

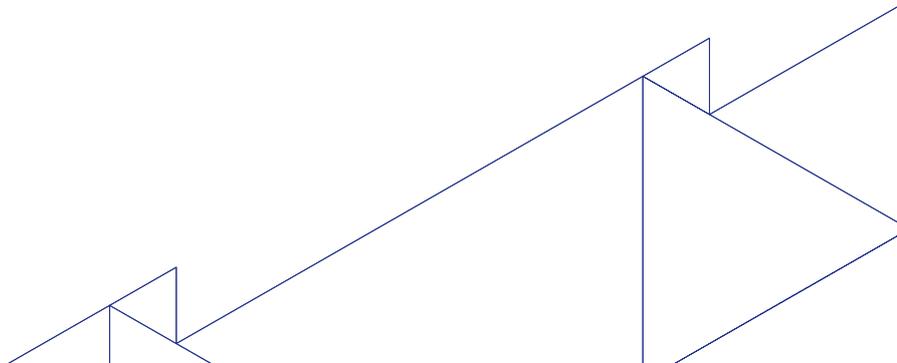


International
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► Social protection in case of job loss: possible options to expand the coverage with unemployment protection programmes in Uzbekistan

Final Report

SEPTEMBER 2021





CABINET OF MINISTERS
OF THE REPUBLIC OF UZBEKISTAN



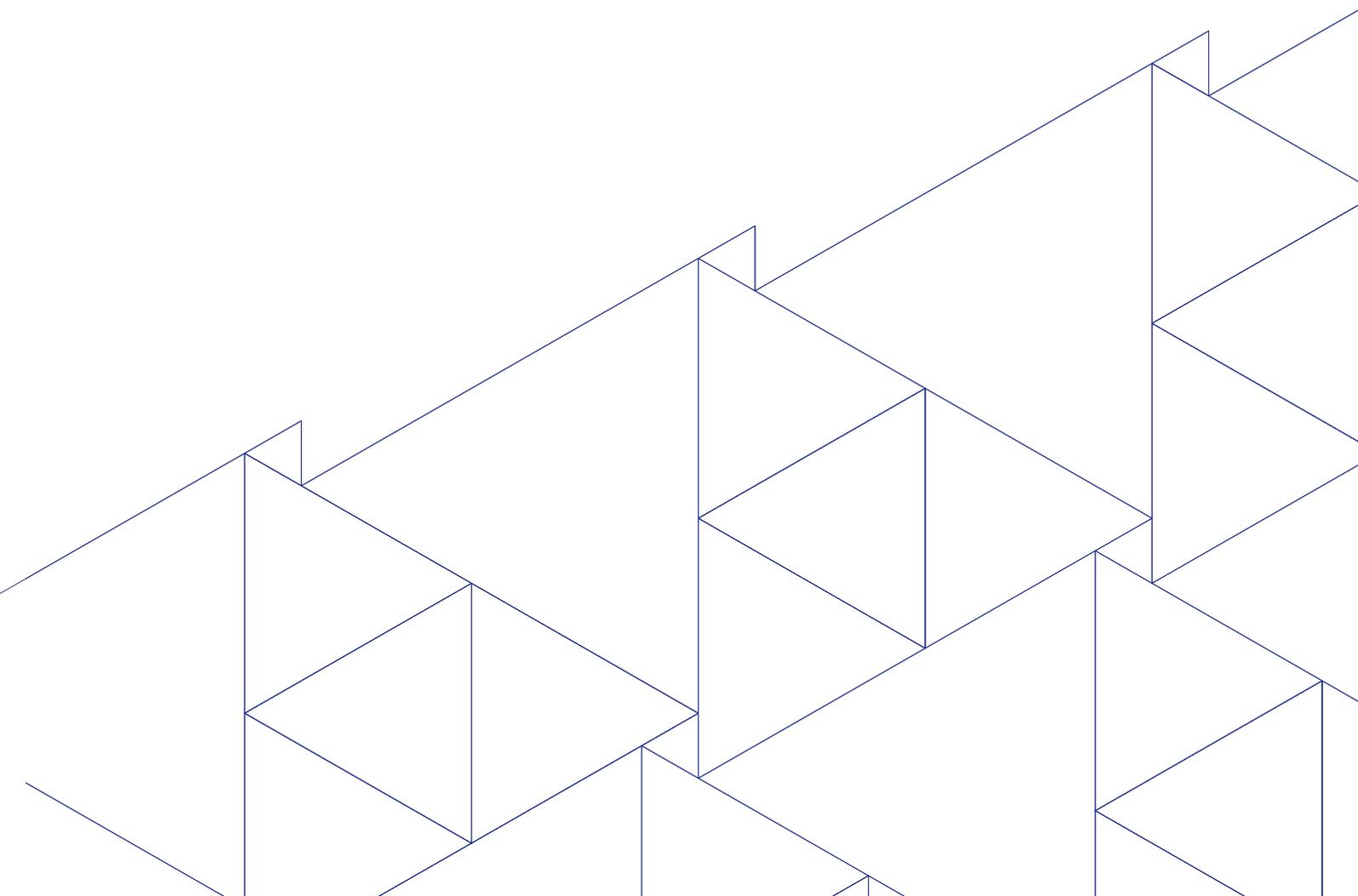
UNITED NATIONS
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JOINT SDG FUND 

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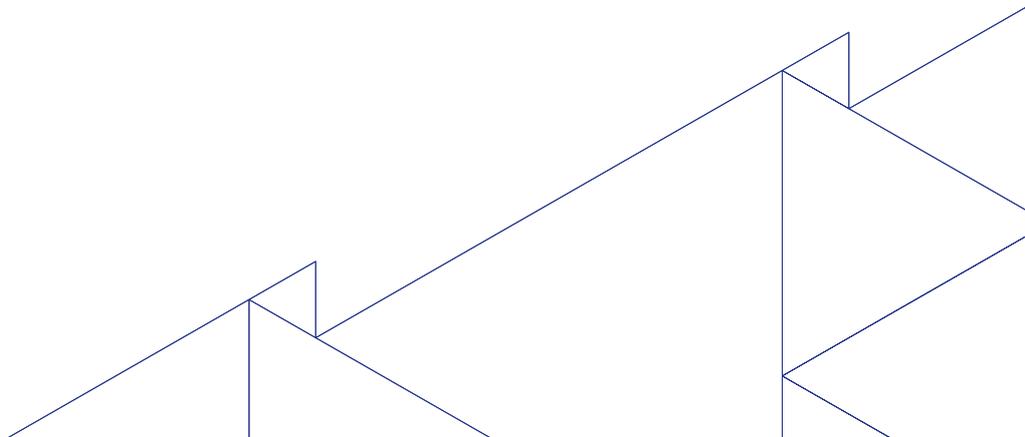
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The ILO would like to express special gratitude to its national partners – the Ministry of Employment and Labour Relations and the Ministry of Finance, the Federation of Trade Unions and the Confederation of Employers of Uzbekistan. Comments received from constituents during online workshops discussing international labour standards on unemployment protection, international practice and its application in Uzbekistan played an essential role in the quality of the report and in shaping options for further actions. We hope that the analysis and recommendations presented in this report will serve as key reference points in the development of the National Strategy for Social Protection in Uzbekistan till 2030, the National Employment Promotion Strategy and the Poverty Reduction Strategy. It is hoped that constituents will continue discussions about the options to strengthen protection in case of unemployment and to extend it to informal workers.

► Introduction

Providing decent employment for the working-age population is a serious challenge for Uzbekistan at its current stage of development. Attaining this goal will require a range of measures promoting employment, as well as enabling effective access to social protection aimed at preventing and compensating for the negative effects of unemployment.

The existing system of protection against unemployment consists of a) small scale unemployment benefits, which coexist with b) labour market policies (LMPs); c) assistance to those who are less competitive in the labour market, and d) severance payments of a limited scope. Unemployment benefits are paid out from the Employment Promotion Fund of the Ministry of Employment and Labour Relations (MELR) with financing coming from a mix of sources, specifically mandatory social insurance contributions and the state budget. Labour market measures are financed from the state budget. Severance payments are paid by employers, however this only applies for certain categories of workers, as prescribed by law. An additional lump sum payment (financed from the state budget) was provided to support three categories of workers (see Table 3) who lost their income due to the quarantine imposed during COVID-19.

Workers in the informal sector, despite making up 56.6% (including labour migrants – 13.8%)¹ of the employed population, have no social insurance in case of job loss. This large gap in social protection, including unemployment protection, is a serious challenge to the country's development because it is a major obstacle to realizing the Sustainable Development Goals (SDGs), Poverty Reduction Strategy, National Employment Promotion Strategy and National Social Protection Strategy through 2030². Importantly, this gap may result in deepening and increasing poverty of unemployed persons during their working age.

The COVID-19 pandemic and its subsequent crises have made this challenge all the greater, given it has resulted in the dismissal of an additional 1.9 million persons (over 14% of the total employed population) due to quarantine restrictions³. Given the remaining high degree of uncertainty in global markets, the recovery of markets in Uzbekistan is likely to be volatile. This means an increased risk of job loss than in the "pre-COVID" period, while long-term unemployment and the share of inactive population is likely to increase. Furthermore, Uzbekistan is becoming increasingly affected by recent global labour market trends, whose impact is even greater under COVID-19. These include rapid expansion in the scale of non-standard forms of employment (remote, seasonal, temporary, part-time, and platform employment among others). The existence of an effective mechanism that protects people when they lose their jobs, which can be extended to workers in all types of working arrangements, has become particularly important as a bulwark against such employment challenges.

