................................................. 28
     - Internal migration ..................................................................................................................... 29
**List of acronyms**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>AKF</td>
<td>Agha Khan Foundation</td>
</tr>
<tr>
<td>CAS</td>
<td>World Bank Country Assessment Strategy</td>
</tr>
<tr>
<td>CDF</td>
<td>Comprehensive Development Framework</td>
</tr>
<tr>
<td>CHF</td>
<td>Community Housing Foundation</td>
</tr>
<tr>
<td>CIDA</td>
<td>Canadian International Development Agency</td>
</tr>
<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
</tr>
<tr>
<td>DFID</td>
<td>Department for International Development</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GTZ</td>
<td>German Technical Corporation</td>
</tr>
<tr>
<td>Hizb-ut-Tahrir</td>
<td>Islamic Liberation Party</td>
</tr>
<tr>
<td>ICG</td>
<td>International Crisis Group</td>
</tr>
<tr>
<td>ICRC</td>
<td>The International Committee of the Red Cross</td>
</tr>
<tr>
<td>IDA</td>
<td>World Bank International Development Agency</td>
</tr>
<tr>
<td>IFAS</td>
<td>International Fund for Saving the Aral Sea</td>
</tr>
<tr>
<td>IFI</td>
<td>International Financial Institutions</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
</tr>
<tr>
<td>IOM</td>
<td>International Organization for Migration</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IMU</td>
<td>Islamic Movement of Uzbekistan</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-governmental organization</td>
</tr>
<tr>
<td>ODCP</td>
<td>Office for Drug Control and Crime Prevention</td>
</tr>
<tr>
<td>OCHA</td>
<td>Office for the Coordination of Humanitarian Affairs</td>
</tr>
<tr>
<td>OSCE</td>
<td>Organization for Security and Cooperation in Europe</td>
</tr>
<tr>
<td>PRGF</td>
<td>IMF Poverty Reduction and Growth Framework</td>
</tr>
<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Papers</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and medium-sized enterprises</td>
</tr>
<tr>
<td>TACIS</td>
<td>Technical Assistance to the Commonwealth of Independent States</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>UNHCR</td>
<td>United Nations High Commissioner for Refugees</td>
</tr>
<tr>
<td>UNIFEM</td>
<td>United Nations Development Fund for Women</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>UTO</td>
<td>United Tajik Opposition</td>
</tr>
</tbody>
</table>
WFP     World Food Programme
WHO     World Health Organization

Currency conversions (28/07/03)

1 EUR = 1.14 USD (United States Dollars)
= 1,110.30 UZS (Uzbekistan Som)
= 3.52 TJS (Tajikistan Somoni)
= 49.03 KGS (Kyrgyzstan Som)
= 34.92 RUR (Russian Roubles)
Executive summary

This study examines the employment and work situation in Kyrgyzstan, Tajikistan and Uzbekistan, with a focus on how they have been affected by events in neighbouring Afghanistan. It seeks to understand the challenges and opportunities emerging from the conflict in Afghanistan and problematic transition experienced by these countries towards democracy and a market economy. The study is to provide guidance for the International Labour Organization and other organizations working in these countries on decent work-related concerns. Its main target audience is ILO Units and officials operating or intending to operate in Central Asia, ILO constituents in these countries (employers, workers and governments), and international agencies, NGOs and donors working there. At the outset, one of the study’s hypotheses was that the U.S.-led military intervention in Afghanistan had thrown Central Asia into the limelight; and in so doing increased international awareness of the region, thereby providing new opportunities for economic development and the enhancement of regional security.

A consultant was commissioned by the ILO InFocus Programme on Crisis Response and Reconstruction and the ILO Moscow Office to produce this study. After conducting a literature review and meeting with ILO staff in Geneva and Moscow, she spent four weeks in Kyrgyzstan, Tajikistan and Uzbekistan between December 2002 and January 2003, where she conducted expert interviews and designed a local research project for each of the three countries. Three local researchers and organizations were selected to conduct qualitative research into decent work-related concerns, with a focus on the informal economy.

A main conclusion of this study is that the Afghan crisis did not impact on the long-term trends of socio-economic development in Kyrgyzstan, Tajikistan or Uzbekistan. These countries are considerably more affected by another major crisis, namely the problematic and unfinished transition to democracy and a market economy. This study shows that the spill-over effects of Afghanistan’s crisis in Central Asia – such as drug consumption and trade, refugees, radical Islamic movements, border closures, trade restrictions and a greater international presence – can only be understood in the context of wider social, political and economic changes taking place in Central Asia.

Economic transition in Central Asia has been characterized by drastic declines in GDP growth, falls in output, sharp drops in incomes, the growth of widespread poverty and increasing social inequality. These countries also suffer from a heavy external debt burden, lack of foreign investment and high unemployment and under-employment. Formal employment is unstable, low paid, paid in part, in-kind or with long delays. Informal economic activity in post-Soviet times has grown because people have been unable to maintain their livelihoods. However, this work is insecure and leaves workers vulnerable. SMEs, which were thought to be the growth engine of the new private sector, also operate informally because these countries lack the regulatory structures to protect and promote activity in the private sector. Small businesses face huge constraints to engaging in the formal private sector, such as lack of capital, bureaucratic hurdles and obstructive officials. In this unstable situation, authoritarian actions on the part of the state, such as the suppression of religious or political expression or clamping down on cross-border movement, exacerbate the region’s vulnerability to further crises.

It was hoped that the U.S.-led international intervention in Afghanistan would have positive repercussions in Central Asia. Indeed, it provided Central Asian countries with increased visibility and a ‘window of opportunity’ to improve economic viability through cooperation with the international community. Trade relations and foreign investment also improved somewhat in post-Soviet Kyrgyzstan, Tajikistan and Uzbekistan, with the opening of new international borders and the dismantling of the external security threat
posed by Afghanistan. However, these potentially positive developments have been undermined by the fact that governments have not become more open, and intra-regional relations have deteriorated.

One of the negative repercussions of 11 September 2001 in the region is that Central Asian governments, under the pretext of the security threat posed by Islamic radicals and narcotic drugs, have attempted to stop cross-border movement and trade and stifle religious and political expression. The ruin of many traders’ livelihoods in Uzbekistan illustrates the dire economic consequences of these containment policies. This can be destabilising and impinge on internal security at a time of high unemployment and economic disillusionment.

Opportunities for drug trafficking have diversified since the U.S.-led intervention in Afghanistan. There is evidence to suggest that more narcotics are being produced in the north of Afghanistan, that trafficking routes through Central Asia are being increasingly relied upon as Afghanistan’s southern neighbours clamp down on drugs trade, and new smuggling opportunities in the north are emerging as crossings are opened for the channelling of humanitarian aid from Central Asia to Afghanistan. Afghanistan’s northern neighbours are particularly vulnerable to the drug economy because of weak governance structures and their large young and poor populations.

International organizations working in Central Asia planned for the influx of many refugees fleeing from civil war in Afghanistan to Central Asia. Far fewer refugees fled the Taliban to Central Asia than expected, in part due to the closure of Afghanistan’s northern borders. However, these countries do have large migrant and refugee populations (including from Afghanistan), who, especially since the break-up of the Soviet Union, faced conflict and impoverishment in the region. They constitute one of the most vulnerable groups, frequently denied access to formal employment because of their illegal status in the countries where they reside. The vulnerability of refugees and migrants is due to their dependence on informal work, which leaves them defenceless in the face of discrimination, and their lack of access to social protection.

The weakness of the formal economic and political structures of these post-Soviet states means that they have failed to take advantage of the opportunities brought by their new visibility.

The international military presence connected to the offensive in Afghanistan was expected to have a substantial influence on Central Asia’s weak economies. However, the military bases in Kyrgyzstan, Tajikistan and Uzbekistan have remained insulated so far, and their economic impact has been restricted to prostitution, limited purchasing of products and small-scale local employment. Central Asian countries have also failed to benefit from procurement opportunities and the delivery of humanitarian assistance to Afghanistan, largely because their products are uncompetitive and most assistance is channelled through Pakistan.

Kyrgyzstan, Tajikistan and Uzbekistan are enjoying improved diplomatic relations with foreign governments, due to their support of the U.S.-led intervention, and have received increased donor funds. However, evidence that this international attention has effectively brought greater adherence to democratic principles and the promotion of human development is hard to come by. Recent events in these countries pertaining to human rights and intra-regional cooperation suggest that increased donor attention and funds are unlikely to improve the situation significantly. The lack of political will to reform governance structures is the main impediment to socio-economic development in the region.

The international community, government officials and development policymakers and practitioners advocate greater ILO involvement in the region. ILO efforts should focus
on the challenging situation created by this difficult socio-political transition and its multiple facets, many of which lie within ILO mandate and expertise.

This study recommends that the ILO lend its expertise to develop a new decent work agenda in the region. Issues that demand immediate attention include the growing informal economy, young people and women’s marginalisation from the labour market. Measures should be introduced to strengthen the formal economy, thereby helping avoid the need to resort to informal activities. Employers’ organizations should be encouraged to play a role in improving the legislative environment for entrepreneurs, challenging bureaucrats’ predatory practices. Workers’ organizations, which are practically absent in the new private (and informal) economy, need to be encouraged.
Phases of the Afghan conflict

The Afghanistan crisis is international in nature, and part of the regional web of problems. Neighbouring states and global powers have intervened to sustain, fund and provision conflict. Conflict has been an integral part of Afghanistan’s history since independence in 1919. By the 1970s, internal tensions were growing in Afghanistan between traditionalists and modernisers, alongside rivalry between the Soviet Union, seeking to expand southwards, and the United States, seeking to influence events in Iran, China and Central Asia (Barakat and Wardell, 2001, p. 4). Below are the main phases of the Afghan conflict:

- **Jihad in the cold-war context, 1979-1988**
  Soviet forces occupied Afghanistan, with fierce resistance from Afghan fighters known as the Mujaheddin, that were backed by the U.S. and Pakistani Intelligence Services.

- **Jihad amongst Afghans, 1989-1992**
  Soviet troops withdrew, but the newly established Interim Islamic Government of Afghanistan never got off the ground due to disagreements among different factions.

- **Factional war among Afghans, 1992-1996**
  UN-negotiated plans for President Najibullah to step down and be replaced by a transitional authority were thrown into disarray as the coalition between different Mujaheddin factions collapsed.

- **Regional proxy war, 1996-2001**
  The internal power struggle between Mujaheddin factions left a power vacuum that was to be filled by the Taliban towards the end of 1994. The Taliban movement was seen as a way of asserting Pashtun power, to counter Tajik, Uzbek and Hazara Northern Alliance forces. With the support of both the Mujaheddin and the Taliban regimes, Afghanistan became a base for the Al Qaeda network. In 1998, it organized terrorist attacks on US embassies in Nairobi and Dar es Salaam.

- **International ‘war on terrorism’, October 2001 till the present**
  In September 2001, a series of attacks resulted in the total destruction of the World Trade Centre in New York, the partial destruction of the Pentagon in Washington DC, and the killing of over 4,000 people. This attack was attributed to the Al Qaeda network, and when the Taliban refused to hand-over the network’s leadership, a military campaign was launched on 7 October 2001 by the U.S. with the support of coalition governments and the Northern Alliance, which overthrew the Taliban and dismantled the Al Qaeda network. A transitional administration was set up.
1. Introduction

This report provides a general overview of the employment and work situation in Kyrgyzstan, Tajikistan and Uzbekistan, with a focus on how they have been affected by events in neighbouring Afghanistan. It seeks to better understand the challenges and opportunities emerging from the conflict in Afghanistan, and these countries’ problematic transition towards democracy and a market economy. Its objective is to prepare a solid basis for ILO’s work on decent work-related concerns in those countries. ILO holds that:

The goal of decent work can be met only through ensuring that the jobs created are productive and observe fundamental principles and rights at work, and that both workers and businesses have the capacity and flexibility to be able to move up the continuum to increasingly better jobs in the formal economy (ILO, 2002).

This work considers the impact of ‘transition’ to a market economy and conflict in Afghanistan on three Central Asian states: Kyrgyzstan, Tajikistan and Uzbekistan. These vary considerably in terms of political systems, adoption of market reforms, receptivity to external influence, ethnic make-up, donor attention and history of internal conflict. However, they do have in common the collapse of Soviet rule and ‘transition’ to market economy, proximity to Afghanistan and ethnicity concerns. They are studied together because they are interdependent and all three are affected by the crisis in the region.

The main target audience of this work is ILO Units and officials operating or intending to operate in Central Asia, ILO constituents in these countries (employers, workers and governments) and international agencies, NGOs and donors working there. The study is intended to provide an important basis for collaboration/partnerships/joint ventures with these actors. The results of the study are also expected to provide guidance and help refine a larger ILO project concerning youth and the informal economy due to be launched in those countries in 2003-2004.

The author addresses some core questions. Has the prolonged crisis in Afghanistan had a negative socio-economic impact, and has the intervention of coalition forces and the overthrow of the Taliban created new opportunities for Central Asia? Or alternatively, has the Afghanistan crisis had minimal impact, and is Central Asia more affected by the crisis related to its difficult transition from planned to market economy? What role do the formal and informal economies play in households’ survival strategies? How are the Central Asian governments coping with ‘transition’, the current Afghanistan crisis and events post-11 September 2001? What is the extent of vulnerability to crisis in these countries? Who are the disadvantaged groups in these countries, and how do they cope? Particular attention is paid to unrest in the Ferghana valley, an unstable region that all three countries share.

The study begins by providing a brief historical background on the impact of ‘transition’ from a planned to a market economy in these three states and the impact of civil war and the peace process in Tajikistan. It examines the impact on their long-standing socio-economic, institutional and political problems.

It goes on to consider the influence of events in Afghanistan on radical Islamic movements in the region. It then reviews the consequences of migration, refugees and other population movements induced by the ‘transition’ and Afghanistan crises. The study also examines the effect of the Afghanistan crisis on trade and transport links between Afghanistan and the aforementioned Central Asian countries, with a particular focus on drugs and arms smuggling; for instance, how the growth in drug smuggling since the fall of the Taliban has influenced livelihoods in those countries. The report then looks at the impact of increased military presence and greater donor attention to Afghanistan on the local economies of the three countries.
Employment and other work-related impacts of the Afghanistan crisis in the countries are addressed throughout the report. Particular attention is paid to the consequences of the Afghanistan and ‘transition’ crises on the informal economy, and any possible changes in the role of this economy in the make-up of people’s livelihoods.

The study ends with Recommendations for ILO action, identifying needs and priorities.
2. The socio-economic context in Central Asia

The Independence of Central Asian countries came about with the collapse of the Soviet Union, in the early 1990s. In the initial post-Soviet period, they followed different political and economic trajectories. Kyrgyzstan adopted an agenda of rapid democratisation, Uzbekistan underwent little liberalisation and democratization, and Tajikistan embroiled in civil war, paying little attention to political reform. However, since 1995 these states have adopted a similar heavy-handed approach, seeking to consolidate power, appease clan and regional groups and control ethnic, Islamic and other political dissent (Commission on Human Security, 2002). As a result, democratic transition is generally thought to be ‘regressing’, with all three states becoming ‘more autocratic’ (EU, 2002).

Kyrgyzstan and Tajikistan have undergone economic reforms that were based on the idea that in order to achieve economic growth, domestically-oriented and protected economies had to open up to market forces. The key components of this model were macro-economic stabilisation, privatisation and price liberalisation. Implementation of the model was meant to stabilise price levels and allow relative prices to adjust freely to market conditions. Reforms were also supposed to lead to the decline of inefficient sectors of the economy, freeing up human and physical capital for investment in profitable sectors of the economy. Inevitable short-term social costs were expected as a result of cuts in state expenditure, including rising unemployment, but in the longer-term the expansion of profitable sectors of the economy was to create new employment, thereby increasing the population’s standard of living.

As will be illustrated below, transition has not taken the course expected by reformers. Corruption has prevented the development of a free market economy. Unemployment has not increased as much as was expected, with employees “staying put” in low quality jobs. The population’s standard of living has continued to deteriorate and shows little sign of improvement. Privatisation has had limited success, especially in large-scale enterprises, and many of the small and medium-sized private enterprises (SMEs) fight to survive in the face of huge bureaucratic hurdles. A major problem facing both countries is high external debt. Kyrgyzstan’s external debt reached 130 per cent of GDP in 2001, before being rescheduled by the Paris Club. The investment climate remains poor. Tajikistan has experienced some limited economic recovery from the effects of the 1992-1997 civil war, but governance structures remain weak.

Uzbekistan was comparatively prosperous in the region until recently, with cotton playing a dominant role in the economy. It embarked on its own gradualist model of transition. In late 1994, the country adopted a comprehensive macroeconomic stabilisation and structural reform program. This was reversed in early 1997, when a system of multiple exchange rates and restrictions on current account transactions was instituted to promote import-substituting industries and protect foreign exchange reserves. Several bad cotton harvests and low prices for raw materials led the government to take measures to protect the national currency. The Government prioritised expenditure on security and the social sector, retaining ‘universal’ access to subsidised services. Privatisation is now in jeopardy, and the dual exchange rate has made convertability of the som a difficult task.

The World Bank and International Monetary Fund (IMF) advocate a far greater liberalisation of the Uzbek economy, price flexibility and transparency. The slow pace of reform in Uzbekistan limits greatly the assistance it receives from them. Uzbek government’s failure to meet conditions such as convertibility and unification of the foreign exchange rate, liberalisation of international trade, reform of the state procurement system in agriculture, and introduction of data transparency, has meant that the World Bank’s programme has been modest in spite of pressure from the U.S. to take ‘a less
jaundiced view’. The World Bank Country Assistance Strategy (CAS) of March 2002 provided two scenarios – the ‘base case’, providing USD 450 million over three years; and the ‘low case’, of USD 150 million. It approved the latter. Uzbekistan was said to be disappointed that the support it had provided to the U.S.-led Coalition did not translate into better posturing by the IMF and World Bank. However, according to the World Bank, there is no justification for a change in approach. High expectations on the part of the international community of changes in economic policy were disappointed, and there seem to be little prospects for improvement. Uzbekistan is perceived to be economically, politically and socially similar to the Soviet Union. According to one informant, “there has been some tinkering around the edges but no fundamental changes”. Government control over the economy and society has maintained living standards, but the private sector has suffered as a result.

A contrasting viewpoint holds that there are some signs that the international attention post-11 September boosted authorities’ commitment to push through economic reforms. The Asian Development Bank (ADB), known as the ‘lenient multilateral’, broke ranks with the World Bank over the imposition of economic conditionalities. It had a budget of USD 150 million before 11 September, which it has reaffirmed. The World Bank communicated to the ADB its disapproval, given Uzbekistan’s poor progress on reforms. ADB chose to engage in a ‘matching steps’ approach whereby Uzbekistan makes gradual progress, which is recognised and matched with increased assistance.

According to research coordinated by Centre for Economic Research and funded by the United Nations Development Programme (UNDP), this policy approach stabilised the economy and prompted low economic growth (Kotz, 2002). However, productive employment has been the casualty of this strategy (McKinley et al., 2002). Agriculture and services have absorbed many of the workers, but contribute to widespread underemployment and low wages. The wage gap between the richest and the remainder of the working population (whose wages are falling) is widening and is a main cause of rising inequality. According to the UN Resident Representative in Uzbekistan, given its abundance in cotton, gas and gold, Uzbekistan could have achieved better growth had it not been for its import substitution policy. This policy keeps business development, particularly foreign direct investment, significantly below its potential. Furthermore, as it will be argued below, Uzbekistan’s trade restrictions and tariff barriers constrain growth in Kyrgyzstan and Tajikistan.

The success of reform efforts in the three countries hinges to a large degree on the ability to create a space for the emergence of a large, labour-intensive private sector. This sector could absorb workers from the state sector, trigger dynamism in the economy and tackle poverty. According to the World Bank and IMF, Kyrgyzstan, which of the three countries has undergone the most privatisation, has nevertheless made little progress on large-scale privatisation and enterprise restructuring, particularly in manufacturing and industry. SME development has been disappointing. The main barriers to SME development in these three countries are restrictive red tape, overwhelming entry regulations, corruption, rent-seeking in the tax and customs departments, complex tax regulations, restrictive access to credit and lack of business knowledge.

The IFIs bear a large part of responsibility for the failure of ‘transition’ to a market economy. The former IMF Executive Director for Central Asia has stated that the IFIs are to blame for creating many of the problems that are now hampering the success of the transition process.

