RESPONSE TO COVID-19 IN UZBEKISTAN
ПРОТИВОДЕЙСТВИЕ ВЛИЯНИЮ COVID-19 В УЗБЕКИСТАНЕ

International Labour Organization

Assessment of COVID-19 impacts on socio-economic situation in Uzbekistan (incomes, labour market and access to social protection): overview of crisis response and areas of improving public policies

Presentation of the key findings of the report

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Assessment of COVID-19 impacts: analysis toolkit

The objective of the report - assess the effects of the crisis caused by COVID-19 on the socio-economic situation in Uzbekistan and develop recommendations on additional measures of state support with a focus on employment.

	State and non-state enterprises and organizations	Small enterprises	Micro enterprises	Own-account workers	Self-employed	Other types of informal employ-ment
	1	2	3	4	5	6
Formal sector						
Informal sector						
Employment capacity	4.2 mln people			1.2 mln	8 mln people	
Assessment toolkit	Input – Output Analysis+ Express survey for 2 and 3			Express survey		

<u>The methodology of express surveys and questionnaires</u> were developed jointly with the Research Centre of the Ministry of Employment and Labour Relations with the support of the ILO National Coordinator Office.

<u>The express surveys of small enterprises and the informally employed</u> were conducted by the Research Centre of the Ministry of Employment and Labour Relations of the Republic of Uzbekistan in May 2020.

<u>The express survey of micro enterprises</u> was conducted by the Chamber of Commerce and Industry of Uzbekistan in May 2020

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Risk assessment of COVID-19 impacts: formal sector of the economy

The reaction of the economy and the labor market to the sequence of shocks caused by COVID-19 within the favorable (basic) scenario *

Sequence of shocks (phases)	GDP slump (% of annual amount), reduction of employed incomes and state revenues (%), released workers (thous. people)					
	GDP, %	Employed incomes, %	State revenues, %	Released workers, thous.	Incl. in small businesses	Employment reduction, total**
(1) Direct effect resulting from the stoppage of the companies' operations and compressed demand for products in the most vulnerable sectors (28 sectors)	0.94	1.26	3.27	89.8	61.0	56.5
(2) Plus the effect on technology-related industries and on deferred consumer demand (78 sectors)	1.54	2.03	4.50	116.9	76.1	82.6
(3) Plus the effect of the compressed external demand	1.88	2.37	4.88	126.6	80.6	93.3
(4) Plus the effect of the compressed state demand (full effect)	2.56	4.10	5.19	187.6	101.7	155.0

Source: estimates based on the input-output analysis, 2016.

*Favorable scenario: a) lifting confinement measures end of May – beginning of June; b) one-time allowance to workers whose enterprises stopped operations, to own-account workers and employed in the informal sector; c) decline of the external demand.

**Providing that part of the released workers will be employed in the growing sectors (agriculture, construction, health care).

Phase 1 - the effect of a decline in demand for services of the most vulnerable sectors in services: a decline in demand by 30% / 21 sectors and 15% / 7 sectors;

Phase 2 - the effect on sectors technologically-related to the vulnerable sectors (78) .

Phase 3 - the effect of the compressed external demand (5%);

Phase 4 - the effect of the compressed state demand(6,9%).

More than half of the COVID-19 negative impacts on economic activity, incomes and employment was caused not by direct, but by indirect effects

Risk assessment of COVID-19 impacts: informal sector of the economy

Decline of economic activity (%), decrease of incomes (%) and released workers (thousand of people), scenario* estimates

	Favorable (basic) scenario Option 1	Unfavorable scenario	
		Option 2	Option 3
GDP (% of the accounting period)	-2.6	-5.0	-6.8
incl. added value in agriculture	2.2	1.4	0.9
mining industry	-3.2	-6.3	-9.3
manufacturing	-4.0	-6.9	-9.0
construction	4.6	4.4	4.2
services	**-7.0**	**-11.0**	**-14.0**
Employed incomes (% of the base year)	-4.1	-7.0	-9.2
State revenues (% of the base year)	-5.2	-8.5	-11.1
Released personnel, total (thousand of people)	187.6	297.9	381.1
incl. in the sector of small businesses (thousand of people*)*	101.7	158.2	200.4
Employment reduction (in view of the partial flow of released workers into growing industries**), total (thousand)	155.0	270.4	357.3

Source: estimates based on the input-output analysis, 2016.