1 As of January 1, 2021. Source: Ministry of Employment and Labor Relations.

2 About 12-15% of the population are living in poverty, according to the speech by the President of Uzbekistan at the video conference held on 27 February 2020. Available online at: <https://www.gazeta.uz/ru/2020/02/27/poverty/>.

3 Source: Report on Assessment of COVID-19 impacts on the socio-economic situation in Uzbekistan (incomes, labour market and access to social protection): Overview of crisis response and areas for improving public policies. The report was prepared under the auspices of the MELR with support from the International Labour Organisation Decent Work Technical Support Team and Country Office for Eastern Europe and Central Asia. The main findings of the report were presented in Tashkent on 16 July 2020.

Protection in case of job loss is a fundamental component of international social security standards. In accordance with the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102), the Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168) and accompanying Recommendation No. 176, unemployment benefits are an integral part of social security. Importantly, such systems of protection against unemployment should contribute to the promotion of decent work. Together, these standards provide guidance for the design and implementation of unemployment protection schemes, as well as their coordination with employment policy, notably through employment services. For example, under Convention No. 168, unemployment insurance must cover not fewer than 85% of employees, including public employees and apprentices.

The purpose of this report is to provide options for expanding the degree of coverage Uzbekistan's unemployment protection programmes provide through a) the design of a general social insurance legal framework with an emphasis on strengthened unemployment insurance; and b) proposing options for a gradual extension of the coverage unemployment protection provides, starting with groups of workers in the informal economy that have the capacity to contribute.

The report can serve as a background document to be used in deliberations as part of the Republican Tripartite Commission, working groups and policy makers drafting the Strategy for Social Protection for 2022-2030, Employment Strategy and Poverty Reduction Strategy to design measures aimed at strengthening protection against unemployment in the medium and long terms. Additionally, the report can be used by social partners to dovetail their actions and advocacy efforts.

The report contains five sections. The **first section** presents the distinctive features of the current employment situation.

The **second section** outlines the legal regulations, mechanisms, and instruments in the current system of protection in case of unemployment.

The **third section** describes the main challenges that current programmes intended to protect in case of unemployment are not currently able to address. It is based on the findings of three webinars attended by the MELR's employment promotion centres (which are directly involved in assigning and delivering unemployment benefits in Uzbekistan), the Ministry of Finance, government officials, and social partners⁴.

The **fourth section** provides findings based on an analysis of international experience with unemployment insurance, with emphasis on the experiences of developing countries that have successfully reformed their unemployment protection schemes taking the needs of informal workers into account.

The **fifth section** offers options for extending the coverage with unemployment protection, as well as issues that should be considered in the process of selection of options and their implementation.

⁴ Three webinars were held on 13 November 2020 and on 5 March/14 July 2021 under the framework of UN Joint Programme Strengthening Social Protection in Uzbekistan in collaboration between the MELR and ILO. See: https://www.ilo.org/moscow/news/WCMS_775298/lang--en/index.htm

► 1. Current employment situation

The fundamental driver of an employment situation is the supply of workers being greater than the demand for them. The share of people of working age as part of the total population has increased from 53.6% to 58.7%⁵ between 2000 and 2019. The birth rate had been stabilizing until 2005, however after this year it began accelerating, meaning that from 2021 to 2025 larger cohorts of young employable people will begin entering the labour market. The working-age population may also increase with the adoption of the Concept for Reform in the Provision of the State Pension, which allows the option of raising the retirement age to the global average. The increasing working-age population will determine the supply of workers in the future.

On the other hand, structural reforms and the capital-intensive nature of economic growth are accompanied by reduced demand for workers and therefore reduced employment. Between 2000-2019, the employment rate dropped from 81.6% of the working-age population to 57.3% (Chart 1). The measures to implement active employment policy that were initiated by the reorganised Ministry⁶ of Employment and Labour Relations in 2017 brought about a modest improvement in this rate. However, in 2020 the COVID-19 pandemic halted that trend. **The excess supply of workers is currently a direct contributor to the substantial informal sector of the economy and to external labour migration.**

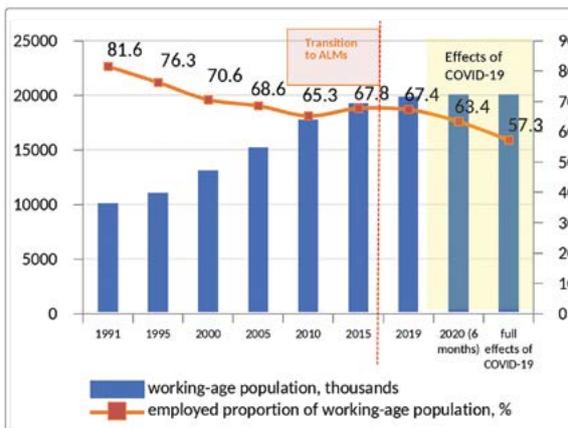
5 Based on statistics from the State Committee on Statistics.

6 Decree of the President of the Republic of Uzbekistan “On measures to further improve state policy pertaining to employment and radical improvement of the effectiveness of state labour bodies” No. 5052 dated 24 May 2017.

The **informal sector** accounts for 56.6% of total employment. Although it is distinguished by its flexibility and is the source of income for a significant portion of the population, it provides no guarantee of decent work (low and unstable earnings, infringement of labour rights, lack of social protection, etc.).

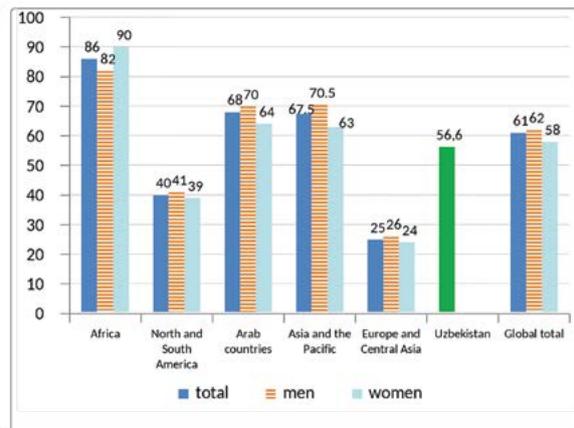
External labour migration reached about 2.0 million persons, giving a misleading picture of the actual shortfall in employment. It is also volatile (waves of returning migrants appeared in 2010 and 2020) and constitutes the greatest external shock to the internal labour market.

Chart 1: Structural indicators governing employment, 1991 - 2020



Source: State Committee on Statistics

Chart 2: Informal employment by world's regions (2018) and informal sector in Uzbekistan (2020), %



Source: Based on ILO figures, 2018.

In terms of informal employment, it is difficult to compare Uzbekistan with other countries since Uzbekistan uses the concept of employment in the informal sector while the concept of informal employment is used in world practice (Box 1). This makes it difficult to assess the real scale of informal employment and categories of those unemployed in Uzbekistan. Regardless, the combination of a large informal sector and high levels of labour migration indicate the presence of **an elevated risk of job loss for much of the country's working-age population**, as well as a model of economic growth, which is not very inclusive. Unemployment protection combined with formalisation and decent job creation measures must become an integral part of all the strategies for the country through 2030: Sustainable Development Goals (SDG), Poverty Reduction Strategy, National Social Protection Strategy and National Employment Promotion Strategy.

► **Box 1. Definition: informal employment and employment in the informal sector.**

The statistical international definition of informal employment differentiates between three categories of workers: (i) employees, (ii) employers and own-account workers, and (iii) contributing family workers.*

- In the case of employees, informal employment is defined in terms of employment relationship. According to international standards, "employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment bene-

fits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.).” The underlying reasons may be: non-declaration of jobs; casual or short-term jobs; jobs with hours of work or wages below a specified threshold (e.g., for social security contributions); or a lack of laws and regulations being applied in statistical terms. The formal or informal nature of a job held by an employee is determined based on operational criteria such as social security contributions by the employer (on behalf of the employee) and entitlement to paid sick leave and paid annual leave.

- Employers and own-account workers are considered to be in informal employment when their economic units belong to the informal sector. The informal sector is a subset of household enterprises (not constituted as separate legal entities, independent of their owners) that produce goods or services for sale in the market, and lack a complete set of accounts and/or are not registered under national legislation.**
- Contributing family workers are, by definition, informally employed, regardless of whether they work in formal or informal sector enterprises.

Notes:

*ILO, 2003. Guidelines concerning a statistical definition of informal employment, Seventeenth International Conference of Labour Statisticians (Geneva). Available at: https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/normativeinstrument/wcms_087622.pdf.

** ICLS, 1993. Resolution concerning the measurement of employment in the informal sector, ILO Fifteenth International Conference of Labour Statisticians, Geneva. Available at: https://ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/normativeinstrument/wcms_087484.pdf

► **The groups that are part of informal sector in Uzbekistan:**

- members of dekhkan farms who do not pay social insurance contributions while being in fact employed in dekhkan farming;
- persons who are self-employed without registered entrepreneurial activity to provide paid domestic services (child care providers, housekeepers, cooks, drivers, guards, etc.);
- persons employed by entrepreneurs – members of their families, persons working without documented employment (construction workers, haulers, etc.), who do not make social insurance contributions;

The decree also sets out the following criteria for classifying those employed in the informal sector:

- any paid work in the informal sector for more than two hours per week;
- regular employment – with weekly income from employment in the informal sector;
- access to a 10-decare plot of land used for personal subsidiary farming.

