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Current Financial Performance of The Higher Education System of Uzbekistan

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Abstract
The article focuses on the financial system of higher education, plays an important role and how it contributes to the economy, and analyzes how the system is managed and what can be done to modernize and improve it — that is, to better link the supply of skills employees with the needs of a developing labor market in the country by improving access to quality education. In the end of paper by the author was elaborated summary current financial performance of the higher education system of Uzbekistan.

Keywords
Higher education system, financial performance, International Monetary Fund.

I. Introduction

Uzbekistan was established in the early 1920s as a part of a 'national delimitation' and as one of the Soviet Socialistic Republics, every aspect of the life in the country was strictly controlled by the Soviet government. The Republic of Uzbekistan became independent on September 1, 1991 and established itself as a parliamentary democracy. The country is located in the heart of Central Asia and is a doubly landlocked country surrounded by other Central Asian countries: Tajikistan on the Southeast, Turkmenistan on the South, Kyrgyzstan on the Northeast and Kazakhstan on the North and Northwest. Uzbekistan consists of twelve provinces and the Autonomous Republic of Karakalpakstan. The city of Tashkent is the capital of Uzbekistan. The Republic of Karakalpakistan and the twelve provinces are subdivided into 163 districts and 80 municipalities. The oasis towns of Khiva, Bukhara, Samarkand and Tashkent mark the famous "Silk Road" over which caravans delivered the products of Europe to exchange for those of Asia.

According to the State Committee on Statistics of Uzbekistan (2013), its population exceeded 30 million in 2013 and increased by 1.4 per cent since early 2011. Currently, more than 36 per cent of the population in Uzbekistan live in urban areas and the rest live in densely populated rural communities. Uzbekistan is one of the largest cotton producing and exporting countries in the world (sixth largest cotton producer and fifth largest exporter) as well as having large deposits of gold, uranium, natural gas and various commodities (The World Bank, 2014).

This paper is dedicated to presenting a descriptive overview of the Uzbek education system, including the higher education system in context of reforms, administrative structure and finance. In this research, a comprehensive comparison between the higher education system of Uzbekistan and the rest of the Central Asian countries is also provided.

II. Education reforms

The education system before independence was completely different that Uzbekistan had to virtually start everything from anew and address a whole range of issues on policy, governance, planning and management of education. The need to improve teaching skills, tools and techniques; upgrade the curriculum; and provide with adequate resources was also transparent. Therefore, the new government introduced the Law on Education in July 1992 in order to provide the legal basis for the sector and to set off the most urgent reforms needed to adapt the education system. The following reforms have been introduced in the education sector over the last two decades:

- ➢ In 1997, the Law on Education was revised to more explicitly advocate for the children's right to education and protection as well as to affirm a commitment to provide free compulsory education for all residents of the country in public schools. The law also addresses "the right of workers to individual leave for training purposes, the financial autonomy of institutions including the possibility to conclude contracts with companies and the right to establish private pre-primary schools" (UNESCO-IBE, 2011).
- ➢ The government adopted the National Programme for Personal Training (NPPT) project at the end of August 1997. According to the government authorities, the NPPT provides a consistent framework for the reform being launched and further directs the educational development of the country well into the 21st century. The main function of the NPPT is the development of a unified and continuous instruction and training programs as well as the mandate for the government to provide 12 years of compulsory education based on a "4+5+3" pattern.[1]
- ➢ The National Programme on School Education Development (NPSED) for the period 2004-2009, with the aim of improving the quality of education, was adopted in 2004. According to a recent report of UNICEF (2010), successes of NPSED consist of:
  - ❖ the construction of more than 350 new schools and the renovation of approximately 8,150 existing schools (83 per cent of all schools within the country);
  - ❖ improved the state educational standards and curricula;
  - ❖ the strengthening of staff in-service training and their salaries;
  - ❖ modern laboratory equipment, teaching aids, and textbooks provided to all schools that enclosed by the programme; and
  - ❖ the development of sport curriculums as well as improvements of sports equipment and playing fields in schools.
- ➢ The Child-Friendly School Project introduced in 2006 with the purpose of improving the efficiency and quality of basic education in areas facing improvement challenges. The project brings in new instruction technologies, also tools for monitoring and assessing teacher performance and the active participation of parents of children in schools.