The cardinal mistake has been to address the economic transition in a dogmatic way, with a ready-made solution instead of going in the field to make a comprehensive analysis of the problems at stake. We tried to go too fast. Famous professors of economics claimed that the transition could be fulfilled and that within a couple of weeks the economies of transition countries could be fully liberalised and privatised. Any delay seemed irresponsible or even
criminal. Rushing to introduce the free market economics, we did not pay enough attention to different features, whose effects were compounding each other and hampering the success of the transition (Kaeser, 2002).

Aside from the speed with which transition was implemented and IFIs’ failure to consider the starting conditions on the ground, there are problems with the way the Bretton Woods institutions conceive ‘transition’. The International Labour Conference in 2002 notes:

It is now widely acknowledged that the stabilisation and Structural Adjustment policies of the 1980s and 1990s, which in many countries resulted in growing poverty, unemployment and underemployment, contributed to the spread of the informal economy. The main authors of these policies, the IFIs, are … now emphasising poverty eradication and sustainable development, although they still fail to give adequate attention to the employment implications of their policies (ILO, 2002).

This shift by the IFIs to a focus on poverty reduction is evident in Central Asia. Kyrgyzstan and Tajikistan have qualified for the IMF Poverty Reduction and Growth Framework (PRGF) and programmes of the World Bank’s International Development Agency (IDA). Uzbekistan is also IDA-eligible. All CIS countries have been included in an IFI growth-promoting initiative. Kyrgyzstan, Tajikistan and Uzbekistan have adopted Comprehensive Development Frameworks (CDFs), and Tajikistan and Kyrgyzstan have taken forward their Poverty Reduction Strategy Papers (PRSPs). The Uzbekistan government has stated its commitment to fighting poverty and has undertaken to formulate its approach in a PRSP. Kyrgyzstan is a pilot country of the CDF. This framework is based on the recognition that institutional development has had limited effect. It does not deal with governments only, and does not treat governments just as clients, but also sees as stakeholders parliament, civil society, businesses and donors. Uzbekistan became eligible to undertake a PRSP in March 2002, and the World Bank is encouraging the Government to start planning for an interim PRSP to be ready by the end of 2003. USD 700 million has been pledged for the Kyrgyzstan PRSP (including the implementation of projects continuing after those three years).

‘Transition’ in these three countries has been varied, with traditional national institutions influencing change and sometimes dominating market forces. However, in general these countries have experienced considerable social and economic problems in the post-Soviet period – including rising social inequality, falling real incomes, growing poverty, declining life expectancy, rising child malnutrition and deteriorating educational status – which exacerbate the region’s vulnerability to crisis. Most people’s livelihoods have been destroyed by market reforms. Many workers are left with no choice but to struggle to survive on ever-diminishing household resources, by moving into the informal economy and migrating. In the face of increasingly widespread impoverishment, the state’s capacity to protect the most vulnerable people in society has decreased dramatically. The picture is not entirely negative, though. Both Kyrgyzstan and Tajikistan experienced a rising GDP between 1999 and 2001, although output remained below pre-transition levels and declined in Kyrgyzstan in 2002, while growth slowed in 2002 in Tajikistan and Uzbekistan.

**Labour market problems**

All three countries were characterised by full employment during Soviet times, alongside severe labour hoarding. The break up of the Soviet Union and the loss of Soviet Union’s central budget funds on which they depended had grave implications for these countries’ labour markets. There was not a dramatic increase in unemployment in the early stages of transition, partly due to the persistence of state subsidies and a paternalistic approach on the part of enterprise managers. They preferred to avoid redundancies and
severance payments. Instead, they placed employees on unpaid administrative leave, did not pay wages on time and cut working hours. In response, employees either resigned or stayed in jobs that paid little or no money. They combined these with others, often also of low quality, or informal economic activities.

The transition has also brought significant changes in the structure of employment by sector and by employment status of the jobholder. Employment in industry and manufacturing has fallen sharply. Job creation in Kyrgyzstan, Tajikistan and Uzbekistan has remained very low, with employment growth evident only in agriculture and trade. Agriculture and small-scale informal trade activities have become a buffer against unemployment. Many people have come to rely increasingly on their own plots of land for growing food for home consumption or for sale. In Kyrgyzstan, the proportion of the population relying on an agricultural income has increased since land reform in the late 1990s, and yet rural poverty continues to be significantly higher than urban poverty (although urban poverty is increasing at a faster rate). Inhabitants of small towns, dependent on one or a few enterprises during Soviet times, which have since closed, lack the employment opportunities of larger cities and the access to land of rural areas. Cash incomes and standards of living are higher in towns, but urban dwellers encounter greater problems than their rural counterparts in assuring nutritional needs. Malnutrition levels among children are higher in towns. Money for food is often lacking in towns and there is less opportunity to supplement diet with home-cultivated food. Urban households derive two thirds of their income from wage employment, while rural households derive only a quarter of their income from it (other income sources include home-produced goods, pensions and private transfers).

Data on ‘registered unemployment’ (understood to refer to individuals who are registered at labour offices as unemployed) are the only unemployment data available for Kyrgyzstan, Tajikistan and Uzbekistan. According to these data, unemployment has changed little since ‘transition’. Official unemployment rates remain very low (Kyrgyzstan, 3.1 per cent and Tajikistan, 2.7 per cent in November 2002; and 0.5 per cent in Uzbekistan, in November 2000). However, these figures are unreliable and misleading, both in the magnitude and the dynamics of unemployment, since a large proportion of the jobless, although willing to work, do not register as unemployed. The UN Economic Commission for Europe estimates that in CIS countries the proportion of jobless who do not register as unemployed varies between 50 and 80 per cent of total unemployment. Among the factors that discourage the jobless from registering are the low and often delayed unemployment benefits, undeveloped employment services and the inefficient operation of local labour offices. Many people are thus left without unemployment benefits or assistance in their search for work.

These three countries also share the problem of underemployment, ignored in official statistics of registered unemployment. Labour hoarding – keeping employees on the payroll even when the enterprise is dormant and/or has not paid salaries for months at a time – is considerable in all three countries. Thus, although official unemployment rates remain low, there is substantial hidden unemployment. For example, in Tajikistan, substantial wage arrears and large numbers on workers on unpaid leave or working short hours mean that working families join the unemployed amongst the poorest. The World Bank estimated that in 1999, more than 35 per cent of Tajikistan’s workforce suffered from some wage arrears (World Bank, 2000). Considerable wage arrears, unpaid leave and shorter working hours have meant that a new group, the ‘working poor’, has joined the chronic poor, or more accurately, the maloobespechenny (or ‘under-provisioned’) families, such as households with many children, disabled and chronically-ill members, which have existed since Soviet times.

The decline in labour market participation rates in Kyrgyzstan, Tajikistan and Uzbekistan has disproportionately affected certain groups. These include women
(especially with small children), young people and migrants. More women have stopped working than men, and women make up more of the registered unemployed and long-term unemployed than men. Their position in the labour market has deteriorated since Soviet times. This is partly due to the cutback in social, health and educational facilities, which has made motherhood become a largely private institution and increased women’s workload. One study commissioned by the ADB of 3,000 women in Kyrgyzstan found that housework and childcare were the second most important reason why women did not work. The collapse of the Soviet pre-school childcare system, the closure of more than two thirds of kindergartens and many institutions for the infirm and elderly, have resulted in increased care obligations for women (ADB and Centre for the Study of Public Opinion and Prognosis, 2001). Women are forced to find work that they can do from home, often in the informal economy. Further, governments have extended unpaid maternity leave to relieve pressure on the labour market; and protective labour legislation and maternity benefits constitute disincentives for employers to hire women and an inducement to lay off women when enterprises need to shed workers.

Young people figure prominently among the unemployed. Particularly vulnerable are unskilled young people, those without work experience or who have dropped out of school. This can result in increased tension and crime. Cutbacks in military spending have resulted in the demobilisation of soldiers, who regroup as private armies. A study in Uzbekistan identified unemployment as the greatest source of conflict at the community level, especially for those under the age of 21 in urban areas (CHF International and CAIP, 2002). This is worrying, as Central Asia has a young and rapidly growing population. A UNDP study notes that in Uzbekistan, the “urgent need to create employment will continue until 2008 and subside only after that” (McKinley et al., 2002, p. 2).

Migrants are more likely to be unemployed and have less access to productive land and other assets. As will be discussed below, repressive government measures, particularly after 11 September and in response to perceived security threats from Afghanistan, have made migrants’ plight even worse.

Box 1: Tajikistan’s plans for labour market reform

In its Poverty Reduction Strategy Paper, the Tajikistan government sees the creation of small and medium private enterprises, including growing activity in the informal sector, as an important plank of its anti-poverty program, and source of jobs and output. The Government states that in order to stimulate job creation and establish proper functioning markets it will:

a) establish a legal and regulatory framework for enterprises and work places;
b) privatise state enterprises;
c) assist the development of financial markets.

To develop properly functioning labour markets, the Law “On Assistance in Employment of the Population” and regulations dealing with employment, will be redrafted. Other measures include:

- improvement of the employment management structures;
- preparation of a national job-creation program;
- creation of a network of social-business centres;
- development of micro-credit programs for the unemployed;
- expansion of programs on civil works involving the private sector preparation of special programs for women’s employment.

The reform of vocational training will involve measures including:

- rehabilitation of buildings and re-equipment of training facilities;
- revision of curricula to reflect international standards, and targeted assistance to poor students.

In the field of labour protection and working conditions, a long-term programme on improving labour conditions and protection will be developed, legislation and regulations will be updated, state labour expertise will be established and staff trained.

To identify obstacles to private sector development, a survey of entrepreneurs will be conducted. Also, training centres on entrepreneurship will be set up and relevant legislation and regulations on entrepreneurship will be developed.
Despite the new focus by the IFIs and other international agencies on poverty alleviation, little attention has been paid to labour market reform, employment creation and the promotion of decent work conditions as a way of reaching poverty alleviation goals. For example, there is a chapter in Kyrgyzstan’s PRSP on labour, but employment generation is not a priority. There has been very little international attention to the informal economy, and a dearth of work on employment generation. At the state level, employment promotion policies have been poor, although Kyrgyzstan’s and Tajikistan’s PRSPs do include plans for labour market improvement, as boxes 1 and 2 show. As mentioned above, Uzbekistan has not yet developed its PRSP. The EU’s programme of Technical Assistance to the Commonwealth of Independent States (TACIS) and the German Technical Corporation (GTZ) are engaged in short-term training, and the ADB has a National Programme for Personnel Training. These aside, there are no other major employment-generation players in Kyrgyzstan, Tajikistan and Uzbekistan. The job-creation work that is taking place is short-term. The international community still does not know how to create longer-term sustainable jobs.

Box 2: Kyrgyzstan’s plans for labour market reform

Kyrgyzstan’s National Poverty Reduction Strategy refers to the increase in unemployment due to the recession in industrial production and structural adjustment policies. It points to various unemployment-related processes:

- staff redundancies;
- workers ‘voluntarily’ leaving their jobs due to forced holidays;
- state sector’s inability to create jobs.

Based on these observations, the report states that job creation should focus on the private sector, and social protection measures should be developed targeting the unemployed. The strategy highlights the following labour market issues that need addressing:

- official unemployment figures do not reflect the real unemployment situation;
- the number of workers being laid-off is 30 per cent higher than the number of newly employed;
- the Social Fund is in arrears;
- each year, over 34 per cent of graduates cannot find employment, largely due to inexperience and unmarketable skills.

Some of the policy measures already undertaken include:

- passing of the Law on the Promotion of Population’s Employment;
- increase in the number of unemployed participating in paid public works;
- increase in the number of unemployed receiving vocational training;
- increase in the number of unemployed receiving microcredits.

The following measures are proposed:

- comprehensive analysis of the labour market;
- establishment of business centres for the unemployed;
- creation of a legal framework for labour migration;
- adaptation of training and education to labour market needs;
- creation of jobs in priority economic areas;
- development of the Tripartite Employment Council’s role in employment policy implementation through the establishment of regional councils;
- improvement of human resource management.
3. The impact of Afghanistan and political and economic transition on livelihoods

How do people survive, given the contraction of the formal labour market and the increasing restrictions on economic activity and freedom of movement imposed by Central Asian states in the name of security? The majority of the population is driven back from stable employment in formal enterprises to reliance on their own resources, thereby intensifying informal work.

Conceptualising the informal economy

The ILO first coined the term ‘informal sector’ in the 1970s to describe the informal activities of the working poor in Africa. Over 30 years later it has become clear that the term ‘informal sector’ does not adequately describe the dynamic and heterogeneous aspects of the phenomenon. The term ‘informal economy’ is preferred for the way it encompasses the expanding and diverse group of workers and enterprises operating informally. They differ in terms of production unit and type of employment status, and include own-account workers in survival activities (such as petty traders), paid domestic workers employed by households, homeworkers and workers in sweatshops, self-employed in micro-enterprises operating on their own or with contributing family workers. One characteristic these groups share is that they are not recognised or protected under the legal and regulatory frameworks. In addition, informal workers and entrepreneurs are very vulnerable. They are not recognised under the law, and therefore receive little or no legal or social protection, are excluded from benefits, and are rarely able to organize for effective representation. The diversity of activities that are informal makes defining the informal economy no easy task. From ILO’s perspective, informal activities should not be seen as either positive or negative. Informal work is legitimate but it is executed under informal conditions. It follows that strategies to promote decent work must target the conditions of informal work, but not the worker.

Analysing the formal and informal dimensions of work in the post-Soviet context, it is more appropriate to draw the links rather than a sharp dichotomy between official and unofficial activity. Official workplaces provide access to informally procured goods. State officials provide informal protection ‘roofs’. Some organized crime conglomerates resemble the inclusive Soviet enterprise. The state even encourages employees to trade their in-kind salary payments in the informal economy. For example, the research for this study conducted in Kyrgyzstan found that women are forced to act informally when the salaries, pensions and social assistance are paid in kind. They have to sell these products in the markets. As it will be shown below, the growth of the informal economy is directly linked to the collapse of the planned economy and ‘transition’ to a market-oriented one.

The growth of the informal economy

In Soviet times, the state over-regulated the economy, creating inefficiency, stifling initiative and forcing people to develop informal ways to get around the rigidity of the plan. A small number of people supplemented incomes through additional work. In Kyrgyzstan, Tajikistan and Uzbekistan, sewing from home, tailoring and clothes and shoes repair, construction repair, transportation of people and goods, nannying, tutoring, trade in home-garden produce at the vegetable markets and in home-distilled vodka, vehicle repair and speculation in deficit goods, were some of the more common informal activities. However, the Soviet policy of eradication of informal activity meant that it only played a small role.
With the collapse of the planned economy, those regulations were removed and the economy has become a ‘free for all’ in which only the strongest can participate. Forced redundancies, wage arrears, low wages and other labour market problems, together with the collapse of social security nets mentioned above, contribute to the rapid growth of the informal economy.

Focus group discussions conducted in Kyrgyzstan identified as factors in the formal labour market pushing people into informal economic activity: bankruptcy of state enterprises, forced unpaid leave, retrenchments, privatisation in education, health, culture, sport and research. There is little work in the state sector, or it is very low paid or paid after long delays. Also, age and gender discrimination is on the rise in recruitment and dismissals. Young people without work experience cannot find jobs and women with young children cannot accept long work-days because of childcare commitments.

Research conducted for this study in Uzbekistan has shown that hidden unemployment in agriculture is an important factor contributing to the growth of the informal economy. This existed in Soviet times, but has increased due to the decline in the land cultivated and a change in the structure of crop production, with cotton production falling less sharply than grain. Employment and salaries have declined in other sectors, due to falls in production and retrenchments linked to enterprise privatisation. The vast majority of people without work do not register as unemployed, but rather search for informal work to survive.

Informal work as a survival strategy

For resource-poor households, informal work is a desperate means to compensate for low formal incomes. The research conducted for this report confirms that the informal economy is a survival strategy for the poorest sections of the population. In Uzbekistan, Tajikistan and Kyrgyzstan, certain groups are particularly reliant on low-paid and unstable informal activity because of their weak position in the labour market. These include young people who have finished school but do not have work experience, long-term unemployed and low-qualified agricultural workers. Women over the age of 35 who formerly worked in a state enterprise that closed or privatised and women who have been on maternity leave and/or have young children, which seek a flexible work schedule, also commonly resort to informal work. For all, the longer they spend in the informal economy, the more difficult it is to find work in the formal economy.

Women tend to engage in activities considered “female” such as low-paid services, petty trade and public catering (McKinley et al., 2002) as a survival strategy to support their families. They also prepare food at home for sale at the market (see box 3), manufacture non-perishable goods and provide services such as hairdressing, medical and educational services. In Tajikistan, many villagers from surrounding oblasts rely on the sale of agricultural produce grown in their home-gardens. In the winter, there is very little work. These activities give women little or no access to social insurance, benefits or pensions; and do not equip them with the skills or training to satisfy the demands of the new service sector – office management, new office technologies, banking, insurance, communications.
Thus, most people in Kyrgyzstan, Tajikistan and Uzbekistan are no longer able to maintain Soviet-time livelihoods. Since the early 1990s, formal employment and state social provisions no longer guarantee livelihoods, with the result that the need to supplement incomes through informal economic activity has become much more widespread and urgent. As a result, the bulk of employment in Kyrgyzstan, Tajikistan and Uzbekistan has been in the informal economy. This economy has expanded dramatically in size, serving as a safety valve for a large unemployed and discouraged population (see box 4).

In Kyrgyzstan, the World Bank has noted that:

Industrial workers that were made redundant and who lost any hope to find a decent job had often no other choices but to accept whatever small jobs they could find, in particular in trade, or to go back to the villages and work on the small pieces of lands that were recently redistributed (World Bank, 2002, p. 71).

The informal economy is particularly large in towns, where it includes working pensioners, students and migrants. Urban dwellers have little or no land and are more dependent on employment and trade.

---

**Box 3: Women shift to petty trade**

“I don’t work. I used to work in the kindergarten but it closed. My husband doesn’t work because of his poor health. Work is seasonal. I engage in petty trade – selling drinks, chewing gum and so on. My husband and son collect firewood and sell it. The main breadwinner in the family turns out to be my daughter, who works as a school teacher, earning 30 somoni. We used to rent land where we planted potatoes, carrots and herbs, but this year we didn’t plant anything because there wasn’t money for seeds” (Dilbar, rural Tajikistan).

“I used to work in the hotel and had a good salary. A new owner appeared and the hotel became private. To begin with, they stopped paying salaries, then dismissed us. Who is going to employ me? I’m not young anymore. My daughter and I have already been baking pies and pancakes for sale in nearby premises – the internet café, hairdressers and building site – for a number of years. People bought a lot before, but recently they are buying less and less. Clearly people do not have any money” (46-year-old woman in Tashkent, Uzbekistan).

Thus, most people in Kyrgyzstan, Tajikistan and Uzbekistan are no longer able to maintain Soviet-time livelihoods. Since the early 1990s, formal employment and state social provisions no longer guarantee livelihoods, with the result that the need to supplement incomes through informal economic activity has become much more widespread and urgent. As a result, the bulk of employment in Kyrgyzstan, Tajikistan and Uzbekistan has been in the informal economy. This economy has expanded dramatically in size, serving as a safety valve for a large unemployed and discouraged population (see box 4).

**Box 4: Piecemeal workers in Uzbekistan**

Piecemeal workers (mardikori) engage in agricultural work, construction-repair, loading, cleaning and small services. Mardikori from Uzbekistan engage in agricultural work in Kazakhstan and Kyrgyzstan in the Ferghana valley. The number of mardikori from Tajikistan in Uzbekistan has also grown. In all market centres there is a mardikor bazaar, where workers wait to be hired for piecemeal work.

Mardikor markets, located in all Uzbekistan’s provincial centres, hire about 8,000 workers per day. In Tashkent city alone, the market employs 2,000 people per day. About 70 per cent of those in Tashkent come from the regions. Uzbekistan’s Ministry of Labour found that 240,000 mardikori regularly seek piecemeal work for less than one day at the bazaars and 25,000-30,000 weekly.

Many workers form brigades, living together, often eight people in one or two rooms. They pool their incomes to pay for rent and food and divide the remainder among them. If lucky, they can earn up to USD 300-400 for two or three months work. Once they have accumulated enough money to afford the journey home and to give to their family, they return home. They run the constant risk of being caught by the police, having their passport and goods confiscated and being deported from the capital.

Research on the impact of recent trade legislation (discussed below) found that the structure of the informal economy has changed. Many entrepreneurs have stopped trading and increasingly are becoming piecemeal workers.