*Unfavorable scenario: (Options 2 and 3) differs from the favorable scenario (Option 1) due to a longer confinement period, lower social protection coverage, higher decline in external demand.

** Growing industries – agriculture, construction, health care.

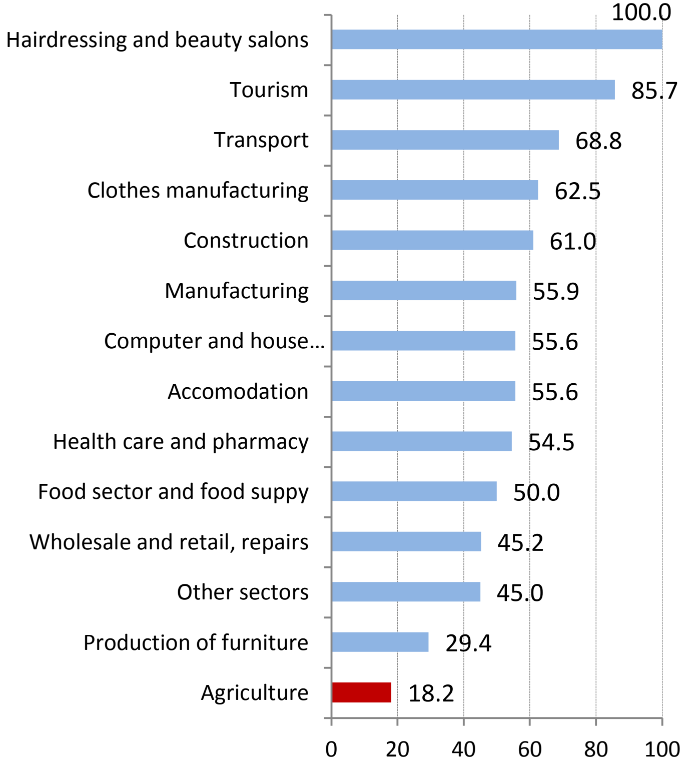
- **The proportion of released workers in the formal sector – up to 10%. 76.2% of them – in services (small business).**

Small business in the services sector should be in the focus of new crisis response measures.

Risk assessment of COVID-19 impacts: express survey of small and micro business

<u>Survey objective</u> - obtain estimates of the expected decline in demand under various assumptions regarding the duration of the lockdown and the adequacy of the measures taken by the state.

Share of companies that stopped operations in small business (a sample of 346 respondents), %



1. Stopped operations completely: 55% small and 60% micro.

2. Financial turnover and resilience:

- **<u>probability</u>** of stopping, a turnover up to 100 mln so‘m – **0.66**;
- a turnover from 100 mln so‘m up to 1 bln so‘m - **0.59**;
- a turnover from 1 blln. so‘m up to 10 bln so‘m - **0.49**;
- A turnover from 10 bln so‘m and above - **0.25**.

2. The risk of massive bankruptcy in the summer months : about 50% companies do not have financial cushions; available financial resources will keep them running till mid May.

3. Limited capacity for employment retention. Paid leave is the most affordable scheme (60% respondents), but unpromising with a duration of the lockdown **over 2 months**. Remote work and changing business – 18% respondents.

4.Limited capacity to pay sick leave.

4. Low availability of soft loans. Only 22% small enterprises and 7% micro firms.

- **Indirect support measures (guarantees and deferral on payments) are not relevant to growing risks.**
- **The mechanism of delivering state assistance to recipients requires improvement.**

