



MINISTRY FOR SUPPORT
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THE ROAD TO RECOVERY:

HOW SOCIAL PROTECTION
CAN ADDRESS THE IMPACTS
OF THE COVID-19 PANDEMIC
IN UZBEKISTAN



**The road to recovery: How social protection can
address the impacts of the COVID-19 pandemic
in Uzbekistan**

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Acronyms

COVID-19	2019 Novel Coronavirus Disease
GBV	Gender-Based Violence
GDP	Gross Domestic Product
ILO	International Labour Organization
IMF	International Monetary Fund
IQ	Intelligence Quotient
L2CU	Listening to the Citizens of Uzbekistan
NEET	Not in Education, Employment or Training
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing Power Parity
UNICEF	United Nations Children's Fund
USD	United States Dollar
UZS	Uzbek Soum
WEO	World Economic Outlook (Database)

Abstract

This paper is part of a series of UNICEF Uzbekistan Policy Briefs that aim to provide evidence to support the Government of Uzbekistan in its social protection response to the economic crisis created by the COVID-19 pandemic. This brief assesses the impacts that the COVID-19 crisis has had on Uzbekistan's households, with a specific focus on changes in incomes. It uses data from the monthly Listening to the Citizens of Uzbekistan (L2CU) panel survey, which interviewed a representative sample of households every month from September 2018 to October 2020.

Main messages

- During the COVID-19 crisis, levels of employment in Uzbekistan decreased significantly. Among households with children, those that subsisted on income from self-employment were harder hit than households deriving their income from the formal economy.
- Between April and October 2020, children's average family incomes were 23 per cent lower than they would have been without the pandemic.
- During this same period, the share of children in low-income families was 11 per cent higher compared to the projected situation without the pandemic, with an additional 845,000 children living in low-income households.
- Recognising the need for a fiscal stimulus package, Uzbekistan's government responded quickly to the crisis by implementing a set of anti-crisis packages. The Government's social protection response involved both a horizontal and vertical expansion of existing schemes along with an introduction of two new one-off cash transfers to "vulnerable" groups.
- However, the Government's social protection response has had a minimal impact. Although the Government's COVID-19 response benefited recipient households, much of Uzbekistan's population has been left without support.
- If the Government were to invest a further 1.36 per cent of GDP by providing 6 months of cash transfers to all children aged 0-18, persons with disabilities and older persons, total investment would be in line with other countries that have successfully responded to the pandemic.
- Under this scenario, welfare loss for households with children would be 10.3 per cent, around 12 percentage points lower than under the Government's response.
- It is not too late to implement a more universal emergency response, so that Uzbekistan's window of opportunity to invest in its children is not lost, while also offering an important stimulus to aid economic recovery.

1 Introduction

The COVID-19 crisis has caused devastating economic impacts around the world and Uzbekistan is no exception. The country – which since President Mirziyoyev came to power in 2016 has implemented a series of reforms and integrated more with global markets – saw its first case of COVID-19 in March 2020.¹ The government responded quickly, introducing a number of stringent containment measures, including two national lockdowns, although the President has since instructed officials that there will not be another lockdown, and that officials will have to “learn to live and work in pandemic conditions.”²

As with most other countries, these containment measures have impacted on the economy. In order to prevent the spread of the virus, movement had to be restricted, and economic and social activities curbed.³ Key industries – especially export oriented sectors – along with Uzbekistan’s burgeoning tourism industry have been disrupted. Further, many families have faced reductions in income due to job loss – especially for those working in the informal economy – and a fall in the number and value of remittances.⁴ Although the IMF has noted that the impact of the pandemic on Uzbekistan has so far been “relatively-short lived” and there was a “sharp rebound in activity in the second half of the year, while the agricultural and construction sectors showed resilience throughout the year”, the COVID-19 pandemic has brought great uncertainty to Uzbekistan’s future and, as shown below, many of Uzbekistan’s families have been hard hit.⁵

Even prior to the COVID-19 crisis, many people in Uzbekistan were living on relatively low or insecure incomes. As shown by Figure 1-1, in 2018, 76 per cent of the population live on per capita incomes that were less than 2.5 times the minimum wage, or UZS602,995 (US\$59.00) per month, corresponding to UZS20,440 (US\$2) per day.⁶ Further, 30 per cent of the population lived on less than the minimum wage, or UZS241,198 (US\$24) per person per month, the equivalent of UZS8,176 (US\$0.80) per day. At the top of the income distribution, only 1.4 per cent of the population lived on more than UZS1.8 million (US\$176.00) per person per month. Therefore, the size of the “middle class” in Uzbekistan is small, and many children are in a vulnerable position.

¹ IMF (2018); IMF (2019); IMF (2020b)

² Reuters (2020)

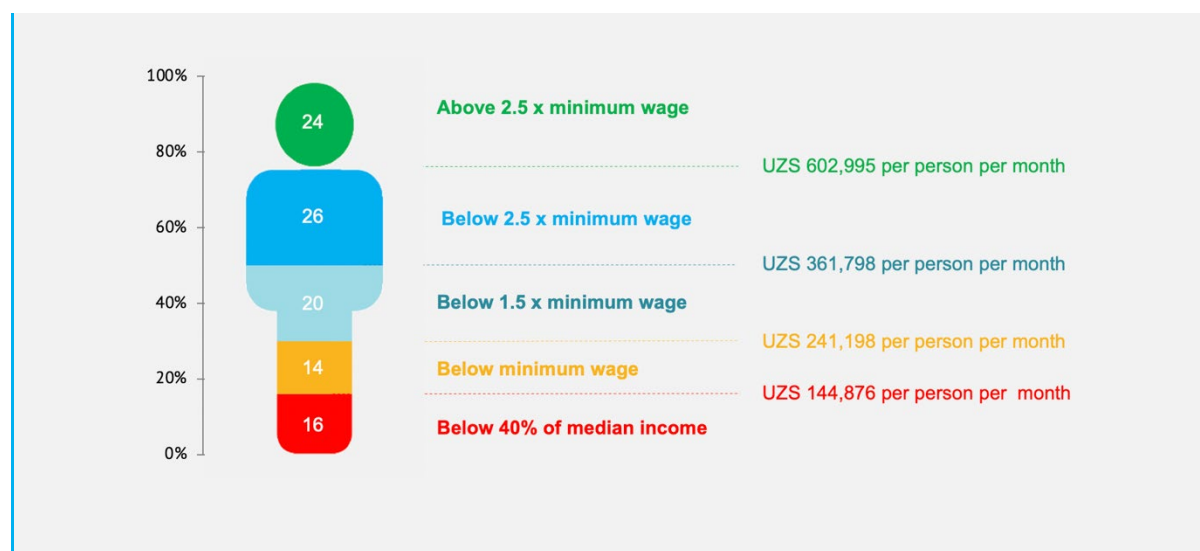
³ IMF (2020b)

⁴ For further discussion on how sectors were impacted, see for example: Abdullaev, (2020); Development Strategy Center/CERR (2020) World Bank (2020a); World Bank (2020b); World Bank (2020c); UN et al (2020); OECD (2020); Seyfaddini, I (2020); Shaku, K. (2020)

⁵ (IMF, 2021)

⁶ The \$1.90 per day figure mentioned here should not be confused with the \$1.90 PPP poverty line, since there is no PPP value for Uzbekistan.

Figure 1-1: Percentage of the population living below different per capita monthly incomes, 2018⁷



Source: Analysis undertaken by Development Pathways of L2CU (2018)

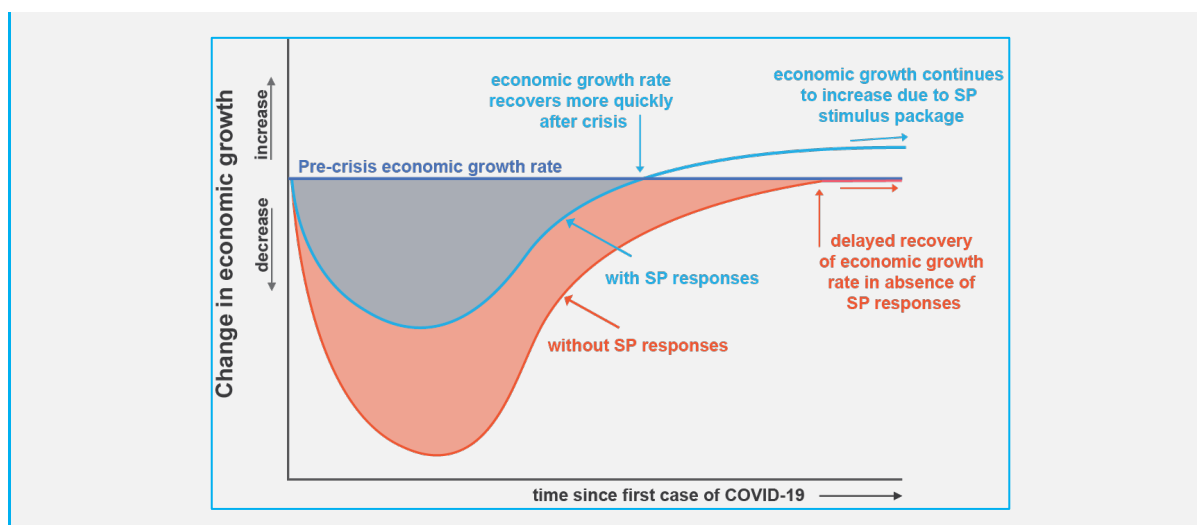
Recognising the impact that the pandemic would have on Uzbekistan's economy, the government reacted quickly and introduced a set of fiscal, monetary and financial measures which helped cushion some of the impacts of the pandemic.⁸ Indeed, the IMF has noted that the "strong policy reaction" allowed for a sharp rebound in activity in the second half of the year so that Uzbekistan was one of the few countries to post positive overall growth in 2020, at 1.6 per cent, although this was still about 4 percentage points less than the growth rate projected prior to the pandemic.⁹ As demonstrated by Figure 1-2, when a country introduces an effective fiscal stimulus package, the depth of the recession will be reduced, thereby enabling a quicker recovery.

⁷ Based on L2CU 2018. During 2018, the minimum wage was increased in value twice. It began the year at a value of UZS172,240 (US\$21.40) per month and was increased to UZS184,300 (US\$21.43) per month in July. Then, on 1st November, it was further increased to UZS202,730 (US\$25.22 per month). In the graph, July 2018 values are used by they inflated to 2020 prices using IMF WEO 2019."