The research conducted in Uzbekistan for this project found that many of the mardikori in Tashkent come from the Ferghana Valley, Sukhandariya and Kashkadariya. The opening in 2002 of the Friendship Bridge and the international military bases in Khanabad and Termez did not bring employment creation to the two regions. They did however result in the rise of consumer good prices, that increased the number of mardikori from these regions in the Tashkent town and oblast.
Informal activity as a way to secure a living 
or for enrichment

For a very small proportion of wealthy households in these three countries, informal
tivity is a strategy for accumulating wealth. A main feature of this group, that
distinguishes them from others in the informal economy, is their social capital. In this
case, their social capital allows them to interact with corrupt state officials and organized
crime groups. These influential contacts help them circumvent the impediments to
business caused by state bureaucratic control. To engage in enrichment opportunities
through the informal economy, these people commonly benefit from their former positions
as state officials or party and komsomol leaders and their relatives who have high social
and political standing. They often combine a prestigious job in the state sector with an
informal family, or larger, private enterprise.

Between these two poles of survival and enrichment are those people whose relation
to informal activity differs according to their qualifications, contacts and marketable
skills. They do not have the social capital that allows them to take the risky step of
investing all of their human resources in the informal economy. Instead, they diversify the
jobs of different household members, preferably in the informal and formal economies, to
ensure greater security.

Many of these people are entrepreneurs with small businesses, who also resort to the
informal economy due to formidable obstacles such as arbitrariness of state bureaucrats
and restrictive legislation. Many SMEs operate in the informal economy because of
problems to start up business, high taxes and excessive government interference.

Women entrepreneurs participating in the Kyrgyz research undertaken for this study
stated that they did not register their businesses because of the heavy tax burden and the
impossibility, once registered, of remaining competitive with unregistered businesses.
Permits are difficult to obtain and expensive (see box 5).

Box 5: The legislative context in Kyrgyzstan discourages formal business activity

“If I pay all the expenses for legalisation, then my profit would be smaller. The salaries of my workers would be
smaller, and they would have to pay social tax as in the state sector. Then they would probably leave and my business
would be ruined. For that reason, I work without registration. Besides that, in our sphere practically everyone works
without registration. If I register, the cost of my services increases and I lose my customers” (Owner of a sewing
workshop).

“I wanted to legalise my business, so I went to buy a patent. It costs 800 som per month, but all I earn per month
is 2,000 som. I rent a computer for 500 som, and what’s left? It’s not advantageous to me because I would have to
give away more than half of my earnings” (25 year old woman running a recruitment agency).

“It’s better for me to pay the tax, fire and sanitary inspectors [bribes], once per week than to pay monthly all taxes
and also pay for an accountant” (Owner of a café).

Increasing constraints for entrepreneurs
in Uzbekistan

Recent legislative developments in Uzbekistan have severely hampered
entrepreneurs. They face difficulties withdrawing cash from banks, which they perceive to
be untrustworthy business partners (see box 6). Since mid-2002, small and medium-sized
businesses and individual entrepreneurs have faced new restrictions on cash withdrawals.
Entrepreneurs are further dissuaded from using banks because these provide information to
the tax inspectorate and other government control services. Also, bank-related activity
takes a lot of time and is very bureaucratic. Thus, less than 30 per cent of respondent entrepreneurs in Uzbekistan had a bank account. The absence of free currency conversion and the existence of several exchange rates – two official ones (the Central Bank and commercial rates) and two rates on the black market (cash and without cash transfers) – makes going through banks generally disadvantageous.

**Box 6: No trust in Uzbek banks**

"It's impossible to work via a bank. It's impossible to take out your own money from your account. From early in the morning they have no money. You go for weeks to the bank and it's all pointless... I can't even take my salary from the bank. I don't give a damn about it all anymore and gave up my patent. Now I work for cash. Clients are constant and trustworthy" (19-year-old baker from Bukharskaya oblast).

Legal export has become unviable. Entrepreneurs need to make advance payments of no less than 15 per cent of contract price, either given as a bank guarantee or insurance against risk.\(^9\) Traders have to sell 50 per cent of their hard currency at the formal bank exchange rate.\(^10\) These measures make Uzbek goods non-competitive on the external market. Import business has also become difficult. From summer 2002, traders importing goods for sale need to pay customs taxes as high as 50 per cent of food products and 90 per cent for non-perishable goods.\(^11\) For legal businesses the customs tax on non-perishable goods is 30 per cent.\(^12\) These measures make import businesses non-competitive on the local market.\(^13\)

**Box 7: Ruin for Uzbekistan's shuttle-traders**

"For several years, I engaged in trade bringing goods from Kazakhstan – clothes, sheets, blankets and so on. It was awful when these new rules were introduced. They took the goods, demanded some kind of quality certificate. It was a joke. Where do you get such a certificate? Many traders dropped their trade. I lost goods worth more than 20,000 dollars. I couldn't pay for the goods to be stored and simply gave up my patent. Now I sew and don't make nearly as much money" (26-year-old woman Tashkent oblast).

Registered businesses need to get licenses and quality-standard certificates each year, which are unaffordable for most small businesses (see box 7).

**Box 8: Labour migration is the only option in rural areas**

"It's become very difficult to trade. The markets have closed and the police and tax inspectorate hunt us down. It's impossible to find work and so many have left for Tashkent or Samarkand or further afield. Many have gone to Kazakhstan as hired workers on farms because it's easier to find work there" (37-year-old livestock trader, Kashkadar'inskaya oblast).

These new requirements have already had a negative effect. The consumer market has shrunk and the price of consumer goods has risen. Traders’ incomes have fallen and many shuttle-traders have been ruined. With little to fall back on, these former traders seek out any available work they can find in a shrinking local economy. They are turning up in greater numbers at designated mardikori markets, waiting to be hired as daily casual labourers. Alternatively, they migrate to other countries for work as agricultural labourers. This has resulted in increasing migration to neighbouring republics for temporary and seasonal work (see box 8).

These new restrictions have also impacted the wholesale trade. A few monopolists with influential connections in the state have increased their control over this trade sector. Prices of wholesale goods have risen and there is a smaller range of goods available. Many
of the middlemen who relied on the sale of wholesale goods have been pushed out of business.

**Income from informal activity**

Income from informal economic activities varies considerably. In some cases it is extremely modest and does not substitute for the loss of an adequate Soviet-era salary. Focus group discussants in Osh (southern Kyrgyzstan), who considered their incomes 'sufficient to purchase food', said their informal income was considerably higher than what they could aspire to in the formal economy. Moreover, women paid workers said they were paid daily, weekly or every 15 days, receiving their money on time. The research conducted in Uzbekistan concluded that the monetary income of families engaged in non-agricultural entrepreneurial activities was greater than that of families employed as paid workers in the formal economy.

**Box 9: A sewing workshop business in Bishkek**

Danutia is 37 years old, married and living with her husband, parents and children. She has a higher education and before perestroika, worked as an engineer in the agricultural machinery factory. When the factory closed, she went into shuttle-trading, importing goods for sale in Bishkek. Then to remain competitive she started taking goods from Kyrgyzstan to Russia. During this time, she managed to save some money (USD 3,000) which she invested in her sewing business. She converted an empty building into a workshop. She equipped the workshop with heating, light and twelve industrial machines. Salaries in her workshop vary according to season. She employs a sewing machine mechanic (who earns 1,500 som per month), a material cutter (who earns 5,000 som per month), her helper, the technological craftsman (who earns 4,000 som per month) and twelve seamstresses (who earn 3,000-4,000 som in high season and on average 2,000 som per month). The income from each machine is 1,300-1,500 som per month. Each machine works for about ten months, with the remaining months taken up by the search for clients. She already has long-term clients who select the design and material to be used and sell their products in large markets in Kyrgyzstan as well as to wholesalers in Russia and Kazakhstan. Risk is minimised by the fact that she only uses customers’ material, so if they run off she can sell the clothes herself.

Seamstresses in sewing workshops are comparatively well-paid (see box 9). Those who work from home earn less. In workshops, seamstresses work on industrial machines which produce goods of superior quality (using better quality material and producing more expensive clothes) compared to those of home-workers, who use domestic machines (making simple clothes such as trousers, skirts, from inexpensive material). Shop salespersons working on 15-day shifts earn 3,000 som. Traders earn about 1,500-2,000, but the income depends on the price of the goods they are selling. Governesses and tutors earn approximately 2,000 som. Fruit and vegetable traders earn the lowest salaries – 1,000 som per month – and face the additional risk that their goods are perishable.

Of 27 participants in the three focus groups in the Kyrgyz research who mentioned their income, 16 said that they received salaries lower than the average salary in the formal economy. These included hawkers (see box 10), home-workers, women baking flat bread and traders in vegetables. The remainder received higher incomes, including business owners, seamstresses, nannies, governesses, and individual traders. With the exception of a governess, none reported delays in pay, which was received weekly or every 15 days. Those who earned higher incomes, such as the owner of the sewing workshop, the governess and some seamstresses, preferred not to return to their previous jobs. Hawkers and bakers wanted to return to their former jobs, to own rather than rent an apartment, and to be in a situation where they could accumulate some savings.
Formal and informal social protection

Income-generating work is an aspect of a wider array of strategies people engage in to make a living. Research conducted for this project estimated that in Tajikistan, the salary makes up one third of all income in respondents’ households. A large proportion of household income comes from the sale of foods and clothes. Another important source of income is the home-garden, which provides food for home consumption and for barter and exchange with neighbours and relatives. When other income sources have been exhausted, households may resort to selling assets (see box 11).

Humanitarian aid also plays a role for some households. The findings of the research conducted in Tajikistan suggest that traditional social activities are a large household expense (see box 11). For young people the main reasons to migrate for work were to earn money for a wedding or to buy a car, both of which cost about USD 1,000. Weddings and circumcisions often take place in the summer and autumn, when fruits are available. Funerals take place after three days, then 40 days, then after a year. In the past, they were conducted more frequently – after three, seven, 20 and 40 days and after a year. Less money is spent on weddings nowadays. The bride’s family has reduced to a minimum its demands on the bridegroom’s family. Despite this, a wedding is a considerable drain, costing approximately USD 500. Following a Presidential ruling that caps the money spent on weddings, the most spent now is

---

**Box 10: Women's access to informal work in Kyrgyzstan**

Some informal economic activities are easier to engage in than others. Hawking is the easiest to participate in. Hawkers buy up goods in small wholesale shops in large markets and resell them at a higher price. Hawkers in urban areas are mostly women from rural areas. Income is small (1,000-1,300 somoni per month). Hawkers’ trays are found everywhere in the city; not far from public transport, in subways and near large residential areas. Tax inspectors and the police patrol service frequently check their permits, and when they do so the women quickly collect their trays and leave. People who sell home-grown vegetables and home-baked bread have to pay rent for the space in the market, while hawkers do not.

It is slightly more difficult to find informal work in services such as house cleaning, repairs and childcare. The difficulty lies in finding customers. Workers rely on relatives and friends to find work, and to a lesser extent, on newspaper advertisements and private employment agencies. It is much harder to be hired in manufacturing, where specific skills are required. Employers only take on people who have been recommended by someone they trust and never turn to advertisements or employment agencies.

---

**Box 11: Expenditure on social activities**

“My husband left for Russia in 2000 and I have heard nothing from him since. I live alone with my children in a four-room house. I don’t work. I had a cow and a calf, which I sold for 500 somoni for my three sons’ circumcisions. Two months a year I work privately collecting greens, which I tie into bunches. In a day, I make one somoni. In September - October, I harvest cotton. In one month I make 30 somoni. For the remainder of the time, I work on my parents’ land. I collected 200 kg of wheat last year. I sold one sack and bought my children clothes. I spent the remaining money on food. I buy 2 kg of meat once a month. In January I received humanitarian aid – 3 sacks of flour, 4 litres of oil and 3 kg of salt. The middle son once every three months receives assistance at school of 5 somoni” (Makhbuboi, 32 years, married with three children, living in Yavan Raion).

“I have a 16-year-old daughter. To arrange her wedding, I need to make 10-12 dresses, 10 blankets, make presents for the bridegroom’s parents, buy gold jewellery. To do so I will sell the cow, calf and cock. If there isn’t enough money, I will borrow up to 100 somoni from relatives and neighbours and repay them when I can. For my son’s circumcision, there will be the following expenses: a cow (500-600 somoni), sweets (200 somoni), 70 kg of rice, 50 kg of carrots and five sacks of rice” (Khanifa, 36 years, with two children, in Yavan Raion).

The findings of the research conducted in Tajikistan suggest that traditional social activities are a large household expense (see box 11). For young people the main reasons to migrate for work were to earn money for a wedding or to buy a car, both of which cost about USD 1,000. Weddings and circumcisions often take place in the summer and autumn, when fruits are available. Funerals take place after three days, then 40 days, then after a year. In the past, they were conducted more frequently – after three, seven, 20 and 40 days and after a year. Less money is spent on weddings nowadays. The bride’s family has reduced to a minimum its demands on the bridegroom’s family. Despite this, a wedding is a considerable drain, costing approximately USD 500. Following a Presidential ruling that caps the money spent on weddings, the most spent now is
USD 1,000. If in the past rich families spent USD 4,000 on a wedding, they now spend USD 700-800, and USD 300-400 on a circumcision.

These social activities are not simply a drain on precious household resources. They bind communities and service social relations. In a context where state-guaranteed employment and retirement have disappeared, these informal social activities play an important social protection function. Previous social protection mechanisms administered by the state, which focused on those with special needs – disabled persons, families with many children and the elderly – have become unaffordable or difficult to administer. Across society, ‘transition’ from a planned to a market economy has left people without social protection. Real wages have fallen sharply, unemployment is rising and workers are in limbo due to unpaid leave and wage arrears. Pension spending remains high relative to output, but protection is insignificant in real terms. Social assistance is un-coordinated and involves overlapping benefits focused on subsidies for housing and utilities, that are poorly administered and not means-tested.

No longer able to rely on a paternalistic Soviet state for protection, people turn to community-level social relations for support. Among the poor, these social relations play a vital welfare role in obtaining resources in the context of a failing state. Unemployed and poorly paid workers are joining the ranks of the vulnerable pensioners, disabled persons, female-headed households and families with many children. Networks of people based on traditional patterns of solidarity groups (extended families, clans, the neighbourhood) organize solidarity among citizens (see box 12). For example, gap or circles gather and distribute interest-free loans. In Kyrgyzstan, ashar involves community participation in building projects. Razha is a contribution made by all community members to toi (life cycle celebrations) or a funeral. In the village of Varmonik, in Varzob Raion, Tajikistan, a special fund was created to support the poor, largely migrant labourers.

<table>
<thead>
<tr>
<th>Box 12: Community support</th>
</tr>
</thead>
<tbody>
<tr>
<td>We always have 300-400 somoni in the drawer for conducting social events, like funerals. There’s a newspaper where the names of those who give money are publicised. Several people who live in town constantly help, giving 20-30 somoni to kill a goat or sheep (Representative, Gayurov makhall).</td>
</tr>
</tbody>
</table>

These community-level support networks were not destroyed by Sovietisation, but recast in the structures of the Soviet system. For example, the inner administrative structure of the kolkhoze (collective farm) was reshaped, and strengthened many of these traditional identity groups. The brigade and the uchatska (groupings of houses) duplicate the makhalla (neighbourhood) segmentations and give them an almost administrative reality. Traditional endogamy tended to strengthen this group identity – along with the fact that in the Soviet system work was allotted on the basis of such groupings.

Social networks have always played an important role, but they have assumed extra significance in post-Soviet conditions of insecurity. Now that people are unable to obtain many resources through the state, they turn to friends, relatives and work colleagues. In Kyrgyzstan, Tajikistan and Uzbekistan, research for this study showed the increasingly important role of personal connections in getting a job. In many cases, this means that friends either provide information about a vacancy or recommend a friend to their boss. However, among wealthier job-seekers, more distant and influential contacts are used to place kin and friends in well-paid work. Arguably, the role of social networks is particularly important for recruitment into the informal economy, because of its associated risk and hidden character. Migrants rely on family and friends in the place of destination, for assistance with housing and finding work. The poorest households, though, do not receive help from friends in getting work. Given the problems to obtain loans from banks,
entrepreneurs also rely on social networks for accessing capital to start-up and develop their enterprise activities.

**Box 13: The distribution of migrant earnings**

“I earn USD 300 per month as a carpenter in Moscow. I send the money home via relatives who are trustworthy, and it’s safer than taking it myself. Last time, I gave my family USD 900, and USD 50 to the person who took the money. I bought presents for my wife and children. I spent USD 100 on the road. With USD 300 we bought all the food – 30 sacks of flour, oil and pasta. We bought our daughter a sewing machine for USD 100. We invited guests, neighbours for lunch. That’s essential” (Anvar, 46 years, married, with seven children, from Varzob Raion).

When migrants return, they organize a feast, invite elderly people and neighbours to visit and distribute money to extended family (see box 13).

Mosques also provide help to the poor. The mullah of Varmonik, a village in Varzob Raion, stated that in the village each family collects 20 diram, which makes 2500 som per year. The money is spent on funerals and to provide assistance to the poor and the hungry. The mosque provides assistance to elderly people. In Kofarnikhon, for the last two years the local mosque has been collecting 100 som from families for the elderly and, last year, bought a computer for the school. Residents donate clothes to the mosque and returning migrants donate some of their earnings. Rich families help the poor conduct social events such as births, weddings and funerals by donating money and food. In 2002, one businessman from Kofarnikhon said he brought 70 wagons of flour and distributed 15-16 tonnes of it to poor families, each receiving 50 kilograms.

There are signs that in the face of the depletion of financial resources, social networks undergo strain. Women focus group discussants in the Kyrgyz research conducted for this study reported that they find it more difficult to ask friends and neighbours for help, since others too are now experiencing difficulties. Some households are limiting the guests invited to weddings to relatives only, given the difficulties in providing food

The downside of strong social support networks is that they exclude people as well as include them. People without access to networks face the threat of exclusion from employment opportunities and social and humanitarian support. A staff member in the Kyrgyzstan office of the Organization for Security and Cooperation in Europe (OSCE) stated that:

Society is closed and clan-divided. The social structure is very dense. One needs family connections to feel belonging to this society.

One group marginalised from informal social support discussed later in this study is that composed of migrants and refugees.

To conclude this section, Kyrgyzstan, Tajikistan and Uzbekistan are experiencing a problematic and unfinished transition to democracy and a market economy. Informal economic activity has grown because people have been unable to maintain their livelihoods through formal employment since the collapse of the Soviet Union, and due to the failed economic reform policies in these countries. Formal employment is unstable, low paid, paid in part, in-kind or with long delays. Some people in formal employment cling to the minimal security that an official state sector job continues to guarantee them. Others take the risky step of finding informal work. The most precarious livelihoods are among those with very low or no incomes, who try to find piecemeal work on a daily basis, such as the mardikori. Often, they lack the marketable skills or qualifications to take up market opportunities. Their marginalisation from the labour market is likely to grow.
Informal work, together with subsistence agriculture and social support, are now vital survival strategies for large numbers of people. For many, the informal economy provides a regularly paid, higher income than would be possible under current circumstances in the formal economy. However, work is often unstable, short-term, and workers are vulnerable because they are not recognised or protected under the law.

For small businesses, lack of capital, bureaucratic hurdles and obstructive, corrupt officials are the main constraints preventing engagement in the formal private sector. Research for this study showed that entrepreneurs acted informally because of the high cost of conforming to the state’s formal requirements for private enterprise activity.

State institutions were complicit in this process, operating arbitrarily according to a formal and informal system. A consequence of these informal practices is the lack of long-term investment in business. Businesses are reluctant to invest in workers, machinery, and innovation if they fear that their rights and property might be usurped. If their capital is seized, entrepreneurs are in a weak position to claim it back because of the informal level on which they operate. Informality makes it difficult for businesses to develop into new markets. Entrepreneurs avoid formally advertising their activities and rely on personal connections to reach new customers, partners and employees, thereby limiting their potential for growth. Despite this, the financial benefits of informal activity outweigh the risks.

The second part to this study will show how the weakness of Tajikistan, Kyrgyzstan and Uzbekistan’s formal economic and political structures leave them more exposed to spill-over problems stemming from Afghanistan, such as Islamic extremist activity and drugs smuggling. In addition, regressive policies to restrict the movement of people and goods and the deterioration of intra-regional relations lead to the further demise of people’s livelihoods.
4. The influence of Afghanistan on radical Islamic groups in Central Asia

Following the attacks of 11 September, there was considerable speculation in the media on the growing scale of the ‘Islamic’ threat. However, the attacks should not be construed as a ‘clash of civilisations’, the Muslim versus the Western world. The violence was directed not only at the United States, but also at moderate and democratic-minded Muslims around the world. The attacks were the latest chapter in a long struggle between moderate Muslims and Islamist hardliners. When discussing the influence of Islam in Central Asia, as anywhere else, it is important to remember that there is no uniform Islamic belief, but rather a great diversity of views over democracy, civic freedom, the rule of law, and partnership with the West. In this connection, it is important to remember that in Central Asia, the growing influence of Islam is not restricted to the radical, political Islamic activity, although this strand has also been growing in recent years. It is currently embodied in two radical Islamic organizations, the Islamic Movement of Uzbekistan (IMU) and the Hizb-ut-Tahrir (Islamic Liberation Party).

