



## Technical Briefing Note No 1

### Creating Consensus for the Progressive Realisation of the National Social Protection Strategy in the Republic of Uzbekistan

#### Uzbekistan's Social Protection Policy Environment:

1. Uzbekistan is a lower-middle-income country with a population of 34.19 million<sup>1</sup> (2020) and has made important progress in advancing toward the twin goals of poverty reduction and shared prosperity. Following independence from the Soviet Union and transition toward a market economy, Uzbekistan

emerged after 2000 with a pro-poor and equity enhancing growth. Lack of access to poverty data makes it difficult to confirm the poverty trend, official poverty suggests the rate decreased from 27.5 percent in 2001 to 11 percent in 2019, with nearly 4 million people living below the national poverty line. Uzbekistan still hosts one of the largest concentrations of poor people in the Europe and Central Asia region. Poverty is higher than the national average in eight of Uzbekistan's provinces<sup>2</sup>. The income of the bottom 40 percent has grown at a slightly faster rate than that of the top 60 percent over 2008–2013. The official Gini coefficient fell from 0.39 in 2011 to 0.29 in 2013, while the Human Development Index increased from 0.594 in 2000 to 0.710 in 2019. The country is currently in the High Human Development category<sup>3</sup>.

2. After two decades of robust economic performance, an economic model characterised by strong state intervention – through a widespread presence of public enterprises - started showing signs of exhaustion. In 2017 Uzbekistan embarked on ambitious reforms aimed at transforming the economy, society, and the government. Key policy measures have included liberalising prices, trade tariffs, and the exchange rate, opening up the economy to private initiative and international trade, reducing the rates of direct taxes on businesses and households<sup>4</sup>, reducing the role of the government in economic activity, and commencing civil service reform<sup>5</sup>. The reforms have delivered results while raising expectations for further progress in boosting the potential of the economy, the vibrancy of the private sector, and the social security, incomes and opportunities for Uzbekistan's citizens across the life cycle.

3. While the working age population has been increasing over time, formal job creation has not kept

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<sup>1</sup> <https://stat.uz/ru/press-tsentr/novosti-komiteta/9503-demograficheskaya-situatsiya-yanvar-iyun-2020-goda>

<sup>2</sup> Especially in the remote and sparsely populated rural provinces of Karakalpakstan, Khorazm, Jizzakh, Namangan, and Surkhandarya where most households are employed in agriculture, and few receive remittances.

<sup>3</sup> 2019 Human Development Index Ranking. United Nations Development Programme (UNDP). <http://hdr.undp.org/en/content/2019-human-development-index-ranking>.

<sup>4</sup> The government reduced the corporate profit tax rate to 12 percent in 2018, almost half its 2003 level, before increasing it to 15 percent from January 2020. A flat personal income tax of 12 percent replaced several bands with a higher top marginal rate. The payroll tax rate was reduced from 31 percent in 2005 to 25 percent for large firms and to 12 percent for MSEs in 2019. From January 2020, the payroll tax was reduced from 25 percent to 12 percent for state enterprises defined as legal entities with a state share in the charter capital in the amount of 50 percent or more.

<sup>5</sup> In 2018-19, the Government of Uzbekistan introduced ambitious tax reforms aimed at helping stimulate economic activity, supporting more efficient revenue collection, and simplifying tax administration. The thrust of the reform has been on reducing and unifying the tax burden on small and large enterprises, unifying the rates of corporate profit tax, personal income tax, and the social tax to 12 percent, rationalising the VAT payments, reducing the number of direct taxes and mandatory payments, and improving tax administration procedures. Despite the lower tax rates, the tax reform significantly improved compliance and increased revenues in 2019. The authorities have also begun efforts to transform the customs and pension systems.

the pace resulting in high informality, inactivity rates and growing outmigration: the working age population has been increasing by some 50 percent since 2000, from 14 million to 22 million today, putting pressure on the slow job creation challenges. Unemployment<sup>6</sup> and inactivity rates are higher especially for youth, women and people in the poorest two quintiles<sup>7</sup>. Almost 52 percent of women above 15 years old are not in the labour force as opposed to 23 percent of men. Among youth (15-24 years old) the unemployment rate is double than adult's (20 and 10 percent respectively)<sup>8</sup>. Job quality and inclusiveness remain a concern, as average wages are low and almost half of the Uzbek workers are in the informal sector. Restrictions to internal labour mobility and rigidities in the labour code<sup>9</sup> may have contributed to the low increase in employment rates. More than half of the agricultural workers are subsistence farmers. The lack of jobs as well as the low salaries are main concerns especially among the poorest and the beneficiaries of social assistance