⁸ See Presidential Decree 5969 19th March 2020; Presidential Decree 5996. 18th May 2020; Presidential Decree 6038, 30th July 2020; Presidential Decree 4815, 28th August 2020

⁹ IMF (2021)

Figure 1-2: Diagram outlining how a fiscal stimulus will reduce the depth of recession and enable a quicker recovery



Source: created by Development Pathways. Note: this graph is a modified version of a graph that appeared in World Bank

Although the Government introduced a broad fiscal package,¹⁰ its social protection response – which was one of many measures introduced by the Government – was insufficient to address the impacts of the pandemic on Uzbekistan's vulnerable families. The good news is, however, that with its large social protection system, Uzbekistan is relatively well-positioned to scale up its response, although significant gaps in coverage – in particular among children – will need to be overcome. If the correct high-level decisions are made and the gaps are filled, Uzbekistan will be able to quickly ensure that all Uzbeks in need of income support can access the social protection system. An effective shock-responsive system is one that can be accessed whenever people were vulnerable, such as during childhood, old age, sickness, disability or employment.

This paper provides an overview of the impacts of the crisis as well as an assessment of how effectively the country's social protection system – along with the government's COVID-19 response – have addressed these impacts. The paper then sets out two proposals to leverage the social protection system to provide a major stimulus to the economy and to ensure that the nation's children do not fall further behind.

¹⁰ IMF (2020a)

2 Impacts of the COVID-19 crisis

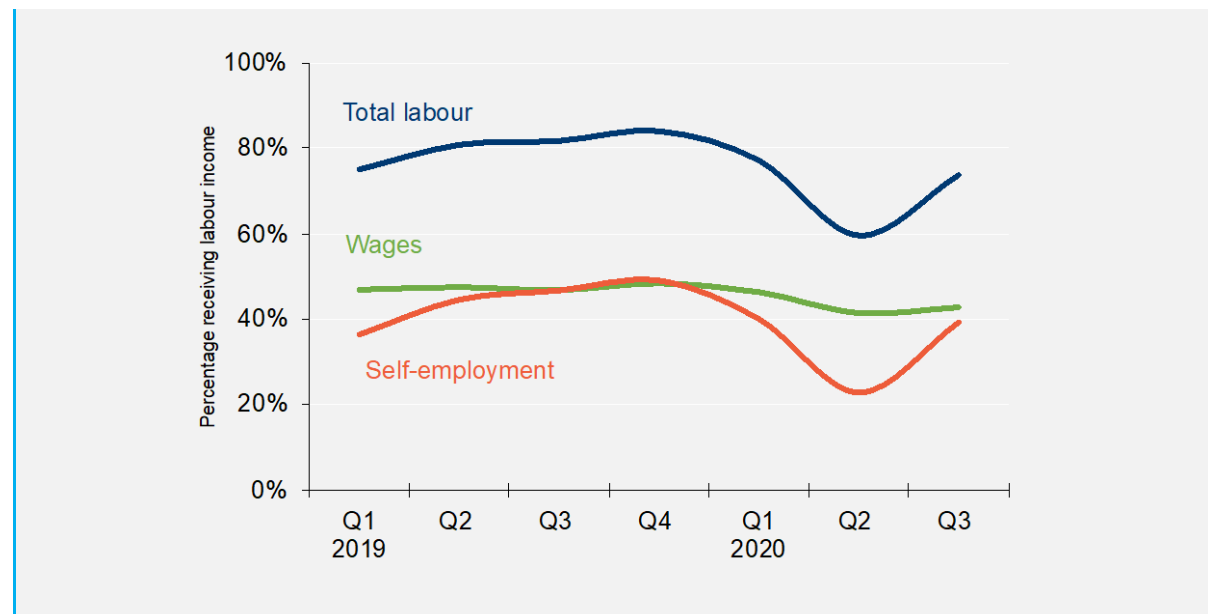
This paper estimates the impacts that the COVID-19 pandemic has had on households in Uzbekistan using both qualitative and quantitative data (through secondary analysis of the Listening to the Citizens of Uzbekistan [L2CU] Survey). The analysis uses data from the L2CU panel survey that interviewed a representative sample of around 1,500 households each month from September 2018 to October 2020, and uses modelling techniques to compare observed trends with counterfactual trends based on pre-pandemic projections. The main welfare metric used in the analysis is monthly household income per capita in real terms (see Annex 1 for details on the methodology).

As a result of containment measures, as well as disruptions in the domestic and global markets, levels of employment in Uzbekistan decreased significantly as a result of the pandemic. For example, between the first and second quarters of 2020, the number of Uzbeks who reported having worked in the seven days prior to the survey fell by 33 per cent.¹¹ In addition, as Figure 2-1 demonstrates, among households with children receiving income from labour, those that subsisted on income from self-employment were harder hit than households deriving their income from the formal economy. In fact, there was a 49 per cent decrease in the number of households receiving income from self-employment in the second quarter compared to the previous year, whereas there was only a 13 per cent decrease in households receiving income from wages. Not only are informal workers more likely to attract lower pay, but they are also particularly vulnerable to the worst effects of job loss, since they often work without access to any job security or protections. Government jobs in Uzbekistan were protected for while there had likely been a few redundancies for those working in government or state-owned enterprises (usually in instances where jobs are not budget financed), all those who had been let go were asked to return to work as of May 2020.¹²

¹¹ From 39 per cent in the 1st quarter of 2020 to 26 per cent in the 2nd quarter of 2020

¹² Based on anecdotal evidence from interviews between Development Pathways, UNICEF and Center of Economic Research and Reforms

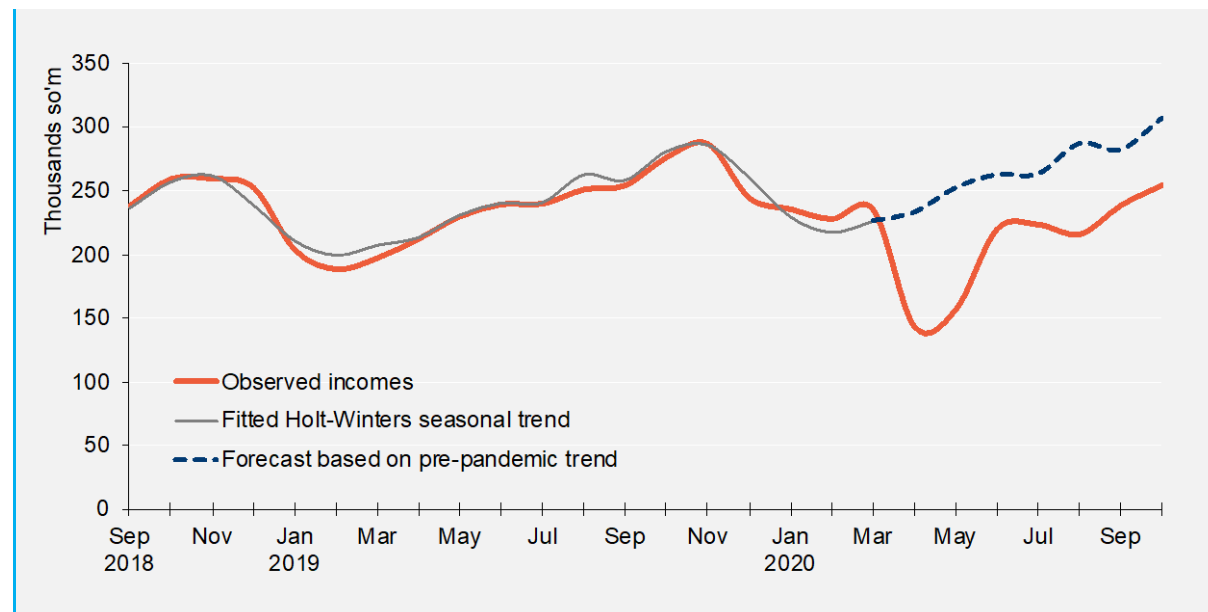
Figure 2-1: Percentage of households with children that receive labour income from wages or self-employment (quarterly average 2019-20)



Another loss of income for Uzbekistan's households was through the reduction in remittances. When looking at how many children were living in households that receive remittances, there was a 40 per cent decrease in the second quarter of 2020, compared to the previous year, and a 32 per cent decrease in the third quarter. However, as a proportion of all children, the changes were not so significant: for example, only six per cent of children were living in households that received remittances in the second quarter of 2019, and this decreased to three per cent in 2020.

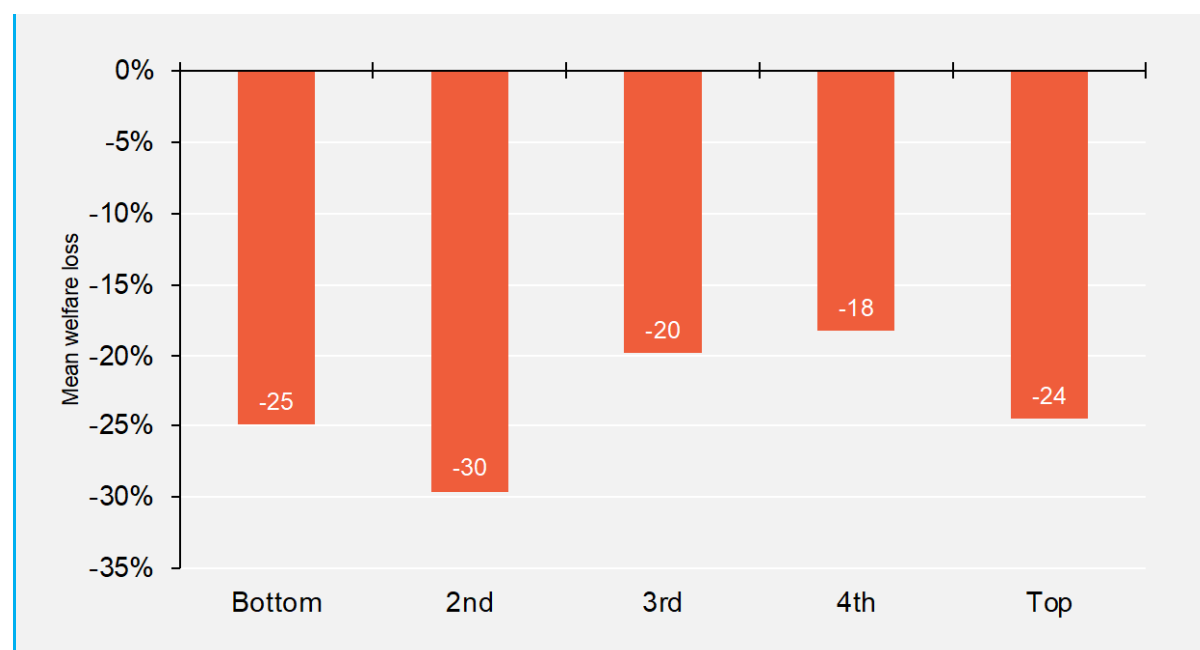
As a result, children's average family incomes are much lower than what had been expected, were the pandemic not to have happened. For example, on figure 2-2 indicates that between April and October 2020, average family incomes were 23 per cent lower than they would have been without the pandemic. With such unanticipated drops in income, households may have resorted to negative coping mechanisms such as borrowing money or using savings to cushion the effects of the pandemic. The financial shock would also have impacted on households' capacity to purchase essential items. Indeed, in the third quarter of 2020, 12 per cent of households with children reported not being able to purchase enough food for family members, a 73 per cent increase compared to the previous year