IMU, whose declared goal is to topple the Uzbek Government, was allied with the Taliban, and its leadership was based in Afghanistan. It is active in Kyrgyzstan, Uzbekistan and Tajikistan. Both of its leaders, Tahir Yuldosh and Juma Namangani, were thought to be based in Afghanistan. The group operates largely in the Ferghana Valley, on the Uzbek/Kyrgyz border. IMU extended its militant operations from Afghanistan and Tajikistan into Kyrgyzstan and Uzbekistan in 1999 and 2000 (EU, 2002). The U.S.-led military offensive targeted IMU camps and forces fighting alongside the Taliban, particularly in Kunduz. The death of Juma Namangani is still unconfirmed, but IMU nevertheless suffered significant losses.

Support for Hizb ut-Tahrir, an underground transnational Islamic party advocating non-violent methods to create an Islamic Caliphate based on Sharia law, has grown in Kyrgyzstan, Tajikistan and Uzbekistan. The organization is persecuted in all three countries. After 11 September, the Hizb ut-Tahrir party was said to go deeper underground.

A negative repercussion of 11 September is that Central Asian governments, purportedly concerned about the security threat posed by Islamic radicals, responded by attempting to stop cross-border movement and by closing mosques, especially in Ferghana. The economic consequences of border closure were illustrated earlier, in relation to the detrimental impact on traders’ livelihoods in Uzbekistan. Key informants in these three countries were of the opinion that the U.S.-led offensive has significantly weakened the threat posed by Islamic radicalism in Afghanistan. However, it might have also forced Islamic groups to flee northwards, from Afghanistan to Central Asia. Cross-ethnic bonds have meant that highly mobile young men moved from Afghanistan to the Ferghana valley. Key informants believed that these governments’ increasing restrictions on cross-border movement and trade and their clamping down on religious and political freedoms, could add to the resentment felt by a large impoverished population in Ferghana; thereby exacerbating the region’s vulnerability to crisis.
Tajikistan

The emergence of a militant Islamic movement in Tajikistan took place after the 1979 Soviet military intervention in Afghanistan (Warikoo). This, coupled with the success of the Khomeini revolution in Iran, brought a new awakening among Muslims in Central Asia. The Central Asian clerics and Sufi brotherhoods came under the influence of Wahabism – the radical and politicized form of Islam. The Afghan Majaheddin established contacts with the Tajiks particularly after the Soviet troops, most of which were from Central Asia, landed in Afghanistan and started crossing the border into Tajikistan. Wahabism took root in Tajikistan’s rural areas along the Tajik-Afghan border. Afghan Majaheddin groups played a key role in developing an Islamic military group in Tajikistan with a view to establishing a friendly Islamic State. The support of groups from Afghanistan strengthened Islamic opposition groups in the Tajikistan civil war against pro-government forces. Throughout the Tajikistan civil war (1992-1997), Afghanistan was a haven where the Tajik opposition could take refuge and receive military assistance and training. Weapons were trafficked from Afghanistan to Tajikistan.

The Tajik Peace Accord was signed in June 1997 by President Rakhmonov and the leader of the United Tajik Opposition (UTO), Saïd Abdullo Nuri, ending a five-year civil war which killed at least 50,000 Tajiks and displaced or turned into refugees at least 500,000 at any given time during the conflict. In the peace agreement, the largely former Communist Party government agreed to hand over 30 per cent of the government to the mainly Islamic opposition.

The Tajikistan Government supported Afghanistan’s Northern Alliance politically and logistically in its fight against the predominantly Pashtun Taliban. The Northern Alliance had an embassy in Dushanbe and received supplies through Tajikistan. Unlike Uzbekistan and Kyrgyzstan, Tajikistan did not make diplomatic advances towards the Taliban.

The Taliban religious ideology was also unattractive to the UTO, that was afraid it might lose its sanctuaries in Afghanistan. The Taliban were relative newcomers to the Afghan political scene, and the UTO did not trust the mainly Pashtun movement as much as their Tajik cousins in northeastern Afghanistan.

Uzbekistan

Alarmed by the increasing violence in Tajikistan during the early 1990s, Uzbekistan’s President Karimov clamped down on Uzbek opposition groups like Birlik and the Islamic radicals in Ferghana (Machleder, 2003), and sealed Uzbekistan’s borders with Tajikistan and Afghanistan to prevent the purported inflow of arms and men.

President Karimov maintained good relations with General Dostam, an ethnic Uzbek and powerful Northern Alliance military leader in Afghanistan. Dostam’s stronghold was in Mazar-i-Sharif, and from there he fought to stop the spread of Islamic groups. Dostam visited Tashkent several times during 1992 and held discussions with the Uzbek authorities, who provided him with weapons. However, by September 2000, following Taliban advances in northeast Afghanistan, Uzbekistan gave up on the militarily ineffective anti-Taliban Northern Alliance and started a diplomatic dialogue with the Taliban via its embassy in Pakistan.

Academics, human rights activists and international agencies alike argue that the suppression of Islam in Central Asia and the unwillingness of authoritarian regimes to take
on political and economic reforms are speeding up the radicalisation of Central Asia (Rashid, 2002). Karimov’s critics assert that government’s suppression of religious revival and worship and the absence of legal channels for the expression and pursuit of legitimate political interests are fuelling instability and contribute to the politicisation of peaceful Muslims.

Kyrgyzstan

Kyrgyzstan was also affected by conflicts in neighbouring countries. The civil war in Tajikistan spilled over into the neighbouring Kyrgyzstan, with large numbers of armed Tajik Islamic fighters moving into Osh oblast.

During the incursions of the IMU from Afghanistan and Tajikistan in 1999 and 2000, the IMU met with popular support from the local Kyrgyz population, particularly among the ethnic Uzbeks (Khamidov, 2002). Four Japanese hostages were taken in Batken, in the Ferghana Valley, with serious economic consequences. As a result, the Japanese Government stopped its grants, economic assistance and technical help to Kyrgyzstan between 2001 and 2002. An international investigation was undertaken to ensure the situation had calmed, and the Prime Minister went to Japan appealing to unfreeze aid. The incursion of radicals into Kyrgyzstan led to a fall in tourism, an important sector for the Kyrgyz economy.

There have been no further attacks following the IMU-orchestrated incursions in 1999-2000 into Batken and Osh. Since then, local residents feel there has been less religious extremism. One respondent explained that following the U.S.-led intervention in Afghanistan, he no longer gets leaflets propagandising radical groups by mail delivered at night-time.
5. The economic impact of Afghanistan’s narcotic drug production and trade in Central Asia

Central Asia’s porous borders, powerful organized crime networks and a weak Tajikistan state have fostered a lucrative drug trade. During the 1990s, Afghanistan became the largest source of illicit opium and heroin, providing 70 per cent of global illicit opium. The Office for Drug Control and Crime Prevention’s (ODCP) 2002 Opium Survey estimates that the overall turnover of illicit international trade in Afghan opiates is USD 25 billion annually. The EU, among others, has noted the link between drugs and radical Islamic groups:

In Central Asia and the wider region, terrorist forces and their support groups operate in close liaison with transnational crime networks, smuggling drugs (the IMU is also believed to control the drug trafficking routes through Tajikistan and Kyrgyzstan), arms and human beings (EU, 2002).

The ODCP reported that terrorist organizations connected with the Al Qaeda network were involved in trafficking narcotics from Afghanistan to Central Asia. According to the ODCP office in Bishkek, fighting in 2000 between IMU and Government forces in Batken, Kyrgyzstan, was due to IMU seeking new trafficking routes to facilitate movement through mountain passes. In Resolution 1,373 (2001) of 28 September 2001, the UN Security Council,

…Notes with concern the close connection between international terrorism and transnational organised crime, illicit drugs, money-laundering, illegal arms trafficking, and illegal movement of nuclear, biological and other potentially deadly materials…

The U.S.-led anti-terrorism campaign in Afghanistan hoped to destroy drugs trafficking, but the situation has not improved. The power vacuum in Kabul following the overthrow of the Taliban regime has enabled farmers to replant opium poppy, after the decline in production following the ban imposed by the Taliban. Interviews with the ODCP in Kyrgyzstan, Tajikistan and Uzbekistan revealed that in 2002 Afghan heroin and opium production surpassed forecasts. The increase is attributed to a range of factors, including economic know-how, good climatic conditions, an increased cultivated area and a lack of military deployment in the North. The U.S. military attention focused on attacking Al Qaeda along the Pakistan border and clamping down on drugs on the Iranian border has diverted trafficking routes to Central Asia. Laboratories processing heroin have moved to the Central Asian border, especially that with Tajikistan. The northern province of Afghanistan increased its area of cultivation, and opium stockpiles have been moved to Central Asia. In Central Asia, trafficking in opium has decreased, while trafficking in heroin and heroin purity have increased. The increase in heroin signifies increased processing capacity, and increased purity indicates that there are huge quantities available. These developments make Central Asia particularly exposed to drug trafficking.

Some UN officials think that the U.S. policy was to ignore the drug trade in order to maintain stability and give the new administration a chance to establish itself. Two Uzbek academics note:

The drug dealers remained unaffected by the antiterrorist operation despite the fact that the coalition had maps of narcotic crops and heroin laboratories in Afghanistan (Olimova and Olimov, 2002).

Opportunities for drug trafficking have diversified since the U.S.-led intervention in Afghanistan. The Afghanistan-Central Asia border has weakened due to international community’s humanitarian assistance. The Uzbekistan border was previously sealed, with the border highly militarised, and no drugs entered from Afghanistan to Uzbekistan. Since
the bridge has been open to military and humanitarian aid, there have been a number of seizures at the bridge.

According to the ODCP in Uzbekistan, these post-Soviet states are structurally weak in the face of the drug economy. Tajikistan has been most affected. The heroin seizures there have been increasing, and in 2001 reached for the first time the same quantities as those from Pakistan and Iran. Aside from cotton and aluminium, one third of the Tajikistan economy is based on drugs. The ODCP notes:

The illicit drug flow through [Tajikistan] generates increasing levels of addiction, undermines the fragile economy by substituting legal sources of money with illegal ones, and encourages corruption in a country where public wages are very low (ODCP, 2002a, p. 13).

A recent survey estimates that half a million people are involved, along the trafficking chain. Some poor people living in border areas resort to trafficking to survive. At the risk of a 20-year prison sentence, people take a 5-day train journey from Dushanbe to Russia with drugs smuggled in their stomachs, to earn USD 100-200. Drugs dealers from Afghanistan sell to Tajik counterparts on the border, who hire local couriers to take drugs to the Kyrgyz border, where another contractor takes over. From Osh they are taken to Bishkek and then to Kazakhstan. According to the ODCP in Tajikistan, working as a courier is attractive to the poor in Jalalabad, Bishkek and Osh because of the lack of employment alternatives.

Drug addiction was a relatively small problem in Central Asia in the 1980s. Today however, growing quantities of drugs exported from Afghanistan stay in Central Asian countries, and are consumed mostly by young people. There has been a six-fold increase in drug abuse in Central Asia from 1990 to 2000 (ODCP, 2002b). One per cent of the population above the age of 15 and more women are consuming drugs. This increase in the number of drug addicts, the shift from cannabis to opium and heroin, and the reliance on injection increase the spread of HIV/AIDS (ICG, 2001). High drug addiction rates are partly due to the fact that the people assisting the drug smugglers are often paid in kind, with drugs. These couriers sell on to young locals.

Tajikistan’s economic dependency on drugs trafficking makes economic reform more difficult. In an environment controlled by criminals and penetrated by the drug trade, economic activity becomes embedded in violence and crime. The ODCP predicts that illicit drugs production will grow in Central Asia, with drugs trafficking groups taking advantage of ethnic ties to promote opium poppy cultivation (ODCP, 2002a). Although the Tajikistan Government has taken important steps to challenge drugs smuggling, the political and law enforcement establishment itself is undermined by involvement in the trade.

To conclude this section, the problem of drugs production and trade illustrates the importance of adopting a regional approach – the impact in Central Asia cannot effectively be tackled without also addressing the key issue, namely the dependence of Afghan farmers on drugs production for their livelihoods. The overthrow of the Taliban has had a more limited impact on trends in drugs production and trade than was hoped. If anything, Central Asia has become a more important smuggling route, with efforts to combat drugs smuggling and the U.S.-led anti-terrorism campaign being concentrated in southern Afghanistan and on Pakistan’s and Iran’s borders. The impact of the drugs trade in Central Asia is expected to grow, due largely to the fragility of the local economy and weakness of the governance structures required to tackle the problem.

The following two sections address the movement of people and goods in the region. They focus on the economic impact of the deterioration of border relations between Central Asian countries and, as with the issue of narcotic drugs, demonstrate the importance of a regional approach.
6. The impact of recent events in Afghanistan on migration and refugee movements

Following independence, borders were drawn on previously undivided territory and visa regimes introduced. Borders that were previously merely administrative have become barriers to the movement of goods, services and persons, often interrupting age-old trade flows. In Osh, people often said that in Soviet times, Uzbekistan was ‘just across the road’ and that children would live in one country and go to school in another. Conflict and impoverishment since the early 1990s have resulted in considerable movement both within and across borders in the region. One might have expected that the dismantling of the Soviet Union in Central Asia and overthrow of the Taliban in Afghanistan would promote the flow of people and goods in the region. However, border disputes between governments in the region, discussed in more detail below, have made the movement of people and their goods increasingly problematic. Post-11 September, movement difficulties accelerated as these countries closed borders and cracked down on refugees. UNHCR has stated:

The general security climate within the [Central Asia] sub-region is not always favourable to refugee interests, and during the past year, has led to some governments seeking to introduce measures which undermine achievements to date. The recent events in and around Afghanistan have exacerbated this tendency (UNHCR, 2002, p. 155).

In Uzbekistan, Tajikistan and Kyrgyzstan some of the most vulnerable informal workers are migrants. Market reforms have hit people from rural areas particularly hard. They migrate to large towns, Kazakhstan and Russia to find work, often as ‘pendulum migrants’. It is impossible to find work in the formal economy without a propiska (residence permit), which is unaffordable. Many have low levels of education and are without professional skills. It is difficult for people from rural areas to find formal work due to the preference for urban dwellers, high unemployment in the towns and their lack of skills.

Afghan refugees in Central Asia

The Afghan population includes large minorities of the same ethnic groups as in Central Asia. Afghanistan’s population of 26 million includes about 200,000 ethnic Kazakhs, 3.5 million ethnic Tajiks, 1.6 million ethnic Uzbeks and smaller groups of ethnic Kyrgyz and Turkmen. Further to these, the Pamir Tajiks, living in the Gorno Badakhshan autonomous oblast of Tajikistan, share their language and lifestyle with their counterparts in the Badakhshan region of Afghanistan. Most people settled in northern Afghanistan are from Central Asia. Many fled to northern Afghanistan during the Bolshevik revolution and collectivisation. This Central Asian population of northern Afghanistan has been quite conscious of its group identity as distinct from Afghanistan’s Pashtun majority.

Given the ethnic links between North Afghanistan and Central Asia, international organizations working in the region prepared for an inflow of refugees fleeing from civil war in Afghanistan to Central Asia. However, Central Asia turned out not to be a viable camp for Afghans. For example, in 1999 filtration points were set up for the expected refugees at Karamyk, in southern Kyrgyzstan, in the expectation that they would try to reach Osh. No refugees actually came. The small number of refugees going to Central Asia is due to the difficulty to cross the Pamir mountains and the commitment on the part of Tajikistan, Uzbekistan and Turkmenistan to seal their borders. Furthermore, Taliban’s strength in the South meant that the majority of refugees went to the Pakistan border.
Tajikistan

As was mentioned above, during the Tajik civil war many Tajiks fighting for the opposition took refuge in Afghanistan, where a large Tajik minority resides (ICG, 2002, p. 20). Nearly all of the 70,000 who fled to Afghanistan during the civil war have returned.

Tajikistan has received refugees from Afghanistan. UNHCR estimates that there are 3,000 Afghan refugees and asylum-seekers in Tajikistan and another 4,000 to 5,000 migrants. Assistance provided to vulnerable Afghan refugees included skills training and income-generating projects targeting vulnerable women and legal support for refugees. In total, it is estimated that there are between 3,000 and 8,000 Afghans in the country, concentrated in Khojand and Dushanbe. Tajikistan has resisted accepting further refugees. In March 2001, when 12,000 refugees appeared on the border around Pyanj, Tajikistan refused a UN request to allow them into the country. UNHCR is concerned that the protection situation in Tajikistan has been compromised following new Government Decrees restricting the movement of Afghan refugees, as well as the proposed revision of the existing refugee law, which would be detrimental to the status of refugees in general.

Uzbekistan

It is estimated that between 6,000 and 8,000 Afghans live in Uzbekistan (see box 14). Some 2,000 are recognised as mandate refugees by the UNHCR Office in Uzbekistan, and 1,500 are awaiting status determination. There are many more Afghans with visas, registration and work that are not refugees (Tahlil, 2002). Among the refugees, the biggest groups are Tajiks (46 per cent), ethnic Uzbeks (25 per cent), Pashtuns (15 per cent) and Khazara (10 per cent).

Border control and the fight against illegal migration is a high priority for the Uzbek Government, to the detriment of refugees’ protection needs. Uzbekistan is unwilling to accept refugees through its border with Afghanistan at Sukhanar’ya (called Termez), even from among its 1.5 million ethnic Uzbeks in Afghanistan. The Government, concerned about the penetration of IMU, believes that refugees are a potential security threat. The UNHCR office works to create an environment conducive to better cooperation on refugee and asylum issues, but with little success. In 1999, a verbal agreement was reached between UNHCR and the Ministry of Foreign Affairs which improved the situation of mandate refugees significantly, with detention and deportation practices decreasing. Nevertheless, UNHCR has stated:

The process of reconciling the concern for national security with the establishment of a protection regime for refugees has so far not been achieved in Uzbekistan (UNHCR, 2002a, p. 4).

Asylum seekers and refugees in Uzbekistan are treated like other migrants, and are subject to arrest, detention, deportation and refoulement on the basis of their illegal entry or stay. UNHCR considers the living conditions of refugees and asylum-seekers very problematic. Refugees pay for medical services and education, which are free for local residents. To attend university, refugees need legal-stay documents. The absence of legalising documents hampers their access to the labour market and freedom of movement. Unemployment among Afghan refugees is very high – just 23 per cent of Afghan working-age refugees have official or unofficial work. Some 72 per cent do not work or study, rising to 88 per cent for women (Tahlil, 2002). A study commissioned by UNHCR revealed that the main problem for refugees is finding a job. The absence of registration means they cannot engage in the formal economy, so they resort to informal work. As a result, they are unprotected legally and receive lower wages than legal workers for the equivalent work. Afghan businesspeople are forced into the difficult position of
either risking working illegally or registering their businesses in neighbouring countries. Many refugees are experiencing extreme economic hardship due to their lack of a recognised status. Most of them are not able to find work legally, and many are forced into riskier arrangements like working in the bazaars and other businesses, which do not provide a steady source of income.

Afghan refugees live in the Uzbek capital, Tashkent, and the Afghan border town, Termez. The 250 Afghan refugees recognised by UNHCR in Termez are poorer than those in Tashkent. According to the local NGO ‘yol and Zamon’, which works with the Afghan refugees in Termez, most are traders but due to the new trade restrictions, discussed above, resort to working in the evenings and from home.

### Box 14: Four waves of migration from Afghanistan to Uzbekistan

1. **1980-1989:** During Soviet army presence in Afghanistan, Afghans came to Uzbekistan; mostly students coming to study, together with specialists and party elite.
2. **1990-1992:** After Soviet army withdrawal, people close to the Communist party elite left Afghanistan, peaking with the collapse of the Najibullah regime. Many of those who left before 1992 were not considered refugees until after 1992, when it became unsafe for them to return.
3. **1993-1996:** Outflow of Najibullah supporters and modjakheds fleeing the Taliban.
4. **1997-2001:** Opponents of the Taliban movement fleeing, the largest numbers between 1997 and 1998.