4. In 2019, Uzbekistan approved tax reforms that were implemented in 2019-2020 with the objective of improving the level of competitiveness. The tax reforms include a reduction in the VAT and an increase in the corporate income tax, among other changes. The most significant reductions were to payroll and turnover tax rates that fund the social security system. Corporate and personal income tax rates were also reduced, while the corporate tax base has been significantly expanded through the inclusion of a larger number of businesses into the formal corporate tax regime<sup>10</sup>. The previously progressive personal income tax system has been merged into a flat personal income tax rate of 12 percent<sup>11</sup>. While the government historically generated a fiscal surplus, the balance deteriorated in recent years and this tendency is expected to continue in the next few years. The approval of this reform may open opportunities and challenges for the creation of fiscal space for social protection purposes and future reforms to the pension system.

### **The Social Protection System: Programmes and Governance at Central and Sub-National Levels**

5. Uzbekistan has a highly centralised government structure. The administrative division comprises: (i) the central government; (ii) 12 regions (viloyat), one autonomous republic (Republic of Karakalpakstan), and one independent city (City of Tashkent); and (iii) 40 cities or urban districts and 162 rural districts, which are further subdivided into towns and villages. The President appoints directly the governors of the regions, who in turn appoint the heads of districts. Community self-governing bodies (mahallas) also play key role in carrying out government functions such as the distribution social assistance payments and the provision of social care services. The regions are accountable to the President and central line ministries.

6. There is no central ministry in Uzbekistan that is responsible for social protection policies and programmes<sup>12</sup>. Currently, labour market programmes and skills development for adults are under the

<sup>6</sup> Official unemployment rates averaged about 5.3 percent between 2014 and 2017. A change in methodology in October 2018 led to a large increase to 9.3 percent in 2018.

<sup>7</sup> *Uzbekistan Risk and Vulnerability Assessment 2019* World Bank; *The Skills Road: Skills for Employability in Uzbekistan* 2014 World Bank, Washington, DC. <http://documents1.worldbank.org/curated/en/845111577685772330/pdf/Uzbek-Population-Risk-and-Vulnerability-Assessment.pdf>

<sup>8</sup> ILO Background Report for preparation of the National Employment Strategy of the Republic of Uzbekistan, February 2020

<sup>9</sup> Labour restrictions were also linked to the local residence permit ("*Propiska*") regime which restricted internal migration, labour mobility and access to health care and schooling. These restrictions were tied to the goal of ensuring labour supply for agriculture in rural regions. In 2018, Law ZRU-514 amended the Uzbekistan Criminal Code to remove restrictions limiting employers from hiring workers without *propiska*

<sup>10</sup> These firms were previously subject to small-business tax of 5 percent of turnover, but will now be subject to a 20 percent VAT, 12 percent corporate income tax, and corporate land and water taxes

<sup>11</sup> Payroll taxes are ringfenced to pay for extra-budgetary expenditure with most resources going to the Pension fund. Following the reduction in payroll taxes, the remaining payroll tax (employer tax of 15 percent of the wage bill) will be fully directed to the Pension Fund, although revenues to the Fund will be significantly lower

<sup>12</sup> Currently, social protection policies and programmes are under the responsibility of the MoF (Social Benefits, the proposed

responsibility of the Ministry of Employment and Labour Relations (MELR), core of the social assistance interventions—the allowances for low-income families—is institutionally administered by the Ministry of Finance (MoF), which is also responsible for the administration of pensions<sup>13</sup>. Social care services (including residential care, pre-school provision, home care, juvenile justice, community services, and disability services) and a range of in-kind services (including subsidies and exemptions) are distributed across a raft of Ministries, Agencies and Departments (MADs) including the Ministry of Higher and Secondary and Special Education, the Ministry of Public Education, Ministry of Health, Ministry of Emergency Situations, Ministry of Justice, Ministry of Housing and Communal Services. In addition, the new Ministry of Mahalla and Family Support has recently been established and is likely to have oversight of sub-national functions in some areas of social protection. At the same time various social protection functions are delegated to sub-national tiers of government.

