

Developing a Comprehensive Social Security System in Uzbekistan: Challenges and Opportunities

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Abstract

This research paper aims to explore the challenges and opportunities in developing a comprehensive social security system in Uzbekistan. It examines the current state of social security programs in the country, identifies the key obstacles to achieving an integrated system, and highlights potential opportunities for improvement. The paper also discusses the importance of a comprehensive social security system in reducing poverty, addressing vulnerabilities, and promoting inclusive development. By analyzing the existing gaps and proposing potential solutions, this research paper provides insights and recommendations for policymakers and stakeholders in Uzbekistan's social security sector.

INTRODUCTION

Social security plays a vital role in promoting inclusive economic growth, reducing poverty, and addressing vulnerabilities within a society. As Uzbekistan continues its journey of economic and social reforms, the development of an effective and comprehensive social security system becomes imperative. This research paper aims to explore the challenges and opportunities associated with the establishment of a robust social security system in Uzbekistan, taking into account the country's unique socio-economic context.

Over the past decade, Uzbekistan has made significant strides in improving its social protection programs, encompassing social assistance, contributory social insurance, labor market initiatives, and social care services. These programs have provided crucial support to vulnerable populations, contributing to poverty reduction and enhancing the overall well-being of citizens. However, the existing social security system faces several challenges, including fragmentation, lack of coordination, and limited financial resources, which hinder its effectiveness and sustainability.

One key challenge is the absence of a centralized entity responsible for coordinating and integrating social security interventions, monitoring and evaluation, data analysis, and policy formulation. Currently, different ministries and agencies oversee specific programs, leading to varying interpretations and inconsistent implementation across the system. This lack of coordination poses obstacles to program evaluation, data integration, and the formulation of holistic social security policies.

Another challenge lies in the financial sustainability of the social security system. The pension system, in particular, has faced significant shocks, such as the tax reform in 2019, which resulted in a reduction in funding sources and a decline in revenues for the Pension Fund. This



has raised concerns about the adequacy and long-term viability of pension benefits in relation to the growth of the working population's incomes.

However, amidst these challenges, Uzbekistan also presents significant opportunities for the development of a comprehensive social security system. The country's young population, comprising 71 percent under the age of 40, highlights the potential for targeted interventions to address unemployment and enhance labor market outcomes. The expansion of active labor market programs and the efficient allocation of resources can contribute to reducing informality, raising productivity, and creating new job opportunities.

Furthermore, recent initiatives such as the Single Registry and the Labor Market Information System demonstrate Uzbekistan's commitment to streamlining program management, improving data collection, and enhancing the overall effectiveness of social protection interventions. These efforts aim to establish a clearer scope for social security financing, facilitate data integration, and enable evidence-based policy decision-making.

In light of these challenges and opportunities, this research paper will delve into the various dimensions of developing a comprehensive social security system in Uzbekistan. It will analyze the current state of social protection programs, examine the financial sustainability of the system, explore best practices from international experiences, and propose recommendations for policy reforms. By doing so, this study aims to contribute to the ongoing discourse on strengthening social security in Uzbekistan and promoting inclusive and sustainable development for all its citizens.

Results and discussion

By implementing centralized data collection, it becomes possible to conduct comprehensive analyses of performance indicators, household survey data, and impact evaluations within the social protection (SP) system. These analyses enable us to address important questions, such as determining the coverage of specific programs among different population groups or identifying those who may be excluded from the system, which administrative data alone may not reveal.

Household survey indicators play a crucial role in evaluating whether the program design effectively reaches the intended target population across the entire country. Incidence indicators help understand the distribution of beneficiaries and benefits across the welfare spectrum. Assessing the impacts of SP programs on poverty and inequality provides insights into the overall effectiveness of different programs, as well as the combined effects of multiple programs.

It is also essential to complement the analysis of household survey indicators with periodic impact evaluations. While these evaluations may not occur frequently, they offer valuable insights into specific outcomes achieved by SP programs, such as changes in labor supply or consumption levels.

Monitoring SP program performance requires tracking indicators such as coverage, beneficiary incidence, benefit levels, and the impact on poverty and inequality. These indicators should not only focus on individual programs but also provide a holistic view of the SP system as a whole. For instance, in Uzbekistan, it is crucial to monitor both the coverage and impact of the public



works program, which serves as a significant safety net, alongside the social assistance cash transfer programs.