Source: Decree of the Cabinet of Ministers "On improving the method for determining the number of persons in need of employment, including the method for investigating domestic services in matters of employment, and also preparing a balance of labour resources, employment and recruitment of the population" No. 1011 dated 22 December 2017.

► Table 1. Basic indicators of the employment situation in Uzbekistan, 2020

Indicator	Thousands of persons	Source of statistics
Total population	34,144.0	State Committee on Statistics
Potential workforce:	19,142.3	State Committee on Statistics
consisting of:		
economically active population	14,797.9	Workforce balance, MELR, 2020
economically inactive population	4,344.4	Workforce balance, MELR, 2020
Total employment	13,239.6	Workforce balance, MELR, 2020
Total unemployment	5,902.7	Workforce (19,142.3) minus employed (13,239.6)
consisting of:		
<u>unemployed in need of work</u>	1,558.3	Economically active (14,797.9) minus total employment (13,239.6)
pupils and students	1,557.4	Workforce balances, MELR, 2020
<u>migrant workers</u>	1,838.2	Workforce balances, MELR, 2020
other categories (voluntarily unemployed, women on maternity leave or to care for children under 2 years of age and others)	948.8	Workforce balances, MELR, 2020

Source: based on data of State Committee on Statistics and Workforce balance, 2020.

► 2. Social protection in case of job loss: legal regulation

The following acts provide the legal framework for support in case of job loss:

- The Law of the Republic of Uzbekistan “On employment”. Until 2021, employment had been regulated by a version of this law passed in 1998 (No. 616-I dated 1 May 1998). Its current form was passed on 22 October 2020 and entered into force on 21 January 2021.
- The Labour Code of the Republic of Uzbekistan (passed in 1995). A new version of the Code is undergoing approval procedures with adoption anticipated in 2021.
- Regulations on the procedure for registering citizens with labour bodies, their employment, and assignment and payment of unemployment benefits (Regulation of the Ministry of Justice No. 831 dated 13 October 1999). This procedure will be modified in accordance with the new version of the Law “On employment” that was passed in 2020.

People who are unemployed or have lost their jobs can count on the following type of support:

- I. Support programmes in case of job loss as prescribed by law.
- II. Income security for those unemployed and cannot access existing programmes in case of unemployment.
- III. Additional lump sum benefit during quarantine restrictions (beginning 19 March 2020) due to COVID-19 as part of the anti-crisis measures.

I. Support programmes (including mandatory social insurance) as prescribed by law in case of job loss. The following measures are stipulated:

1. Financial support for the unemployed. A person is deemed unemployed if they are, a) between the ages of 16 and 55/60 years of age (Article 3 of the Law “On employment”, retirement age in Uzbekistan is 55 for women and 60 for men); b) lack a job or income-producing employment; c) are actively seeking work and prepared to begin as soon as the job is offered, or d) prepared to undergo occupational training, retraining or pursue skills development (the Law “On employment”). To obtain unemployment status (including new entrants), a person must register with an EPC as seeking work.

► **Box 2. Persons who do not qualify for status as unemployed:**

- a) persons who have rejected suitable job offers twice within the first 10 days after registering with an EPC
- b) persons who have not appeared at an EPC (without a valid reason) within the first 10 days after registration in order to receive job offers
- c) students at educational institutions, except those engaged in distance learning

- ▶ d) persons with disabilities and pensioners, regardless of age or type of pension, as well as persons who qualify for a pension even if they have not applied for it
- ▶ e) unemployed women caring for a child under two years of age⁷
- ▶ f) persons sentenced by a court to correctional labour without imprisonment
- ▶ g) persons who wish to change their job but at the time of registering with an EPC are still working or considered as employees of a company, regardless of the company's legal form
- ▶ h) heads and members of farms, as well as persons registered with governmental agencies as entrepreneurs without forming a legal entity
- ▶ i) members of dekhkan farms (single-owner or family-owned farms) who pay contributions to the extra-budgetary State Pension Fund under the Ministry of Finance as members of such farms.

The state guarantees the following support to the unemployed:

- ▶ **Unemployment benefit.** Currently, procedures regarding unemployment benefits are designed with an intention to comply with international requirements, with the new version of the Law "On Employment" aiming to further strengthening this. The table below presents the mechanisms and requirements necessary for the receipt of unemployment benefits, including the changes that entered into force on January 21, 2021.

⁷ But they are eligible to receive three other types of benefits: a) antenatal and postnatal benefits for 144 days; b) a lump sum allowance for the birth of a child and c) benefits to care for a child under the age of two (only for woman worked in a non-budgetary organization, budget organizations do not pay this benefit).

► Table 2. Unemployment benefit amount and categories of recipients, 2021

Category of unemployed	Current procedures (introduced on January 21, 2021)
Amount of unemployment benefit	
Workers who have lost their jobs and earnings	50% of average wage at the former workplace, but no less than the minimum national wage (MW)* and no more than the national average wage that prevails in Uzbekistan at the time when the benefit is calculated (provided that loss of job and earnings occurred within the last 12 months).
Persons dismissed from military service, from law enforcement agencies, the State Security Service, the National Guard, and other departments in which military service takes place	50% of average wage at the former workplace, but no less than the minimum national wage and no more than the national average wage in Uzbekistan at the time when the benefit is calculated (provided that loss of job and earnings occurred within the last 12 months).
Persons seeking work for the first time and persons who cannot provide documents to verify their work history	No less than 75% of the national minimum wage.
Persons seeking work after lengthy unemployment (over one year)	An amount equal to the national minimum wage.
Unemployed pregnant women (while the pregnancy has not exceeded 28 weeks) regardless of work history	An amount equal to the national minimum wage.
Maximum duration of unemployment benefit	
Persons who have lost their jobs and earnings or are trying to return to work after lengthy period of unemployment (over 1 year)	No more than 26 calendar weeks in a 12-month period.
Persons not previously employed who are seeking a job for the first time	
Unemployed pregnant women (while the pregnancy has not exceeded 28 weeks) regardless of work history	
Grounds for termination of unemployment benefit	
Unemployed persons	Unemployment benefit is terminated in case: <ul style="list-style-type: none"> ► if the unemployed has received subsidies to encourage entrepreneurship or develop private household plots of land; ► if the unemployed has received a microcredit from the Employment Promotion Fund at the MELR and other sources.
Legality of receipt of unemployment benefits	Unemployment benefit is terminated in case: <ul style="list-style-type: none"> ► the benefit was obtained fraudulently ► the unemployed person has been temporarily employed outside of Uzbekistan ► the unemployed person has registered as self-employed.

Source: authors

*Note: The minimum national wage amount (MW) in Uzbekistan does not reflect the minimum standard of living but is used as a benchmark for calculating the amount for surcharges, bonuses, honoraria, compensatory payments, withholding, etc. The MW category is also used to assess the need of families for social assistance, as well as to calculate the amount of unemployment benefit. As of 1 February 2021, the MW amounted to 747,300 UZS (about 65 USD). According to the State Committee on Statistics, the average national monthly salary in the first quarter of 2021 amounted to 2.8 mln UZS (roughly 267,3 USD according to the Central Bank exchange rate as of March 31, 2021).

► **Stipends during occupational training, retraining and pursuit of higher qualification and inclusion of this period in the work history. Stipends are as follows:**

- a) those who have had their job terminated by the employer (and are registered at an EPC) receive an amount no less than their average wage at the previous job for the first three months of training;
- b) other categories of those unemployed receive 50% of the average wage at their last workplace, but not lower than the national minimum wage amount and no higher than the average wage;
- c) long term unemployed (persons who have not worked longer than a year) or are seeking work for the first time and need retraining receive no less than the unemployment benefits prescribed for their respective category, however this amount cannot be higher than the minimum wage.

These benefits cannot be received simultaneously. If an unemployed person begins training, they receive a stipend, as opposed to unemployment benefits. Candidates who are accepted into training programmes are required to train for an occupation at a Centre for Occupational Training for 40 weeks. The certification received is the equivalent of a diploma for secondary vocational education and may be used during recruitment.

► **Financial assistance to unemployed persons whose right to benefits have expired**⁹. According to legislation, assistance applies to (but is rarely used in practice because of limited financing):

- a) travel by public transport, if the distance from the unemployed person's residence to the location of the job offered exceeds the limit for transport accessibility¹⁰;
- b) payment of the cost (or a portion of the cost) of meals at an in-patient health care institution;
- c) reimbursement for the cost (or a portion of the cost) of housing and common area services;
- d) payment for funeral expenses upon the death of an unemployed person or of a member of family.

► **Participation in public works**¹¹. The unemployed may receive paid jobs in public works through a two-month fixed-term employment agreement with the option for an extension. The following guarantees apply a) the public works period is included in the person's work history; b) wages¹²; c) social insurance contributions towards old-age pension; and d) support for temporary incapacity to work (certified illness). Those engaged in public works are exempt from payment of social tax and tax on income received from the Public Works Fund.

► **Reimbursement for costs of voluntary relocation to work in a different locality for a job offered by an EPC.** This may apply to a) expenses for travel and hauling belongings; b) expenses for installation at a new locality; and c) other expenses borne by the employee upon consent of the employer.

8 The centres are under the MELR. The guidelines for content and methods of trainings are under the oversight of the Ministry of Higher and Secondary Specialized Education.