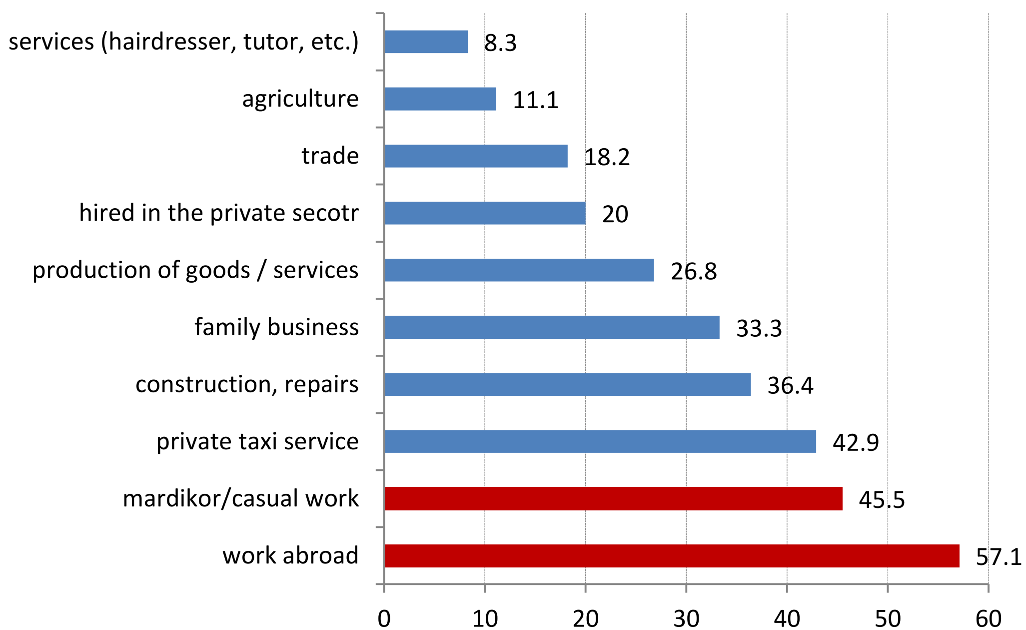
Express survey in the informal sector: employment

Survey objective - assess the potential for unemployment growth, gender context, social protection coverage and the most promising measures to legalize informal employment.

Respondents' choice:

- **For own-account workers** - based on the register of the State Tax Committee;
- **For self-employed –** database of labour agencies for individuals applying for employment beginning April 2020 года (i.e. during the lockdown). Selection criteria: а) job seeking; б) indicating having lost livelihood.

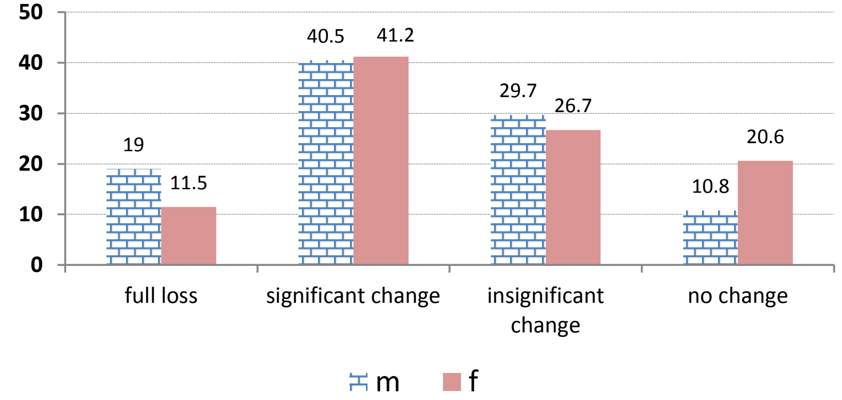
Self-employed who have lost their jobs (in % to those working before the lockdown)