By systematically monitoring these indicators derived from household surveys, a more comprehensive understanding of SP program performance can be achieved, contributing to the continuous improvement of the SP system as a whole.

Table-1

Uzbekistan: Trends in Spending on Social Protection, Percent of GDP, 2016–21

Spending	2016	2017	2018	2019	2020	2021
Contributory pensions	5.90	5.40	5.00	5.10	5.30	5.00
Social safety nets	0.87	0.83	0.92	0.96	1.30	1.40
Social care services	0.02	0.03	0.03	0.04	0.04	0.05
Labor market programs	0.00	0.00	0.01	0.01	0.05	0.06
Social protection, total	6.79	6.26	5.97	6.11	6.70	6.50

Source: World Bank staff calculations using MoF, MELR, and Extra-Budgetary Pension Fund administrative data on SP program expenditures using ASPIRE WB methodology.

Social protection programs play a vital role in reducing poverty and addressing vulnerability, encompassing various components such as contributory pensions, social safety nets, social care services, and labor market programs. In Uzbekistan, where the majority of the population is relatively young (with 71 percent below the age of 40), unemployment stands out as a significant concern. Active labor market programs serve as a crucial mechanism for reducing labor market informality, increasing productivity, integrating individuals into the evolving labor market, and creating new job opportunities.

However, excluding certain groups from accessing social assistance undermines the effectiveness of the overall social protection policy. Prior to the pandemic, spending on social assistance and active labor market programs in Uzbekistan was relatively low compared to international standards. On the other hand, public works programs received higher funding compared to similar countries. While the pandemic led to a significant expansion of social protection financing, the current challenge lies in further expanding active labor market programs and ensuring sustainable funding for social assistance. This requires ensuring that expenditures are well-targeted, and the performance of social protection programs is efficient. In 2021, consolidated spending on social protection in Uzbekistan is estimated to be around 5 percent of GDP, with contributory pensions accounting for approximately 75 percent of total social protection expenditures.