7. Uzbekistan has a relatively articulated and comprehensive social protection system that includes social insurance schemes (contributory), social assistance (non-contributory)<sup>14</sup>, and labour market programmes<sup>15</sup>. Entitlement to social insurance programmes is conditional on contributions that people make when they work and are supposed to protect people during old age or maternity, or in case of accidents and sickness. Social assistance benefits<sup>16</sup> include four types of programmes:

- cash allowances provided to low-income households (means-tested benefits)<sup>17</sup>;
- cash allowances provided to the elderly, persons with disabilities (PWD), and survivors (breadwinner loss);
- allowances in case of special events or shocks (e.g., child birth allowances, funeral allowances)

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single registry, and Pensions) and the MELR. However, the Government Plan for 2019 includes the creation of a new agency for social assistance programmes. This new body could be a central government agency or a special unit within the administrative structure of an existing ministry, possibly the MELR.

<sup>13</sup> The allocation of social assistance benefits at the sub-national level are based on quotas issued by the District-level Finance authority. Mahallas are currently responsible for the identification and enrolment of beneficiaries, with limited supervision and monitoring from the central government. Transparent and accessible mechanisms to address queries, complaints from beneficiaries and non-beneficiaries, and resolve problems with implementation are absent. Grievances are mostly managed by mahallas on an *ad hoc* basis. For active labour market interventions, the central ministry is tasked with providing overall policy direction, oversight, and funding of administrative functions for all the MELR units. District-level authorities (ESCs) and the decentralised MELR units are responsible for the identification and selection of beneficiaries, as well as implementation of the programmes

<sup>14</sup> Within social assistance the most important programme is low-income family allowances. This programme is further divided into three separate programmes: a child care allowance for families with at least one child under three years of age; a child allowance for families with at least one child aged two to fourteen; and financial assistance for other households that face specific difficulties as a result of disability, old age, or other specific problems. All three programmes share the same eligibility criteria (per capita income has to fall below a set income threshold) and the same procedures to verify their low-income status. However, once households are enrolled into the programme, the amount of support varies as well as the duration of the validity of their eligibility.

<sup>15</sup> See Annex 1 for an overview of the Social Protection system in Uzbekistan

<sup>16</sup> The World Bank is currently supporting measures to reform these programmes. These measures include testing: (a) alternative targeting methods to reduce exclusion and inclusion errors related to the selection of beneficiaries of low-income family allowances; (b) the consolidation of family allowances into a single social benefit for low-income families and an alternative benefit amount structure, including the introduction of gradual phasing of benefits and/or partial income disregards for work-able beneficiaries of family allowances; and (c) the introduction of conditions (and related sanctions) attached to the family allowance benefit to promote labour activation of work-able beneficiary members.

<sup>17</sup> While overall the distribution of beneficiaries of these types of social assistance programmes, particularly of low-income family allowances, across quintiles is good, three main problems have been identified: (a) large exclusion errors with 63 percent of the poor not reached by low-income allowances; (b) large inclusion errors with 62 percent of beneficiaries of low-income allowances are nonpoor; and (c) Suboptimal transfer amounts: while for child care allowances the transfer amount is very high, support is very low for children allowances, even though the income and living conditions of households eligible for either one are likely to be the same. This imbalance means that among the poor who receive support, only one-half are pushed above the poverty line.

- allowances, discounts, and in-kind support to vulnerable groups (linked to exemptions and subsidies for transportation, utilities, textbooks, medicines and orthopaedics)

8. The first type of allowances are means tested, i.e., conditional on household income being below a fixed eligibility threshold. The second type of support mirrors social insurance programmes but intervenes whenever people have not made contributions or did not reach the minimal level of contributions. This is the case for old-age, disability, and survivors' allowances. By design, support provided through these schemes comes with lower amounts and stricter criteria than pensions whose entitlement is based on contributions. For example, old-age allowance is provided only if people do not have other income sources (are not in employment and do not have other family members to provide care and support). The old-age pension is provided at the age of 60 and 55 for men and women, respectively, the old-age allowance is granted at the age of 65 and 60.