### Kyrgyzstan

In Kyrgyzstan, the 1900 Afghan refugee- and asylum-seeker population is concentrated in Bishkek. After Soviet army withdrawal in 1995, and many have since left Kyrgyzstan to find employment through the old Afghan diaspora community in Moscow. Afghans in Kyrgyzstan mostly belong to the middle class who used to enjoy relatively high standards of living, engaging in business or well-paid public sector jobs. Many, referred to in Afghanistan as "Lenin’s grandchildren", came to the former Soviet Union under academic exchange programmes with the Najibullah government and are highly skilled. Others, who trained in the former Soviet Union, left Afghanistan when the Taliban came to power.

Afghan refugees are reputed to be successful businesspeople, which can cause resentment among locals who believe they are being squeezed out the market. However, they are sometimes amongst the most vulnerable. Following 11 September, Afghans faced increased harassment by law enforcement bodies. One study on Afghan refugees in Kyrgyzstan noted that “any attempt to get a job which is not associated with trading in markets is doomed”. With refugee status, they have the right to work, but 64 per cent of respondents indicated that finding a job was impossible and ranked it the biggest problem facing them. Despite their skills, they are forced to make their living as traders in food or commodity markets, earning little money. There are differences in the way Afghan and Tajik refugees make their living: Tajik refugees try to produce and sell agricultural products, and some Tajik refugees, especially women and children, are beggars. Afghan refugees by contrast, used to live in urban areas and never engaged in agriculture. According to the aforementioned study, among those whose refugee applications were rejected, 31 per cent had no job and 63 per cent were traders. Afghan refugees in Kyrgyzstan face difficulties finding affordable housing because as ‘foreigners’ they are charged higher rents than locals. Given these difficulties, Afghans tend to lead more secluded lifestyles and are unable to integrate with the local population (UNHCR, 2002c).
Movement between Central Asian countries

From Uzbekistan to Tajikistan

In the late 1980s, knowing that the republics would become independent, people moved to the states where their ethnic group was prevailing. This was prompted by inter-ethnic conflicts in Uzbekistan; in 1989 between Uzbeks and Meskhetian Turks, and in 1990 between Uzbeks and Kyrgyzs, in the Ferghana Valley. Those conflicts have deepened fears for safety among Tajiks and other ethnic minorities in Uzbekistan, and as a result thousands of Tajiks emigrated from Uzbekistan to Tajikistan.

The 1999 terrorist attacks in Tashkent and the incursions by the IMU into Uzbekistan precipitated a second wave of emigration to Tajikistan. A third wave took place after the terrorist attacks of 11 September. People fled to Tajikistan fearing persecution by the Uzbek authorities because of their direct or indirect adherence to the activity of the opposition.

From Tajikistan to Uzbekistan


Among immigrants capable of working, 5,404 (13 per cent) do not have any employment income and 1,424 (3 per cent) do not have any source of income at all, including state transfers (Expert-Fikri, 2002). The level of employment among women is nearly three times lower than that among men (24 per cent and 63 per cent, respectively). Immigrants tend to find employment in small-scale businesses or the informal economy. A common strategy is to work under the names of formally hired Uzbek citizens, which leaves migrants without entitlements to pensions. Working in the informal economy means they cannot get the documents confirming their income sources required for legalization. Immigrants who do not have legal status live together in large households in order to protect themselves against poverty and deportation. In a study undertaken for UNHCR, it was found that nearly half of immigrant households’ members are not relatives but migrants who stay in mini-communes, or groups of workers.

The vast majority of migrants to Uzbekistan are ethnic Uzbeks. Of the migrants from Tajikistan, the proportion of women is higher among ethnic Tajiks than among ethnic Uzbeks. This difference is due to the male casualties in the civil war and male labour immigration to Russia, Kazakhstan, and Uzbekistan. Women migrants are particularly vulnerable because of their dependency on men – husbands, male relatives and male heads of local communities – protecting them from criminal prosecution, helping them find jobs and access to social aid, providing for the costs of medical expenses and of dealing with the administration. The majority of young women migrants are without occupational skills and have a very basic educational level. Local authorities do not register marriages with illegal female immigrants. Married women have to move to their husband’s house and, in the case of divorce or conflict, may be driven out of their husband’s house or be deported.

During and after the civil war in Tajikistan, many children were brought from Tajikistan and lived illegally in the Kashkadarya, Surkhandarya, and Samarkand provinces of Uzbekistan. For girl children, new ‘owners’ could sell them by marrying them
off or could marry the girls. The boys could be used as a cheap labour force (Expert-Fikri, 2002, p. 42).

Migration and trafficking from Central Asia to Russia and other countries

Kyrgyzstan

External migration from Kyrgyzstan, comprising ethnic Russian, Germans, Ukrainians, Tartars and Uzbek, reached its peak in 1993, when about 143,000 individuals emigrated (IOM, 2001). The trend in migration outflows was reversed after 1993, and by 1998, the number of emigrants reached a low of about 16,000 individuals. Since 1998, however, the volume of emigrants has started to increase again. In 2000, more than 27,000 people left the country (World Bank, 2002). Half a million migrants from Kyrgyzstan are estimated to be in Russia, working mostly in markets. In Kazakhstan they are working on tobacco plantations. During Soviet times, workers lived in Kyrgyzstan and worked during the week on tobacco plantations in Kazakhstan. Now many continue to work on Kazakh plantations, but this work has become illegal because they do not have permits. The International Organization for Migration (IOM) plans to study the role of remittances, which they estimate to be approximately USD 500 per migrants, per season. The Government considers these remittances to be part of Kyrgyzstan’s informal economy as they are an untaxed hidden income.

Tajikistan

Even larger numbers migrate from Tajikistan to Russia, Kyrgyzstan and Kazakhstan. Their vulnerability means they are willing to accept work often in poor conditions and with low wages. In Tajikistan, it is commonly believed that labour migration is the government solution to economic problems. The Ministry of Labour is tasked to make the labour force go through licensing to promote immigration, but once in Russia, there is little alternative to engagement in the informal economy.

The ILO has described the feminisation of international labour migration as one of the most striking economic and social phenomena of recent times (Lim and Oishi 1996). Impoverishment, unemployment and the withdrawal of state social provision, along with growing gender discrimination in the labour market, mean that the number of women turning to migration in search of alternative livelihood opportunities is on the increase. As a result, women are more vulnerable to the various manifestations of the burgeoning sex industry, which may appear to offer substantial financial rewards. With the collapse of the Soviet Union, new international borders have increased freedom of movement. However, xenophobic actions to combat trafficking by receiving countries, such as the tightening of visa policies, limiting residence and work permits, introducing more instruments for the detention and expulsion of persons, make it harder for women to obtain visas legally and therefore play into the hands of traffickers. Traffickers take advantage of laws prohibiting or regulating migration, and in so doing contribute to the creation of highly oppressive conditions for women once abroad. More than 1,000 women were trafficked from Tajikistan in 2000, primarily to the Middle East and CIS countries. Victims tended to be single women between the ages of 20 and 26, living in Khojand and Dushanbe. They were household heads with at least one child, from ethnic minorities and rural origins, and without a higher education.
Internal migration

The steady movement of rural residents to cities characterizes the pattern of internal labour migration in Kyrgyzstan, Tajikistan and Uzbekistan. This has been particularly acute in the past ten years, with the capitals of Bishkek, Dushanbe and Tashkent being most affected. Migration in Central Asia is prompted by the destruction of people’s livelihoods resulting from market reforms. A survey on internal migrants conducted by the IOM in 2000 showed that the main cause of internal migration is the lack of job opportunities in the place of origin. According to the World Bank, internal migration in Kyrgyzstan from small towns and remote areas to cities like Bishkek and Osh is on a bigger scale than external migration, although it has recently slowed down with the distribution of land and improvement of the agriculture sector. Official statistics show that 35,000 labour migrants worked in the capital in 1999, of 43,000 nationwide (Elebaeva, 2003). While Bishkek, located in the Chui valley, receives a positive balance of inter-regional migration, other oblasts of the republic systematically lose their population. Migrants from southern Kyrgyzstan do not know that they should register in Bishkek within seven days, after which time they lose the right to be there. According to the IOM in Kyrgyzstan, the search for work and housing are the main problems internal migrants face.

To conclude this section, migrants and refugees who have fled conflict and impoverishment in the region constitute one of the most vulnerable groups in Kyrgyzstan, Tajikistan and Uzbekistan, often denied access to formal employment because of their illegal status in the countries in which they reside. Against all predictions, the Taliban’s rule and their advance northwards did not produce a flow of refugees fleeing to Central Asia, in part due to the closure of Afghanistan’s northern borders. Migrants are concentrated in the informal economy, because there are few other jobs available. Informal social networks are an important source of support. However, they are socially excluded, discriminated, and lack access to social protection. A priority for the ILO should be to work with IOM and UNHCR to find ways of ensuring that migrants have the capacity to move into more decent jobs, and that those not covered by the existing social security system are protected.
7. Trade: external potential thwarted

Trade with Central Asia and Russia

The deterioration of relations between governments in the region has also impeded the movement of goods (see box 15). New trade barriers include punitive transit tariffs, import quotas, export licensing requirements and transport restrictions. Cumbersome, corrupt bureaucracies throughout the region administer regulations that slow border procedures. As a result, exports have tapered off and inter-regional trade accounts for a declining share of overall exports. This problem is particularly acute around the Ferghana valley, where Uzbekistan has acted to obstruct trade with South Kyrgyzstan and North Tajikistan, both dependent on Uzbek road and rail links for access to external markets.

Security concerns have triumphed over the possibilities of trade and cooperation (ICG, 2002). The situation in Afghanistan prompted states in the region to prioritise a short-term reactive containment policy, at the expense of new economic openings. President Karimov was concerned about the prospect of a Taliban-instigated northbound campaign, the rise of religious extremism and the trafficking of weapons and drugs. Following an attempt on his life in 1999, he clamped down on cross-border movement. The Director of Uzbekistan’s Open Society Institute notes:

Closure has increased. People are locked into the country. Borders are the most political regional issues. Tension has increased between Uzbekistan and all surrounding countries. This will lead to increasing poverty. Living standards will worsen because governments don’t provide alternatives.

Box 15: Economic and social decline in an Uzbek region bordering Afghanistan

Uzbekistan’s border with Afghanistan has always been fortified along the Amudar’ya river in the Sukhandar’ya region. The region was closed during Soviet times. Now, with little infrastructure, this border area has seen no investment. One of the poorest regions in Uzbekistan, it has high male emigration, leaving women responsible for looking after large families. The ‘Friendship bridge’, 15 km from Termez, is the only transit point to Afghanistan. With independence, cooperative private sector business between Afghanistan and Uzbekistan was permitted for the first time, and was profitable. In 1996, when the Taliban reached Mazar-i-Sharif, the bridge between Afghanistan and Uzbekistan was closed and the volume going through the port reduced, with the result that many unskilled locals lost their jobs on the port and on the border posts. Powerful businesspeople left Termez and moved to Tashkent. After the US-led military offensive, the socio-economic situation deteriorated. Businessmen returned to Mazar to find a dire economic situation. The bridge and port have now opened for international aid but are closed to ordinary people. Commercial goods are smuggled across the borders with official complicity by a privileged, well-connected minority.

The Uzbekistan Government is trying to control informal trade at the borders and in bazaars by prohibiting the purchase of clothing and food products from markets across the border. The introduction of a 70 per cent import tax in May 2002 led to the skyrocketing of prices and closure of bazaars. The tax bankrupted thousands of Uzbek shuttle-traders who made a living out of importing foreign goods (Bukharbaeva and Sobirov, 2003). The introduction of a new decree regarding wholesalers, aimed at reducing the number of middlemen, destroyed many people’s wholesale businesses. The impact of these trade restrictions on livelihoods was discussed above. In December 2002 and January 2003, soldiers virtually sealed the borders with Kazakhstan and Kyrgyzstan. According to the Russian model, the Government is building malls, “regulated bazaars” where revenues are under the control of the tax police. One respondent suggested that harassed and humiliates traders, now unemployed or selling their goods house to house, will become a politicised part of the army of anti-state actors supportive of IMU. According to ICG, unable to voice
their economic discontent, people have become “wood for the fire. Fire will come in the form of a new Taliban in Central Asia, with people resorting to anything to change the current regime”.

Trade restrictions have had a particularly negative impact on the livelihoods of people living in South Kyrgyzstan and North Tajikistan (EU, 2002). Kazakhstan gives a restricted number of permits for travel to Russia. Traders without permits are subject to checkpoints imposed by local headmen collecting bribes. After 11 September, Kazakhstan raised its barriers for the transit of goods through the country. A government official in Osh stated that the closure of the Kazakhstan border has meant it is easier for Osh traders to reach their traditional markets in Siberia via China than Kazakhstan. According to one respondent, Kazakhstan’s response was not based on any credible evidence of the threat of terrorism but was an excuse to hamper trade. Two Uzbek academics note:

The sealed off frontiers and steps towards greater isolation in the valley that followed the events of 11 September caused an unprecedented outburst of corruption connected with smuggling. Because of different trends and paces of economic reforms certain goods and agricultural produce are much cheaper in the Uzbek than in the Kyrgyz and, to some extent, in the Tajik part of the valley. Trade turnover is mainly illegal; labour and trade migration has become illegal as well... The bureaucrats are rapidly blending with the semi-criminal and criminal structures.

Isolation practiced by all countries, lack of harmony between their laws and contradictory practice of their application prevent a free movement of capitals, labor and goods. As a result, the local transborder markets are destroyed, and private enterprises within the region cannot develop. This adds to poverty and instability in Central Asia (Olimova and Olimov, 2002, p. 42).

However, there is some hope that that trade barriers are being eased by Kazakhstan. It was suggested that Russia is interested in developing trade links with Kyrgyzstan to counterbalance its military presence. Kyrgyz businesses seek to secure agreements with towns in Siberia.

Trade with Afghanistan

Given the problems of trading within Central Asia and with Russia, there has been a growing interest within the international community in the development of trade relations between Central Asian business and the region’s southern neighbours. The Central Asia region has a history of trade links with Afghanistan. Clans, ethnic groups and families that bridge the Afghan-Central Asia borders historically share political and economic interests. Traditionally, there have been border trade and family ties between the people of this region. This was aided by the improvement of Soviet communication facilities. During the Soviet period, there was closer interaction between Afghanistan and Central Asian countries, particularly exchanges of students, academics and cultural delegations. Mazar-i-Sharif became the centre of economic exchanges, as it was well-connected by road with Central Asia. Cotton produced in northern Afghanistan was trucked to Tashkent for processing. Afghanistan and Tajikistan signed agreements of technical, scientific, educational and cultural cooperation for the exchange of scholars and scientists. A joint Afghan-Tajik enterprise, Interrans, in southern Tajikistan’s Kurgan Tyube oblast, transported textile and consumer goods from Afghanistan to Tajikistan. In September 1992, the Mayors of Dushanbe and Mazar-i-Sharif signed formal agreements on economic and social cooperation. An Afghan firm concluded an agreement with the Central Samarkand Store supplying goods to Samarkand. Afghanistan joined the Iran-sponsored Association of Persian Speaking Peoples. A joint meeting of the member countries – Iran, Tajikistan and Afghanistan - was held in Teheran in February 1992, in which it was agreed to revive and spread the Persian language, traditions and customs (Warikoo).
With the removal of the Taliban, diplomatic relations and trade links between Afghanistan and Central Asian countries were expected to strengthen, increasing the potential for economic cooperation in landlocked Central Asia. Trade with Iran, Pakistan and Afghanistan was marginal until 2001 (less than 1 per cent of total exports). Central Asian states now have better access to Iran, Turkey and Pakistan, which brings economic benefits. There is interest in Afghan reconstruction, given its potential as an outlet for local produce and materials. Tajikistan, for example, has a potential market in Afghanistan if it were to develop its food processing and low-level marketing for export. These opportunities are boosted by international investment in infrastructure on both sides of the border, including river bridges and roads to promote cross-border trade. A new bridge was opened between Tajikistan and Afghanistan at the beginning of 2003, and there are plans to construct new highways linking Central Asia and its southern neighbours.

In practice, the overthrow of the Taliban has yet to result in Afghanistan becoming a market or transit corridor from Central Asia to Iran, Pakistan and Turkey. The Aga Khan Foundation (AKF) undertook to build a bridge in Khorog in September 2002, to decrease the distance between Afghanistan, Tajikistan and Kyrgyzstan. Khorog in Tajikistan has become dependent on Osh because of its distance from Dushanbe (12,000 km). Residents of Khorog come to Osh to put their goods on trucks destined for Afghanistan. There is a great desire among Kyrgyz entrepreneurs in Osh to work with Afghanistan and to open branches in Afghanistan because of the lack of alternative markets. This is partly due to the fact that in Europe and Russia, Kyrgyz products are not considered of good quality. Official trade with Uzbekistan and Kazakhstan has also become increasingly difficult. Transporting fruit and vegetables through Kazakhstan requires payments of up to USD 2,000 to road police and customs officials. However, establishing strong and trustworthy ties with Afghan partners will require time and investment. Trade activity is beginning from a weak position. The Soviet Union supported Afghanistan during its occupation with a range of products, including building materials, trucks and humanitarian aid, but this trade was state-instigated. Central Asian countries inherited from Soviet times a narrow export base due to dependency on similar primary products. During the Taliban years, trade ground to a halt. Trade is further limited by the dire state of the Afghan economy and the low absorption capacity of the Afghan market. Roads are in a bad state of repair and traders face harassment by border guards and road police. Also see box 16.

**Box 16: A failed trade project**

Kyrgyz businessmen have been on missions to Kabul to make contacts but so far, have not obtained contracts. For example, with support from Pragma, three enterprises made a trip to Heart, in Afghanistan, from Osh, with the intention of selling light bulbs, textiles, silk, agricultural products and building materials. The two main problems faced by Osh entrepreneurs are the absence of partners in Afghanistan and the lack of security of delivery. Pragma delivered some sample goods using a Pashtun Afghan. The goods reached Afghanistan after three months, but then the partner and the goods disappeared and Pragma has been unable to track them down.

To conclude this section, in light of the opening of new international borders with the collapse of the Soviet Union and the dismantling – or at least decline – of the external security threat, trade and foreign investment in Kyrgyzstan, Tajikistan and Uzbekistan have been disappointing. External trade in these three countries is severely hampered by hostile intra-regional relations. This translates into economic stagnation and few new job opportunities at the local level for unemployed and discouraged workers. Small-scale entrepreneurs and traders, reliant on the cross-border movement of goods, particularly in Uzbekistan, were the stratum of society most likely to become the nascent middle class. Yet, their predicament is becoming desperate in the face of tighter trade restrictions and visa regimes.
Increased external intervention

Central Asia was brought to the forefront of international attention following the terrorist attacks of 11 September. The subsequent military campaign in Afghanistan contributed to increase international awareness of Central Asia and its role in ensuring security in the region and beyond. International actors acknowledged the interconnected nature of terrorism, drugs trafficking and organized crime in the region. This section addresses several issues related to the economic impact of Central Asia’s greater international visibility: the impact of an international military presence, the use of Central Asia as a channel for humanitarian assistance to Afghanistan and the impact of increased donor attention and funds in Central Asia.

The impact of increased military presence

In response to terrorist attacks, the U.S.-led coalition struck at al Qaeda in its Afghan strongholds and attacked the Taliban for hosting them. The coalition arranged with the Central Asian governments to use their airspace and ground facilities for the provision of military support and humanitarian relief to Afghanistan. The campaign is expected to finish in 2003, although international troops will maintain a small and efficient presence in several places (Starr, 2002).

Kyrgyzstan

Kyrgyz airspace was opened to coalition aircraft in late September 2001, and in December, the U.S. was permitted to base military aircraft and personnel on Kyrgyz territory. This invitation was later extended to forces from other countries involved in the military and humanitarian operations in Afghanistan (Economic Intelligence Unit, 2002). U.S. and coalition troops based at Manas airport, near Bishkek, number about 3,000. Russia, Iran and China have voiced discontent about American presence in the area. Russia has responded with talk of military assistance and presence to offset deployment of U.S. troops in the region.29 Russian troops based at Kant airport near Bishkek, are part of a CIS rapid reaction force to combat incursions by radical Islamist groups. Russia’s influence is increased by Kyrgyz debts and the 500,000 ethnic Kyrgyz that work in Russia (ICG, 2002a).