Figure 2-2: Real median monthly household income per capita among children, Sep 2018 – Oct 2020



These negative impacts have affected children and their families across Uzbekistan. For example, compared to pre-pandemic projections, between April and October 2020, children experienced a 27 per cent decrease in household income in urban locations and a 22 per cent decrease in rural locations. In addition, while Figure 2-3 shows that households in the bottom income quintile experienced a high loss of income compared to pre-pandemic projections, households in the second quintile were the most affected. Notably, households in the second quintile are unlikely to qualify for Uzbekistan's poverty-targeted social protection programmes, despite being particularly hard hit by the COVID-19 crisis (see coverage levels by quintile in Section 4-4). Households in the highest quintile also experienced a 24 per cent decrease in income compared to pre-pandemic projections. While members would likely have been able to pay for essential items such as food, they may have been driven into a state of vulnerability and debt.

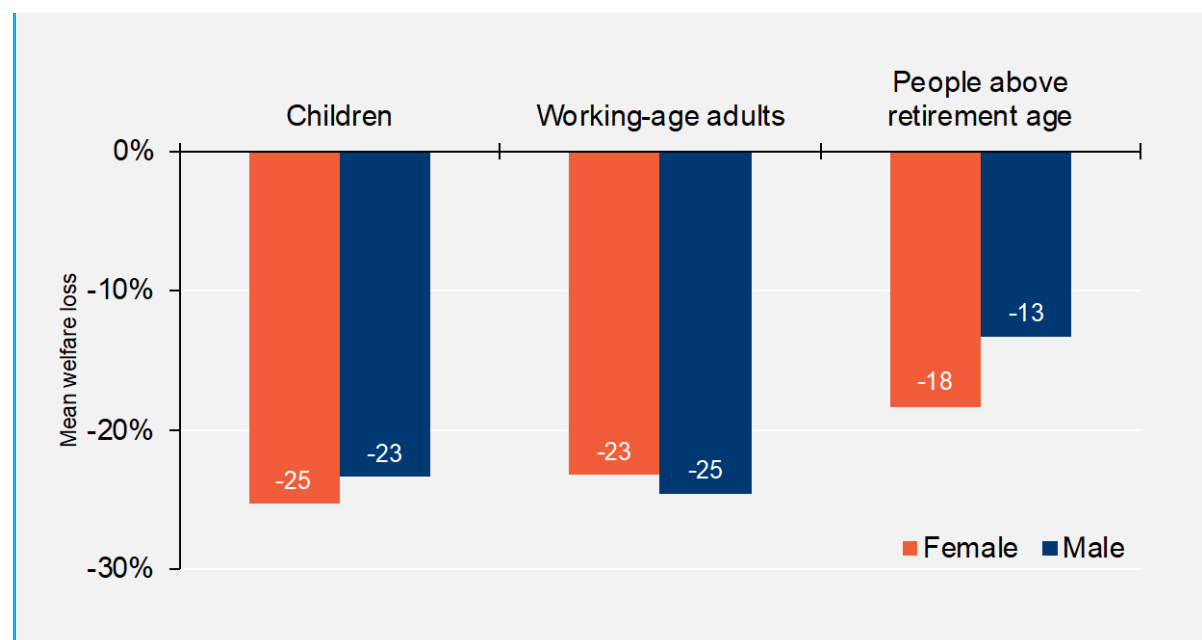
Figure 2-3: Percentage change in average real median monthly household income per capita among children compared to 2020 pre-pandemic projections in 2020 (April to October) by welfare quintile (pre-pandemic)



Age and sex influence the level of income loss experienced by Uzbeks as a result of the pandemic. Figure 2-4 demonstrates that welfare loss among children and working age adults are not dissimilar and that gender disparities are small. While older persons have been less impacted – probably due to high pension coverage – it is noticeable that older women have experienced more income loss than men. This is perhaps due to the fact that older persons without pensions are more likely to be women and would have had to rely on other income sources to support them in their old age. It should be noted that unemployment is high among the younger working-age population and, before the pandemic occurred, an estimated 42 per cent of Uzbeks aged between 15-29 years were not in employment, education or training (NEET).¹³ While these young persons will not have experienced job loss as a result of the pandemic, they will be dependent on other individuals and, as a result, their households would have been disproportionately impacted if other members experienced job loss or a decrease in revenue.

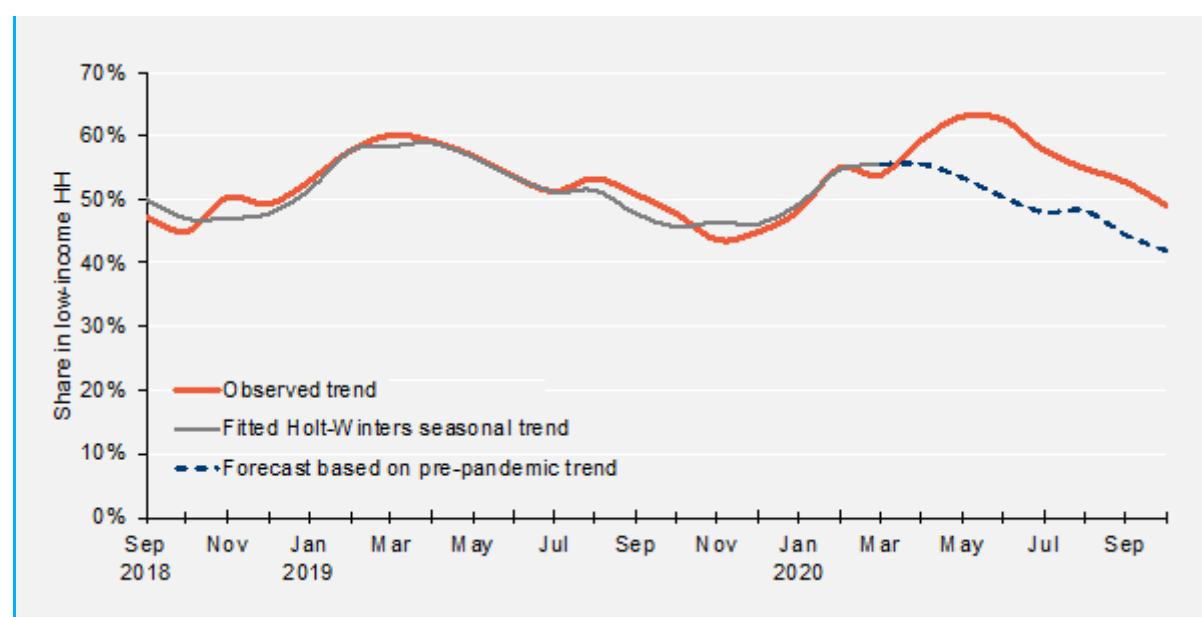
¹³ UNICEF (2019)

Figure 2-4: Estimated welfare loss across the population compared to 2020 pre-pandemic projections in 2020 (April to October) by age and sex.



Given that households across Uzbekistan have been affected by the pandemic, it is no surprise that many more children are living in low-income families in 2020. As Figure 2-5 demonstrates, between April and October 2020, the share of children in low-income families was 11 per cent higher compared to the projected situation without the pandemic, with an additional 845,000 children living in low-income households.¹⁴

Figure 2-5: % of children living in low-income households (with per capita income below 1.5 x the minimum wage), September 2018 – October 2020



¹⁴ 'Low-income' households are determined as those that have a per capita income below 1.5 x the minimum wage

In addition to the quantitative analysis conducted for this study, Uzbeks may have experienced a number of other negative impacts which were not captured by the L2CU survey. For example, a fulfilling childhood is not simply about surviving, but also thriving, and households that have experienced income loss will likely also have cut back on purchases such as books and toys which help stimulate a child. Access to education is also inequitable, and during lockdown – when schooling was interrupted – remote learning was rolled out instead.¹⁵ However, this faced a number of challenges,¹⁶ and families on higher incomes were more able to access resources to enable remote learning and to create a simulating environment at home. Indeed, only a few children were able to access the internet to receive the education that they needed.¹⁷ According to the World Bank, vulnerable students tend to drop out of school following crises, and it is possible that this occurred in Uzbekistan as well.¹⁸ The stresses of income loss may also have increased the likelihood of domestic violence, which can damage children's mental health and development. In fact, the United Nations et al (2020) note that “the level of demand to a gender-based violence (GBV) hotline service in Uzbekistan increased fivefold in the first week of the stay-at home orders.”¹⁹ Survivor-centered GBV centres – which were already limited – were also hit due to movement restrictions and lack of funding.²⁰

All the negative impacts described above will likely have harmed children's mental and physical wellbeing and development. The most vulnerable children – in other words, those living in low-income households, those with disabilities and those in households that have experienced a dramatic fall in living standards due to the COVID-19 crisis – would have been particularly affected. Without appropriate interventions and access to services, the negative impacts they have experienced may have created long-term disadvantages and reduced their opportunities later in life.

¹⁵ Meliboeva, N., Patrinos, H. A and Teixeira, J. (2020).

¹⁶ UN et al (2020)

¹⁷ Anecdotal evidence from UNICEF

¹⁸ Meliboeva, N., Patrinos, H. A and Teixeira, J. (2020).