9 Source: Resolution "On the procedure, amounts and conditions applicable to material assistance to unemployed citizens and allocated from the State Employment Promotion Fund" (Regulation of the Ministry of Justice No. 548 dated 23 November 1998).

10 The limit of transport accessibility is set by the local governmental bodies (khokimiyats).

11 Source: Resolution "On the procedure for organising payments for public works" to the Decree of the Cabinet of Ministers "On organising the Public Works Fund under the Ministry of Employment and Labour Relations of the Republic of Uzbekistan" No. 799 dated 5 October 2017.

12 If the public works project has been arranged by a budgetary division, the monthly wage of a participant must not exceed five times the minimum wage. If the public works have been initiated by a business or non-profit NGO, the Public Works Fund will reimburse 50% of the cost (but no more than 2.5 times the minimum wage for each person per month).

2. Employment assistance is provided in the following ways:

► **Additional assistance is provided to support the employment of persons who cannot compete on equal terms in the labour market.** Such persons include:

- a) single parents or parents with many children (more than three under the age of 14) or children with disabilities;
- b) young people who have graduated from secondary/higher educational institutions on state grants;
- c) those dismissed from conscription in the Armed Forces of the Republic of Uzbekistan;
- d) persons with disabilities;
- e) persons approaching retirement age (within 2 years of qualifying for a pension);
- f) persons discharged from penitentiary institutions or compulsory treatment;
- g) victims of human trafficking;
- h) former residents of the Mehribonlik homes (state educational institutions for orphans and children without parental care).

These guarantees take the form of jobs reserved (quotas) for employment of hard to employ persons. Employers are required to allocate certain share of jobs (10% of the average number of employees at an enterprise, of which 3% are reserved for persons with disabilities) for hiring hard to employ job seekers from the groups of persons listed above.¹³

► **Subsidies and grants to employers for hiring and training.**¹⁴

Subsidies are allocated to:

- a) employers to offset the costs of retraining employees hired in response to assignment by an EPC – for 6 months in the amount of 4 BSR (Basic Settlement Rate) for each worker;
- b) the unemployed who wish to start a business and have previously registered with an EPC to offset the costs of setting up a business – 10 BSR;
- c) organisations or companies which hire more persons from the needy segments of the population than the minimum number of positions required by quota – 2 BSR for 12 months;
- d) for purchase of greenhouse frameworks, grain, seedlings/irrigation equipment – from 3 to 10 BSR.

13 Source: Decree of the Cabinet of Ministers of the Republic of Uzbekistan “On measures for the further improvement of procedures for creating and reserving a minimum number of positions for the employment of persons who are in need of social protection and are experiencing difficulty in finding work and are unable to compete on equal terms in the labour market” No. 965 dated 5 December 2017.

14 The procedure for issuing them was approved by the MELR (Reg. No. 3163 dated 31 May 2019). The procedure was adopted by Decree of the President of the Republic of Uzbekistan “On state orders for ensuring employment of the population and creation of new jobs in 2019” No. 4227 dated 5 March 2019.

15 The Basic Settlement Rate (BSR) is applied to set the amount of tax payments, fees, fines, duties, payments for state services and for permits (licences) to carry out particular types of entrepreneurial activities, as well as other payments. The current BSR is 245,000 UZS.

Grants are available to underwrite:

- a) expenses of occupational training institutions for occupational training of the unemployed, especially returning migrant workers, as well as young women from low-income families;
- b) skills development in agricultural technologies, animal husbandry, gardening and vegetable production, food production, fishing and beekeeping for farmers and dekhkan farmers, as well as for owners of household plots to attend occupational training, colleges, etc.

► **Micro-loans on preferential terms** amounting up to 500 BSR for up to three years with a 6-month grace period¹⁶ to small enterprises, farmers, and dekhkan farmers/family businesses are available to:

- a) build greenhouses, purchase seed, seedlings, livestock and poultry, tools, and means for irrigation (pumps, artesian wells, etc.) in personally operated subsidiary farms and dekhkan farms;
- b) purchase small-scale equipment and raw materials for processing, storing, and packaging agricultural products, produce building materials and consumer goods;
- c) start-up and outfit service businesses (household, repairs, medical, etc.);
- d) develop cottage industries, especially for women in rural areas.

II. Income security for unemployed persons who cannot access existing unemployment programmes

Certain categories of workers not covered under the social insurance or State budget funded unemployment protection schemes may be provided income security through social protection benefits. In theory, this includes persons working in the informal economy, however this is only the case if they meet the strict eligibility criteria to receive targeted social assistance.

These benefits include:

► **social protection cash benefits:**¹⁷ 1) benefits to care for a child under the age of two; 2) benefits for families with minor children; and 3) a poverty reduction benefit (social assistance). These benefits are intended for families whose combined income does not exceed 52.7% of the average national monthly minimum wage for each family member (in the 3 months before applying).¹⁸ Since 2021, benefit applications are submitted to the body of local government (Mahalla committee). The benefits are appointed by the Pension Fund and financed from the State budget (the Ministry of Finance).

In recent years, measures have been adopted to encourage self-employed workers to participate voluntarily in the social insurance system by paying lump sum contributions (as a percentage of BSR). Once that amount has been sent to the Pension Fund, the contributor may claim a state retirement

¹⁶ From 1 January 2021 interest will be at the rate of banks with compensation for a portion of the interest expense. Decree of the President of the Republic of Uzbekistan "On measures to improve and increase the effectiveness of efforts to ensure employment of the population" No.3856 dated 14 July 2018.

¹⁷ Source: the Decree of the Cabinet of Ministers of the Republic of Uzbekistan "On approving the Provision on the Procedure for Assigning and Paying Social Benefits and Material Assistance to Low-Income Families".

¹⁸ Source: Decree of the President of the Republic of Uzbekistan "On additional measures to support the population, industries and business entities during the coronavirus pandemic " No. 5978 dated 3 April 2020.

pension. Among those included are a) migrant workers (as of 2021 they will be deemed equivalent to self-employed);¹⁹ b) persons engaged in raising horned livestock or poultry;²⁰ c) members of dekhkan farms and those with personal plots;²¹ d) artisans and students at Usta-Shogird schools; and e) the self-employed.²² **However, this mechanism does not apply in case of job loss.**

► **Severance benefit** is paid only in certain cases, specifically:

- a) involuntary dismissal by the employer (due to technological improvements or changes in organisation of production and work; reduction in the number or character of jobs which requires redundancies; or the liquidation of an enterprise (Art. 100 of the Labour Code). Thus, only a small proportion of employees, mainly those in public enterprises, have access to severance benefits. Legislation requires a two-month notice period prior to dismissal.
- b) the employee reaching retirement age while having the right to receive a state old-age pension;
- c) conscription of an employee for military or alternative service;
- d) reinstatement of an employee who previously performed the same work;
- e) non-conformity with work performed due to lack of qualifications or poor employee health;
- f) termination of the contract due to the employee's refusal to continue working in new working conditions;
- g) termination of the contract with co-workers in case of admission of another non-co-worker.

The amount of the severance benefit is determined by the average wage over the preceding year.

In addition, **financial compensation for unused vacation** and **support while seeking employment** are stipulated in the following manner:

- average monthly wages, not exceeding two months;
- average monthly wages for a third month, provided that the worker has registered with a local labour body (the employment promotion centre [EPC]) as an unemployed person within 30 days of termination and is not employed at the beginning of the third month.

Employers finance **severance benefits** and are responsible for **reserving jobs for those in vulnerable categories; financial assistance for the unemployed** (apart from public works) and **employment assistance programs** are charged to the State Employment Promotion Fund at the MELR; public works are charged to the State Public Works Fund (under the Ministry of Finance).

19 Migrant workers have their work history counted toward their retirement pensions provided that they have paid an annual lump sum social payment of 4.5 BSR. However, this mechanism does not provide other kinds of social insurance (for illness, job loss) which are no less vital for Uzbekistan's informal sector.

20 This group's work history is counted toward retirement pension provided they paid an annual lump sum social payment of 1 BSR. This mechanism does not provide other kinds of social insurance (for illness, job loss).

21 This group's work history is counted toward retirement pension provided they had paid an annual lump sum social payment of 1 BSR. This mechanism does not provide other kinds of social insurance (for illness, job loss).

22 As of 1 July 2020, the number of types of activity in which self-employed people may engage in increased from 24 to 67. Source: Decree of the President of the Republic of Uzbekistan "On measures to simplify state regulation of entrepreneurial activity and self-employment" No. 4742 dated 8 June 2020.

III. Additional lump sum benefits during quarantine restrictions (beginning 19 March 2020) due to COVID-19 as part of the anti-crisis measures.

In order to mitigate the risks caused by the quarantine imposed in 2020, the government decided to provide monthly benefits to the following groups:²³

- persons who had applied to an Employment Centre for a job after 1 March 2020 and had registered as seeking work in the nationwide database Mehnat.uz;²⁴
- persons unable to leave to perform migrant work abroad who were also registered in the Labour Migration²⁵ database or who held a migration card designated “work” for a foreign country or a permit for employment (patent) for 2019;
- persons temporarily unemployed who had their employer’s order of dismissal or unpaid leave dated 1 March 2020 or later and were registered with the Unified National Labour System²⁶ or approved by tax authorities.