There are many examples worldwide of how the presence of international troops affects local economies. This can be positive, for example, when it results in new jobs and increased demand for local produce. It can also be negative, such as international soldiers and peacekeeping forces’ involvement in prostitution and trafficking rings as in Bosnia, Liberia, Cambodia and Korea. In Kyrgyzstan, there has been limited economic spill-over in terms of drugs, sexual services, bars and restaurants, markets for cheap goods and employment opportunities. USD 43 million has been spent – 28 million on jet fuel bought in Kazakhstan and the remainder was one-time expenses to set up the base. The base is a self-sufficient small town, and local purchasing is very limited. The base purchases bread and water (previously imported) from the local Coca-Cola plant. Soldiers in Bishkek are visible and do spend money on local services. Of around 1,600 sex workers working in Kyrgyzstan, one quarter cater exclusively to foreign military personnel (Buldakova, 2003). Rumours abound of U.S. payments for the use of the airport being siphoned off, and clan-based conflicts over newly-injected funds.

The UN Resident Representative also pointed out that foreign military involvement in Central Asia tends to come as a package with development assistance. Norwegian and Italian troops’ presence at Manas has brought increased development funding from these countries to Kyrgyzstan.
**Tajikistan**

Tajikistan was cautious about offering its support to the U.S.-led operations in Afghanistan, but opened up the country’s airbases for humanitarian and military missions once Russia – Tajikistan’s main security guarantor – had granted its assent. A contingent of 150 French soldiers is based in Dushanbe airport. In addition, a ten-year treaty concluded in 1999 formalised the presence of around 20,000 Russian troops in Tajikistan, who, together with Tajik troops under Russian command, guard the border with Afghanistan against drug-trafficking and potential infiltration by Islamist forces (Economic Intelligence Unit, 2002a).

**Uzbekistan**

In Uzbekistan, there is less information available about the foreign military presence, and soldiers are less visible in Tashkent. Along with Special Forces from Afghanistan, they are found in bars and exclusive hotels in Tashkent. The U.S. military Khanabad airbase in Kashi is officially a Search and Rescue base with 1,000 soldiers. However, according to the estimates of one UN official, soldiers there number 5,000. Permanent structures are being built, indicating that the military plan to be there for at least a couple of years. This military presence has impacted on local residents’ lives. For some, it has meant jobs and rising income. Locals are employed in laundry and kitchen facilities and in janitor and repair work. However, many farmers have lost access to their land, and the pressure in the local gas-line has fallen, making energy supply irregular. Local residents complain of delays due to checkpoints around the base. The German military base at the airport in Termez has had a minimal impact on the local economy. Food is brought in from Germany, and soldiers stay in a hotel and are driven by coach to the base.

**Central Asia as a channel for humanitarian aid to Afghanistan**

The Central Asian states have been used as a transit point for the delivery of humanitarian aid and reconstruction materials to Afghanistan. Central Asian countries have attempted to exploit the Afghan reconstruction agenda to promote their bilateral relationships with major international donors, with the aim of benefiting from aid flowing into the region.

The border between Uzbekistan and Afghanistan was closed in 1997, though the Uzbek Government did allow occasional movements across the border for humanitarian purposes, such as the delivery of food aid in 1998 and the return of Tajik refugees. After closure of the border in 1997, many people lost their livelihoods since Termez was a logistic and transit point for all commercial cargo movement from Kazakhstan and Russia to Afghanistan. Many people were involved in this business, as representatives of (mostly Afghan) trade companies and river port labourers.

In October 2001, the UN was granted permission to use facilities in Termez for the delivery of Humanitarian Assistance to Afghanistan. The first barge, with a combination of food aid, children’s clothing and non-food items, was delivered to the port of Hayraton, on the Afghan side of the Amu Darya, on 14 November 2001. On 9 December 2001, following a quick withdrawal of the Taliban from North Afghanistan, the first train with humanitarian assistance from the Uzbek Government crossed the Friendship Bridge. The first convoys of United Nations Humanitarian Assistance followed a few days later. On 14 December 2001, a Protocol was signed between the Government of Uzbekistan and the UN, allowing NGO staff and NGO Humanitarian Assistance to enter Afghanistan from Uzbekistan (see box 17). By October 2002, 37 NGOs were working under this
arrangement. With the recent opening of the border, the employment situation for the local population has improved, but remains below the level before the 1997 border closure.

<table>
<thead>
<tr>
<th>Box 17: Cargo movement from Termez to Afghanistan (01.11.2001-10.11.2002) in Metric Tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Humanitarian assistance</strong></td>
</tr>
<tr>
<td>Bridge by trucks</td>
</tr>
<tr>
<td>Bridge by rail</td>
</tr>
<tr>
<td>River port</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>Commercial assistance</strong></td>
</tr>
<tr>
<td>Bridge by trucks</td>
</tr>
<tr>
<td>Bridge by rail</td>
</tr>
<tr>
<td>River port</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>Total transit</strong></td>
</tr>
<tr>
<td><strong>Total exported from Uzbekistan</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

In support of the Afghan operations, the Office for the Coordination of Humanitarian Affairs (OCHA) continued to have a presence in the three Central Asian Republics up to April 2002. This presence was then replaced by one Roving Senior Humanitarian Affairs Officer, based in Tashkent, to ensure a continued flow of Humanitarian Assistance through Central Asia into northern Afghanistan, as well as to encourage the involvement of the Central Asian countries in the reconstruction of Afghanistan. In total, around 97,000 metric tonnes of humanitarian assistance has been brought into Afghanistan through Termez by the UN and NGOs, the bulk of which was food. Due to the problems faced by the World Food Programme (WFP) in finding donors to cover all the needs for its emergency operations in Afghanistan, the flow of food decreased over the second half of 2002, significantly affecting the quantity of humanitarian assistance transported through Termez. The International Committee of the Red Cross (ICRC) food assistance to Afghanistan is being phased out because the magnitude of armed conflict is now much lower. By mid 2003, the logistical backing for Afghanistan from Central Asia was dismantled, with UN offices in Termez downsizing their operations.\(^{30}\)

In addition to humanitarian and commercial cargos, international military goods are crossing the border to Afghanistan. According to an unofficial source, approximately 500,000 metric tonnes of the Coalition’s cargo (from Khanabad) went across the bridge since the end of 2001.

One danger recognised by international development agencies working in the region is that humanitarian aid delivery to Afghanistan from Central Asia leads to resentment on the part of the local population. TACIS, recognising this problem, implements rural development projects in the southern areas which have military bases, Kashi and Sukhandar’ya. For similar reasons, Counterpart Uzbekistan implemented a project in Kashi. As for WHO, it provides assistance to the Termez population as part of an Afghanistan project, although the organization does not believe that there is an urgent need for assistance locally.

Kyrgyzstan, Tajikistan and Uzbekistan have tried to get a share of deliveries of humanitarian assistance, but with little success. In Kyrgyzstan, the Ministry of External Trade and the U.S. Government established a steering body for the procurement of goods for Afghanistan. USAID pushed to use Kyrgyz supplies for Afghanistan, and SMEs tried to obtain contracts. Osh has served as a transit point for the delivery of aid from Russia to Afghanistan,\(^{31}\) which did require using local loaders and lorries. However, with the exception of Kyrgyz blankets, most goods came from China, where they are cheaper.
In Uzbekistan, the deputy Minister of Foreign Affairs in charge of the reconstruction effort – Sodic Safaev – has been obtaining advice from the ADB on how to participate in the aid effort. The arguments the Uzbekistan Government puts forward for involvement include the cultural proximity of Afghanistan to Uzbekistan; strong pre-Taliban cross border collaboration, and indigenous commercial cross-border transactions. Uzbekistan Airlines is attempting to open trade links. Currently Uzbekistan provides construction materials and sends experts and technical equipment. Since the opening of the Termez border, Uzbekistan has made USD 47 million from trade with Afghanistan.

Key informants unanimously thought that the procurement of humanitarian aid had little positive impact on the local economy. Most commodities came from the West and Russia. Wheat was bought from Kazakhstan (USD 1 million in 2002) and melted butter/cooking oil from Iran. Reasons given for the exclusion of Central Asian products include these countries’ low capacity for delivery and high prices. Afghanistan provided Tajikistan with a prime opportunity to reposition itself in the region, as ‘Macedonia for Kosovo’, the neighbour providing building materials and other essential goods for the reconstruction effort. However, Tajikistan has no productive capacity and, as a result, there have been few employment opportunities. A Washington inquiry into the availability of humanitarian commodities found that commodities from Kyrgyzstan were twice the price of elsewhere. As for Uzbekistan, the lack of covertability of its currency, its trade barriers and export regulations, block cross-border trade. International humanitarian staff are reluctant to work with war lords and drug dealers, use the grey channels and arbitrary border regulations.

Further explanations for the failure of Central Asian countries to secure procurements include the fact that far less humanitarian aid materialised than was promised. In addition to this, the northern corridors were used mostly for locally procured goods such as wheat from Kazakhstan. The UN offices coordinating the aid effort in Kabul used to work in Islamabad and were not used to looking northwards for assistance channels. The tunnel at Salang, on the road connecting northern and southern Afghanistan, was closed in Soviet times. When it reopened, at the beginning of 2002, Karachi became an even more important and cheaper supply route to north Afghanistan than Central Asia.

The impact of increased donor attention to Central Asia

There has been new international interest in the region following 11 September. For example, Tajikistan has seen a steady flow of visits from senior ministers and Heads of State, and President Rakhmonov paid an official visit to France and the U.S. in early December 2002. France and the U.K. have opened embassies in Dushanbe, Japan has speeded up the opening of its diplomatic mission, and the U.S. Embassy has resumed functioning on a permanent basis in Dushanbe.

International organizations hold that Afghanistan provided a ‘window of opportunity’ for neighbouring governments to emerge from international isolation. Central Asia became a ‘mecca’ for international agencies, with an ‘astounding interest among donors “post-11 September”. The IFIs noticed that they were approached by many donors looking into the possibility of co-financing projects and seeking advice on how to best utilise funds.

Donors’ attention to the region was prompted by the desire to diminish the threat of extremism and insecurity. In Uzbekistan, funding increased sharply. With the strongest military force regionally, a very high population (48 per cent of Central Asia’s population)
and a large youth population, the country plays a very influential role for regional security. As one UN agency head in Uzbekistan stated, donor attention to Uzbekistan has “not increased because of anything Uzbekistan has done but because of 11 September and Uzbekistan’s experience of terrorism in 1999”. Uzbekistan was a natural ally for America in the region. According to the USAID Country Representative in Uzbekistan, the initial interest in Central Asia was due to Afghanistan, but this developed into attention for the sake of Central Asia: “Afghanistan opened the door to work in Central Asia”. ICG observed:

Before 11 September, Pakistan, Uzbekistan, Tajikistan and Kyrgyzstan were all generally considered ‘bad partners’, where the attitudes and actions of national governments were the main impediment to effective assistance (ICG, 2001a, p. 11).

The EU has commented:

The tragic events of 11 September 2001 and the subsequent events in Afghanistan have had a significant impact on Central Asia and led to a widespread re-evaluation of political and foreign policy priorities, both within the EU and elsewhere (EU, 2002).

The EC has doubled the annual TACIS allocation for Central Asia from €25 million to €50 million. Among the bilateral donors, new funding has been approved by DFID, USAID, the French, Italian, Norwegian, Dutch, Canadian, Turkish and Japanese governments. Prior to 11 September, DFID was working only in Kyrgyzstan on health reform and rural livelihoods. Since 11 September, it has revisited its strategy in Central Asia and, following several missions to Tajikistan, is developing projects that are likely to focus on water. Germany, one of the largest bilateral donors to Central Asia, focuses on private sector development and market reform. It has adopted a Central Asia strategy (€50 million annually) contributing to crisis prevention. However, due to domestic budgetary problems this new additional funding was reduced.33 The U.S. noticeably increased its Central Asia funding to about USD 423 million in 2002, USD 173 million of which was earmarked for Uzbekistan. Congress provided for increased supplemental funds to Uzbekistan, Tajikistan and Kyrgyzstan, because of the importance of these frontline states and their support to the U.S. In Uzbekistan and Kyrgyzstan, the USAID budget ‘skyrocketed’.34 NGOs, such as Counterpart International and the Open Society Institute, report an increase in donor funding, particularly from USAID.35

**Evaluating the development response**

While it is difficult to assess the quality of interventions in such a short time, there are two schools of thought on the impact of increased international attention and funding in the region. One view is that western policy is following strategic interests – access to energy, quashing Islamic radicalism, hostility to Russia – over and above fostering long-term democratic development. By this argument, U.S. interest in the region is limited and of short duration. The danger is that international development and aid responses divert their attention to the short-term security interests linked to drugs, Islam and terrorism,36 undercutting longer-term development policy objectives, such as the need for good governance and employment generation. Following a mission to Kyrgyzstan in early 2001, Tony Vaux and Jonathan Goodhand commented:

Although Western aid remains tied to principles of democratic governance, there is a danger that these principles could be discarded in the interests of short-term security, and a shift could occur towards ‘strong government’ capable of repressing drug traders and Islamic militants (Vaux and Goodhand, 2001, p. 53).

A contrasting viewpoint is that western policies are dictated by values of democratic, economic development. This argument is supported by the assertion that U.S. involvement
in the region did not begin with the 2001 terrorist attacks. The U.S. Government and private foundations have been funding research and other initiatives since the 1970s (Starr, 2002). The greater international attention to Central Asia has given states in the region the opportunity to develop closer ties with the West and attain much needed development aid and capital assistance.

Human rights

The question of the impact of international intervention is nowhere more pertinent than in the field of human rights. Has increased international attention promoted or disregarded human rights? USAID’s approach in the region is one of ‘constructive engagement’ rather than the imposition of conditionalities, which it believes would damage relations with governments in the region. The USAID Country Representative in Uzbekistan states that the organization prefers to provide “high quality and wise policy advice and straight talking in the diplomatic sphere”. During 2002, the U.S. “quietly but firmly” encouraged Uzbekistan to make its currency convertible, improve relations with its neighbours and adopt a less harsh policy towards its internal critics. USAID claims that this policy has been a success, with the U.S. having developed a “new kind of relationship” with the Uzbekistan Government. Consequently, instead of ignoring central governments as in the past, USAID now engages with them “intensively”. The U.S. has paid more attention to human rights to justify close relations to government. USAID’s work on human rights has doubled in size since the U.S.-led offensive in Afghanistan.

Some of the successes of international pressure to democratise in Uzbekistan include:

- a limited amnesty for political prisoners;
- the signature of an agreement with the ICRC on prison visits;
- a reduction of number of areas in which the death penalty may be applied;
- the arrangement of meetings for the political party, Berlik (It was suggested that this move was due to U.S. government pressure);
- the abolition of censorship in May 2002;
- the governmental official registration of the human rights NGO, Independent Human Rights Organization of Uzbekistan (IHROU), in March 2002, on the eve of President Karimov’s visit to Washington (Recognition of the group is attributed to pressure exerted by the international community, along with President Karimov’s desire to polish his image prior to the U.S. visit);
- the trial of a group of law-enforcement officers in early 2002, for torture-related deaths of detainees in their custody.

Sceptics argue that these achievements have not translated into structural reforms and that the Uzbek regime itself has changed little. According to this argument, isolated successes are not due to Uzbek good will, but Uzbekistan’s bargaining or ‘concessions’ that allow the U.S. to present to the world their positive impact. Evidence brought by international and local organizations monitoring human rights in Central Asia present a gloomy picture. These countries’ human rights record was deteriorating prior to 11 September, and continued to deteriorate afterwards. The threat of terrorism was a pretext for the increasing repression in the region; repression which it is feared will promote terrorism. Donor governments’ need for military bases means that they will not jeopardise diplomatic relations and will criticise governments but not to the extent needed to bring about change in governments’ policymaking. Referring to Kyrgyzstan, the International Helsinki Federation for Human Rights has stated:
In 2001, the focus on security issues – prevailing over democratic and rule-of-law oriented developments – greatly facilitated an increase in human rights violations. Already for some time, the Government has used terrorism as a pretext to crackdown on human rights activists and government opponents, and to restrict the freedom of expression and the mass media... In return for foreign financial assistance, the Government has committed itself to developing democratic processes and observing human rights, but has failed to actually adhere to those commitments (IHFHR, 2001, p. 193).

The EU notes:

With the fall of the Taliban regime in Afghanistan and the presence of the coalition military forces, external security concerns have considerably abated but internal security remains high on the policy agenda of each country and influences attitudes to regional cooperation... The war in Afghanistan appears, in some cases, to have created new incentives for action aimed at consolidating the power bases of the existing leadership, cracking down on potential political opposition and restricting freedom of expression. These trends towards greater autocracy come at the expense of further reforms aimed at developing fully functioning democracies and societies where human rights and fundamental freedoms are upheld (EU, 2002, p. 6).

**Regional cooperation**

International organizations have identified the deterioration of intra-regional relations as a potential cause of further conflict. They have taken the view that achieving stability in post-conflict Afghanistan and the surrounding region demands a regional approach. Afghanistan is surrounded by weak states, and the negative externalities of the Afghan conflict must be addressed not only within Afghanistan but on a regional basis. ICG has noted:

Redeveloping [Afghanistan] will not ease all the problems in what has in reality been a regional conflict. Donors will have to focus more attention on Central Asia’s failing economies and unresponsive governments if that region is not to become more unstable. Central Asia is already a combustible mix of corruption, ethnic divisions, poverty, authoritarianism and merging Islamist extremism (ICG, 2002a, p. ii).

Following events in Afghanistan, there has been a global convergence around the aim of addressing security concerns by tightening borders and creating a ring fence around Afghanistan. This study has shown through the examples of labour migration, trafficking and external trade, how this containment policy is antithetical to well-functioning economies and people’s livelihoods. Economic activity has become more informal and controlled by local elites, contributing to the instability of the region. The international community operating in the region recognises more and more that a comprehensive and holistic view of security is required, which holds that the promotion of human rights and economic cooperation are as important as politico-military issues. Although work and labour market problems are not the cause of crisis in the region, they can fuel further conflict and violence.

Concerned about regional disputes over borders and resources, regional cooperation is used by the international community as a condition for aid and investment. The EU decided to focus on Central Asia after 11 September, recognising the importance of this region’s stability. Prior to this time, Brussels had wanted to reduce its Central Asia programme. The role of Central Asia as a human, arms and drugs trafficking route, has meant that the EU has, according to its strategy paper for 2002-2006, “a strong interest in preventing Central Asia from becoming a zone of conflict, a haven for terrorism or a major provider of terrorist financing”. The EU’s regional strategy adopts a ‘three-track approach’, working at the regional level, providing regional support for projects implemented at the national level, and poverty reduction projects in selected pilot areas. As part of the new regional strategy developed in 2002, the organization prioritises border
control, drugs smuggling, natural resource management and social and economic development. It has decided to strengthen bilateral relations with Central Asian countries through Participation and Cooperation Agreements. TACIS assistance to Tajikistan will also be resumed after a five-year absence of the EU, triggered by the kidnapping of the former Team leader and killing of his wife in 1997. A new EU delegation is being opened in Kyrgyzstan, that will report to Almaty.

There is little evidence that Central Asian governments have used increased international attention as a learning process to address better regional issues, become less isolationist or engage in longer-term dialogue. The development community has been unsuccessful in encouraging inter-state cooperation. Regional inter-state institutions, that could have played an important role, have been ineffective. There is no institution in which all five members participate, resulting in a weak inter-state framework for resolving issues. There is intense suspicion between heads of state and no enthusiasm for ceding power to a supra-national power. States continue to place short-term interests ahead of longer-term inter-state regional issues. For example, water is a key development issue affecting all states. The International Fund for Saving the Aral Sea (IFAS) is a regional organization that has been supported by the international community, but lack of political will has rendered the Fund ineffective.

A different kind of regional response to security issues has been to focus on conflict resolution at the community level, especially in the Ferghana Valley. Donors believed that the Ferghana Valley would become a hotspot, as all countries share this region, which has witnessed fighting and conflict over water supply. The region was seen as critical because of the size of the population and its ethnic mix. In practice, border disputes over natural resources have proved difficult to tackle due to undemocratic governments. For example, the UNDP preventative development programme in Batken, Jalalabad and Osh, three ethnically mixed areas, started a few months before 11 September, but received renewed attention by donors such as CIDA, USAID and the Norwegians afterwards. The programme produces early warning reports about accumulating tensions and conflicts related to water. Uzbekistan refused to join this programme, but cross-border collaboration nevertheless developed between Kyrgyzstan and Tajikistan. Micro-level peaceful resolutions are sought, to make the situation more stable. UNDP is moving ahead with its sub-regional Central Asia strategy on preventive development, and cross border issues are central to it.