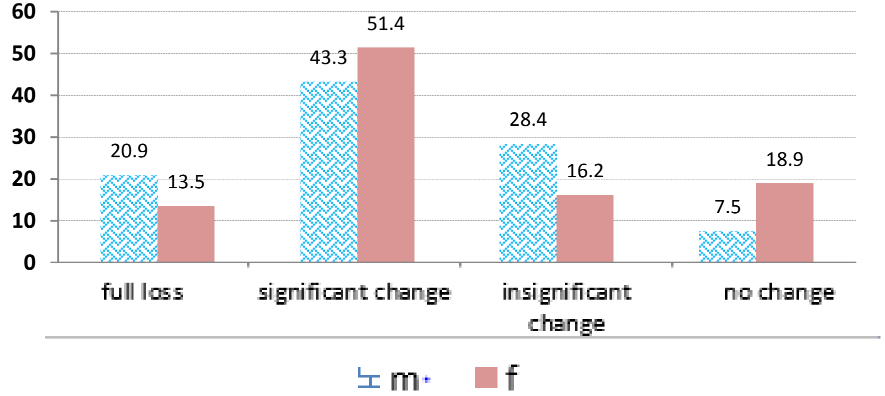
- **The informal sector appeared to be more resilient to shocks compared to small/micro business.** After the lockdown was imposed, 21.8% self-employed and 24.8% own-account workers have lost their jobs.
- **1.1 – 1.5 mln people released in the informal sector** create a risk of social instability.
- **The most vulnerable groups are** labour migrants and mardikors (casual workers)

Express survey in the informal sector: access to direct social support

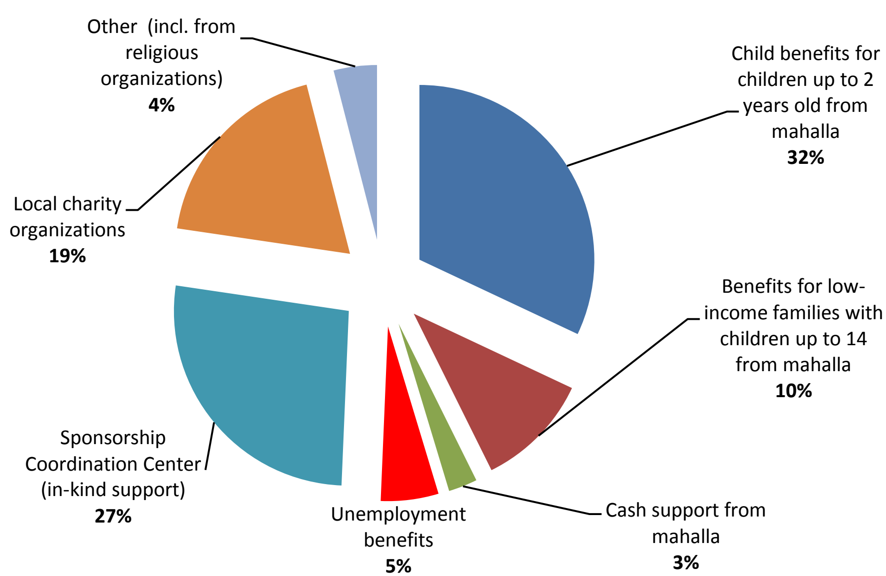
Distribution of self-employed by the loss of income and gender (%)



Distribution of own-account workers by the loss of income and gender(%)



Distribution of self-employed (%) who indicated receiving social assistance (out 18%, in total)



- **Full/significant loss of income**: almost 60% self-employed and 64.2% own-account workers.
- **Gender aspect:**

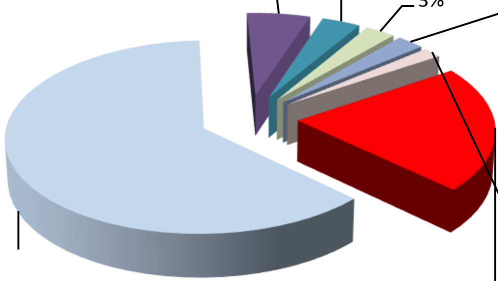
A) women are less vulnerable (they are smaller in number in the most affected types of informal employment).

B) Pre-pandemic gender structure of self-employed (38 women for 100 workers) has remained.

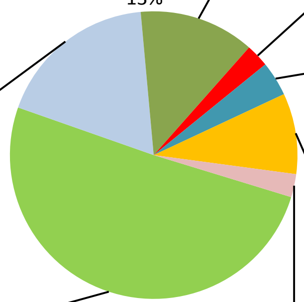
- **Low direct social protection support:** 100% own-account workers and 82% self-employed did not get assistance during the lockdown period.