- In 2008, the National Program on Improving Quality and Efficiency of Education was introduced, covering main public priorities for 2008-2012.
- Resolution of the CMUZB of (30/09/2008) – addresses issues such as child labour as well as domestic violence against pupils and children with disabilities.

As a result of these reforms, the system of continuous education consists of following educational establishments providing instructional services (NHDR, 2011):

Pre-school instruction – delivered by both public and private pre-school educational establishments; General secondary education - mainly by public schools and by an insignificant number of private schools on a fee basis; Secondary special and vocational education – by public vocational colleges and academic lyceums which provide free education services; Higher education - by public institutes and universities, providing free and a fee based education; Postgraduate education - by academies, institutes, universities and business schools; and increasing the level of professional skills and personnel education - at institutions, universities, business schools and specialised institutions for upgrading professional skills.

III. Recent economic performance of the country

According to the World Bank (2014) assessment, Uzbekistan is a lower-middle income country with a small-sized economy. During Soviet times, the economy of all Central Asian countries was regulated by the central government in Moscow. Without Soviet support, Uzbekistan's economy experienced a major decline during its period of transition to a market economy. During the recent decade, however, Uzbekistan's economy continued to perform strongly. For example, real gross domestic products (GDP) growth averaged 8.3 per cent per year between 2008 and 2013 (see Figure 1). That made Uzbekistan's economy one of the fastest rising economies among the middle-income countries and among the CARs over the recent years.

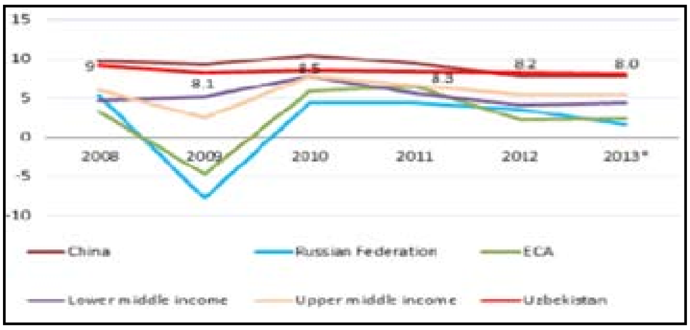

Fig.1: GDP growth in Uzbekistan, its key trade partners, ECA, Lower- and Upper-Middle income countries (in per cent)
Source: Asian Development Bank (2014)

The economy of Uzbekistan is primarily services-based, since services sector accounts for approximately 48 per cent of the GDP and the employs 35 per cent of population. Industry and manufacturing together account for more than 32 per cent of GDP and employ 19.5 per cent of the workforce. Finally, agriculture accounts for 19 per cent of GDP and employs 38.5 per cent of the population. However, the core contributor to the economic growth was industry including construction, which increased by 8 per cent in 2012 and by 9 per cent in 2013. At the same time, services decreased from 10.4 per cent to 8.8 per cent (ADB, 2014).

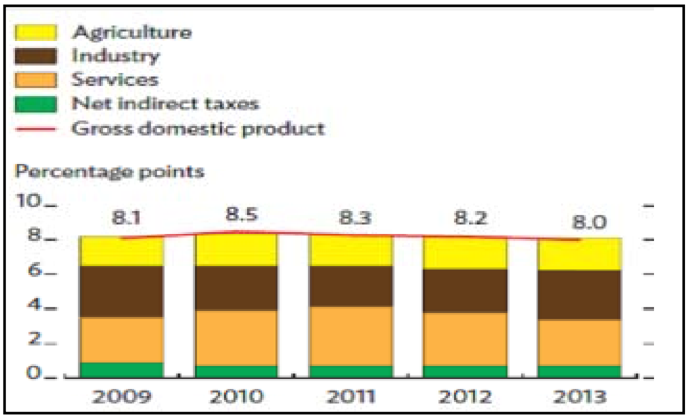

Fig. 2: The main contributors to growth: agriculture, industry, services, net indirect taxes and GDP
Source: State Committee on Statistics, (2013), ADB estimates

In industry, the continuing innovation and modernization program backed by significant public investment and recovering external demand, increased the production of construction materials, textiles, machinery and foodstuffs. However, services posted considerable growth as retail trade, finance, telecommunications and catering all recorded double-digit raises. The ongoing housing marking boom increased construction growth to more than 16 per cent in 2013 from 11 per cent in 2012. Despite favourable weather conditions and record harvest of the main cereal and vegetable crops, agriculture expanded by less than 6.8 per cent in 2013 compared to 7 per cent in 2012 (see Figure 2). The foreign direct investment (FDI) decreased from 3.6 per cent of GDP in 2011 to more than 1.5 per cent of GDP in 2012 and 2013 (The World Bank, 2014).