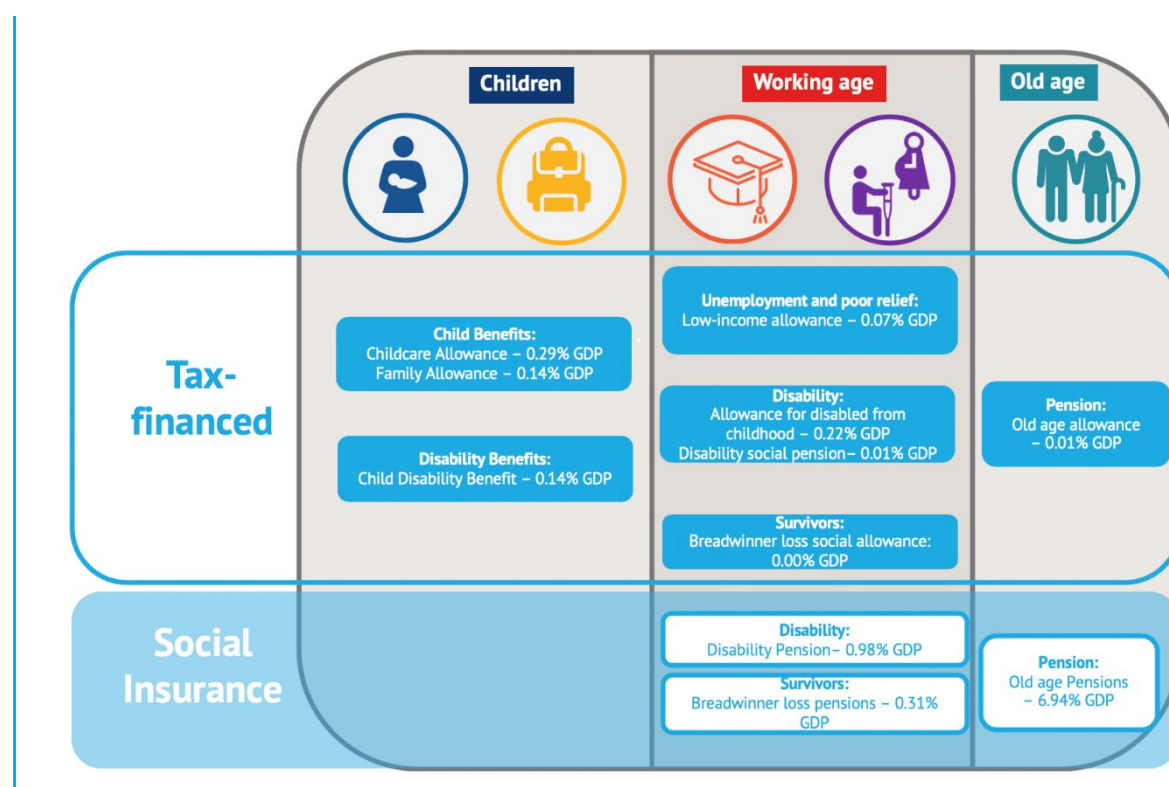
¹⁹ UN et al (2020)

²⁰ UN et al (2020)

3 Overview of the government's national social security system

In 2019, Uzbekistan was investing 9.2 per cent of GDP in its cash-based lifecycle social protection schemes. As in high-income countries, Uzbekistan has built a large social protection system which address the challenges that people face across the lifecycle, from childhood to old age (see Figure 3-1).²¹ However, despite this, there are a number of gaps.

Figure 3-1: Uzbekistan's national lifecycle social protection system



Source: UNICEF (2019)

Despite Uzbekistan's relatively young population, 75 per cent of all investment – or 6.95 per cent of GDP – has been in its old age pension schemes, much more than many other countries with much older populations. The reliance on the old age pension system to reduce child poverty places a significant burden on pensioners: the fragmentation of their pension between multiple dependent household members is likely to undermine the wellbeing of the pensioners themselves. This is especially the case in the context of COVID-19, for the crisis has precipitated a dramatic and immediate increase in the demand for extra income support across families.

²¹ In-kind transfers and one-off payments are not considered in diagram, as they would not be able to provide the basis for a scalable fiscal response.

Compared to many other low and middle-income countries, Uzbekistan provides relatively generous benefits for families and children, but the longevity and coverage of these benefits is low. Uzbekistan's Childcare Allowance, Family Allowance and Low-Income Allowance are all poverty-targeted schemes and, in order to qualify, families must have a per capita income that is less than 52.7 per cent of the minimum wage (UZS747,300 or US\$72 per month).²² In addition, the schemes are subject to rationing and are time-bound, with households receiving the Childcare Allowance for 12 months and the other two schemes for 6 months. 14-17 year olds are also not eligible to receive a benefit.

Finally, although Uzbekistan provides several disability-specific benefits, persons with disabilities are not receiving the income support that they need. Children with disabilities experience the lowest coverage under the existing system, with 52 per cent of children with disabilities aged 3-17 years directly receiving a scheme, leaving 48 per cent uncovered.²³ Working age persons with disabilities, meanwhile, can only receive a disability pension if they are unable to work, and older persons receive an old age pension in place of a disability benefit. The tax-financed old age social allowance is only available, however, to older persons who do not receive the social insurance pension and have no close relatives to care for them. Overall, under the current social protection system, adult persons with disabilities are receiving income replacement but are not being compensated for the additional costs of disability that they experience.

²² Minimum wage for February 2021. Central Bank of Uzbekistan exchange rate. Average for February 2021.

²³ Analysis for this paper using the L2CU dataset.

4 The Government's cash transfer response to the economic crisis

A fair, transparent, and easily understood fiscal stimulus package is essential for kickstarting Uzbekistan's economy. By providing cash transfers to the majority of the population, not only would most members of society be offered a minimum level of income security, but their consumption levels would increase. This would have a multiplier effect, as households' increased consumption levels would help maintain markets and support businesses, which in turn would reduce the country's loss of economic growth.

Recognising the need for a fiscal stimulus package, Uzbekistan's government responded quickly to the crisis by implementing a set of anti-crisis packages. Gentilini et al (2020) report that both domestic and external funding were used to fund the fiscal stimulus packages. Domestic financing was sourced from the Sovereign Wealth Fund (the Fund for the Reconstruction and Development of Uzbekistan) and also by restructuring the budget. External financing was sourced from International Financial Institutions and Bilateral and Multilateral Development Actors. US\$448 million was also generated through public-private partnerships.²⁴

Notably, many of the Government's measures were not emergency cash transfers. For example, businesses were supported through tax relief and financial support and the rate of customs duty and excise tax on "primary goods" was reduced to 0 per cent. Much of the budget was not, therefore, directed towards ensuring adequate social protection coverage for those in need.

The Government's social protection response involved both a horizontal and vertical expansion of existing schemes along with an introduction of two new one-off cash transfers to "vulnerable" groups. The following sub-sections provide an overview of the response.

4.1 Horizontal expansion of existing social protection schemes

The poverty-targeted Childcare Allowance, Family Allowance and Low-Income Allowance were horizontally expanded in the following ways:

- **April 2020:** The number of beneficiaries on the Childcare Allowance, Family Allowance and Low-Income Allowance increased by at least 10 per cent or to 60,000 households.
- **June 2020:** Any households that were meant to exit the Childcare and Family Allowance schemes between March and June (and whose children were of eligible age) were kept on the programmes, resulting in a 10 per cent increase in recipients. In addition, the government simplified the application processes and relaxed the income test.

²⁴ Gentilini et al., (2020)

- **July 2020:** Up until the end of 2020, the number of households was increased to a maximum of 400,000 (Childcare Allowance); 700,000 (Family Allowance); 100,000 (Low-Income Allowance). Any households that were meant to exit the Childcare and Family Allowance schemes between July and September 2020 (and whose children were of eligible age) remained on the programmes.

4.2 Vertical expansion of existing social protection schemes

On the 1st September 2020, the transfer values for the tax-financed Allowance for Disabled from Childhood, the Disability Social Pension and the Old Age Social Allowance were increased by 10 per cent. In addition, the minimum amount for the contributory Old Age Pension was also increased by the same rate (see Table 4-1).

Table 4-1: Vertical expansion of existing tax-financed schemes

Scheme	Pre-COVID transfer value (UZS)	Pre-COVID transfer value (US\$)	New transfer value (as of Sept 2020) UZS	New transfer value (as of Sept 2020) US\$ ²⁵	% change in transfer value increase
Allowance for disabled from childhood	UZS466,682	\$46.40	UZS513,350	\$51.00	10%
Disability Social Pension	UZS286,391	\$28.50	UZS315,030	\$31.00	10%
Old Age Pension	Minimum amount: UZS466,682	Minimum amount: \$46.40	The minimum amount increased to UZS513,350	The minimum amount increased to \$51.00	
Old Age Social Allowance	UZS286,391	\$28.50	UZS315,030	\$31.00	10%

²⁵ Central Bank of Uzbekistan exchange rate: average for 2020

4.3 Introduction of one-off cash transfer schemes

In addition, the following one-off cash transfers were provided for households and individuals considered to be “vulnerable” by the Government (see Table 4-2). In order to identify vulnerable and low-income families, the Government employed the *Mahallas* to provide a list – termed an “iron notebook” – of vulnerable families and citizens.²⁶ Around UZS 580 billion (\$57.6 million) was distributed between 400,000 vulnerable families (estimated 1.7 million people), providing each one with UZS1,450,000 (US\$144) per month. An additional 810,000 children were given UZS500,000 (US\$50) each, at a total cost of UZS405,000,000,000 (US\$40,239,540).

