

Evaluation Pension System as a Primary Source of Social Security in Uzbekistan

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Abstract

Uzbekistan has implemented a range of social protection programs; however, a significant limitation lies in the inadequate consolidation of data, hindering comprehensive monitoring and evaluation of program effectiveness. It is essential to establish a robust monitoring and evaluation framework and enhance statistical capacity to facilitate coherent analysis of social protection initiatives and the overall system. This will enable policymakers to make informed decisions regarding policies and budget allocations. While the financing and coverage of social assistance programs have expanded in response to the pandemic, it is anticipated that these figures will revert to pre-COVID-19 levels. This outcome is influenced by the current budgeting approach for social assistance, which relies on historical trends and regional quotas rather than needs-based determinants.

INTRODUCTION

Uzbekistan boasts a comprehensive range of social protection (SP) programs encompassing social assistance, contributory social insurance, labor market programs, and social care services. However, the SP system suffers from fragmentation, with no designated entity responsible for coordinating and integrating interventions, monitoring and evaluation, data analysis, or formulating centralized SP policies. Various institutions hold responsibility for specific programs: the Ministry of Finance (MoF) and the Pension Fund oversee social assistance and contributory pensions, the Ministry of Employment and Labor Relations (MELR) implements labor market programs and public works initiatives, the Ministry of Health (MoH) manages health-related programs and services for the elderly and individuals with disabilities, the Ministry of Public Education (MoPE) supervises in-kind schemes for schoolchildren and special learning needs institutions, and the Ministry of Makhalla and Family Support oversees services for domestic violence survivors, including the management of newly established rehabilitation centers across regions and districts.

Currently, there is no formal definition of social protection or a national social protection strategy, leading to varying interpretations of the programs within different agencies. Uzbekistan has initiated several SP initiatives aimed at fostering the integration of the sector as a whole and establishing a clearer scope for social protection financing. Notably, the implementation of the Single Registry (SR) since October 2019, managed by the MoF, and the development of the Labor Market Information System (LMIS) by the MELR are crucial steps in this direction. The SR is intended to streamline the management of social assistance



programs and simplify the accumulation of administrative data, reducing the current data lag of approximately two months. The LMIS aims to enhance the MELR's management of active labor market programs, collect detailed data for trend analysis and monitoring, and facilitate data linkages with the SR.

Efforts are being made to address existing challenges, such as the manual collection and aggregation of data at the local level and the lack of centralized databases for active labor market policies beneficiaries. These obstacles hinder effective program evaluation and data integration. The ongoing implementation of the SR and the development of the LMIS are expected to alleviate these issues and improve the overall functioning of Uzbekistan's social protection system.

Results and discussions

The pension system in Uzbekistan is primarily based on mandatory contributory social insurance, with the pay-as-you-go (PAYG) system serving as its main component. The mandatory funded aspect of the system is relatively insignificant. The PAYG system retains certain key features from the Soviet era, including a defined benefit scheme (DB), a retirement age of 55 for women and 60 for men, and a minimum service requirement of 20 years for women and 25 years for men to qualify for a full pension.

The adherence to the DB scheme offers advantages by providing clarity and familiarity to the population, ensuring there are no disparities between the pensions of new and old participants. Assessing pension rights based on years of service aligns with the regional employment patterns and is considered objective and appropriate. The flexibility of the DB scheme is achieved through adjustments in the rules for calculating service duration and valorizing earnings.

Over the past seven years, modifications to the PAYG system have been gradual and mostly targeted specific categories of pensioners. As a result, these changes have not had a significant impact on the current trends in the number of pensioners or the level of pensions.

The pension system in Uzbekistan experienced a significant shock with the introduction of tax reform in 2019, resulting in a reduction in funding sources and a decrease in revenues for the Pension Fund as a percentage of GDP. The Pension Fund suffered a complete loss of revenue items, such as employee insurance contributions (8 percent of wages) and company contributions relative to total sales (3.2 percent of sales, of which 1.5 percent was transferred to the Pension Fund). These revenue items accounted for 30-33 percent of all Pension Fund revenues during 2015-2018.