Express survey in the informal sector: prospects of legalization

Most important measures for legalization of informal employment, %



Measures for job retention/resuming after the lockdown, %



- **Legalization of informal employment: tougher sanctions for employers hiring without formal contracts.**
- **Adequacy of unemployment benefits .**

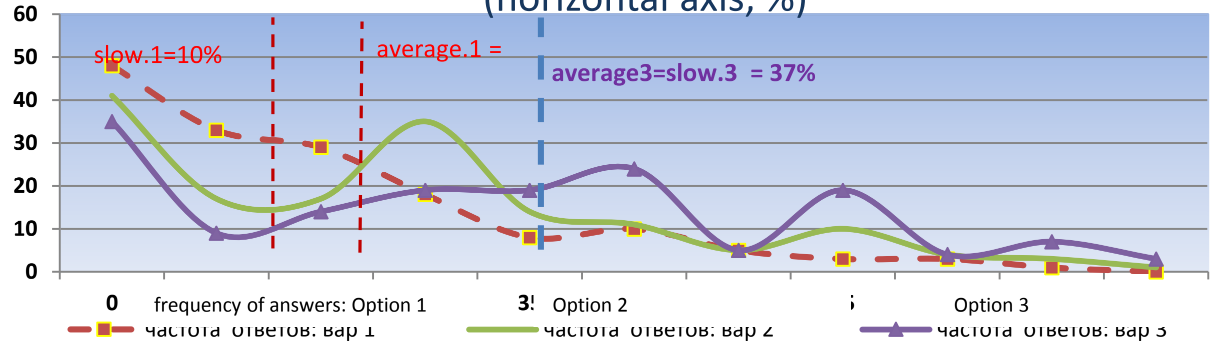
Recommendations: (1) stimulating the economy and workforce demand

1. Small business in the services sector – direct support measures (90% small and almost 80% micro firms):

- interest-free loans to replenish working capital;
- cancellation of loan payments during the lockdown restrictions;
- wage subsidies;
- tax holidays for the entire period of lockdown restrictions;
- provision of unemployment benefits for the "new" unemployed according to direct reports from employers and confirmation of taxpayer status by the tax authorities.

2. Relevant information. High uncertainty hinders effective decision-making to overcome crisis effects.

Distribution of the frequency of answers on the expected decrease in demand depending on the scenario
(horizontal axis, %)



3. Effective channels of delivering government assistance to the recipients: choice of agents.

4. Process chain recovery: supporting local manufacturing :

- write off half of the loans taken to replenish working capital if companies retain 80% of their employees by the end of 2020 (from the number of employees at the beginning of 2020);
- reduce VAT to 5% and defer VAT payment if at the end of 2020 at least 70% of employees are retained;
- support companies whose share of local goods in the cost structure of intermediate products is> 50%.

Recommendations: (2) supporting enterprises, employment and income

Supporting promising types of services in the small and micro business sector with a high employment multiplier and income multiplier

Sectors of the national economy	Income multiplier by end demand	Employment multiplier by end demand
Services in education	2.03	2.54 (63.5)
Services of libraries, archives, museums and other services in culture	1.70	2.49 (62.25)
Veterinary services	3.38	2.48 (62.0)
Production of films, videos, television programmes, sound recording, music production services	1.39	2.45 (61.25)
Social services without accommodation	7.20	2.44 (61.0)
Social care services with accommodation	3.58	2.43 (60.75)
Services in architecture, engineering, technical testing and analysis	1.50	2.40 (60.0)
Research and development services	2.11	2.12 (53.0)
Health care services	2.05	2.06 (51.5)
Employment services	1.24	1.92 (48.0)
Water treatment and water supply services	1.84	1.85 (46,25)
Postal and courier services	4.42	1.78 (44.5)
Management consulting services	9.40	1.46 (36.5)
Other transport means and equipment	1.21	1.46 (36.5)
Average multiplier value across the economy (78 sectors)	**0.367** With the end demand growth at 1 bln so'm, employed incomes increase by 367 mln so'm	25 With the end demand growth at 1 bln so'm, employment increases by 25 people

Source: estimates based on the Input-Output Table

Рекомендации: (2) supporting enterprises, employment and income

Extending social support coverage: adequate unemployment benefits. *Social protection should be based on human rights, but not on charity***.**