Table 4-2: One-off cash transfers

SCHEME	NUMBER OF RECIPIENTS	MONTHLY TRANSFER VALUE
One-off cash transfer for “vulnerable” families	400,000 families (1.7 million individuals)	Around UZS 1,450,000 (\$144.00) per household and UZS 341,176 (\$33.90) per person. ²⁷
Children under 16 years of age from a low-income family or a family receiving breadwinner-loss allowance or pension, or if s/he has been classified as having a disability, for the purposes of meeting out of pocket education expenses	810,000 individuals	UZS 500,000 (\$50.00) per beneficiary

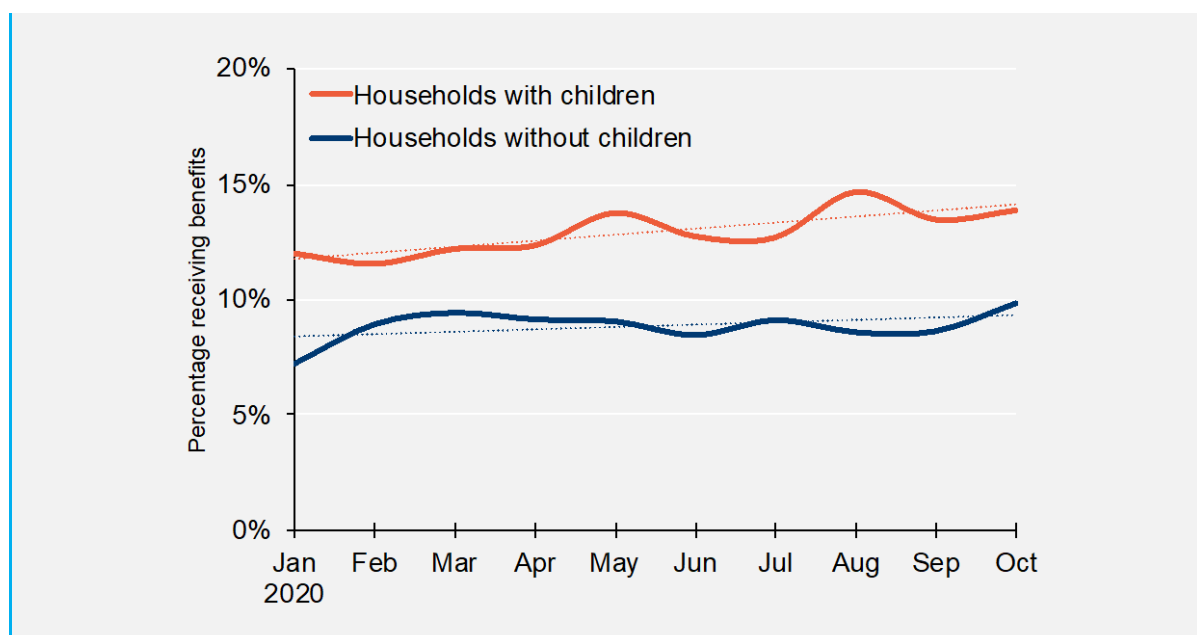
4.4 The effectiveness of the government's COVID-19 response

As a result of the Government's COVID-19 response, coverage levels of the social protection system increased slightly. Due to the fact that the one-off cash transfers, along with the existing schemes that were horizontally expanded, were largely targeted at households with children, this is unsurprisingly reflected in the analysis. Figure 4-1 demonstrates that while 12 per cent of households with children were receiving tax-financed benefits in January 2020, the proportion rose to 15 per cent – the peak – in August. In comparison, 7 per cent of households without children were receiving benefits in January 2020, and this rose to 10 per cent – the highest point – in October.

²⁶ See Presidential Decree July 30th 2020

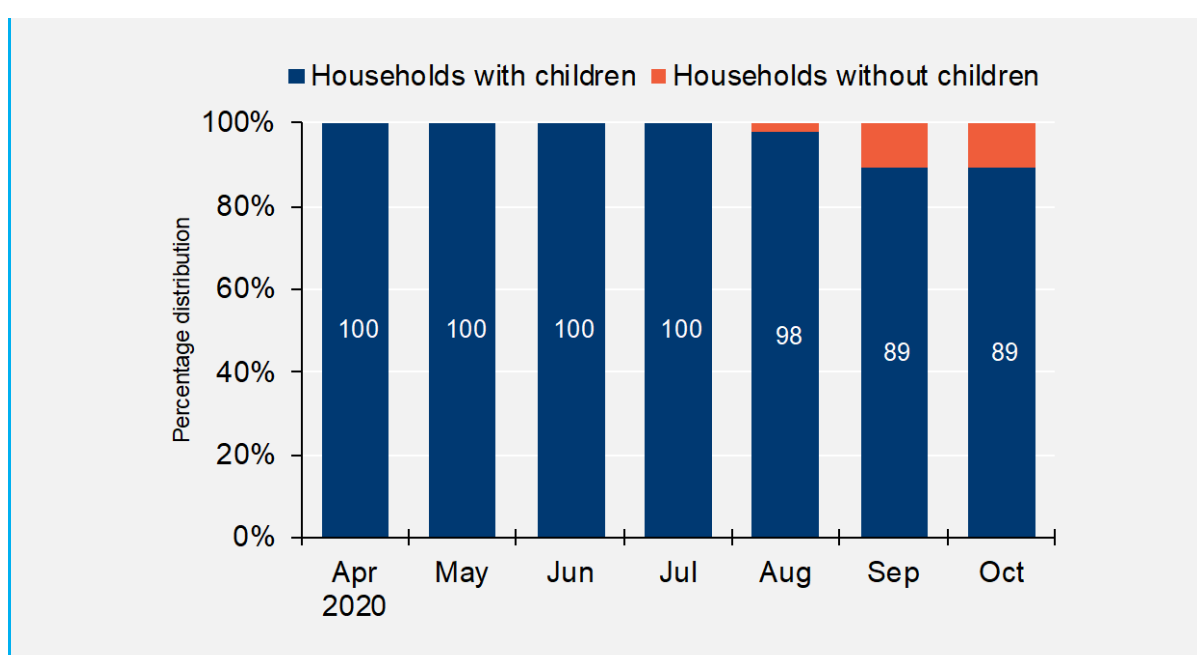
²⁷ Benefit amount is calculated using the estimated 1.7 million benefits, rather than dividing the household benefit by the average number of household members.

Figure 4-1: Households receiving income from tax-financed social protection benefits in last 30 days, by month, 2020



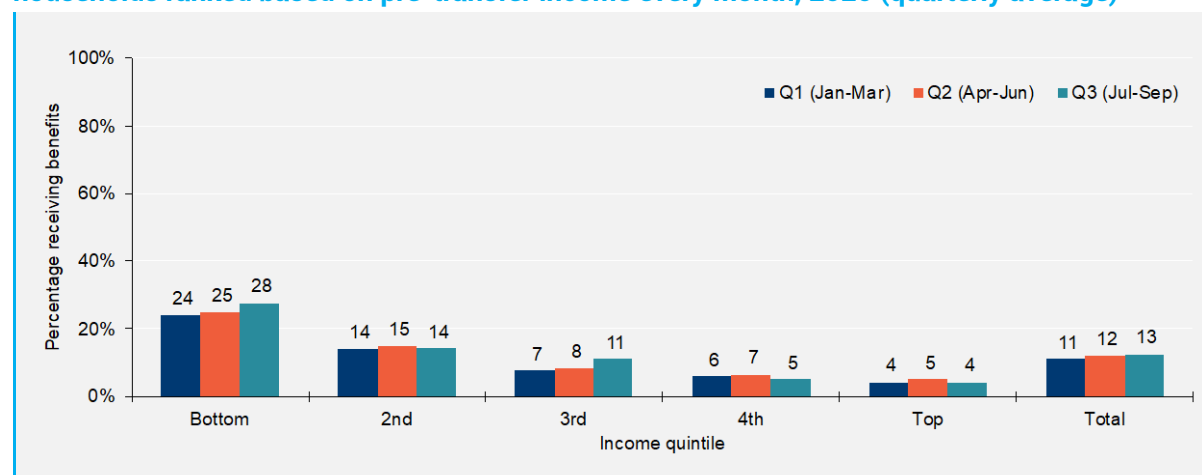
Although only a small proportion of households with children benefited from the COVID-19 response, they were the main target of the Government's response. Figure 4-2 shows that, up to August 2020, 100 per cent of the households benefiting from the emergency response had children, although this decreased slightly once existing schemes were vertically expanded in September 2020. In addition, analysis has also indicated that between April and October 2020, between 61 and 86 per cent of recipient households were located in rural locations.

Figure 4-2: Percentage distribution of households benefiting from the COVID-19 social protection response by presence of children



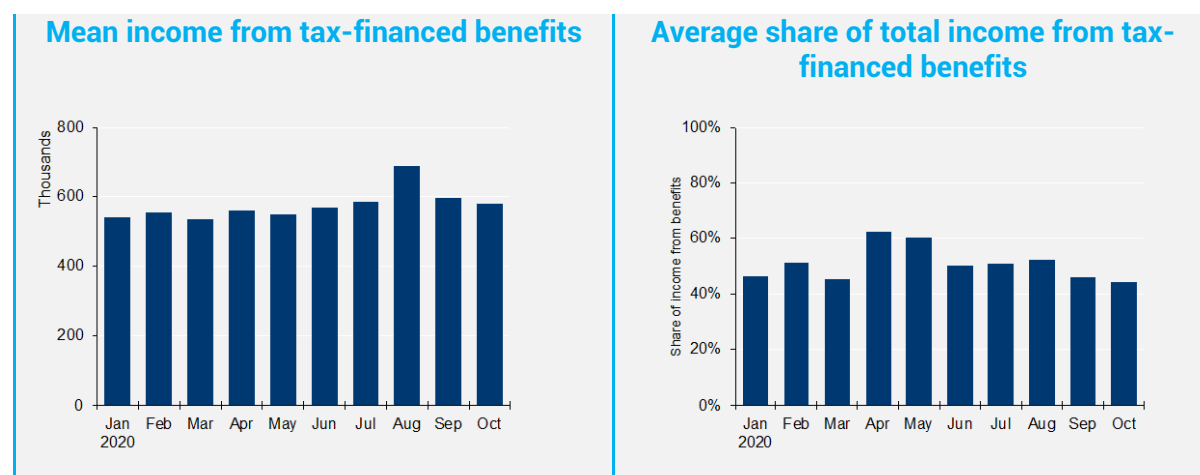
Overall coverage among Uzbekistan's poorest households by tax-financed transfers is still very low. Figure 4-3 indicates that only 28 per cent of households in the bottom income quintile and 14 per cent of households in the second quintile were receiving tax-financed benefits in the third quarter of 2020. Consequently, many vulnerable households living on low incomes – who may have resorted to negative coping strategies – were not reached.

Figure 4-3: Percentage of households receiving tax-financed benefits, by quintile groups of households ranked based on pre-transfer income every month, 2020 (quarterly average)



By vertically expanding several existing schemes, as well as introducing two one-off cash transfers, the Government increased the transfer values of its tax-financed schemes. As can be seen in Figure 4-4, in August 2020, when the one-off cash transfer to vulnerable families was implemented, the mean income from benefits among recipients was UZS689,622 (US\$68.50). September – which saw the vertical expansion of three tax-financed schemes – resulted in a mean income of UZS 597,561 (US\$59.40). Further, in April 2020 – when lockdown measures began – 62 per cent of overall household income among recipients was derived from tax-financed benefits, compared to just over 40 per cent in March. Consequently, the Government's tax-financed benefits became an even more important source of income for recipients during this time period.