Furthermore, starting from January 1, 2019, the social tax rate for non-budget enterprises was reduced from 25 or 15 percent to 12 percent. The state budget allocated 4.7 trillion sum to be transferred to the fund in case it couldn't meet its current obligations. However, by the end of 2019, social tax revenues exceeded expectations by 18 percent, combined with substantial funds saved from 2018, which helped avoid an apparent deficit and the need for funds from the state budget.

The reduction in funding sources resulted in a decline in Pension Fund revenues as a percentage of GDP. From 2015 to 2018, tax revenues accounted for approximately 6 percent of GDP, but



in 2019, this figure decreased to 4.7 percent of GDP. The COVID-19 pandemic further impacted social tax revenues, which declined to 3.4 percent of GDP in 2020 and 3.2 percent of GDP in 2021. To cover the Pension Fund's deficit, transfers from the state budget amounted to 1.5 percent and 2 percent of GDP, respectively.

Pension expenditures, as a percentage of GDP, have decreased over time, indicating a lag in pension indexation compared to the growth of working population incomes. Although pension expenditures doubled in nominal terms over the past seven years, surpassing UZS 36.5 trillion in 2021, the share of pension expenditures as a percentage of GDP declined from 6.1 percent in 2015 to approximately 5 percent in 2018-2021. This reduction, despite the rapid growth in the number of pensioners, suggests that pension indexation has not kept pace with the growth of current earnings.

The tax reform had a significant impact on the fiscal sustainability of the system, as the drastic reduction in social contributions did not lead to the anticipated expansion of the tax base that could compensate for the cut. Addressing this issue by reducing benefit adequacy to cut pension expenditures would have undesirable social and political consequences.

The mandatory funded component of the pension system has had limited impact. In addition to the main Pay-As-You-Go (PAYG) system, there is a separate mandatory funded scheme financed by employee contributions. Initially, the contribution rate was small, only 1 percent of wages, and after the tax reform in 2019, it became a symbolic 0.1 percent. The system operates as saving deposits, and the contributions are placed in individual savings accounts held in Xalq Bank, a state-owned bank. By the end of 2021, the balance in individual savings accounts reached UZS 5,071 billion (about 0.7 percent of GDP). These funds were primarily invested in interbank deposits (58 percent) and various investment projects (41 percent).

Conclusion

In conclusion, Uzbekistan has implemented a comprehensive range of social protection programs, including social assistance, social insurance, labor market initiatives, and social care services. However, the lack of coordination and integration among different institutions has led to fragmentation within the social protection system. There is a need for a formal definition of social protection and a national strategy to ensure a unified understanding and approach across agencies.

To address these challenges, Uzbekistan has taken important steps towards integrating the social protection sector. The implementation of the Single Registry (SR) and the development of the Labor Market Information System (LMIS) are key initiatives aimed at streamlining program management, improving data collection and analysis, and facilitating better coordination among relevant entities.

The pension system in Uzbekistan faced a significant shock due to the tax reform introduced in 2019. This reform resulted in a reduction of funding sources and a decline in revenues for the Pension Fund as a percentage of GDP. The loss of revenue items, such as employee insurance contributions and company contributions, posed challenges for the sustainability of the system. However, the government's measures, including the allocation of funds from the



state budget, helped mitigate the immediate deficit and ensure the continuation of pension payments.

Pension expenditures, though increasing in nominal terms, have decreased as a percentage of GDP over time. This indicates a lag in pension indexation compared to the growth of working population incomes. The tax reform's impact on the system's fiscal sustainability highlights the need for balancing benefit adequacy and expenditure reduction in a manner that is socially and politically sustainable.

The mandatory funded component of the pension system has had limited impact, with a small contribution rate and a symbolic reduction after the tax reform. The funds accumulated in individual savings accounts are invested primarily in interbank deposits and various investment projects.

In summary, Uzbekistan's social protection system requires further integration and coordination to ensure effective delivery of services. Addressing the challenges faced by the pension system, including revenue reductions and the need for adequate indexation, is crucial for its long-term sustainability. Continued efforts to enhance data management, program evaluation, and strategic planning will contribute to the overall improvement of the social protection landscape in Uzbekistan.

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