Summarizing the above analysis, the model of protection in case of job loss in Uzbekistan consists of three main components:

1. **Mandatory public social insurance** with an unemployment benefits scheme, as well as training and retraining programs for the unemployed. Four institutions jointly carry out the unemployment insurance programme: i) tax offices, which collect social insurance contributions; ii) Employment Promotion Fund under the MELR, which receive applications for unemployment benefit and processes them; iii) the Ministry of Finance, which allocates transfers (generated from social insurance contributions and state budget). Thus, unemployment benefits are funded through a mixture of sources.
2. **Labour market programs (LMPs)**. Most active LMPs have been introduced since 2017.
3. **Severance payment**. This type of support is insignificant, as it is provided to those who are dismissed involuntarily and only in special cases. It is difficult to quantify the total amount of severance payments given because data from enterprises is not available.

The total coverage provided by protection schemes in case of job loss is almost 1,159,981 people or 8.8% of the employed population (excluding severance payment). Public works make up 45% of the total coverage, while the State order for new job creation makes up 37% of the total coverage (Table 3, part I). Both programmes have a relatively low capacity to create sustainable and decent jobs. Moreover, the effectiveness of the second program (State order for new job creation) is difficult to evaluate since support is provided in the form of preferences rather than funding.

²³ Decree of the President “On additional measures for financial assistance to groups of the population in need of assistance and social protection during the coronavirus pandemic” No. 6038 dated 30 July 2020.

²⁴ The information and computer centre Mehnat.uz is under the MELR. It is a consolidated database within the Unified National Labour System.

²⁵ The Labour Migration database under the MELR is a consolidated database on citizens of Uzbekistan who are migrant workers abroad within the Unified National Labour System information files.

²⁶ The Unified National Labour System is the interdepartmental set of software consisting of a combination of resources, technologies and channels of communication by means of which information is collected, stored and compiled concerning registered employment agreements and work histories (electronic work histories); job openings; and the structure of demand and supply for labour as it impacts regions and industries.

► Table 3. Types of support in case of a job loss: categories, coverage, amounts paid and sources of funds, 2020

Type of support (schemes)	Coverage		Total amount, million UZS	Amounts paid		Source of funding
	Persons	% of the total employed		Average monthly payment, thousand UZS	Average payment/ Average national gross monthly wage, %*	
I. Support schemes (including social insurance) as prescribed by legislation: workers in the formal sector						
Severance pay and associated payments	n/a	n/a	n/a			Employers
Unemployment benefit	89,651	0.7%	22,312.6	248.9	9.3%	Employment Promotion Fund at MELR (social insurance contributions supplemented by state funding from
Stipend for the unemployed during retraining period	52,217	0.4%	25,511.0	488.6	18.3%	
Financial assistance for the unemployed who are not entitled to unemployment benefits		-	-	-	-	
Compensation for costs of relocating for a job	-	-	-	-	-	
Subsidies to employers for wage paid to employees of public works	521 732	3.9%	496 303.3	951.3	35.7%	State budget
Reserved/ quota= jobs for vulnerable persons	507	0.0%	1143.7	2255.8	84.6%	Employers, state funding
Subsidy to register as an entrepreneur	6 491	0.04%	1699.0	261.7	9.8%	State budget and banks
Subsidies to employers for costs of workers' re-qualification	4 481	0.03%	9778.4	2182.2	81.8%	Employment Promotion Fund at MELR
Subsidies for personal subsidiary farm expenses	35 702	0.3%	109 467.6	3066.2	114.9%	
Pre-exit training of labor migrants	21 400	0.2%	n/a	-	-	
Total: 11 schemes	732 181	5,6%	-	-	-	
State order for the new jobs creation	427 800	3,2%	n/a	-	-	In form of privileges
Total: 12 schemes	1 159 981	8.8%				

Type of support (schemes)	Coverage		Total amount, million UZS	Amounts paid		Source of funding
	Persons	% of the total employed		Average monthly payment, thousand UZS	Average payment/ Average national gross monthly wage, %*	
II. Income security for categories not covered in case of job loss and meet poverty targeting criteria: Social assistance						
Benefit for families with children under 2 years of age	399 800	3.0%	1 806 661.3	376576.1	14.1%	State budget
Benefits for low-income families with children below the age of 14	700 933	5.3%	1 277 220.8	131 000.0 – 304 000.0	4.9% – 11.4%	
Benefit to low-income families	100 000	0.8%	367 517.7	326 000.0 – 653 000.0	4.9% – 11.4%	
Total: social benefits	1 200 733	9.1%				
III. Additional lump sum benefit during COVID-19 quarantine) **						
Lump sum benefit for those who registered in ECPs after 1 March 2020	-	-	-	n/a	n/a	State budget
Lump sum benefit for persons prevented from becoming migrant workers	-	-	-	n/a	n/a	
Lump sum benefit for persons temporarily unemployed	-	-	-	n/a	n/a	
Total: 1 scheme	650,0	4,9%		n/a	n/a	

Source: Ministry of Finance, MELR.

Notes:

* The average national gross monthly wage in 2020 was 2,667,600 UZS. Source: State Committee on Statistics (SCS). This indicator is calculated by the SCS based only on enterprises which are part of the corporate sector of economy (enterprises which have the status of legal entity). At the same time, categories such as individual entrepreneurs, the self-employed, labour migrants, and other categories belonging to the non-corporate sector do not provide data regarding wages to the State Statistics Committee. Thus, this is not reflected in the average gross monthly wage in the economy.

** In accordance with the Decree of the President "On additional measures for material assistance to segments of the population in need of assistance and social protection during the coronavirus pandemic" No. 6038 dated 30 July 2020.

► 3. Challenges facing the current model of protection from job loss

The current model of protection from job loss has several restrictions and challenges.

1. Low level of effective coverage, no protection for workers in the informal sector. Throughout the world, protection from unemployment for workers in the formal sector is typically provided at a high level (Chart 3). This is arranged through unemployment insurance (from contributions of employers and workers) and severance benefits (at the expense of employers).

Given that protection in case of unemployment is often provided through formally recognised employment relationships, workers in the informal economy and informal workers in formal economy, who are often the most vulnerable groups in the labour market, are not covered by these schemes. In some cases, such workers can access non-contributory means tested benefits aimed at preventing and reducing poverty. However, workers employed in the informal sector have the lowest level of protection in case of job loss. In the literature, this condition in social protection has been termed the phenomenon of the “missing middle”.

Uzbekistan’s situation is different. The effective coverage of protection from job loss for workers in the formal sector is low (8.8% of employed persons). For the reasons described above, workers in the informal economy are not covered by the mandatory social insurance scheme. Some informal workers have the ability to access means tested non-contributory benefits, however in practice, coverage of these is limited. This is because these workers are mostly not regarded as “sufficiently impoverished” because, based onto the method used to assess eligibility for social assistance, they have assets disqualifying them for these benefits.

2. Ambiguity in the implementation of eligibility criteria for unemployment insurance benefits.

In the legal sense, unemployment benefits are provided through a mandatory social insurance mechanism. This means that unemployed members of this scheme are entitled to unemployment benefits provided they meet the necessary contributory conditions (i.e., contributions having been made by the worker and employer to the Employment Promotion Fund), or rather, are employed formally. In practice, however, unemployment benefits are often received by persons even if they do not meet the minimum qualifying conditions (being formally employed at least 12 weeks in the last 12 months or register as a job seeker for the first time).²⁷ A practice like this has an important impact on the financial sustainability of the scheme given that the equilibrium between the contributions made and benefits paid out, evaluated by actuarial studies, is effectively broken.

The urgency of improving the mechanism for assigning and paying unemployment benefits increased in 2021 due to the changes that entered into force after the adoption of the new version of the law “On Employment.” The level of unemployment benefits rose to the minimum wage (1,747,300 UZS, 3.0 times higher than in 2020 when it amounted to 239,000 UZS). The Employment Promotion Centre estimates that this will result in unemployment benefit claims doubling or tripling in number.²⁸

27 Source: A webinar held on 13 November 2020 within the UN Joint Programme on Strengthening Social Protection System in Uzbekistan with support from ILO Regional Bureau Bangkok. Officials of the EPCs from all of Uzbekistan’s regions, who are working assigning and paying unemployment benefits, took part in it.

28 Source: the Estimate announced at the webinar held on 13 November 2020.

3. Diminished financial potential in the mandatory social insurance system due to tax reform.

Until 2019, social insurance had been financed through insurance contributions from workers and employers (Table 4), as well as through additional funds from the state budget. Modifications to the tax system (begun in 2019 and strengthened in the new version of the Labour Code, in effect from 1 January 2020) led to some substantial changes:

- since 2019, workers no longer contribute to social insurance. Until 2019, they made contributions of 8% (of accrued salary) for the Extra-budgetary Pension Fund and 2% (of income tax for individuals) for an individual accumulative retirement account (IARA) in Khalk bank (People's Bank of UZB).²⁹ Since 2019, workers no longer make social insurance contributions from the salaries to the Extra-budgetary Pension Fund, while insurance contributions to the IARA decreased from 2% to 0.1%, (see Table 4 for 2019 under the "for workers" category).
- since 2019, insurance contributions from employers have decreased. Employers still make contributions but at a lower rate. This particularly applied to small and micro-businesses, which provide the main share of employment in the country. The rate for social insurance contributions for those businesses was decreased from 15% in 2018 to 12% in 2019 (see Table 4 for 2019 under the "for employers" category).
- as of 2020, social insurance contributions from employers were further decreased. This is because the rate was reduced to 12% even for the enterprises that had contributed 25% in 2019 (state-owned enterprises, those in which the state holds 50% or more of charter capital, as well as those in which 50% or more of charter capital is held by a legal entity with 50% or more state-owned charter capital and their subdivisions [Table 4, 2019-2020 circled]).