**Supporting civil society**

Donors such as USAID are working more on local-level conflict prevention activities in the South, poverty alleviation, micro-enterprises and micro-finance. For instance, PRSP was originally government-led, but has since opened up to representatives of civil society. Non-governmental groups involved include research institutes, NGOs created for specific purposes but then enlarging their mandate, professional associations. This shift is based on an acceptance that change was not happening through privatisation and pro-democracy legislation because the middle bureaucracy did not want to change, and that civil society, by contrast, has become more active. There has been a ‘mushrooming’ of NGOs in recent times. Some say they are artificially created and receive government backing, but they are nevertheless an improvement compared to Soviet times, when all organizations were controlled by the state.

This shift to working with a broader range of institutions is commendable, especially if it brings about a better understanding of people’s interests at the local level. However, there is a danger that “dependence on Moscow has largely been replaced by reliance on the international community” (Harris, 1998, p. 670). If working on poverty reduction with NGOs represents an unwillingness to push forward institutional reform, it will be limited in its usefulness. The danger is that a focus on working with non-governmental institutions
fits donors’ strategic need to maintain good relations with Central Asian states, and therefore does not challenge the government over reforms. A main focus of UNDP poverty reduction work is micro-credit for the development of sustainable livelihoods. However, this work tends to be short-term and unable to lift people out of poverty or create sustainable livelihoods. This is due to the difficulty of moving from micro- to small- and medium-sized enterprise. Entrepreneurs are unable to expand their businesses because of the weaknesses in governance – notably corruption, marketing cartels and a stagnant economic climate. Work on good governance should be integral to poverty-reduction work.

One fear is that increased funding will result in inappropriate solutions, that ignore rather than build on existing, long-term development interventions. There is a danger that bilateral aid organizations import inappropriate models of democracy or market reform. Part of the U.S. effort since 11 September has been to reduce conflict in communities experiencing inter-ethnic tension. A concern voiced by development practitioners is that USAID works with U.S. NGOs with no history in the region. In Kyrgyzstan, the Freedom House and a new legal aid clinic are the pride of USAID, but mean little to the local population. As the country head of USAID admitted, as soon as people step out of Freedom House, they risk being photographed and arrested. The adaptability of U.S.-style democratic institutions can thus be called into question in the current Kyrgyz context.

A proportion of additional U.S. aid consists of donations of unspecified pharmaceutical drugs supplies and equipment. World-wide, there are examples of U.S. pharmaceutical drug companies exporting medicines that are about to expire. This bad practice has required recipient governments to spend large sums of money to destroy them. Recognising this problem, WHO has produced guidelines to safeguard against this practice.

The success of development interventions and additional funds also depends on co-ordination between international agencies, and donors’ cooperation with locally-based agencies.

To conclude this section, the military presence has had a smaller impact on these countries’ local economies than was expected. If the military bases become permanent, their influence may be felt more – for better or worse – as soldiers and the bases grow less insulated from their context. For a variety of reasons, Central Asian countries have failed to benefit from the delivery of humanitarian assistance to Afghanistan. Kyrgyzstan, Tajikistan and Uzbekistan do have considerably more international visibility – in diplomatic relations and donor attention – following 11 September and the U.S.-led intervention in Afghanistan. It is too early to say whether this new interest and the concomitant, additional funding, are effective. However, the record on human rights and intra-regional cooperation present a dismal picture and suggest that the lack of political will to reform governance structures will be the main obstacle to socio-economic development in the region.
9. Conclusions

A main conclusion of this study is that the Afghan crisis did not impact on the long-term trends of the socio-economic development of each country considered. The study has argued that the socio-economic impact of conflict in Afghanistan can only be understood in terms of the wider context of the uncertain transition these Central Asian countries are experiencing. These countries are considerably more affected by this crisis, namely the problematic and unfinished move to democracy and a market economy. Economic transition in Central Asia has been characterized by drastic declines in GDP growth, falls in output, sharp drops in incomes and the growth of widespread poverty and increasing social inequality. These countries also suffer from a heavy external debt burden, lack of foreign investment and high unemployment and under-employment.

Informal economic activity in post-Soviet times has grown because people have been unable to maintain their livelihoods through formal employment, due to the collapse of the planned economy and the failure of the economic reform policies introduced in these countries. Formal employment is unstable, low paid, paid in part, in-kind or with long delays.

SMEs were seen as the engine for the growth of the new private sector. However, the move from plan to market has left regulatory structures and the formal economy weak and corrupt, and arbitrary political structures unchecked. As a result, the benefits of acting informally outweigh the risks. Small businesses face huge constraints to engaging in the formal private sector, such as lack of capital, bureaucratic hurdles and obstructive officials. Research conducted for this study showed that entrepreneurs acted informally because of the high cost of conforming to the state’s formal requirements for private enterprise activity. Furthermore, state institutions were complicit in this process, operating arbitrarily according to a formal and informal system.

Perhaps one of the most harmful indirect impacts of Afghanistan in Central Asia has been the response of Central Asian governments. Faced with the threats posed by Afghanistan to security and regime stability, Kyrgyzstan, Tajikistan and Uzbekistan have prioritised consolidating their power and establishing territorial integrity. Such a reactive response has had a detrimental impact on efforts to address the underlying causes of conflict and economic crisis. This is particularly evident in Uzbekistan, where self-imposed isolation is likely to result in deeper economic crisis. People resort to riskier, informal economic activity to get around governments’ strict security policies and border restrictions.

The negative, and possibly destabilising impact of governments’ response to perceived security threats, both internal and external, was illustrated by the stifling of religious and political movements. While the U.S.-led offensive weakened the threat posed by Islamic radicalism in Afghanistan, Islamic groups are likely to have fled northwards, to the Ferghana valley. The tightening of restrictions on cross-border movement and trade and their clamping down on religious and political freedoms could increase the region’s vulnerability to crisis.

Opportunities for drug trafficking have diversified since the U.S.-led intervention in Afghanistan. Evidence suggests that drug trafficking routes are being diverted to the northern borders of Afghanistan. Afghanistan’s northern neighbours are particularly vulnerable in the face of the drug economy because of weak governance structures, involvement of state officials in drug smuggling, and the readiness of a large unemployed population to act as couriers.
Migrants and refugees who have fled conflict and impoverishment in the region constitute one of the most vulnerable groups, frequently denied access to formal employment because of their illegal status in the countries where they reside. Far fewer refugees fled the Taliban to Central Asia than expected, in part due to the closure of Afghanistan’s northern borders. The vulnerability of migrants is due to their dependence on informal work, which leaves them defenseless in the face of discrimination and their lack access to social protection.

New trade opportunities were expected in post-Soviet Kyrgyzstan, Tajikistan and Uzbekistan, with the opening of new international borders. It was thought that the dismantling of the external security threat posed by Afghanistan would improve further external trade relations and foreign investment in Central Asia. There was considerable hope that the reconstruction of Afghanistan and the greater international attention paid to the Central Asian region following 11 September and the U.S.-led anti-terrorist intervention into Afghanistan would lead to increased trade and investment opportunities, the recreation of traditional trade routes to the south, and new access to seaports in Pakistan. The offensive in Afghanistan provided Central Asian countries with a ‘window of opportunity’ to improve economic viability through cooperation with the international community.

These potentially positive developments have been undermined largely by governments’ lack of will for economic and political reform, and deteriorating intra-regional relations. This has translated into economic stagnation and few new job opportunities at the local level for unemployed and discouraged workers. Small-scale entrepreneurs and traders, reliant on the cross-border movement of goods, particularly in Uzbekistan, were the stratum of society most likely to become the nascent middle class. Yet, their predicament is becoming desperate in the face of tighter trade restrictions and visa regimes. This can be destabilising and impinge on internal security at a time when there is high unemployment and economic disillusionment.

A clear impact of the terrorist attacks of 11 September and the subsequent military campaign in Afghanistan was that Central Asia was thrust to the forefront of international attention. International awareness of Central Asia and its role in ensuring security in the region and beyond, grew dramatically. The military presence was significant in all three countries as part of the U.S.-led Coalition’s involvement in Afghanistan. However, the economic impact of their presence on the local economies has, so far, been smaller than expected. Central Asian countries have failed to benefit from the delivery of humanitarian assistance to Afghanistan largely because their products remain uncompetitive.

Kyrgyzstan’s, Tajikistan’s and Uzbekistan’s diplomatic relations with foreign governments have improved, due to their support of the U.S.-led intervention in Afghanistan. They have also received increased donor funds, although it is too early to say whether this will lead to greater peace and human development. The international community is aware of the danger that geo-strategic interests in the region are prioritised over concerns for democratic, human development. It also recognises the importance of a regional approach for promoting economic development and peace in Central Asia. The growing appreciation of the need to address security concerns within a regional framework is a positive trend. However, an approach to regional cooperation limited to security and tightening borders has little chance of bringing sustainable development to the region. Long-term stability requires addressing structural issues such as the failure of governance and reform. If the records on human rights and intra-regional cooperation are anything to go by, increased donor attention and funds are unlikely to improve the situation significantly. The lack of political will to reform governance structures is the main impediment to socio-economic development in the region.
Sustainable economic change is a prerequisite for stability in the region. Recognising this, many international organizations in the region adopt a development approach, which underscores the importance of tackling the economic problems faced by these countries’ populations in the attainment of regional stability. Despite this, little attention has been paid to labour market reform, employment creation and the promotion of decent work conditions as a way of addressing poverty alleviation. In this connection, ILO can make a valuable contribution to the region.
10. Recommendations

ILO efforts should focus on the challenging situation created by the difficult socio-political transition and its multiple facets, many of which lie within the ILO mandate and expertise. ILO, though well-respected, is not perceived as a strong international player in the region. This is partly due to the fact that the regional office is based in Moscow. Overwhelmingly, government officials and international agencies alike voiced their belief that the ILO needed to play a more hands-on role in the region, imparting advice on labour market problems that have arisen as a result of the transition. The ILO could also play a useful role by showing how security stems from economic stability, which is achieved through a functioning labour market and decent work opportunities for ordinary people. Further, the ILO can address some of the major root causes of problems arising from socio-political transition and the impact of conflict in Afghanistan, related to labour market reform, employment creation and the promotion of decent work conditions. These include social discrimination, exclusion of workers’ and employers’ organizations, socio-economic vulnerability, inequality and social and political exclusion, unemployment and underemployment, unequal access to productive resources, and deficiencies in access to basic needs and social protection. Measures are required for micro- and small-enterprise development, to enhance their productivity and provide decent work opportunities, especially for the most disadvantaged, who are excluded from market opportunities. There is also a need for an enabling institutional environment, essential for the success of measures designed to create decent formal jobs.

The international community has largely focused on addressing agriculture issues in rural areas. Yet, there is a need to address urban livelihoods, and focus on the informal economy, which has received scant attention despite the scale of informal jobs. The growth of poverty in towns is related to the increase in unemployment, particularly women’s. People’s livelihood strategies in the informal economy provide some solutions to labour market concerns.

- Promoting decent work through tripartism and social dialogue

From the ILO perspective, ‘social dialogue’ is a central aspect of good governance, contributing to a democratic exchange of views, and is essential for social stability. Micro-enterprise development projects will be ineffective if problems of registration, lack of access to property and capital, racketeering and bribery persist. Micro-enterprise development as a solution to unemployment will only be effective with a partnership between state and workers’ and employers’ organizations.

An important constraint to decent work in informal employment and entrepreneurship is the lack of organization and representation of informal employers and employees in social dialogue institutions. As this study has shown, people are prevented from exercising their right to freedom of association. This severely hinders workers’ and employers’ organizing to promote their rights.

Employers’ organizations should be encouraged to play a role in improving the legislative environment for entrepreneurs, challenging the predatory practices on the part of bureaucrats. Since the collapse of the Soviet Union, trade union coverage decreased significantly in Kyrgyzstan, Tajikistan and Uzbekistan. There must be legal provision for the right of workers to organize, that includes vulnerable workers such as migrants, young people and women. Workers’ associations, which are practically absent in the new private (and informal) economy, need to be promoted. Workers’ organizations should be encouraged to address the issue of informal employment in earnest. ILO could also usefully engage in awareness-raising among workers’ and employers’ organizations to challenge negative perceptions of informality. This would involve demonstrating the
importance and providing guidance on setting a new decent work agenda in informal work in the region. This could entail making new alliances with civil society groups such as women’s labour organizations and NGOs.

♦ **Labour legislation in the informal and formal economies**

A prerequisite for integration into the world economy is the recognition in the formal and informal economies of social rights and labour standards/law. While existing legislation and institutions may appear to comply with ILO Conventions and Recommendations in the field of labour, the large number of people who rely on informal jobs suggests that in reality, workers are far less protected than is stipulated in the labour legislation. The ILC 90th Session, in 2002, stated on ‘Decent work and the informal economy’:

The goal of decent work can be met only through ensuring that the jobs created are productive and observe fundamental principles and rights at work, and that both workers and businesses have the capacity and flexibility to be able to move up the continuum to increasingly better jobs in the formal economy.

♦ **Training to improve employability of workers in decent work**

Vocational training is vital to promote decent work. Training is a fundamental right of workers and an economic instrument to enhance enterprise productivity and competitiveness. It is also an important aspect of social protection for workers, the under-employed and unemployed, who risk social exclusion.

The wide range of training needs of participants in the informal economy should not be overlooked. This study has highlighted the vulnerability of certain groups in the labour market such as young people, especially first-time job seekers, women with young children and women over the age of 35 years, internal and external migrants, workers in low-paid state sector jobs and the long-term unemployed. Given the mismatch between the skills required in a new market economy and those obtained under the old Soviet system, a priority must be to retain young people in education and provide them with those new skills. Youth constitute an important group, and their high unemployment is particularly worrying given their potential destabilising behaviour if left idle and lacking livelihoods. ILO could extend its experience of vocational skills training with ex-combatants in Tajikistan to other vulnerable groups, prioritising the young unemployed. For training to be relevant, policymakers need a clear idea of skills relevant in the informal economy. Training should build on the ingenuity of the strategies people have developed to get by in a hostile environment.

To facilitate the move from the informal to the formal economy, it is important for these skills and experiences gained through work or everyday activities to be assessed, recognised and certified. Working-age refugees could be provided with professional training and qualification upgrading, and refugees’ education certificates should be recognised. Emigrants to Russia have skills that often go unrecognised. ILO could provide technical expertise on creating tests and certificates constituting evidence that potential migrants have certain qualifications. On that basis, it would be possible to promote a match between employment and skills. ILO could also provide know-how on inventorying employees with skills. This would be a first step in creating firms that organize employment abroad. In Russia, ILO could help by raising the capacity to document official employers and match their needs with available skills. It could also design awareness-raising programmes to inform would-be migrants about labour rights issues.
♦ SME development

This study has shown how the regulatory environment (difficulty accessing capital, bureaucratic registration procedures and unreasonable taxation) pushes SMEs into the informal economy, thereby restricting long-term investment in business and innovation and making it more difficult for businesses to develop into new markets. For SMEs to contribute to the development of the economy, there needs to be an institutional context more conducive to SME development. The business regulatory framework should lower the costs of establishing a small business, make taxation reasonable and increase the potential benefits of legal registration, such as access to commercial clients and new markets, favourable credit, legal protection and foreign exchange. ILO’s business start-up schemes in Kyrgyzstan should be expanded as a further incentive for small businesses to engage in the formal economy.

This work provides a view of women’s and men’s diverse initiatives in income generation to ensure households survival. Policymakers should work to create an enabling environment that allows them to expand their choices and reduce their risks. Women in particular face complex constraints. Women’s income-generating options can be improved by beginning with women’s experiences, which vary according to age, ethnicity, income level, level of physical ability, level of education, marital status and dependents. Post-Soviet women’s increased responsibility for domestic tasks and childcare cannot be ignored when addressing the needs of women, both workers and entrepreneurs. Women who are able to rely on a steady income to cover their domestic expenditures are better able to focus on building up their business. Policymakers can design credit and loan schemes with repayment schedules that take into account the reality of women’s lives. More accessible credit and information about starting up and developing businesses will make the market more inclusive and check social inequality. Acknowledging the reality of women’s lives, borrowing schemes should require a minimum of paperwork and include reasonable and appropriately timed repayment rates.

The research conducted in Kyrgyzstan for this study showed how women in particular often work from home. In many situations, home-working is the only income-generating option open to women, so policymakers need to find ways of supporting women by increasing their security while maintaining the advantages that the informal economy offers them. They must acknowledge the fact that low-income women suffer from working in overcrowded, poorly lit and poorly ventilated home environments. They should think of innovative ways in which they might enable women to improve their working environment at home. Credit services could consider helping improve their work environment by blending home improvement with business development loans.

♦ Improve statistics on informal employment to make informality more visible in the region

Undertaking a study on the labour market and the informal economy shows the difficulties in obtaining reliable, comparable and complete data. ILO could usefully assist governments to develop better statistical systems.

♦ Migration

Planners in urban areas that receive labour migrants from poor rural areas need to rethink completely their approach, so that it encourages diversity. Labour mobility could be better tolerated through the reform of the Federal Employment Bureau. Effective employment recruitment mechanisms should be developed so that people are less dependent on personal connections. This is important for providing income-generating opportunities for those with little social capital, who cannot rely on informal social
networks for finding work. For example, labour mobility could be facilitated by providing temporary residence permits to help poor workers from depressed regions get jobs.

A priority for the ILO should be to work with IOM and UNHCR to find ways to ensure that internal and external migrants and refugees have the capacity to move into more decent jobs, and that those not covered by the existing social security system are protected.

♦ Social protection

Transition has significantly impacted on issues of social security, statutory and voluntary health and other social protection schemes. ILO has much to contribute in this field. Further, there is an urgent need to define a legal minimum wage using internationally agreed mechanisms. ILO can also play a useful role in strengthening established procedures to enforce wage standards, ensure safe work and enforce labour inspection.

A social safety net that provides sufficient income for those who are unable to work should also be a priority. The research conducted in Tajikistan for this study revealed the effectiveness of local-level institutions in identifying and providing for the most vulnerable households. Support to traditional networks and social structures should be built into interventions. For example, policymakers can build on the role of social support networks for information dissemination, and on local organizations for targeting and delivering assistance.
Endnotes

1 Ethnicity is a relatively recent Soviet creation, that had the political intention of undermining the possibility of a wider Islamic union across the region. At this time of stress and change, ethnicity could be used as a form of social capital by elites to stir up conflict to their advantage.

2 The large influential industries such as telephone, airline, gas, alcoholic beverages, mining and gold continue to be in the hands of the State.

3 The CDF strategy is from 2001 to 2010. PRSP is the three-year action plan to implement CDF. It describes a country’s macroeconomic, structural and social policies and programmes to promote growth and reduce poverty. PRSPs are prepared by governments through a participatory process involving civil society and development partners, including the World Bank and the International Monetary Fund.

4 The scale of women’s participation in the Soviet workplace did not eradicate the differences between male and female workers in the distribution of income, skill, status or power. Women predominated in low-paid sectors and were under-represented in managerial positions (Lapidus, 1993, 141).

5 As part of its Central Asia Action Programme 2003, TACIS has submitted a proposal for a two-year €2 million project on local development as a tool to create employment opportunities for young people in Tajikistan.

6 The ILO defines the informal economy as all economic activities by workers and economic units that are – legally or in practice – not covered or insufficiently covered. This means that although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs. According to the internationally agreed definition (formulated in 1993 by the 15th International Conference of Labour Statisticians) the informal economy refers to private unincorporated enterprises under a certain size in terms of employment and or not registered under business or commercial law. A private unincorporated enterprise is one that is owned by an individual or household, that does not constitute a separate legal entity independent of its owner and for which complete accounts are not available that would permit a financial separation of the production activities of that enterprise from the other activities of its owner(s). This definition takes an enterprise rather than a labour approach. Informal workers are those located in informal production units regardless of their employment status. Although there are no internationally agreed categories of employment status in informal enterprises, the majority of workers operating in them are employed informally (Musiolek, 2002).

7 According to the World Bank, the poor in Kyrgyzstan “are much more likely than the non-poor to be self-employed... The poor represent a greater share of total self-employment than the non-poor”. The study also found that non-agricultural self-employment generates income for the poorest more than for any other group. The study concludes, “the findings here indicate that this might be a useful avenue to explore when looking at ways to improve earnings of the poorest groups”. (World Bank, 2001, p. 14-15).

8 The World Bank estimates that up to 50 per cent of national GDP in Kyrgyzstan is unrecorded and that in Uzbekistan, the informal economy could be 35-40 per cent of the economy (Cook and Sulaimova, 2000 p. 8; World Bank, 2002, p. 71).


10 Ordinance KM No. 236, of 22.06.2001, with modification: “Measures to further liberalize the money-market”.

11 Ordinance KM No. 154, of 06.05.2002: “Regulating the import of goods by physical person on the territory of Uzbek Republic”; Ordinance KM No. 248, 12.07.2002: “Additional measures to regulate the import of goods by physical person on the territory of Uzbek Republic”.

