Effective Social Protection for a Transforming Economy and Society of Uzbekistan
Social Protection model of Uzbekistan: Different from any other foreign models

Two polar models:
- **Option 1**: focus on safety net functions; generous social system → redistribution and fiscal burden
- **Option 2**: reduced social spending, incentives for private sector; relieved tax wedge;

→ Various models applied at various stages

→ **Neither of the foreign models fully fit into a transforming Uzbekistan economy**

Uzbekistan needs to select its own path and develop its own model
## Uzbekistan in Transition: Evolution of SP policies and schemes

<table>
<thead>
<tr>
<th>Period</th>
<th>Phases of transformation</th>
<th>Policy instruments</th>
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</table>
| Early 1990-s       | Main task – to mitigate major transitory adverse effects of a sharp drop in revenues in early years of transition → Universal social support | - Subsidized prices,  
- Allowances and compensation to all families                                                                                                 |
| Mid 1990-s – Early 2000-s | - Introduction of targeted financial assistance for the vulnerable + measures on improving well-being of the population  
- Policies in education and public healthcare actively developed and implemented. | - Expansion and promotion of entrepreneurship, development of private form of ownership, incentives to stimulate economic activity of the population  
- Reduction and elimination of price subsidies,  
- Introduction of targeted financial assistance to low-income families (1994-1996),  
- Annual investments to education at 7,6 % of GDP; public health declared as a priority sector (particularly maternal and children's health); |
| Early 2000-s – Present | Further transition to targeted social protection policies + Further investment into education and healthcare programs | - Replacement of specific preferences for the population with cash payments,  
- Further transition to targeted social assistance for low-income families  
- Decentralization of allocation and payment of allowances to low income families - given authorities transferred to local communities - makhallas |
Uzbekistan in Transition: The SP model contributed to attainment of the development goals

High efficiency of the SP system during the difficult period of the reformation:
- large-scale decline in living standards and impoverishment prevented;
- access to food maintained;
- access to free public health care and education maintained → high literacy rate sustained, expected longevity increased, maternal and infant mortality dropped;

The SP system was in line and contributed to attainment of development goals and priorities.
Uzbekistan graduating from Transition: New development goals and economic transformation

Economic Transformations: Development goals for the future:

- Ensure *sustainable economic growth* rate at 7-8%;

- *Transformation of GDP structure* by increasing the share of processing industry from 9% in 2012 to 22% in 2030;

- Reformation of the *agricultural sector model*: focus on efficiency and multiplying effects rather than providing guaranteed source of income for large groups of the population;

- Transition to *production of services of higher sophistication*, that will allow to increase the proportion of the service sector in GDP from 45.1% in 2012 to 55% in 2030.
Uzbekistan graduating from Transition: New development goals and social transformation

<table>
<thead>
<tr>
<th>Main characteristics of society</th>
<th>1-st stage</th>
<th>2-nd stage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Demographic features</strong></td>
<td>Birth and death rates decrease (b. r. = 20%, d. r. = 6-8%)</td>
<td>Birth and death rates level out (b.r. = 8-10%, d.r. = 8-10%)</td>
</tr>
<tr>
<td><strong>Family type</strong></td>
<td>Average family size = 5-7 Average household size =5-6 Families poly-nuclear, integrated into the community, children are obedient.</td>
<td>Average family size = 3.17 Average household size = 2.4 Families mononuclear, socially isolated, child needs to develop independence, egalitarian families.</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td>Share of higher education = 10% Vocational education is important Education based on schools – formalization, empirical knowledge</td>
<td>Share of higher education = 20-50% Professional education in technical specialization and natural science becomes important Education is a main factor of social mobility Education in the information society – computerization, creative component</td>
</tr>
<tr>
<td><strong>Employment</strong></td>
<td>Primary and (partially) secondary sector Skilled and semi-skilled workers Share of informal employment is above 20%</td>
<td>Secondary, tertiary and quaternary sector Professional and technical work (engineers, mathematicians etc., → Education becomes strongly linked to employment Share of informal employment = 10-20% The need to adapt and change the specialization throughout the lives. -&gt; education for adults becomes important</td>
</tr>
<tr>
<td><strong>Population settlement pattern</strong></td>
<td>Share of urban population is below 50% Large differences between urban and rural areas</td>
<td>Share of urban population is above 50% New cities + developed rural areas The difference between urban and rural areas decrease</td>
</tr>
<tr>
<td><strong>Values, stereotypes (1)</strong></td>
<td>Survival values</td>
<td>Self-expression values</td>
</tr>
<tr>
<td><strong>Values, stereotypes (2)</strong></td>
<td>Low interpersonal trust, intolerance towards out-groups</td>
<td>High interpersonal trust, tolerance towards out-groups</td>
</tr>
<tr>
<td><strong>Values, stereotypes (3)</strong></td>
<td>Dominance of gender inequality stereotypes</td>
<td>Gender equality stereotypes</td>
</tr>
<tr>
<td><strong>Values, stereotypes (4)</strong></td>
<td>Dominance of collectivism</td>
<td>Dominance of individualism</td>
</tr>
<tr>
<td><strong>Values, stereotypes (5)</strong></td>
<td>Large informal sector</td>
<td>Dominance of rule of law</td>
</tr>
</tbody>
</table>
Uzbekistan graduating from transition: New development goals and Role of SP policies

- Objectives of the economic and social transformations to 2030 are fundamentally different from the development goals of the transition period.