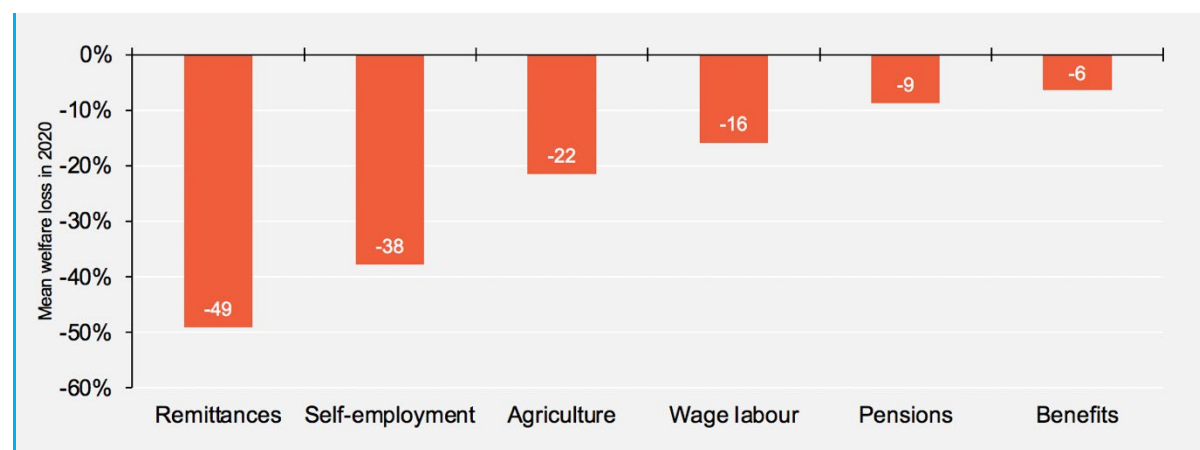
Figure 4-4: Absolute and relative household income from tax-financed social benefits, among recipients, Jan to Oct 2020



It should be noted, however, that while the vertical expansion of Uzbekistan's lifecycle schemes is welcome, the transfer values were insufficient to combat the catastrophic income losses that some households experienced. Uzbekistan's working-age tax-financed disability benefits, for example, are not sufficiently high to serve both as income replacement and to compensate for the additional costs of disability. In addition, persons with disabilities who are working do not qualify for disability benefits, but may have experienced income loss due to the pandemic. Unless they were part of a low-income household that was eligible for the country's poverty-targeted schemes, they would have likely missed out on much needed support.

As demonstrated by Figure 4-5, household deriving most of their income from more predictable sources including regular wages and social security were less affected by the fallout from the COVID-19 crisis. Households whose main income source was benefits experienced between a 6 and 9 per cent change in mean welfare loss as a result of the pandemic, while households relying on remittances, self-employment and agriculture were much harder hit. Consequently, some of the most impacted households were those with unpredictable income sources that were outside the social protection system and also left out of any emergency transfer measures. It is likely that these households did not meet the income threshold for the poverty-targeted schemes, while not having any members receiving an old age pension or disability benefit.

Figure 4-5: Percentage change in average real median monthly household income per capita compared to what it would have been based on pre-pandemic projections in 2020 (Apr to Oct), by main source of family income²⁸

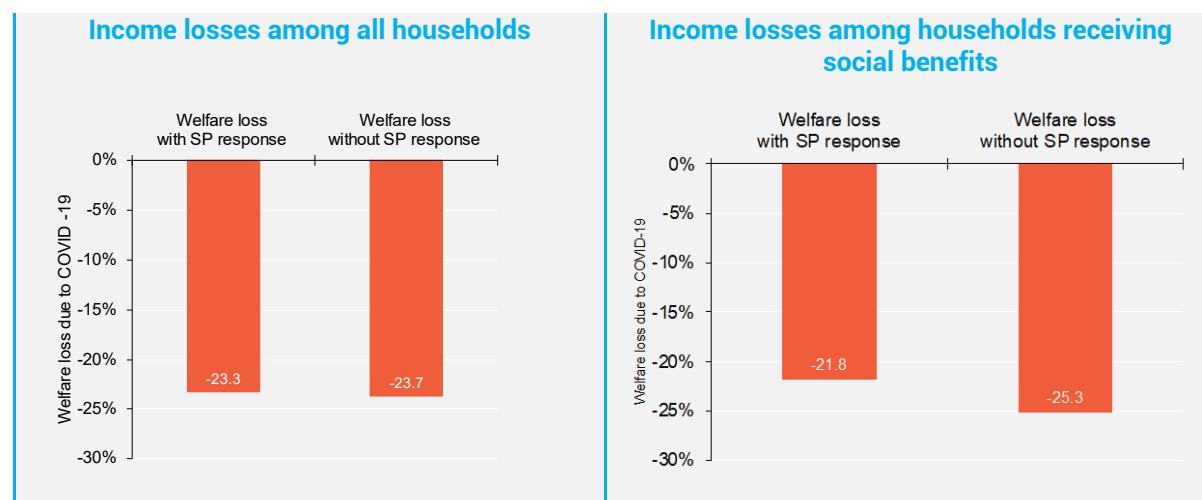


Overall, the Government's social protection response has had a minimal impact. Figure 4-6 demonstrates that households in receipt of benefits (whether as their main income source or as supplementary income) would have experienced a 25.3 per cent decrease in per capita mean real income due to the pandemic, with the Government's social protection response reducing this by 3.5 percentage points. In contrast, across all households, the social protection response only resulted in a 0.4 percentage point reduction. Consequently,

²⁸ Figure 4-5 looks at households by their main income source. The share of households that have social benefit transfers as their main (i.e. most important) source of income is only around 3 per cent of all households. For the majority of households that receive social allowances, these transfers are not their largest source of income.

although the Government's COVID-19 response benefited recipient households, the system's low coverage has resulted in much of Uzbekistan's population being left without support.

Figure 4-6: Income losses due to COVID-19 among all households and benefit recipients, monthly average Apr-Oct 2020



Due to the low coverage of Uzbekistan's social protection response, the Government has not yet provided an effective fiscal stimulus that will cushion the effects of the pandemic. Many families who have experienced income losses have been without support and have likely cut back on essential expenditure or resorted to negative coping mechanisms such as dipping into savings or taking out loans. The long-term consequences for the country's children must not be underestimated: at such a key moment in a child's life, it is essential that families are able to provide them with the necessary food and materials to support their development, and if effective support is not provided they may never reach, or move beyond, their pre-pandemic income levels. Investing in vulnerable children is therefore one of the best means of investing in the nation's future.

5 A further fiscal stimulus to protect the economy and Uzbekistan's families

Current global thinking across the IMF, World Bank and United Nations suggests that a fiscal stimulus package should include universal lifecycle benefits that are provided to children, older people and persons with disabilities. Martin Ravallion – a former World Bank Chief Economist – has suggested that a near-term fiscal injection of transfers that is “less than 2% of GDP should be judged as inadequate.”²⁹ Although insufficient data is available to calculate the cost of Uzbekistan's emergency response, analysis by Oxfam (2021) indicates that as a percentage of GDP, Uzbekistan's response has been small compared to many other low and middle-income countries.

Given the universal nature of the pandemic and the fact that households across the wealth quintiles have experienced income loss, it is necessary to make the social protection component of an emergency response universal. This is especially the case in Uzbekistan in which the majority of households are living on low or insecure incomes, and in which incomes fluctuate greatly over the year.

Given that Uzbekistan has a partially effective social protection system, any emergency response can build upon what is already in place. By utilising the existing system, the proposed measures would be an administratively simple and effective means of providing support to the vast majority of households across Uzbekistan. The Government would also be able to automate enrolment for the Childcare and Family Allowances through its Single Registry which was rolled out nationally at the end of 2020.

This section simulates the impacts that the Government's emergency response would have had on the country, were it to have adopted the following measures in 2020 instead:

- Expanding the Childcare Allowance so that it is available for all children aged below 2 years of age.
- Expanding the Family Allowance so that it is available for the following children:
 - **Scenario 1:** All children aged 2-14 years of age
 - **Scenario 2:** All children aged 2-17 years of age
- Expanding the tax-financed Old Age Social Allowance so that it is available for all older persons of retirement age who are not receiving the social insurance Old Age Pension.
- Expanding the tax-financed disability schemes to ensure that all children with disabilities are receiving the Child Disability Benefit and that all persons with disabilities not in receipt of another disability benefit, whether or not they are working, are receiving the tax-financed Disability Social Pension. It should be noted that the Child Disability Benefit is already universal in design but due to administrative barriers, is only accessed by around 52 per cent of children with severe disabilities.

²⁹ Ravallion (2020).

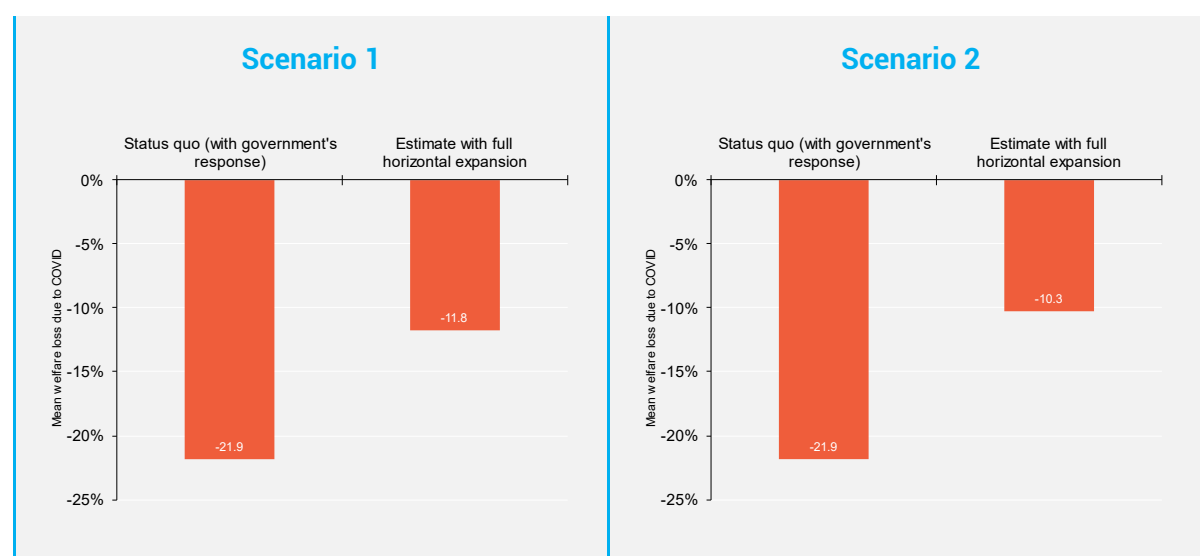
Table 5-1: Scenario 1 and 2 transfer values and costs as percentage of GDP