9. Allowances provided in case of special events or shocks consist of birth and funeral allowances, and in the Republic of Karakalpakstan and Khorezm region, one-off financial assistance. This one-off financial assistance is provided if a household is in a difficult situation because of severe disease, death of household members, natural disasters, accidents, fires, or other emergency situations. Such allowance can be provided once per year and its value can be between two and five times the minimum wage depending on the severity of the household's circumstances. Finally, allowances, in-kind support, and discounts are provided to vulnerable groups. These include support to afford expenditures on utilities, use of public transport and medicines, winter clothes, and food. Usually such support is provided to the elderly and PWD, but support for winter clothes is provided to children of families with low income who are attending school. Most of these allowances are complementary to the cash allowances provided under the above programmes.

10. Non-contributory support consists of social care services, which are provided to children, the elderly, and PWD, partly through residential institutions and community services. Concerning labour market programmes, various interventions and schemes exist, all provided by the MELR through the district-level. Unemployment benefits are granted for a short period of time to people registered as unemployed. Public works schemes were first piloted in the last quarter of 2017 and started to be promoted nationwide since the beginning of 2018. They consist of both subsidised employment in the private sector and public employment offered by government agencies for a period between 15 days and 3 months per year. Microloans are also provided at preferential interest rates to promote self-employment and entrepreneurship. There are also services aimed at supporting entry in the labour market through training, apprenticeships, and job intermediation.

11. Overall, Active Labour Market Measures (ALMMs) are relatively new and lack an integrated policy approach. In 2017 Government adopted the national programme for employment facilitation; and created the Fund for Public Works (FPW) to provide temporary employment through public works and wage subsidies in private companies and increased budget for labour market programmes. The Ministry of Employment and Labour Relations oversees eight main ALMMs – including, counselling, intermediation, public works, classroom professional training, on-the-job training, two microloan programmes, and a quota-based employment scheme. None of the programmes have been evaluated and monitoring data is hard to come by.

#### **Framing the New Social Protection Strategy:**

12. From the policy agenda and political vision, the Government of Uzbekistan is committed to modernising the social protection system. Strengthening social protection was one of the main pillars of the comprehensive reforms launched by the Government in 2016. The Government approach to strengthening social protection is comprehensive, involving reforms in all three pillars: social

assistance through the development of the social registry and reform of social benefits, labour, and jobs through the revamping of key labour market programmes and social insurance through the pensions reform. The Government, at the highest level, is fully aware of the centrality of social protection to complement economic reform and support targeted groups during the transition while enhancing *social risk management* to reduce poverty and vulnerability.

13. Social protection is a key component of national strategies to promote human development, political stability and inclusive growth; it ensures that people enjoy income security and have effective access to health and other social services and are empowered to take advantage of economic opportunities. By raising household incomes, such policies play a key role in boosting domestic demand, supporting structural transformation of national economies, promoting decent work, and fostering inclusive and sustainable growth. Social protection creates a conducive environment for the development of sustainable enterprises and is therefore fundamental to achieving the *Sustainable Development Goals* (SDGs), to promoting social justice and to realising the human right to social security for all. It contributes specifically to the achievement of SDG target 1.3 which calls on States to “implement nationally appropriate social protection systems and measures *for all* [emphasis added], including [social protection] floors, and by 2030 achieve substantial coverage of the poor and the vulnerable”.<sup>18</sup>

14. The Social Protection Floors (SPFs)<sup>19</sup> are nationally defined sets of basic social security guarantees which should ensure, at a minimum that, over the life cycle, all in need have access to essential health care and to basic income security which together secure effective access to goods and services defined as necessary at the national level. While not all countries are able to immediately put in place all components covering the entire population, the SPF provides a framework for *progressive implementation* that ensures a holistic and coherent vision of national social protection systems as a key component of national development strategies. In Uzbekistan the NSSP will need to take account of social insurance schemes, social assistance, active labour market programmes that link social assistance to employment, social care services, and other measures that help achieve policy outcomes in education, health and communal services.

15. The objective of the NSSP will be to ensure the Government of Uzbekistan and key national partners have a clear set of priorities that consolidate and strengthen social protection practices and enable the system respond to a new and rapidly changing environment. The social protection system will have to respond to the new challenges that stem from Government plans for further economic liberalisation and increasing privatisation of enterprises, a rise in energy and communal service rates, and large-scale covariate risks brought about by climate change. The NSSP will have a key role to play in mitigating the negative impacts of reforms on disadvantaged groups and protecting those at risk of being left behind.