- Being a part of the overall development framework, social protection and social policy system should be revised:
  - In the transition period: SP system was aimed at eliminating the negative consequences of structural reforms;
  - After graduating from transition: social protection should also become a tool for the implementation of the transformation processes in the economy and society.

- Key problem: The current SP model replicates some elements of existing economic and social system which need to be transformed at the future stages of development.
The current SP model replicates some elements of existing economic and social system which need to be transformed in future: Labor market policies

- Labor market policies contribute to generation of relatively low productive employment in industries with low level of technological sophistication;
- In transition period, when the main focus of structural reforms was on development of capital-intensive basic industries, this model of employment was justified;
- In transition period this model allowed to partially compensate negative consequences of structural reforms and ensure employment and source of income for all the social groups;
- In future the model of employment generation needs to be reformed in line with the economic and social transformations.
The current SP model replicates some elements of existing economic and social system which need to be transformed in future: Social Assistance

- Social allowances **effectively** serve a **protective function**: proportion of allowances in the structure of income of recipients is considerable (11 - 22% for various recipients);

- However, social assistance does not sufficiently contribute to pulling out recipients from poverty: if allowances are not provided, per capita incomes decline by 1.4%, the share of poor households will remain the same → **Transformative** function is **not fully implemented**;

- Demotivating and de-transformative effect of social assistance due to the effect on values and behavioral stereotypes.
The current SP model replicates some elements of existing economic and social system which need to be transformed in future: Education

- Education system also replicates the existing structure of employment and the quality of human capital;
- In the structure of higher education pedagogical specialization dominates. However, expected economic transformations will expand the demand for specialists in processing industries (e.g. engineers, chemists).
- The low degree of integration of education with labor market requirements (only 48% of the employed graduates work on a specialty) also reproduces current model of employment and incomes.
If the model is replicated and Transformations are not implemented, Sustainability of the SP system will be an issue!

Uzbekistan in 2030: Inertial development model

- Sustaining the current economy structure → domination of employment, that is low-paid, informal and low-skilled
- Small formal sector → Small contributions to government budget →
- Constraints to the expansion of government budget revenues;
- Limitations to income growth;
- Expanding demand for social allowances;
- Increase in the share of social protection in government budget →
  Constraints to the fiscal space;
- Deficit of the Pension Fund due to ageing population on the one hand and large informal sector not providing contributions to the Fund on the other hand
- To provide fiscal space for Social policies and Social protection transformations are important
Transformations are essential to ensure sustainability of the SP system!

Expected results of transformations by 2030

Uzbekistan: Transformation of GDP structure to 2030, %

<table>
<thead>
<tr>
<th>Year</th>
<th>Processing industry</th>
<th>Mining industry</th>
<th>Agriculture</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>48.9</td>
<td>28</td>
<td>14.1</td>
<td>9.1</td>
</tr>
<tr>
<td>2012</td>
<td>45.1</td>
<td>19.5</td>
<td>26.4</td>
<td>9</td>
</tr>
<tr>
<td>2020</td>
<td>52</td>
<td>10.5</td>
<td>19.4</td>
<td>17</td>
</tr>
<tr>
<td>2030</td>
<td>55</td>
<td>8</td>
<td>15</td>
<td>22</td>
</tr>
</tbody>
</table>

Transformation of employment structure and wage growth, 2012 VS 2030

<table>
<thead>
<tr>
<th>Year</th>
<th>Employed (as% of labor force)</th>
<th>Share of formal employment, %</th>
<th>Average wage (2012=100%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>39.6%</td>
<td>66.0%</td>
<td>0%</td>
</tr>
<tr>
<td>2030</td>
<td>68.5%</td>
<td>79.0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Poverty reduction and demand for social allowances: 2012 VS 2030

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of allowance recipients, th. families</th>
<th>Poverty rate, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>977</td>
<td>15.0%</td>
</tr>
<tr>
<td>2030</td>
<td>709</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

Expenditures of Pension Fund and Distribution of Revenues from 30.8% contributions: 2013 VS 2030

- **Structural transformation**: Steep rise of formal employment and wages → Income growth → Lower demand for social allowances → Decrease in share of SP in budget → More space for maneuver

- **Growth of formal employment**: Rise in contributions to Pension fund → Opportunity to decrease the rate of contributions from 30.8% to 20% → 10.8% is fiscal space to be used for health insurance (5%) and labor market programs (5.8%)
Transformative Social Protection to implement the transformations

- Transformations are essential to ensure sustainability of the SP system!
- → The new SP model should provide incentives for and be in line with economic and social transformations ➔
- The SP system in the new conditions should move away from extensive measures aimed at providing the guaranteed social assistance to a large groups of the population to the intensive measures that could have significant multiplier effect in the terms of stimulating transformative processes.
- Conventional approach to SP should be broadened by:
  - Involving not only protective and preventive, but also promotive and transformative functions;
  - Integrating and consolidating fragmented policies in various sectors (labor market policies, promotion of entrepreneurship, governance reformation).
Transformative Social Protection: Holistic approach is in line with the global discussions

- **Global initiative of Social Protection Floor.** According to this concept, minimum measures of social protection include:
  
  - Creating guarantees and real opportunities for the provision of basic social rights and social allowances to provide a socially acceptable income for all;
  
  - Ensuring access for all groups of population to social services such as health, water and sanitation, education, food, housing etc.;
  
  - Social protection should contribute to economic growth by increasing labor productivity, providing social stability and poverty reduction.