At the beginning of 2003, the customs tax was lowered.

An Oxfam report from the Khathlon oblast of Tajikistan notes that people are selling roof materials of stables and other buildings, replacing them with hand-made mud roofs (Oxfam, 2002).

For a similar observation elsewhere, see Nazneen Kanji’s study undertaken in Khorog, Tajikistan (Kanji, 2002, p. 148).

Some argue that this involves the expression of Islam characteristic of Central Asia, Sufism, which preaches tolerance, moderation, culture and philosophy. It is said that its rise is also in part a rejection of the Soviet system, which suppressed religious practice. According to the French academic, Oliver Roy, religious movements in Central Asia claim to establish a new kind of grassroots community group based on a sense of Muslim ‘brotherhood’. However, they have been thwarted by state repression from 1995 onwards, except in Tajikistan (Olimova and Olimov, 2002 p. 43; Griffin, 1998; Rashid, 1994; Roy, 2001).

As recently as December 2002, in Tajikistan’s Romit valley, the government tried to clamp down on the former opposition. The former leader of the Mujahaddin, Mullah Abdullah, and his supporters fled to Afghanistan.

In November 1992, Dostam’s troops captured a key Amu Darya river crossing to Tajikistan, at Sher Khan Bandar. Subsequently, a network of border posts along the river, supported by boat patrol, was set up under the new Afghan Uzbek Commander in charge of border security, Maj. Gen. Abdul Hamid Aka, thereby sealing off an important channel of supply of arms and support to Tajikistan’s Islamic opposition (Warikoo).

Cited in ODCP, 2002 a, p 15.

The U.S. Government would likely argue that it sidelined drugs as an issue, to address terrorism directly.

By the time the Afghan Interim Administration was established and issued a ban on opium poppy cultivation and trafficking, most poppy fields had already started to sprout. The Afghanistan administration is trying to buy out plantations of narcotic crops from those who grow them (ODCP, 2002).

Opium prices fell in Afghanistan after 11 September due to the closure of Afghanistan’s borders, the off-loading of stocks by traders and speculation about an end to the ban on cultivation. As stocks depleted, prices began to rise in Iran and Pakistan, and to a lesser extent in Tajikistan. Prices rose less in Tajikistan partly due to the increase in production in Northern Afghanistan (Badakshan province) and the increasingly large-scale trafficking via Tajikistan (ODCP, 2002).

There are estimated to be 40,000 consumers in Central Asia (with the exception of Turkmenistan).

From an economic perspective, it is unlikely that the drug lords would ever prioritise Central Asian markets, as the profits from the sale of drugs are far higher in Moscow, and increase as they reach European and other markets.

The rest of the population is mostly Pashtun or Hazara, with a few other smaller ethnic minorities such as the Nuristani and Baluchi.

The UNHCR states that at the end of October 2002, 1940 persons (623 cases), mostly Afghans, have been granted mandate refugee status (UNHCR, 2002a).

According to statistical data on Afghan refugees registered in the Kyrgyz Republic from the Department of Migration Service (DMS) under the Ministry of Foreign Affairs of the Kyrgyz Republic, Kyrgyzstan has 746 people (289 families) with refugee status, 190 people (86 families) with pending applications for refugee status, and 124 people (60 families) with rejected refugee claims (UNHCR, 2002b). UNHCR report that a total of 839 Afghans are registered with the DMS as refugees. In addition, UNHCR has extended its mandate to 63 Afghans who were denied access to Refugee Status Determination procedure on the basis of the safe third country principle. There are also approximately 1,000 Afghans in Kyrgyzstan.
who are seeking asylum or whose asylum claims have been rejected on formal grounds. UNHCR is also assisting 8,619 Tajiks and 398 Chechens in Kyrgyzstan. It does not provide direct assistance to refugees, although some of the most vulnerable get one-off assistance grants (UNHCR, 2002c).

28 In Kyrgyzstan, the highest proportion of people migrating within the country come from Naryn, the poorest oblast in the country. People mostly move from mountains to plains, and from rural to urban areas, the most popular being Bishkek city and Chui oblast. Internal migration has slowed in recent years. Since 1996, the migration flow in Kyrgyzstan has decreased by 27 per cent, and by almost 40 per cent in Naryn oblast (UNDP, 2002).

29 “Russia Plans to Increase Troops in Central Asia, Dadan Upadhyay,” in The Indian Express, December 6th 2002. Russia has signed a series of security, economic and debt agreements with Kyrgyz president (McAdams, 2002).

30 In Termes, UNICEF provides logistical support. Staff in Termes have been reduced from ten to two people. UNFPA is planning to close, but has a project that will continue until mid-2003, providing medical supplies to hospitals in the north of Afghanistan and providing training for medical personnel in regional clinics.

31 In Soviet times, hydropower specialists and oil were sent from Osh. Osh served as a service point and warehouse from where shipments were made to Afghanistan. All contacts between Kyrgyzstan and Afghanistan were regulated by Moscow.

32 15 billion was promised, and less than 10 per cent of it has materialised.

33 GTZ is introducing a new partner approach since January 2003, working with a ‘multi-power structure’; that is, working with different ministries and players.

34 At the end of fiscal year 2001, USAID in Uzbekistan received USD 14 million. At the end of fiscal year 2002, it received 14 million plus supplemental funding budgets of USD 37 million; and in the summer of 2002, USD 18-19 million. Congress has not yet approved the budget for 2003, which could be around 20 million. USAID in Kyrgyzstan received USD 23 million in the normal budget, plus USD 17 million supplemental one-off for border security, expanding existing programs, education projects, and as endowment for the U.S. university and health programs.

35 Counterpart Uzbekistan has received an increase in funding from USAID. The organization had a USD 11 million budget for Central Asia for three years until March 2003. The three-year budget since April 2003, is to be USD 17 million.

36 There has been a dramatic increase in donor interest in the ODCP after 11 September. The U.S. is the biggest donor, contributing USD 4.3 million, followed by the U.K., USD 4 million.
Appendix 1: Methodology

The author was commissioned by the ILO InFocus Programme on Crisis Response and Reconstruction (IFP/CRISIS) and the ILO Moscow Office to produce a report about the impact of the Afghanistan crisis and the ‘transition’ to a market economy, on employment and other decent work concerns in the Central Asian states of Uzbekistan, Tajikistan and Kyrgyzstan. She prepared a situational analysis, based on her own work and inputs by national consultants in those three countries.

The author conducted a two-week mission in Geneva based at IFP/CRISIS and a one-week mission in the ILO Moscow Office. She gained an in-depth knowledge of ILO expertise in the fields to be covered by the research and drafted its terms of reference. She also conducted a desk-based literature review, to identify gaps in knowledge about the three Central Asian countries considered and the technical areas where ILO could potentially play a role.

She then conducted three week-long missions to Kyrgyzstan, Tajikistan and Uzbekistan during December 2002-January 2003. During these visits, due to time constraints, she spent most of her time in the country capitals, Bishkek, Tashkent and Dushanbe. However, in Kyrgyzstan, she spent several days in Osh to observe the situation in the Ferghana Valley. In Uzbekistan, she travelled to Termez, on the border with Afghanistan, to consider the economic situation of people living in a border area and to examine the impact of the military base and humanitarian aid delivery there. During these missions, she met with representatives from the United Nations, International Financial Institutions, European Union, government officials, Trade Union representatives, donors and international and local NGOs (see Appendix 2) to collect information on the socio-economic impact of the Afghanistan crisis on Central Asian countries.

She selected one national consultant in each of the three countries targeted. Following key informant interviews, the external collaborator decided to focus the research project on the informal economy. This was based on the recognition of the important role it plays in people’s livelihoods. The external collaborator realised that the socio-economic impact of Afghanistan in the three Central Asian states was minimal, confined to specific geographical areas, or too dangerous to be explored further. There were certain areas influenced by events in Afghanistan. For example, Uzbekistan’s two southern oblasts bordering Afghanistan, Kashkadarya and Surkhandarya, have a large unskilled cheap labour force, and in Soviet times were poorly developed due to their location near the Afghan border. Now, these oblasts are the site of international military bases, but this has done little to improve the employment situation in these impoverished regions. Rather, the prices of some consumer goods have risen because of the international newcomers. However, these findings could not be generalised. The impact of other processes such as increased donor funding and the international military presence were too recent to assess. The influence of events in Afghanistan on the rise of radical religious movements and the economic impact of drugs trafficking from Afghanistan on local communities and the Central Asian economies were too dangerous to study further.

The author recruited three local non-governmental organizations to conduct independent research on the informal economy. These organizations were the Centre for the Study of Public Opinion and Prognosis in Kyrgyzstan; The Tahlil Centre for Social Research in Uzbekistan; and Alla Kuvatova, a consultant and NGO representative in Tajikistan. On this basis, three pieces of qualitative research were conducted in those countries between January and March 2003. Research techniques included focus group discussions and in-depth semi-structured interviews with 30-40 respondents in each country. The small interview sample means that it is not possible to generalise from the
findings. However, the data can reveal the range of informal practices people engage in to survive. It can show the processes behind people’s decisions about where they work. It provides information about the role of social networks and household relations in shaping labour market participation. The author monitored this research process.

In Kyrgyzstan, the research was conducted in Osh and Bishkek. Two focus groups were conducted in Bishkek, each consisting of nine women working in the informal economy – one with women working in the sphere of production and services, and the other, with internal migrants and external migrants from Tajikistan. In Osh, one focus group was conducted with women working in the informal economy in the sphere of production and services and migrant women. Respondents consisted of women working in the informal economy, with attention paid to internal and external migrants who had come to the city to find work. Nine interviews were conducted with key informants, and three in-depth semi-structured interviews with women working in the informal economy – a young, a middle-aged and an elderly woman. The consultant had planned to lead a focus group with Afghan women refugees working in the informal economy, but found that Afghan women rarely engaged in income-generation.

In Uzbekistan, the research was conducted in six regions: Bukhara, Kashkadar’ya, Surkhandar’ya, Sirdar’iya, Tashkent city and oblast. These different regions were selected to illustrate how differences in the state and form of local economies shape differences in the nature of the informal economies found there. The research sought to identify the reasons of the informal economy, the main forms of informal activity, the role of informal work in the formation of population’s income, and to assess work conditions. Some 30 in-depth interviews were conducted with men and women working in the informal economy, representing different sectors of work – traders, service sector workers, agricultural labourers, and piecemeal hired workers (*mardikori*). Research compiled by Tahlil between 2000-2002 was also used.

Fieldwork for the Tajikistan situational report was conducted in February 2003 in the district centres of Varzob, Yavan, Kofarnikhon, in Khatlon areas and the city of Dushanbe, and in the *dzhamoati* (Dekhmalik in Varzob district, Obimukki in Yavan district and Eskiguzar in Kofarnikhon district). The Tajikistan office of CARE International supported this research logistically and financially. The researcher collected 32 in-depth interviews and 23 interviews with experts. These fieldwork locations differ considerably from each other. Varzob area is mountainous, while Yavan is an agricultural and industrial district with a well-developed cooperation between local authorities. Kofarnikhon is a strong agricultural centre close to Dushanbe. The aim of the study was to establish the role of the informal economy and mechanisms of social support and social events as a survival strategy of low-income households. Women from wealthy households, poor relatives of wealthy households, poor households, poor households without social support, households with working migrants, households which conducted social events and women-headed households were interviewed. Personal history information was collected on issues pertaining to work, migration, support from relatives, neighbours, mosques, *mekhal* and social events. Another series of questions were asked soon after the Idi Kurban holiday.
Appendix 2: Expert interviews

**Kyrgyzstan**

Nurkaly Isaev, Resident Representative, DFID
Ulrike Roesler, GTZ Representative and Project Manager, Export and Investment Promotion
Bhaswar Mukhopadhyay, Residential Representative, IMF
Frédéric Chenais, Associate Expert/Programme Officer, IOM
Leonid Komarover, Head of the Secretariat of the Comprehensive Development Framework and Deputy head of the Economic Policy Department
Musaef Mumenzhan, MercyCorps, Osh
IOM office, Osh
Mykola Melenevsky, Economic and Environment Officer, OSCE
Omburbek Badyevich Almanbetov, Deputy head of the Osh Oblast administration
A.Ibraev, Head of Osh Oblast’ department for employment
Sabyrbek Akimbaev, Cross border Trade Project Coordinator, Enterprise Development Centre, Removal of Investment Constraints Component, The Pragma Corporation
Alfred Supic, TACIS
Sagyn Bozgunbaev, Chief, Trade Union Federation of Kyrgyzstan
David Akopyan, UNDP
James Lynch, Head of UNHCR Liaison Office.
Bahtiar Mambetov, National Coordinator United Nations Office for Drug Control and Crime Prevention
Tracy Atwood, USAID
Dinara Djoldosheva, Operations Officer, World Bank

**Uzbekistan**

Manuel Perlas, Senior Portfolio Management Specialist, Asian Development Bank
Djabarova, Director, NGO ‘Ayol and Zamon’ (implementing partner for UNHCR, dealing with Afghan refugees in Termes).
Dildara Alimbekova, Chairwoman, Businesswoman’s Association of Uzbekistan
Uktam Abdurakhmanov, Research Coordinator, Centre for Economic Research
Azamjon Babahodjaev, Director and Soroush Javad, Senior Country Advisor, Counterpart Uzbekistan
Peter Reddish, Coordinator Europa House, European Commission
Azizulla Ghazi, ICG
Pierre-André Conod, Head of the Regional Delegation for Central Asia, ICRC
Aleksandr Navotni, Ministry of Labour and Social Protection
Shuhrat Yoqubov, Partnership for Development Organisation (funded by NOVIB), Programme Officer for the Local Initiatives Nurturing Programme
Roberto Arbitrio, Programme Coordinator, UN Office on Drugs and Crime
Alisher Ilkhamov, Executive Director, Open Society Institute Assistance Foundation
Corneliu Musinschi, Political Officer, OSCE, Tashkent
Suman Shanshoeva, UNFPA Project Coordinator and Coordinator of other UN agencies in Termes
Richard Conroy, Resident Representative, UNDP
Janie McCusker, UNDP Field Security Coordination Officer
James Goggin, Country Representative, USAID Regional Mission for Central Asia
Ulugbek Isayev, Project Management Specialist
James Goggin, Country Representative, USAID Regional Mission for Central Asia
Ulugbek Isayev, Project Management Specialist
Akbarov Rakimkul, Head of Office, Uzbekistan Red Cross, Termes
Arun Nanda, Head, WHO Uzbekistan
David Pearce, Head, World Bank

Tajikistan

Wendy Darby, Programme Director, Aga Khan Foundation
Emin Sanginov, Director of Aid Coordination, Executive Administration of the President of Tajikistan
Genny Abel, CARE
Igor Bosc, Head, IOM
Komilov Sirodjidдин, Strategic Research Centre
Gary Burniske, Country Director, MercyCorps
Piet Vochen, OCHA
Pierre-Paul Antheunissens, Team Leader, Support to the National Co-ordinating Unit in Tajikistan, TACIS
Nic Coussidис, Head, UNHCR
Rasoul Rakhимov, UN Office for Drug Control and Crime Prevention
Bibliography


Bukharbaeva, G. and Sobirov, Kh.: “Uzbek trade war escalates”, in Reporting Central Asia, No. 178 (January 27, 2003).


Community Habitat Finance International (CHFI) and Community Action Investment Program (CAIP): Community Development Assessment (Tashkent, 2002).

Economic Intelligence Unit: Country Profile, Kyrgyzstan (London, EIU, 2002).

Economic Intelligence Unit: Country Profile, Tajikistan (London, EIU, June 2002a).


Expert-Fikri Center for Social and Marketing Research: Legal status of persons of Tajik ethnic origin who arrived to Uzbekistan from Tajikistan from 1990 to 2002 (Tashkent, 2002).


---: Central Asia: Drugs and conflict (Osh/Brussels, 2001). Available at: http://www.crisisweb.org/home/getfile.cfm?id=110


IOM: Deceived migrants from Tajikistan: A study of trafficking in women and children (Dushanbe, July 2001).


OCHA: *Delivering of humanitarian assistance to Afghanistan through Uzbekistan* (Tashkent, 2002).

Oxfam: *Community situation indicators: Khathlon Oblast*, Bulletin No. 6, October-November 2002 (Dushanbe, 2002). Available at: http://www.oxfam.org.uk/what_we_do(where_we_work/tajikistan/index.htm


Roy, O.: *Civic identity in the new Central Asia*, Lecture (The Institute of Ismaili Studies, February 16, 2001). Available at: http://www.iis.ac.uk/research/sem_con_lec/sem_00/roy.htm


Tahlil Centre for Social Research: *Repatriation policies/Perspectives of Afghan families: Results of interviews of the families of refugees and asylum seekers, conducted in Tashkent and Termes, the Republic of Uzbekistan*, Report prepared for UNHCR (Tashkent, January 2002).


---: *Background information on the situation in the Republic of Uzbekistan in the context of the return of asylum seekers* (Tashkent, October 2002a).

---: *Final report on completion of the “Afghan refugees in the Central Asian republics” project based on the example of the Kyrgyz Republic* (internal document, 2002b).

UNIFEM: *The development of women's entrepreneurship in the Republic of Tajikistan: Main characteristics and problems (Survey Results)* (Khojand, 2001).


IFP/CRISIS reading materials


---: *Selected issues papers: Crises, women and other gender concerns*, Working Paper No. 7 (Geneva, 2002).

---: *Coping strategies and early warning system of tribal people in India in the face of natural disasters* (New Delhi, 2002).


---: *High Level Research Consultation on Crisis*, Geneva, 3-5 May 2000 (Geneva, 2000)

---: *Programme for employment recovery and reduction of economic vulnerability: A response to the floods of Mozambique* (Maputo, 2000).

---: *Programme for employment recovery and reduction of socio-economic vulnerability in Venezuela* (Caracas, 2000).


Earlier related materials


---: Quick access to recommendations and findings of the “Action programme on skills and entrepreneurship training for countries emerging from armed conflict” (Geneva, 1998).

---: Gender guidelines for employment and skills training in conflict-affected countries (Geneva, 1998).

---: Manual on training and employment options for ex-combatants (Geneva, 1997).

---: Towards a framework for ILO policy and action in the conflict-affected context: Training and employment promotion for sustainable peace (Geneva, 1997).

---: Guidelines for employment and skills training in conflict-affected countries (Geneva, 1997).

---: Employment for peace: The ILO’s comprehensive programme of technical assistance to conflict-affected countries (Geneva, 1997).

---: ILO and conflict-affected peoples and countries: Promoting lasting peace through employment promotion (Geneva, 1997).


ILO: “From war to work: Giving peace and people a chance”, in World of Work, No. 20 (Geneva, 1997).


---: Framework of guidelines for reintegration of demobilized combatants through training and employment (Geneva, 1996).


---: Reintegrating demobilized combatants: The role of small enterprise development (Geneva, 1995).

---: Reintegration of young ex-combatants into civilian life (Geneva, 1995).

---: Reintegrating demobilized combatants: Experiences from four African countries (Geneva, 1995).

---: Relevance and potential of employment-intensive works programmes in the reintegration of demobilized combatants (Geneva, 1995).

---: Rehabilitation and reintegration of disabled ex-combatants (Geneva, 1995).

Lazarte, A.: Desarrollo economico local: Promoviendo el desarrollo humano sostenible a nivel local en el marco de la consolidación de la paz (Local economic development: Promoting local level sustainable human development in the framework of peace consolidation) (San José, ILO, 1996).


Medi, E.: Mozambique: Study of vocational rehabilitation, training and employment programmes for persons disabled by the conflict, experiences and issues (Geneva, ILO, 1997).


Revilla, V.: Examen crítico de la participación de la OIT en el programa de desarrollo para desplazados, refugiados, y repatriados en Centroamérica – PRODERE (Critical review of ILO participation in the development programme for displaced persons, refugees and repatriated persons in Central America, PRODERE) (San José, ILO, 1993).


How to obtain ILO publications

Priced items published by the ILO

ILO Publications
International Labour Office
4, route des Morillons
1211 Geneva 22
Switzerland
Tel: + (41-22) 799-7828
Fax: + (41-22) 799-6938
E-mail: pubvente@ilo.org
Website: www.ilo.org/publns

Working papers and all other IFP/CRISIS reading materials may be requested directly from:

InFocus Programme on Crisis Response and Reconstruction (IFP/CRISIS)
International Labour Office
4, route des Morillons
1211 Geneva 22
Switzerland
Tel.: + (41-22) 799-6270
Fax: + (41-22) 799-6189
E-mail: ifpcrisis@ilo.org
Website: www.ilo.org/crisis