The model of taxation was changed for the purpose of reducing the tax burden incurred by formalising informal labour relations. However, the transition to payment of social tax for employers and revocation of insurance contributions for workers made state social insurance less viable, despite the amount of insurance contributions to the Employment Promotion Fund increasing (from 0.1% in 2008 to 0.4-0.8% in 2019 and 2020). The result was that social insurance contributions as source of financing unemployment benefits (which were already inadequate before 2019 because of low contribution levels to the Employment Promotion Fund) are insufficient and the size of the unemployment benefit provided to workers in the formal sector does not perform the function of income replacement. Because the model of taxation is unlikely to change in the near future, **identifying sources of financing for social insurance schemes is becoming a key issue in providing sustainable protection, not only in case of job loss, but also generally.**

²⁹ 2 categories of citizens are legislatively defined: 1) paying mandatory contributions to IARA - everyone who works under a labor and civil law contract; 2) paying voluntary contributions to IARA - persons engaged in entrepreneurial activities (individual entrepreneurs, members of dekhkan farms, etc.). Interest income is accrued on funds available at IARA. IARA is regulated by the Citizens' Funded Pension Act No. 702-II of 02.12.2004, the Regulation on the Procedure for IARA Opening and Maintaining in the People's Bank and Making Compulsory and Voluntary Contributions to IARA of 21.12.2004, as well as by Cabinet of Ministers Resolution No. 238 of 26.03.2018, which approved the regulations on registration of citizens in the funded pension system.

► Table 4. Tax rates and social insurance contributions from 2018 to 2020 (before and after the introduction of the new version of the Tax Code on 1 January 2020)

2018 *		From 1 January 2019 **		From 1 January 2020 ***	
Tax rate	Distribution	Tax rate	Distribution	Tax rate	Distribution
FOR THE EMPLOYERS					
Unified Social Payment from the Wage Fund	Small and micro-business:	Unified social payment from the Wage Fund	Public enterprises and state-owned enterprises:	Unified social tax	Public enterprises:
15% - for small and micro-business	14.8% - to the Pension Fund 0.1% - to the Employment Promotion Fund (EPF) at MELR 0.1% - to the Council of the Federation of Trade Unions	25% - for public enterprises and state owned enterprises	99.2% - to the Pension Fund 0.4% - to the EPF 0.4% - to the Council of the Federation of Trade Unions	25% - for public enterprises	99.2% - to the Pension Fund 0.4% - to the EPF 0.4% - to the Council of the Federation of Trade Unions
25% - for other taxpayers	Other taxpayers: 24.8% - to the Pension Fund 0.1% - to the EPF 0.1% - to the Council of the Federation of Trade Unions	12% - for other taxpayers	Other taxpayers: 98.4% - to the Pension Fund 0.8% - to the EPF 0.8% - to the Council of the Federation of Trade Unions	12% -for state-owned enterprises and for other taxpayers with the effect of COVID-19 taken into account ****	State-owned enterprises and other taxpayers: 98.4% - to the Pension Fund 0.8% - to the EPF 0.8% - to the Council of the Federation of Trade Unions
FOR THE WORKERS					
Personal income tax with progressive brackets	1) 8% - to the Pension Fund of accrued wage. 2) 2% - to the IARA - withheld from accrued income tax)	Flat-rate personal income tax of 12% *****	0.1% - to the IARA (out of the 12% tax withheld) For those who make contributions voluntarily - the contribution can be paid in any amount.	Flat-rate personal income tax of 12%	0.1% - to the IARA (out of the 12% tax withheld) For those who make contributions voluntarily - the contribution can be paid in any amount.

Source: authors

Notes:

* Source: Annex No. 23 to Decree of the President of the Republic of Uzbekistan "On the prognosis for macroeconomic indicators and parameters of the State Budget of the Republic of Uzbekistan for 2018" No. 3454 dated 29 December 2017.

** Source: Annex No. 8 to Decree of the President of the Republic of Uzbekistan "On the prognosis for macroeconomic indicators and parameters of the State Budget of the Republic of Uzbekistan for 2019 and budgetary guidelines for 2020 and 2021" No. 4086 dated 26 December 2018.

*** Source: Point 11 of Decree of the President of the Republic of Uzbekistan "On measures to ensure the execution of the Law of the Republic of Uzbekistan 'On the state budget of the Republic of Uzbekistan for 2020 and budgetary guidelines for 2021 and 2022'" No. 4555 dated 30 December 2019.

**** In order to counteract the effects of COVID-19, in May and June 2020 the rate of the social tax was reduced from 12% to 1% for micro firms and small companies (Decree of the President of the Republic of Uzbekistan "On subsequent measures to support the population and entrepreneurial businesses during the coronavirus pandemic" No. 5996 dated 18 May 2020). In July the benefit was extended through the end of 2020 (Decree of the President of the Republic of Uzbekistan "On additional measures to support the population, entrepreneurial businesses and the fields of public dining, retail sales and services in order to ameliorate the negative impact of the coronavirus pandemic" No. 6029 dated 20 July 2020).

***** Until 2019, there was a progressive personal income tax in the country. After 2019, a flat-rate personal income tax was introduced. Source: Decree of the President of the Republic of Uzbekistan "On the concept for improving the tax policy of the Republic of Uzbekistan" No. 5468 dated 29 June 2018.

► 4. International experience insuring against job loss: applicability to Uzbekistan

Fewer than 80 countries are currently providing unemployment insurance. This branch has historically been developed after other branches of social security, often due to the technical and administrative difficulties involved in the planning and implementation of such schemes and notably the need for the satisfactory operation of public employment services.

Developed countries. The objective of unemployment insurance is to provide income security and income replacement for persons who have lost their earnings due to an inability to obtain suitable employment in the case of a person capable of working, available for work, and actively seeking work. In most cases, insurance contributions are made both by employers and workers. As soon as a worker meets the minimum requirements for the length of employment and amount contributed, they are entitled to unemployment benefits. The amount ranges from 40% to 75% of worker's earnings in their former job, and benefits are often conditional on the recipient actively seeking a new job. The main criticism of unemployment insurance benefits is that it may impair the society's productivity because recipients may prolong their job search. However, empirical evidence shows that the positives outweigh the negatives. First, a relatively high level of benefits allows the unemployed to maintain an acceptable standard of living during their search for a new job. Second, long-lasting benefits allow more time to find the most acceptable job that matches their experience and training without being forced to accept the first offer they come across. This is beneficial for society even when the time spent seeking work is longer. Finally, unemployment insurance acts as an economic stabilizer by contributing to the growth of aggregate demand during recessions caused by shocks (such as COVID-19).

► Box 3. Unemployment insurance in developed countries: from voluntary to compulsory insurance

Unemployment insurance first appeared in Europe as an initiative by trade unions, which proposed voluntary insurance and unemployment benefits for their members as a means of offsetting the loss of wages during economic contractions. The flaws in systems run by trade unions became evident in the 1920s. Membership was often permitted only to highly paid workers, with others being left without insurance. The long-term and large-scale unemployment during the years between wars brought on a deluge of claims for benefits that quickly exhausted the funds of the trade unions. The demand arose for government involvement in ensuring and financing unemployment insurance. The models adopted during the 1920s were either the Ghent system (state subsidies for a voluntary system under the control of trade unions – named after the Belgian city where it was first introduced in 1901) or a compulsory state system. The Ghent model was dominant in Europe during the 1920s (Belgium, the Netherlands, France, and Switzerland). After World War II, however, most countries replaced the Ghent system with compulsory insurance, which had been adopted in Austria, Italy, Great Britain, and Germany. Today, membership in unemployment insurance funds is compulsory for most workers, although the systems themselves are administered by the state. Voluntary unemployment insurance controlled by funds associated with trade unions

remain only in Denmark, Sweden, and Finland.

Crises prompted the creation of unemployment insurance in other developed countries. The USA and Canada created their systems in 1935 and 1940 in response to the Great Depression of the 1930s. The expansion of South Korea's insurance for employed persons in 1998 was due to the Asian financial crisis of 1997.

Source: Comparative review of unemployment and employment insurance experiences in Asia and worldwide/ John Carter, Michel Bedard, Celine Peyron Bista. Promoting and Building Unemployment Insurance and Employment Services in ASEAN, ILO Regional Office for Asia and the Pacific. – Bangkok: ILO, 2013.

Developing countries began introducing unemployment insurance much later and covered only those in formal employment. Insurance systems are charged not only with assuring financial protection for the unemployed, but also with supporting their re-integration into the labour market (via retraining, preferential loans to start businesses, etc.). The realisation gradually dawned that ensuring the stability of society meant extending insurance in case of job loss to workers in the informal economy.

Two basic approaches to this task can be discerned. These approaches are not mutually exclusive and may in fact supplement each other. In general, developing countries have combined the two approaches in comprehensive dual strategies that follow the principle of **universal social protection taking into account the contribution of different population groups**. This has resulted in a) higher adequacy of social protection in case of unemployment for workers in informal employment, and b) facilitation of the transition of workers from the informal to the formal economy.

The **first approach** can be formulated as **“formalization to broaden social protection from unemployment”**.³⁰ It employs the already existing instruments of social protection for groups of workers who are close to the formal economy and have the potential to make insurance contributions and therefore may be covered by social protection relatively easily. This strategy includes:

- applying/adopting existing legislation to make sure that these groups of workers are under the purview of law;
- improving the way insurance contributions are made by a) introducing measures that remove administrative barriers to contributions from those groups of workers, and b) adjusting rates for contributions and benefit packages to suit their level of income and needs including subsidies.