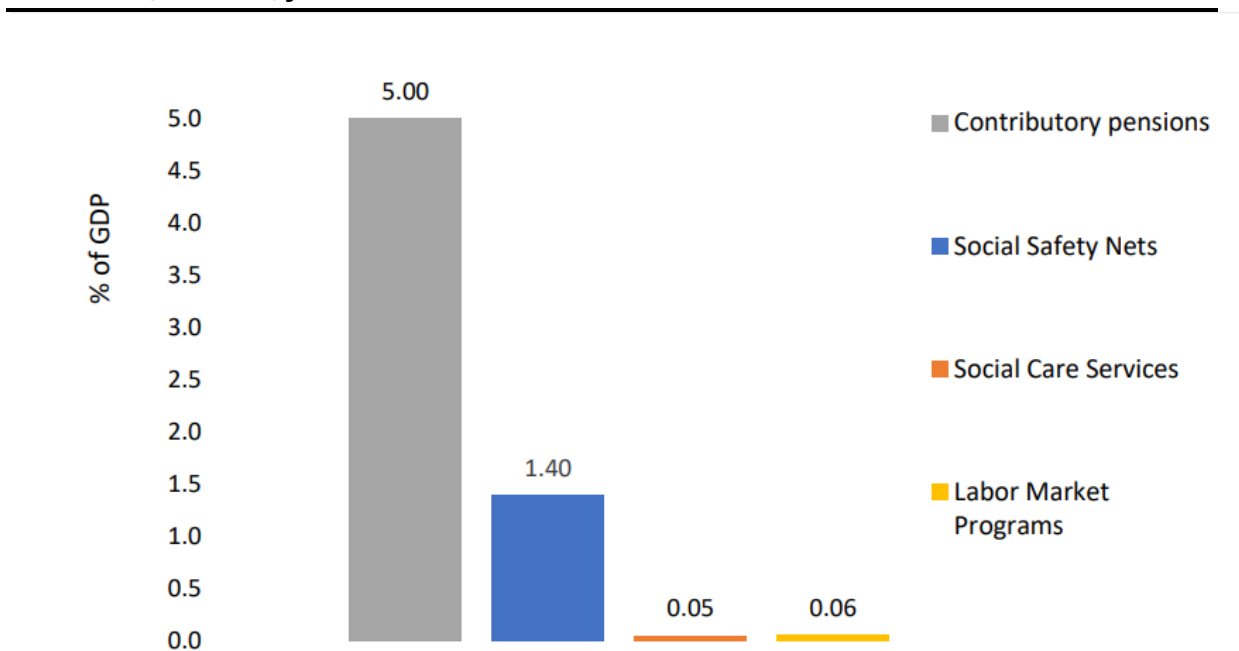


Figure-1. Spending on Social Protection in Uzbekistan, 2021

Source: World Bank staff calculations based on the MoF, MELR, and Extra-Budgetary Pension Fund administrative data on SP program expenditures using ASPIRE WB methodology.

While spending on social assistance remained relatively stable between 2016 and 2019, there has been a decline in spending on contributory pensions. Both the share of GDP and the proportion of total social protection spending allocated to contributory pensions have decreased in recent years. In 2019, social safety nets accounted for approximately 0.97 percent of GDP, social care services for 0.04 percent of GDP, and labor market programs for 0.013 percent of GDP.

Spending on social assistance experienced a significant decline from 1.9 percent of GDP in 2012 but has since maintained relative stability, fluctuating around 0.95 percent of GDP, except for a decrease to 0.86 percent of GDP in 2017¹. Spending on social care services has shown an increase, rising from 0.02 percent of GDP in 2016 to a stable level of 0.04 percent of GDP from 2017 to 2019. Labor market program spending comprises both active (0.01 percent of GDP in 2019)² and passive (unemployment benefits at 0.003 percent of GDP in 2019) components. Active labor market programs are relatively new in Uzbekistan, and prior to 2018, overall spending on these programs was negligible.

Conclusion

In conclusion, the development of a comprehensive social security system in Uzbekistan presents both challenges and opportunities. While the country boasts a range of social protection programs, including social assistance, contributory pensions, labor market programs, and social care services, there are significant issues related to fragmentation and

¹ “An Assessment of the Social Protection System in Uzbekistan” (2020), a joint report by ILO, UNICEF, and the World Bank, based on the Core Diagnostic Instrument (CODI).

² World Bank staff estimates using administrative data from the MoF of Uzbekistan

coordination. The absence of a designated entity responsible for integrating interventions, monitoring and evaluation, data analysis, and centralized policy formulation hinders the effectiveness and efficiency of the system.

Efforts have been made to address these challenges, such as the implementation of the Single Registry and the development of the Labor Market Information System. These initiatives aim to streamline program management, improve data collection and analysis, and enhance coordination between different institutions. However, there is still a need for formal definitions and a national strategy for social protection to ensure consistent interpretation and implementation across agencies.

The pension system in Uzbekistan has also faced challenges, particularly due to tax reform and a reduction in funding sources. This has resulted in a decline in Pension Fund revenues as a percentage of GDP, highlighting the need for sustainable financing mechanisms. Balancing benefit adequacy and fiscal sustainability is crucial to avoid negative social and political consequences.

The importance of centralized data collection and analysis cannot be overstated. By systematically analyzing performance indicators, household survey data, and impact evaluations, policymakers can gain valuable insights into program coverage, inclusivity, distribution of benefits, and overall impact on poverty and inequality. Monitoring and evaluating the effectiveness of social protection programs, including their combination with active labor market policies, is essential for informed decision-making and continuous improvement.

As Uzbekistan moves forward, it is imperative to allocate sufficient and efficient financing for social assistance and labor market programs, ensuring that the needs of vulnerable populations are met. The expansion of active labor market programs, reducing informality, raising productivity, and creating new job opportunities, is crucial given the country's young population and the challenges posed by unemployment.

Overall, developing a comprehensive social security system in Uzbekistan requires a coordinated and integrated approach, with clear definitions, strategic planning, and sustainable financing mechanisms. By addressing the existing challenges and capitalizing on the opportunities, Uzbekistan can strive towards a more inclusive, equitable, and effective social protection system that effectively reduces poverty, protects vulnerable populations, and promotes socio-economic development.

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