Scheme	Transfer value (LCU)	Transfer value (US\$) ³⁰	Additional cost (as % of GDP)
Scenario 1			
Childcare allowance for all uncovered households with children under 2 years	UZS434,000	\$43.10	0.42%
Family allowance for all uncovered households with children 2-14 years	UZS131,689 for 1 child; UZS108,500 per child, if 2 children; UZS101,333 per child, if 3 children; UZS76,000 per child, if 4 children; UZ60,800 per child, if 5 children etc	\$13.10 for 1 child; \$10.80 per child, if 2 children; \$10.10 per child, if 3 children; \$7.60 per child, if 4 children; \$6.00 per child, if 5 children etc	0.75%
Old age allowance for all uncovered people above retirement age	UZS315,030	\$31	0.05%
Disability allowance for all uncovered people with severe disability	UZS466,682 (Child Disability Benefit)	\$46 (Child Disability Benefit)	0.01%
	UZS315,030 (Disability Social Pension)	\$31 (Disability Social Pension)	
	UZS513,350 (Allowance for Disabled from Childhood)	\$51 (Allowance for Disabled from Childhood)	
Total			1.22%
Scenario 2			
Childcare allowance for all uncovered households with children under 2 years	UZS434,000	\$43.10	0.42%
Family allowance for all uncovered households with children 2-17 years	UZS131,689 for 1 child; UZS108,500 per child, if 2 children; UZS101,333 per child, if 3 children; UZS76,000 per child, if 4 children; UZ60,800 per child, if 5 children etc	\$13.10 for 1 child; \$10.80 per child, if 2 children; \$10.10 per child, if 3 children; \$7.60 per child, if 4 children; \$6.00 per child, if 5 children etc	0.89%
Old age allowance for all uncovered people above retirement age	UZS315,030	\$31	0.05%
Disability allowance for all uncovered people with severe disability	UZS466,682 (Child Disability Benefit)	\$46 (Child Disability Benefit)	0.01%
	UZS315,030 (Disability Social Pension)	\$31 (Disability Social Pension)	
	UZS513,350 (Allowance for Disabled from Childhood)	\$51 (Allowance for Disabled from Childhood)	
Total			1.36%

³⁰ Central Bank of Uzbekistan exchange rate. Average for 2020.

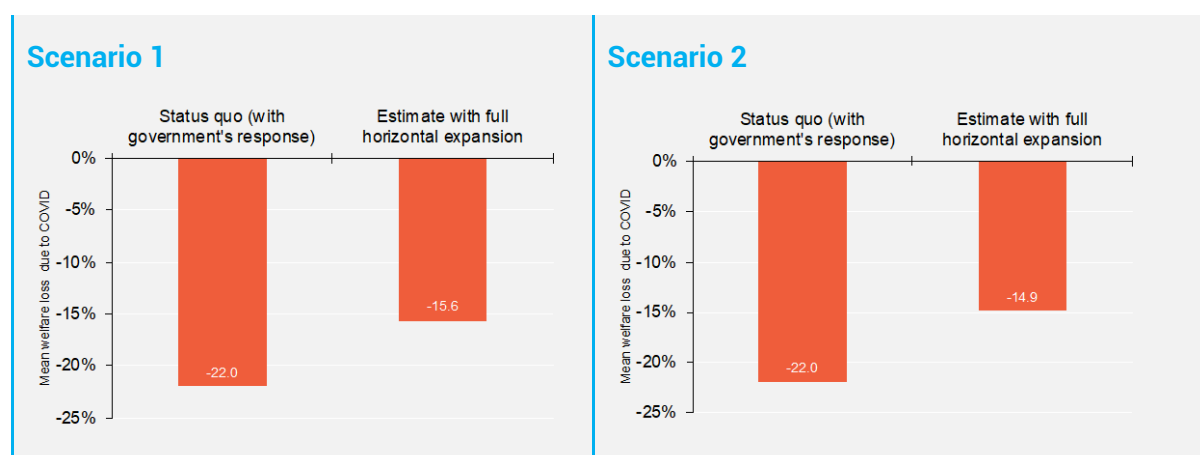
A full horizontal expansion of schemes would significantly mitigate welfare losses among households with children. In terms of mean welfare loss due to COVID-19, Figure 5-1 demonstrates that, for the two scenarios, there is a difference of 10-12 percentage points between what the government's response achieved and the likely impacts of the proposals. Unsurprisingly, given that Scenario 2 increases the age of eligibility for the Family Allowance from 14 to 17 years of age, it has a greater impact as it reaches more children. Under Scenario 1, household welfare loss would have fallen to 11.8 per cent, and under Scenario 2 it would have been 10.3 per cent.

Figure 5-1: Percentage change in average real median monthly household income per capita among households with children compared to what it would have been based on pre-pandemic projections in 2020 (Apr to Oct) for households with children



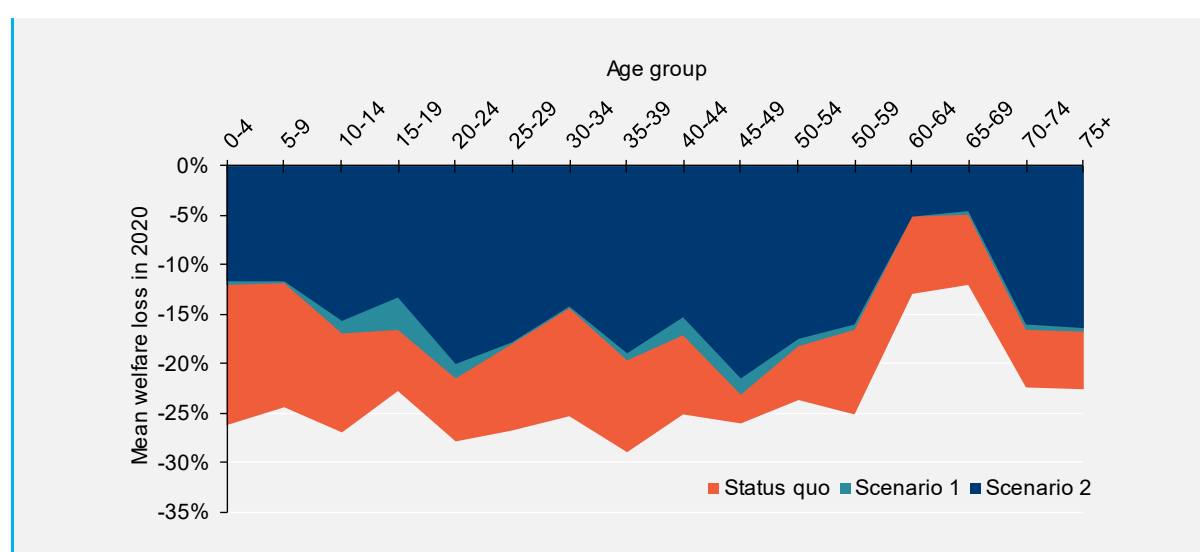
Given that the proposed scenarios would ensure that all of Uzbekistan's child benefits offer universal coverage, it is to be expected that the impacts are less significant for households without children. Nevertheless, when looking at impacts across all households, it can be seen that the proposed scenarios would have had a much greater impact across the entire population than the Government's response. Indeed, for the two scenarios, **Ошибка! Источник ссылки не найден.** demonstrates there is a difference of 6-7 percentage points between the impacts from the government's response and the proposals. Had the proposed scenarios been implemented, Uzbekistan's households would have only experienced a 15.6 per cent reduction in average per capita monthly income under Scenario 1 and a 14.9 per cent reduction under Scenario 2, significantly less than the actual loss of income between April and October.

Figure 5-2: Percentage change in average real median monthly household income per capita among all households compared to the actual loss of income (Apr-Oct 2020)



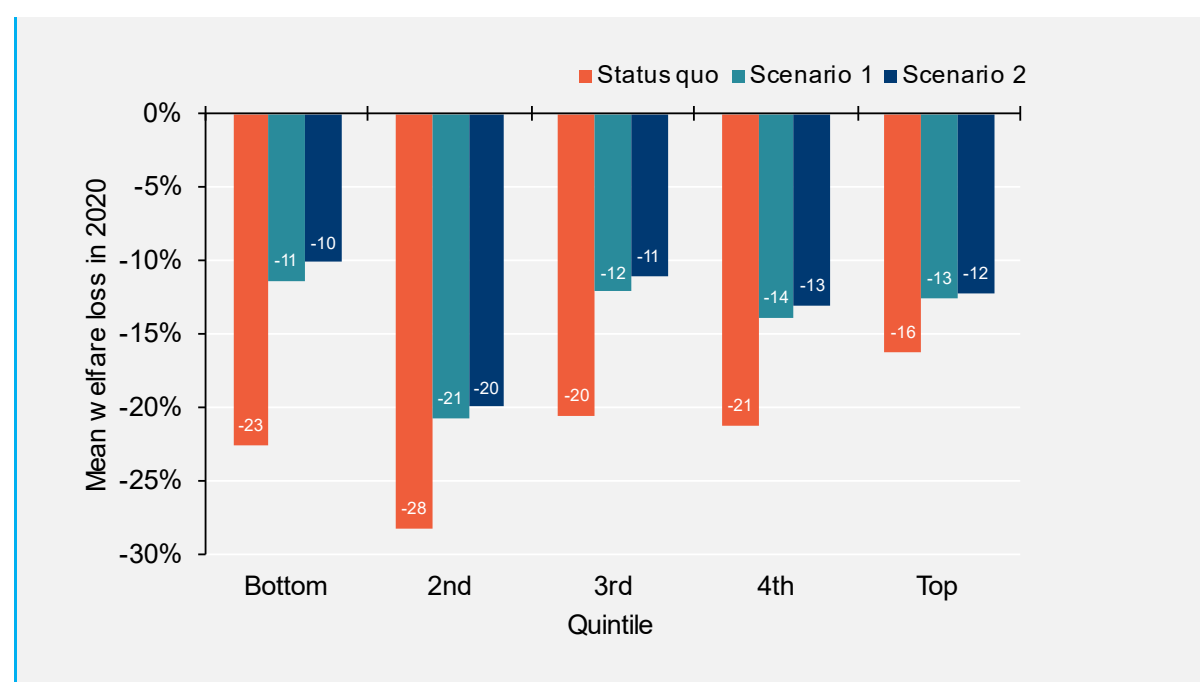
Although the emergency lifecycle transfers would impact Uzbeks across the lifecycle, children would experience the greatest reductions in welfare loss. Figure 5-3 demonstrates that the most significant impacts would be seen among children aged between 0-14 years (with 14 being the current cut-off age for the Family Allowance). Scenario 1 would have resulted in a 10-14 percentage point decrease in welfare loss, and under Scenario 2 this would have increased to 11-15 percentage points. Differences between the two scenarios can be seen among children aged 15-19 years, since Scenario 2 – which extends the age of eligibility to 17 years for the Family Allowance – would result in a lower welfare loss of 13 per cent, compared to 17 per cent under Scenario 1. Adults aged between 30-34 years of age – many of whom are parents of young children – would also experience a decrease of 11 percentage points under both scenarios. Older persons would be less impacted, in part because the existing status quo already guaranteed high pension coverage. Nonetheless, those older people living in households with children would experience a relatively significant reduction in their welfare loss.