Examples of this approach in developing countries which faced both high unemployment and large informal sectors are:

1. Facilitating registration, taxation, and collection of insurance contributions by levying a single (unified) tax (Argentina,³¹ Uruguay).
2. Inclusion of domestic workers in unemployment insurance, as well as maternity payments, in South Africa. Payments are issued by the Unemployment Insurance Fund (UIF) under the Ministry of Employment and Labour.

³⁰ Source: Extending social security to workers in the informal economy: Lessons from world experience, ILO, 2019.

³¹ Argentina's experience is detailed in Annex 2.

3. Brazil's programmes (beginning in the 2000s) aimed at simplifying administrative procedures and adapting social insurance contributions to the income level of the self-employed and micro-entrepreneurs.³²
4. In China, unemployment insurance also covers internal labour migrant workers who have signed employment agreements with employers in rural locations (particular situation in China).³³
5. Subsidising social insurance contributions in South Korea (since 2012) for low-income workers in enterprises with fewer than 10 employees who had not previously participated in the insurance system. The purpose was to extend social insurance coverage and to carry out the national program to ensure pensions for the elderly.³⁴
6. Differentiated social packages for informal workers and the self-employed in Thailand.³⁵

The **second approach** could be termed "**broadening social protection regardless of employment status**". It extends unemployment insurance to groups that, regardless of their employment status, previously enjoyed no protection. The idea is to establish a minimum national level of social protection which guarantees a basic level of social security for everyone and provides a minimum guaranteed income (sometimes along with access to healthcare). Financing is arranged through a combination of insurance contributions and funding from the state budget. This approach presupposes that a higher guaranteed income will allow people to take more risks when seeking work or starting new businesses, which will in turn facilitate the formalisation of their employment at a later stage.

Examples of this approach in developing countries are:

1. Conditional government transfers (grants) for minimum social welfare of children and low-income families (Argentina, Brazil, Colombia, Mexico, Peru, Nicaragua, the Philippines, and Mongolia).
2. A minimum social pension for the elderly (in Lesotho, Mauritius, Namibia, Nepal, and South Africa) and for disability (in South Africa).
3. Guaranteed Minimal Standard of Living Programme (Dibao) for urban dwellers in China. The programme began in 1998 and was extended to rural residents in 2006. This benefit from the state budget is for those below the poverty level. The benefit is assigned to various groups, including the unemployed, the elderly, children, and persons with special needs.³⁷

Chile's mixed unemployment insurance model is a special case (introduced in 2002 outside of the principles embedded in ILO standards.³⁸ It combines 1) individual savings accounts (financed by workers and employers), and 2) the Solidarity Fund (financed by social contributions from the employers and by the state budget). When workers lose their jobs, they are entitled to tap into their accumulated savings in their individual bank accounts. If that money is not enough for them to survive five months without work, they are entitled to receive a subsidy from the Solidarity Fund under certain conditions.

³² Brazil's experience is detailed in Annex 3.

³³ China's experience is detailed in Annex 4.

³⁴ The Republic of Korea's experience is detailed in Annex 5.

³⁵ Thailand's UI experience was presented at a webinar about principles of social insurance held on 12 November 2020. It was organized for employees of the Ministry of Finance by the UN Joint Program Strengthening Social Protection System in Uzbekistan.

³⁶ Conditional cash transfers are provided by the government to recipients who meet certain criteria (children, families, vulnerable women, etc.) provided that they take specific actions for obtaining the grants, such as sending children to a state school, undergoing regular medical examinations and vaccinations, etc.

³⁷ China's experience is detailed in Annex 4.

³⁸ Chile's experience is detailed in Annex 6.

The financing mechanism of the Chilean model consists of employer contributions amounting to 1.6% of wages into the workers' individual bank accounts that are set up as a type of pension account. Workers also contribute 0.6% of their monthly wages to these accounts. In terms of contributions to the Solidarity Fund, employers contribute 0.8% of the income, while additional funding is provided from the state budget. Other conditions apply to workers on fixed-term contracts: employers must pay 3% of a worker's monthly income into their accounts while the contract is in effect. The maximum period for making insurance contributions is 11 years. If a worker has been employed at the same job for more than 11 years, contributions stop because the individual account of the worker is considered to have enough accumulated money to weather any period of unemployment. If a worker changes jobs without becoming unemployed, they are entitled to withdraw the accumulated money or leave it in their account, which has no bearing on the payment obligations of the new employer.

The Chilean system's shortcomings have become more evident with time. It requires individuals, mostly workers in formal employment, to accumulate savings in individual accounts which provide an income stream in case of unemployment. However, such savings schemes lack the key design element of risk-pooling; the savings need to be set at a sufficiently high level to be at a high enough level to compensate for lost earnings. They thus provide only limited protection for those who have difficulty in building up sufficiently high savings, if any, due to their work patterns – for example, temporary and seasonal workers, workers in declining economic sectors, and young workers among others. As unemployment is far more likely to be found among low-income individuals, individual account benefits and coverage levels are likely to be low.³⁹

Summarizing the world practice, unemployment protection benefits are provided through different types of schemes or combinations (Chart 3). Fewer than half (98) of the 203 countries for which data are available in the ILO database have an unemployment protection scheme anchored in national law. In 92 of these, unemployment protection benefits are provided through periodic cash benefits to unemployed persons meeting the prescribed qualifying conditions. Public social insurance is by far the most common mechanism used to provide such regular income replacement. In some countries, contributory mechanisms are complemented with social assistance.

Among the 105 countries which have no unemployment benefit scheme anchored in national legislation, 50 countries provide severance payments for workers covered by the Labour code, which provides a limited level of protection to some workers.

39 Source: OECD, 2010; Peyron Bista and Carter, 2017.

► Chart 3: Overview of unemployment protection schemes worldwide, by type of scheme and benefit (2015 or latest available year)

Information available for 203 countries (100%)

		Unemployment scheme anchored in national legislation 98 countries (48%)		No unemployment benefit scheme anchored in national legislation 105 countries (52%)	
		Periodic cash benefits 92 countries (45%)		Lump sum 6 countries (3%)	
Main scheme	Social insurance (mandatory public) 82 countries (40%)	Only social assistance 5 countries (2%)	Individual savings for unemployment 1 country (1%)	Severance payments (article in the labour code) 50 countries (25%)	No severance payment or scheme anchored in legislation 55 countries (27%)
	Subsidized voluntary insurance 3 countries (1%)				
	Mandatory individual savings account 1 country (1%)	Only mandatory individual savings account (periodic) 1 country (1%)			
Additional scheme	Additional social assistance programme 24 countries (12%)				

Source: ILO, World Social Protection Report 2017–19 (WSPR 2017-19): Universal social protection to achieve the Sustainable Development Goals. Link: https://www.ilo.org/global/publications/books/WCMS_604882/lang--en/index.htm

Note: The schemes presented are not mutually exclusive. In many countries, unemployment insurance coexists with severance payments, unemployment assistance, and public employment programs. Countries that were classified as having severance payment have no unemployment benefit program anchored in national legislation. Also, it should be noted that severance pay does not include redundancy pay. The share is expressed as a percentage of the total number of countries (203 countries = 100%). Sources: ILO, World Social Protection Database; ISSA/SSA, Social Security Programs throughout the World; European Commission Mutual Information System on Social Protection (MISSOC). See also Annex IV; table B.6 of WSPR 2017-19.

► 5. Options to expand protection in case of a job loss: recommendations

According to ILO standards agreed upon by constituents (states, workers, and employers), unemployment protection schemes should comply with the following principles: a) the overall and general responsibility for the due provision and the proper administration of the schemes lies with the state, b) social solidarity and collective financing should be provided through taxes, contributions, or a combination of both, c) coverage should be⁴⁰, and d) participatory management with representatives of persons protected and employers, in particular when the administration is not entrusted to a government department.

Taking into account international labour standards and as illustrated through country experience, the recommendations are aimed at expanding the coverage of Uzbekistan's unemployment protection programmes through the combination of different interventions, specifically: a) strengthening job loss protection in accordance with ILO standards; b) proposing options to gradually extend the coverage with protection against unemployment through the adoption of a phased approach for certain groups of workers in the informal economy; and c) advocating for the Unemployment Insurance element of the national legal framework and for the proposed new National Strategy for Social Protection for 2022-2030.

Expanded coverage of protection in case of job loss in Uzbekistan could be achieved through a phased transition of different categories of informal workers into the formal economy. Through this, all categories of informal workers will either join existing social insurance programmes (mandatory social insurance scheme or partial social insurance scheme for the self-employed) or be covered by employment promotion programmes combined with non-contributory social protection benefits.

40 According to Social Security (Minimum Standards) Convention, 1952 No. 102, voluntary schemes can be considered on an exceptional basis and only if they meet the requirements of Article 6. **Article 6** For the purpose of compliance with Parts II, III, IV, V, VIII (in so far as it relates to medical care), IX, or X of this Convention, a Member may take account of protection effected by means of insurance which, although not made compulsory by national laws or regulations for the persons to be protected, (a) is supervised by the public authorities or administered, in accordance with prescribed standards, by joint operation of employers and workers; (b) covers a substantial part of the persons whose earnings do not exceed those of the skilled manual male employee; and (c) complies, in conjunction with other forms of protection, where appropriate, with the relevant provisions of the Convention.