16. The effective design and implementation of intergovernmental relations are essential for good delivery of social protection at the local level. Subnational governments (SNGs) play an important role in providing social protection services in Uzbekistan, but they have little autonomy over revenue

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<sup>18</sup> Universal coverage signifies that the **entire** population has **equitable access** to schemes that protect them from poverty and the potential negative consequences of risks to which they are exposed. The type of protection required will differ across population groups, as risks emerge out of a variety of intersecting factors such as stage in life, gender, socioeconomic status or location.

<sup>19</sup> An important milestone in 2012 was the **ILO’s Recommendation N° 202** on Social Protection ‘Floors’, adopted by 185 countries, which reaffirmed that social protection is a human right and a social and economic necessity. These guidelines are called ‘floors’ because they represent a minimum level of support which can be expected to rise with time and increasing government resources, resulting in a social security ‘staircase’. The ‘floors’ also draw on **Social Security (Minimum Standards) Convention 1952 (No. 102)**. The social protection floors ensure, at a minimum that, over the life cycle, all in need have access to essential social protection without risk of hardship and increased risk of poverty, and basic income security through the life course, including in the case of maternity, sickness, disability, employment injury and old age

management and resource allocation and act as an extension of the central government<sup>20</sup>. The intergovernmental system remains highly centralised with discretionary transfers based on political negotiations and historical inertia. The system is based on varying rates of taxes shared and ad hoc budgetary transfers. For effective planning and budgeting, subnational governments need predictability for the resources they will receive every year.

17. The absence of rule-based and transparent transfer system has discouraged efficient and transparent public financial management. There is no law that regulates functional assignments and administrative sharing between levels of government. The general divisions of responsibility are specified in the Budget Code, but these are not clearly defined and may change during the annual budget process. The deconcentrated expenditure responsibilities assigned to the region and districts/cities include social spending (social assistance, social care services, education and health) and other outlays, but they involve specific task assignments rather than functional responsibilities

### Guiding Principles for the NSSP:

18. The NSSP will focus on coordinating and harmonising a range of programmes within and across sectors to build a coherent, overarching system that provides comprehensive coverage to all. This includes reducing fragmentation and inefficiencies of existing programmes, as well as identifying coverage gaps based on context-specific needs. Essential elements of developing such a system include:

- **National vision and strong institutional leadership**, to rally diverse stakeholders with potentially conflicting agendas including from the private and informal sectors around the common goal of progressive universal social protection. Multisectoral coordination and accountability mechanisms will be key when it comes to fostering civil society buy-in, ensuring that beneficiaries' changing needs are at the heart of strategy implementation.
- **Translating the vision into a practical roadmap and legal framework for implementation.** The goal of NSSP determines which risks need to be covered and identifies gaps in the existing provision of social protection, in order to adapt and interlink existing programmes into an all-encompassing, integrated social protection system, moving from a programme perspective to a systems perspective
- **Bold decisions on financing** are indispensable for funding the ambitious goals of the NSSP. These can include combatting tax avoidance and evasion, developing hitherto untapped revenue streams, the identification of expenditure efficiencies current programme configuration, and finding the right combination of contributory, state-financed and externally funded schemes. In combination, these measures will take account of fiscal space without incurring additional burdens on the size of the fiscal deficit and debt.
- **Targeting, social registries, integrated service provision, and progressive universalisation of social protection benefits and services** will be important aspects for defining the NSSP.

19. The NSSP will set out measures for promoting integrated approaches to achieve:

- Adequate schemes (contributory and tax-financed) for those in working age, from maternity protection to support for those who are unable to earn sufficient income or who face additional costs due to their disability;
- Adequate income for persons in old-age;

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<sup>20</sup> World Bank (2019) *Uzbekistan Public Expenditure Review*, August 2019, World Bank, Washington DC

- An effective social care and social work system (including aspects of care economy which particularly concern women); and
- Take account of the Government's *Pension Concept Note* and *Social Insurance Concept Note*
- Access to employment, health care and education.