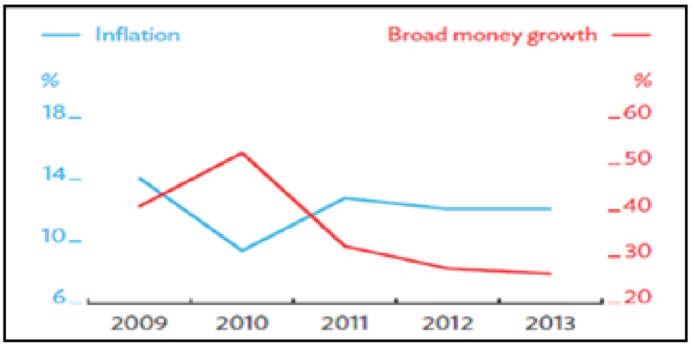

Fig. 3: Inflation and broad money growth
Source: International Monetary Fund, ADB estimation (ADB, 2014)

According to the report published by the International Monetary Fund that inflation rate was 6.8 per cent in 2013 which was below the target range (7-9 per cent) set by the Central Bank of Uzbekistan (see Figure 3). Despite wage and pension increases, inflation was held in check by ongoing global food price deflation, lower import costs and the Central Bank's sterilization of excess liquidity. At the end of 2013, the main Central Bank rate was reduced from 12 to 10 per cent, signalling lower inflation expectations for 2014. Moreover, unemployment rate slightly decreased to 4.8 per cent in 2013 from 5 per cent in 2011 (Ministry of Labour of Uzbekistan, 2014).

Lower demand for Uzbekistan's exports and lower commodity prices have led the government to take action to support the domestic economy. In 2013, the government increased the current spending on health, education and public sector wages as well

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as capital expenditure. After the tax cuts for small and medium sized enterprises as well as individual entrepreneurs in industry and service sectors, the tax revenue declined along with lower projected "Funds for Reconstruction and Development (FRD)" budget. Moreover, higher public current and capital spending resulted in a smaller budget surplus of 0.3 per cent of GDP in 2013, that is estimated having narrowed to 1.7 per cent of GDP in 2013 from the 8.2 per cent in 2011 (see Figure 4).

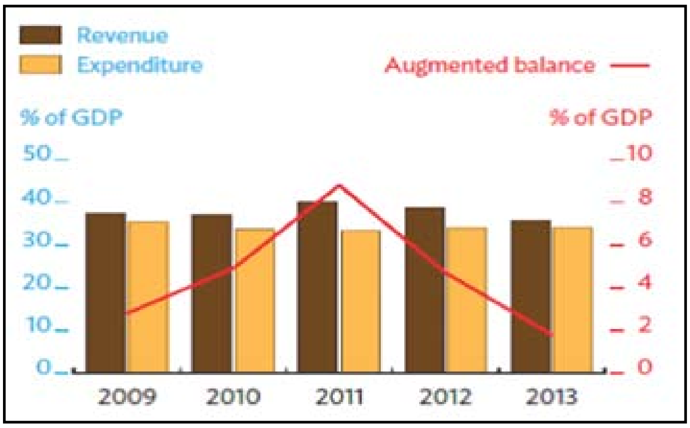

Fig. 4: The government revenue and expenditure as well as augmented budget
Note: Augmented budget includes the FRD
Source: International Monetary Fund, ADB estimates (ADB, 2014)

According to the figure above, the government's budget revenue (including the FRD's estimated revenue) decreased insignificantly from 39 per cent of GDP in 2011 to 36 per cent in 2013. Increased government expenditures (including the FRD's estimated expenditures), especially for health and education, assisted to insignificantly increase budget spendings from 33.8 per cent of GDP in 2012 to 34 per cent in 2013. In other words, public capital expenditure grew from 4.2 per cent of GDP in 2012 to 4.5 per cent of GDP in 2013. Public spendings on health increased from 3 per cent of GDP in 2012 to 3.2 per cent in 2013, whereas the government expenditures on education were sustained at about 8 per cent of GDP in 2013 as in the preceding year (The World Bank, 2014).