- **Discussions on Post-2015 agenda.** New global goals should be designed on a broader basis: the ultimate goal of social protection is not protection in itself, but resilience, transformative development with social justice and sustained social progress.

- **UNRISD “Social Policy in a Development Context Initiative”.** Rethinking social policy away from its conception as a residual category of “safety nets”. Social policy as a key instrument that works in tandem with economic policy to ensure equitable and socially sustainable development.

- **Research initiative of IDS “Transformative Social Protection”.** Social protection needs to empower marginalized people and be socially “transformative”.

Key element of the transformative social policy is the effective employment policy

- An important factor for developing a sustainable model of social protection for the long term is to build effective employment policies;
- Based on the priorities of economic and social transformations, it is important to create jobs not in low-skilled industries, but generate productive employment in industries with considerable multiplier effects.
- For Uzbekistan these industries are: transport, chemical, gas & oil processing, machine building, construction.
- Expected expansion of employment in these sectors will imply the need to introduce retraining programs to comply available skills with labor market requirements: (annually 100 thous people involved, 104 bln soum a year)
Social protection policies and measures need to be revised in line with the new pattern of employment and income and provide incentives to accelerate the transformations.
The pattern of social protection and social policies by 2030: Social allowances and Pensions

**Employment and wage growth: 2012 VS 2030**

- Employed (as% of labor force)
- Average wage (2012=100%)

**Poverty reduction and demand for social allowances: 2012 VS 2030**

- Number of allowance recipients, th. families
- Poverty rate, %

**Average social allowances and pensions (2012 = 100%)**

- Average age pension
- Average social allowance
- Average pension for the disabled

**Number of pensioners: 2012 =100%**

- Pensions on age
- Allowances on age
- Pensions for disabled
- Allowances for disabled
- Allowances for the disabled
- Allowances on loss of

**Share of working pensioners, pensioners total =100%**

- Working pensioners
- Non-working pensioners

Size of allowances need to be increased to implement transformative effect + Number of families receiving allowances will decrease in future due to employment & income growth

Number of pensioners increased + amount of pensions increased due to the growth of wages and employment + number of working pensioners increased due to the employment generation and transformative social policies
The pattern of social protection and social policies by 2030: Education and Healthcare

**Per capita expenditures on education (2012 = 100%)**
- General primary and secondary: 100% in 2012 and 100% in 2030
- Vocational: 490% in 2012 and 336% in 2030
- Higher: 100% in 2012 and 360% in 2030

**Number of students: 2012 – 2030 (thous)**
- Primary & general secondary: 518.8 in 2030
- Professional colleges: 462 in 2030
- Academic lyceums: 60.9 in 2030
- Higher education: 163 in 2030

**Breakdown of financing in**
- Primary & general secondary: 10% government, 45% non-government, 78% private
- Vocational: 90% government, 55% non-government, 22% private
- Higher education: 100% government

**Per capita health expenditures (2012=100%)**
- Uzbekistan: 475 in 2012 and 100 in 2030

**Breakdown of financing of healthcare services 2030**
- Government budget: 36.2%
- Mandatory medical insurance: 33.9%
- Voluntary insurance and paid services of Private clinics: 29.9%

- Improvement in living standards + change in the demographic and social structure of society
- ➔ transformation of the lifestyle and behavioral stereotypes
- ➔ expanding demand for the high quality social services
- ➔ *Per capita expenditures on education and healthcare need to be expanded*
- ➔ *This will imply the model of financing of education and healthcare to be reformed*
Main findings: What is transformative social protection for a transforming Uzbekistan?

- Transformation of the social protection system in line with economic, social and institutional transformations;

- Acceleration of the transformative processes in the economy and society to ensure sustainability of the Social protection system;

- Transformation of people to empower the poor and vulnerable to make use of opportunities available to them for improving their livelihoods in a sustainable manner:
  - addressing power imbalances, that create social exclusion;
  - developing new skills for decent employment and economic activity (retraining, discounted loans for education);
  - developing socially positive way of thinking (e.g. social rehabilitation courses) and thus, stimulating social and behavioral changes.
Questions for discussion

• Are there any dimensions, critical issues which were omitted, should get considered in more detail?

• What approaches, methods and indicators need to be revised?

• What’s next? How can we jump to formulating the detailed Action Plan and Road Map? Suggested formats and models.

• Are there windows for synergies?
Thank you!

Resources in English:
http://www.cer.uz
http://transformation.cer.uz/
https://www.facebook.com/CER.Uzbekistan