Figure 5-3: Percentage change in average real median monthly income per capita under Scenarios 1 and 2 compared to the actual loss of income (Apr-Oct 2020), by five-year age group



The impacts of the proposed schemes would also vary across the welfare distribution. Figure 5-4 indicates that under Scenarios 1 and 2, impacts would be highest among families in the bottom welfare quintile, who would have experienced a 10-11 per cent welfare reduction. This is significantly less than the 23 per cent that they experienced under the Government's emergency measures. Households in the second, third and fourth quintiles – who are also living on low incomes – would also have benefited, but to a lesser extent than the poorest households. Nevertheless, many households living on middle incomes – who are undercovered by the social protection system – would have been provided with emergency support and, as a result, would not have needed to use as many negative coping strategies to survive the financial shock. The category that would benefit least would be the top quintile of the population, although they would receive at least some support, given that they have also been badly hit by the COVID-19 crisis. Reductions in welfare loss across the population could have further impacts, including a reduction in the risk of domestic violence and an improvement in child nutrition levels for the most vulnerable households.

Figure 5-4: Percentage change in average real median monthly income per capita among all households under scenario 1 and 2 compared to the actual loss of income (Apr-Oct 2020), by welfare quintile (pre-pandemic)



It is not too late to implement a more universal emergency response, so that Uzbekistan's window of opportunity to invest in its children is not lost. Forecasts indicate that the COVID-19 pandemic will continue to impact families across the world well into 2021, and many Uzbek families continue to be in a vulnerable state and would benefit from an additional stimulus of funds. If the Government of Uzbekistan were to implement one of the two suggested scenarios for a period of six months then the impacts would be impressive. And, given the multiplier effect of social protection schemes, such a stimulus would also ensure that Uzbekistan's economy would, in the future, be in a much stronger position.

6 Conclusion

The COVID-19 crisis is a universal crisis and has caused widespread negative impacts on jobs and livelihoods, with a devastating impact on the incomes of the vast majority of households in Uzbekistan. People of all ages and across the income distribution are affected by welfare losses, and average family incomes among children are 23 per cent lower compared to what they would have been without the pandemic. In addition, the share of children in low-income households is 11 per cent higher compared to what it would have been without the pandemic, with an additional 845,000 low-income families. The economic shock likely impacted on households' capacity to purchase essential items, which in turn almost certainly negatively impacted on children's development. Without an effective fiscal stimulus, Uzbekistan may not be able to reap the full rewards of its young population.

The pandemic has also shown that all Uzbeks are vulnerable. Households across all income quintiles experienced income loss. Not only were the poorest households hard hit, but households on middle incomes have fallen into a state of vulnerability and would have resorted to negative coping strategies in order to stay afloat.

The Government responded quickly to the COVID-19 pandemic, by horizontally expanding its poverty-targeted schemes and vertically expanding its working age disability benefits and old age pensions. In addition, two one-off cash transfers were offered to "vulnerable" groups. While the response mitigated the impact on recipient households, it had a minimal impact overall due to its low coverage. Consequently, the response failed to prevent a sharp rise in the number of low-income families nationally. Without an effective social protection response, there is a real risk that the economy will struggle to recover while the current and future development of the nation's children will be threatened. Some families may never recover without further support.

One of the best ways to tackle the effects of a crisis is to already have in place a sustainable lifecycle social protection system, which can be accessed whenever people are vulnerable. When the crisis hits, the system can be expanded to provide further support to those in need.

Fortunately, Uzbekistan already has in place the building blocks for an effective social protection system, and a bold and effective emergency response can build on this by expanding the coverage of existing schemes. If the Government were to invest a further 1.36 per cent of GDP by providing 6 months of cash transfers to all children aged 0-18, persons with disabilities and older persons, total investment would be in line with other countries that have successfully responded to the pandemic. Of course, if this scenario were to be implemented, further work would first need to be done to explore financing options for the additional emergency response.

Although the proposals in this report are, undoubtedly, child-sensitive, the impacts on the country's economy must not be overlooked. By increasing consumption levels, businesses – including those working in the informal economy – would be better able to avoid falling into a state of vulnerability and would therefore help maintain the country's markets. This would create a virtuous cycle in which more people would be employed in the future, leading to more sustainable family incomes and increased investment in the country's future workforce.

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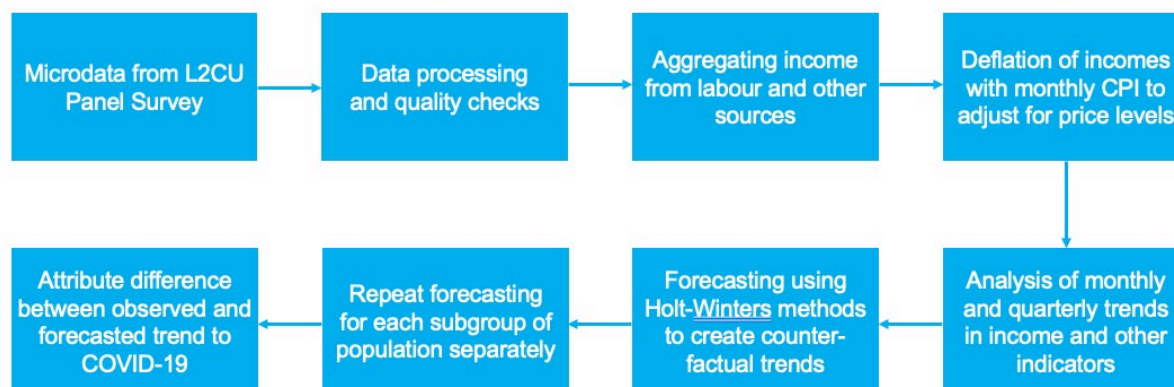
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Annex 1 Methodology

This section provides a brief description of the data and methodology that was used to assess the impact of the economic fallout of COVID-19 in Uzbekistan (see Figure 0-1).

Figure 0-1: Overview of methodology



Data source

The analysis used data from the L2CU panel survey that interviewed a representative sample of around 1,500 households each month from September 2018 to October 2020. Households were randomly drawn from a larger representative sample of 4,000 households who participated in the L2CU baseline survey that was conducted in mid-2018. Rates of attrition were relatively low (between 1 and 3 per cent each month) and non-responding households were replaced by another household in same sample cluster to maintain national representativeness. The panel microdata was provided by the World Bank.³¹

Measure of welfare

The main measure of welfare used in the analysis is real monthly household income per capita. This was constructed by aggregating household income from different sources – including wages, self-employment, agriculture, social security transfers, remittances, and other sources – and adjusting it for inflation by deflating incomes to the base month of the L2CU panel using monthly consumer price index (CPI) data from Uzbekistan's State Committee on Statistics. Aggregate statistics use the median as the measure of central tendency as it is more robust to outliers than the mean.

Welfare quintiles were constructed by ranking the population based on their real income per capita and dividing the population into five equal-sized groups, with quintile one representing the bottom 20 per cent of the population with the lowest incomes and quintile five the top 20 per cent of the population with the highest incomes. 'Static' quintiles representing the pre-

³¹ Further information on the L2CU is available at: <https://www.worldbank.org/en/country/uzbekistan/brief/l2cu#1>.

pandemic welfare ranking are based on the average monthly per capita income in 2019 and remain fixed in 2020. 'Dynamic' quintiles were re-calculated for every month in the panel survey based on pre-transfer income excluding social benefits.

In addition, we estimated the share of low-income households by replicating the income calculation formula used by the Government of Uzbekistan for its Single Registry as closely as possible. Low-income households are defined as households with a three-monthly average income per capita of less than 1.5 times the minimum wage, taking into account the adjustments that have been made in the value of the minimum wage over time. The income calculations are based on pre-tax income from labour and exclude social allowance benefits. As the L2CU collected data on disposable incomes, gross pre-tax incomes were estimated by assuming that earnings from labour were taxed at the flat income tax rate of 12%.

Modelling the impact of COVID-19

To model the impact of COVID-19, counterfactual scenarios were created that represent what the situation would have been in the absence of COVID-19 if pre-pandemic trends had continued. The difference between the observed and forecasted trend during the period April to October 2020 is attributed to the impact of COVID-19.

First, we constructed monthly time series of the median household income per capita for the period September 2018 to October 2020 using the L2CU panel survey. Separate time series were developed for different subgroups in the population based on age, sex, welfare quintile, place of residence (urban/rural), and sex of the head of the household.

Next, we used forecasting techniques to predict the value of the monthly time series for each population subgroup during the period April to October 2020 based on the observed pre-pandemic trend until March 2020. In other words, the model was 'trained' with data covering 19 months, from September 2018 to March 2020, and then used to predict seven months into the future for the period April to October 2020. The seasonal Holt–Winters method was used to do this forecasting as household incomes in Uzbekistan exhibit both a rising trend and strong seasonal variation. It comprises the forecast equation and three smoothing equations – one for the level, one for the trend, and one for the seasonal component, each with corresponding smoothing parameters.³²

Finally, we compared the average value of the forecasted time series during April to October 2020 with the average value of the observed incomes in the panel data. The difference between the time series was used as the estimator of the impact of COVID-19.

³² For a technical discussion on the Holt–Winters method see, for instance: Hyndman, R.J., & Athanasopoulos, G. (2018) *Forecasting: principles and practice*, 2nd edition, OTexts: Melbourne, Australia. [OTexts.com/fpp2](https://otexts.com/fpp2).



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