IV. Recent growth performance

After Soviet Union collapsed in 1990, the independent republics have experienced social, political and economic challenges which they were weakly prepared to meet (Brunner and Tillett, 2007). Obviously, there were no longer allocations of financial resources from the Central-Moscow to the governments of the "newly" independent countries for running social programs, such as housing, health care and education, nor subsidies for higher education, training and research. According to the EC Tempus report published in 2011, the collapse of the Soviet Union had a more severe influence on the economy of the Central Asian countries – Uzbekistan, Kazakhstan, the Kyrgyz Republic, Tajikistan and Turkmenistan – compared to other former Soviet Republics. Perhaps for this reason, the economy of these five countries is not noticeably improved between 1990 and 2014 which can be seen from their GDP growth rate. Accordingly, Figure 5 represents annual percentage growth rate of GDP at market price based on constant local currency.

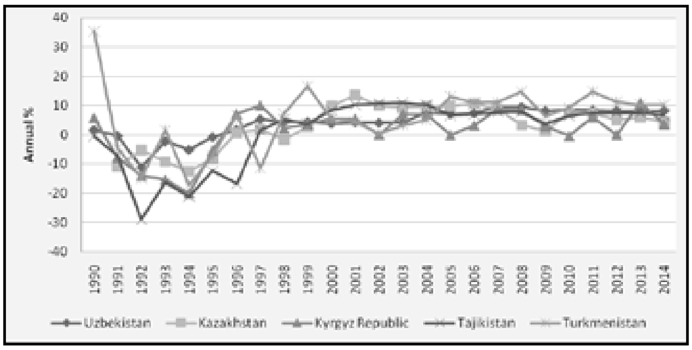

Fig. 5: GDP growth (by percentage)
Source: World DataBank (2015)

All CARs have experienced two growth phases – recession and growth – over the period of 1990 to 2001. However, GDP growth rate of all these countries were stably fluctuated and ranged between 0 and 15 – since 2001. In the recent years, it seems that almost all the CARs, except Turkmenistan, have recovered satisfactorily to reach and exceed their 1991 GDP value. Moreover, another indicator which represents economic performance and financial stability of the countries is the Gross National Income (GNI) per capita. The figure below exposes GNI per capita, which were converted to international dollars utilising purchasing power parity rates, for Uzbekistan, Kazakhstan and Turkmenistan from 1993 to 2014 and for the Kyrgyz Republic and Tajikistan after 1990 when their series commences. According to the GNI per capita indicator, residents of Kazakhstan and Turkmenistan have received relatively higher salaries compared to their counterparts. These findings suggest that the economy of these two Republics have rapidly recovered after the collapse of the Soviet Union.

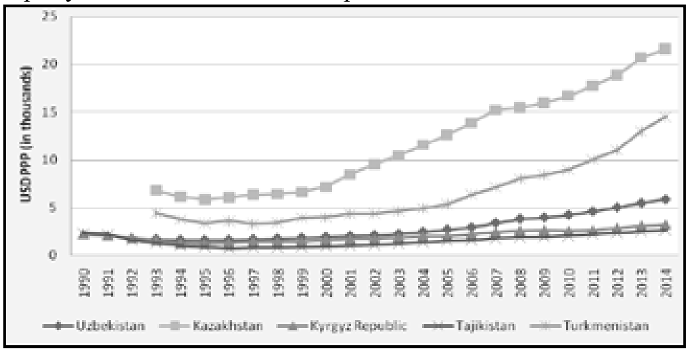

Fig. 6: GNI per capita (USD, PPP)
Source: World DataBank (2015)

V. Conclusions and Suggestions

The detailed analysis of the Uzbek higher education system and factors that determine its development expose that (1) insufficient financial resources have been allocated to public HEIs from the government budget, (2) inflows of limited local and foreign investments to the public HEIs, (3) insufficient financial autonomy of the public HEIs and (4) a lack of competition between institutions for clients. The Uzbek universities do not have to compete for students who are "buyers" of educational services, therefore there is a lack of incentives by universities to strength their financial performance and to improve the quality of education. Moreover, financial and institutional restrictions imposed by the Cabinet of Ministers of Republic of Uzbekistan prevent the creation of incentive for building capacities, as well as extensive state regulation of higher education inhibits the appropriate responses to new problems and challenges.

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