Costs of the payment of an increased amount of unemployment benefits, taking into account the new unemployed in the formal and informal sector and the duration of payments, in% of GDP

The amount of benefits and the number of new unemployed	For one month	For 3 months
Benefits in the amount of 1 mln so'm:		
• For all the new unemployed in the formal sector (381.1 thous. people)	0.17	0.51
• For all the new unemployed in the informal sector (1.0-1.5 mln people)	0.45/0.67	1.34/2.0
Total cost:	**0.62/0.84**	**1.85/2.51**
Benefits in the amount of 1 mln so'm:		
• For all the new unemployed in the formal sector (381.1 thous. people)	0.17	0.51
• **For half** of the new unemployed in the informal sector (0.5-0.75 mln people.)	0.22/0.33	0.67/1.0
Total cost:	**0.39/0.5**	**1.18/1.51**
• **Benefits in the amount of 1 mln so'm** for all the new unemployed in the formal sector (381.1 thous. people)	0.17	0.51
• **Benefits in the amount of 500 thous. so'm** for half of the new unemployed in the informal sector (0.5-0.75 mln people)	0.11/0.17	0.33/0.51
Total cost:	**0.28/0.34**	**0.84/1.02**

- **Social insurance mechanism for the informally employed** (ILO Social Protection Floors Recommendation (No.102, 2012) and Transition from the Informal to the Formal Economy Recommendation (No. 204, 2015).
- **Monetization of the economy in 2000-2018:** in Uzbekistan (10-25%) on average in 75 developing countries, comparable to Uzbekistan in terms of economy and population (50%-100%).
- **Sources:** Public Works Fund, IMI funding.

Recommendations: (2) supporting enterprises, employment and income

Formalization of informal labour relations: extending social insurance to informally employed

1. Adaptation of financial mechanisms in accordance with the contribution capacity.

- simpler registration and regulation;
- adaptation of the mechanism for paying taxes and social contributions (e.g. one tax);
- subsidizing low-income groups through progressive taxation.

The Decree of the President of the Republic of Uzbekistan, On Measures to Simplify State Regulation of Entrepreneurial Activity and Self-employment dated 8 June 2020: *liberalization of registration and regulation of self-employed and own-account workers*.

2. Using digital technologies in the process of legalizing informal labour relations. They are used not only to collect data on informally employed, but also to facilitate access to social insurance tools, payment monitoring, assessment of efficiency and social protection coverage, as well as to ensure flexible response to the changing situation in the labour market.

Recommendations: (3) protection of workers in the workplace

1. Adjustment of the labour legislation:

- regulating remote employment;
- regulating platform employment;
- using digital technologies at work;
- changing the format of employment contracts.

2. Amendment of the HR model: transition from a supervisory approach in personnel management to the principles of psychological encouragement and implementation of talent management systems.

3. Extending labour protection to the informal sector workers. Workers of any type of employment should have occupational injuries insurance. For informal employees it could be *combined* with health insurance in a number of areas.

Recommendations: (4) reliance on social dialogue for solutions

Constructive social dialogue for rapid and sustainable recovery in the post-crisis period.

General Agreement between the Cabinet of Ministers, the Council of the Trade Unions Federation of Uzbekistan and the Confederation of Employers of Uzbekistan on socio-economic issues for 2020-2022. (signed January 28, 2020).

Additional areas of social dialogue:

1. **Promotion of social protection floors (social insurance) for all workers irrespective of the form of employment:**

- adopt a legal act to regulate the concepts of “consumer basket” and “cost of living”;
- assessment of poverty, social stratification, changes in the work of social services, etc.

2. Strengthening the government’s capacity in the process of transformation of the informal sector:

- development of legal acts to regulate non-standard forms of employment;
- revision of all current measures / programmes of employment policy (active, passive);
- finding a reasonable balance between contributory and non-contributory payments;
- search for sources of funding for the establishment of digital platforms, etc.

3. Improving the quality of collective bargaining and collective bargaining agreement coverage: extending comprehensive social protection coverage.

4. Increasing the number of participants in social dialogue: Law on Social Dialogue

Words of gratitude to:

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Thank you for your attention!