20. The NSSP will need to be agile in helping Uzbekistan develop a vision that expands coverage of the population by key programmes and takes full account of issues that relate to system financing. Spending on social protection in Uzbekistan is not a standard sectoral heading in the national budget, which means that overall spending has to be constructed from different ministerial programme headings in the budget – this approach makes it difficult to clearly determine: why particular social protection programmes are prioritised for funding increases, why other programmes are omitted, the extent to which programme targeting methodologies are technically efficient and administratively effective, and the extent to which technical and organisational competencies of implementing agencies need to be rationalised and delivery methods enhanced.

21. Measures for strengthening the administrative and governance system at central and sub-national levels for expanded social protection programmes will be crucial to the task of ensuring that increased levels of social protection spending translate into improved welfare outcomes while at the same time not threatening budget stability. Recent events, mostly exogenous factors such as the COVID-19 pandemic, have exposed the weaknesses of existing social protection programmes as effective tools for managing shocks. These weaknesses have included the ad hoc nature of existing systems, the absence of coherent and flexible targeting systems, technical and organisational capabilities to scale-up programmes to reach larger populations during crises, and the absence of adequate monitoring and evaluation capacities to make mid-course corrections or assess the effectiveness of separate or combined programmes to manage risks and mitigate the effects of shocks. The NSSP will therefore provide a common focus for *sector specific reforms and sector-wide policy planning and implementation* and will be used to create new systems for ensuring linkages across specific social protection programmes and services, budgets, and outcomes. There are a number of fundamental steps required to achieve this:

#### Steps and Phases in Preparing the NSSP:

1. Preparation of Four *Technical Briefing Notes* which are designed to establish some basic principles and understandings among key stakeholders: (a) The principles and goals of the SDGs and the implications for the National Social Protection Strategy; (b) The applications of costings and fiscal space analysis for the NSSP; (c) the role, function and modus operandi of Working Groups; and (d) an outline of themes and issues that will be incorporated into the Concept Note on the NSSP **(June-July)**
2. Preparation of a **Concept Note** on the NSSP. The concept note will be a basis for a consultative process with active participation from line ministries, social partners and civil society, and will set out attributes and challenges confronting the social protection systems, the priorities that need to be addressed in order to create a realistic vision for the NSSP and decisions to be made by Government of Uzbekistan **(July-August)**
3. Institutional and Functional Analysis – led by UNICEF **(July-September)**
4. Agreement on templates, mandate and mode of operation for **Working Groups** for the social protection strategy (July)
5. Preparation of a **Road Map** for drafting the NSSP (July)
6. Preparation of the NSSP, Action Plan, Costings and Fiscal Space (September-December)

#### Factors to Consider in the Design of the NSSP:



7. Ensure the NSSP incorporates:

- Social Protection Floor principles, human rights approach to social protection embedded in international social security standards, and enables progressive extension of horizontal and vertical coverage;
- Create links between social insurance, social assistance, social support services and employment programmes;
- Alignment of different social protection priorities and coordination among Ministries, Departments and Agencies (MADs) involved in design and delivery at all levels; Costings alongside an analysis of the medium and long-term fiscal space
- A monitoring framework based on central and sub-national government functions
- A three-year action-plan linked to programme priorities and costings
- Alignments with the National Development Strategy, Poverty Reduction Strategy, Employment Strategy, Economic Development Strategy, Health Strategy and other relevant national programmes and strategies;

**Costing and Fiscal Space Analysis for the NSSP:**

- The NSSP will be accompanied with a comprehensive analysis of the coverage and financing gaps<sup>21</sup> of Social Protection System. The analysis will:
  - Review existing coverage gaps in contributory and non-contributory benefits to beneficiary groups (such as children, mothers, unemployed, disabled, older persons, etc.) based on a nationally defined basic set of social protection guarantees;
  - Provide estimates of the costs of different scenarios to fill the coverage gaps;
  - Estimate the impact on poverty as a result of adopting the different scenarios over time;
  - Identify the financing gaps based on the existing provisions and allocations of resources to social protection;
  - conduct a fiscal space analysis to examine financing options to fill the financing gaps; and
  - produce a consolidated report based on the above analyses, systematise main findings and provide policy recommendations as a way forward.

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<sup>21</sup> This analysis will draw on ILO *Routes for Financing Universal Social Protection*



## Annex 1: Main Components of The Social Protection System in Uzbekistan