► 5.1 Strengthening mandatory social insurance for workers in the formal economy

Strengthening mandatory social insurance requires the creation of a legal base and an assessment of sources of financing (including the composition and size of social insurance contribution rates). The tax model has blurred the lines between tax and social insurance contributions for particular social risks and has reduced the overall contribution rates for certain contributors. This model was introduced to reduce the tax burden, which has resulted in increased attractiveness of investing in the country and formalisation of enterprises.

However, this reform appears to have not succeeded in terms of formalising informal employment relations in either the informal or formal sector. Furthermore, the state budget will not be able to withstand the potential increased need for allocations to protect people in case of a job loss and other social risks. This implies the need to seek different options to increase financing and identify fiscal space for social protection. Such options should be codified as part of the national legal framework (specific law with related and required amendments in applicable laws) and thorough actuarial assessments with model scenarios.

► 5.2 Extending coverage with the mandatory social insurance for workers in the informal economy

1. Extending the coverage of the mandatory social insurance coverage to all forms of employment through revision of relevant legislation.
2. How to organize the process of the coverage expansion?
 - There is always a risk is that employers can force informal workers to switch to self-employment, making social insurance registration partial and voluntary in order to avoid making social insurance contributions (although in the current tax model for employers the rate of contributions is already low).
 - To avoid this risk, it is proposed to start with the improved enforcement of the law by ensuring that all workers in the formal sector are registered, as well as to apply a phased registration of “semi-formalised” groups of informal employees who a) work in formal enterprises, b) have the financial capacity to make social insurance contributions, and c) can be covered relatively easily in case of the need to providing additional incentives for employers or for employees (conditions of registration, obtaining a patent, rules of reporting, etc.).

Based on quarterly labour force surveys carried out by the Institute of Labour (the Scientific Centre) of the Ministry of Employment and Labour Relations of Uzbekistan (MELR), there are six (6) distinct categories of informal workers that can be distinguished between). These are presented below in terms of decreasing degree of readiness for formalisation and financial opportunities. In order to better identify all categories of informal workers, it is necessary **to move from the current approach of assessing the “informal sector” to the international approach (ILO) of assessing “informal employment”**. This will also require improvements in the methodology used for the collection and analysis of relevant data.

Category 1. Informal workers who are the “readiest” to become formal. This includes persons who are employed without a labour contract (service record book) in formal small- and micro- business enterprises (informal workers in the formal sector). This is the most financially strong category of informal workers. According to estimate of the Institute of Labour (Scientific Centre) under the MELR, the share of such persons in the sector of small and micro-business enterprises is could be as high as roughly 40%.

Category 2. Informal workers who are ready to become individual entrepreneurs⁴¹ relatively quickly.

- a) Persons engaged in production of goods as an unregistered entrepreneur (producing food, building materials, tailoring, etc.).
- b) Persons engaged in providing services as an unregistered entrepreneur (IT services, hairdressing, household appliance repair, small-scale trading, etc.).

According to estimate by the Institute of Labour under the MELR, this group may number up to 15% of the total number of employees in the informal sector.

⁴¹ An individual entrepreneur is an individual registered in accordance with the established procedure and carrying out entrepreneurial activities without the formation of a legal entity (Article 31, Tax Code of Uzbekistan).

Category 3. Informal workers are potentially ready to become a self-employed:

- a) Persons employed by an individual entrepreneur (e.g., family members).
- b) Persons engaged in the transport of passengers (private transport).
- c) Persons engaged in the transport of goods (private transport).
- d) Persons engaged in construction and repair work.
- e) Persons engaged in trade as an unregistered entrepreneur.

According to Institute of Labour under the MELR, the share of such persons could be up to 25% of the total number of employees in the informal sector.

Category 4. Informal workers involved in agriculture:

- a) Persons who work informally (without a service record book) in farming on a permanent basis.
- b) Persons who work informally in farming seasonally (cotton harvesting, weeding, thinning, etc.)
- c) Persons employed on the land plot of a third party (without a service record book).
- d) Persons working in Tomorka⁴² (without a service record book) raising livestock, poultry, or fish.
- e) Persons engaged in farming and raising livestock on a leased plot of land.

According to Institute of Labour under the MELR the share of such persons can reach up to 30% of the total number of employees in the informal sector. This category has the fewest incentives to be formalised due to a) the specificity of the industry (seasonal nature of work in agriculture), and b) the goal of work (they grow agricultural products mainly for their own consumption).

Category 5. Informal workers performing one-time, seasonal work:

- a) Persons employed by an individual person (third party).
- b) Family members assisting in the entrepreneurial activity of a family member or a family enterprise, including without pay.
- c) Persons engaged in one-time and temporary work.

According to Institute of Labour under the MELR, the share of such persons could reach up to 15-17% of the total number of employees in the informal sector. This category has no incentive to be formalised, since they are either already formalised somewhere (A, B) or belong to low-income vulnerable categories of the population (C).

Category 6. Self-employed persons and labour migrants (since 2021). This category includes persons involved in 67 activities.⁴³ As already indicated, the mandatory social insurance scheme does not apply to self-employed persons, but they may participate in partial social insurance scheme. It is carried out by voluntary simplified registration procedure⁴⁴ and provides an annual lump sum social payment amounting to least 50% of the Basic Settlement Rate (BSR). This is paid out to individual accumulative retirement accounts (IARA) in Khalk bank (People's Bank of UZB) which is administrated by the State Pension Fund at the Ministry of Finance. These persons may also apply for a state old-age pension.

⁴² Private household plot of land. Usually, larger than a traditional allotment garden, but smaller than a field.

⁴³ Decree of the President of Uzbekistan "On measures to simplify the state regulation of entrepreneurial activity and self-employment" No. 4742 of June 8, 2020.

⁴⁴ The simplified voluntary registration of self-employed persons started in Uzbekistan on July 1, 2020.

► 5.3 Options to bring informal workers with contributory capacity under mandatory schemes

Inclusion of Category 1 (informal workers in the formal sector) and Category 2 (informal workers who are ready to become individual entrepreneurs quickly) to the mandatory social insurance scheme.

These categories can be classified as the “semi-formal” category of informal workers. Accordingly, they can be relatively easily formalised by providing additional minimum incentives. After they have been formalised, they will automatically join the solidarity mandatory social insurance scheme (contributions of employers and workers and state support). Through this, people in these categories can apply for unemployment benefits which will be financed from these contributions.

Category 1. Informal workers who are the “readiest” to become formal. This category can be quickly formalised by providing additional minimum incentives to employers⁴⁵ in the small and micro business sector (SME) as well as by increasing awareness of the benefits of formalisation.

In addition, starting the formalisation process with this category is convenient because the small and micro business sector already has a certain degree of institutional consolidation (unlike other categories of informal workers). Therefore, there are a number of partners created to develop the small and microbusiness sector such as the Chamber of Commerce, Confederation of Employers supported by Trade Unions. They can help to consistently implement a strategy to expand the coverage of social insurance for informal workers.

Category 2. Informal workers who are ready to become individual entrepreneurs relatively quickly. They can become individual entrepreneurs by providing additional incentives to workers, as well as accessible and transparent information on the benefits of making social insurance contributions. Thus, they will automatically join the mandatory social insurance scheme, which is provided for individual entrepreneurs under the current legislation.

Inclusion of Category 3 to the partial (i.e., currently voluntary scheme for self-employed workers only) social insurance scheme, as well as an increase in the scale of lump sum annual social contributions. However, further steps would be required to transform current voluntary scheme into a mandatory social insurance scheme.

This category consists of a large number of workers who are either ready to become self-employed and relatively financially sustainable (Category 3) or are already self-employed (in 67 activities), with different levels of financial well-being (Category 6).

Category 3. Informal workers who are potentially ready to become a self-employed. This category can also be classified as “semi-formal.” By providing additional incentives for these workers, they can quickly become self-employed. Once formalised, the “newly” self-employed will automatically join the partial social insurance regime (see above), which applies to Category 6 (Self-employed persons, including migrant workers) under current legislation.

⁴⁵ Perhaps it is more correct to talk about forcing employers to comply with labour laws given that the new tax model significantly reduced the tax burden on employers.

There are significant points that need to be considered when developing measures to expand social insurance coverage for the self-employed:

1. “Balancing” the status of self-employed. They fluctuate between formal and informal employment, as well as between employment and self-employment. Due to this, they have differing and volatile incomes.
2. Workers engaged in private transportation (from Category 3, Group (B)). The number of private taxi drivers in Uzbekistan is quite significant. Legislation does not allow them to work as self-employed, but rather as individual entrepreneurs.⁴⁶ This seems to be a good option since, unlike the self-employed, individual entrepreneurs are covered by the mandatory social insurance under current legislation. However, surveys show that taxi drivers are not interested in registering as an individual entrepreneur since they lack a stable income that would allow them to join the tax regime for individual entrepreneurs.
3. Scale of payment of annual lump sum social payment. The mechanism of voluntary simplified registration has proved to be effective in legalising self-employed persons. As of May 6, almost a year from the start of voluntary registration, 791 thousand people were registered as self-employed.⁴⁷ However, there has not been a real increase in social insurance coverage. According to experts, only about 15% of the registered persons made the annual lump sum social payment.

In view of the above, the following measures can be used to expand the coverage with social insurance scheme of those in the self-employed categories:

- development of differentiated lump sum social payment packages corresponding to a) different levels of solvency of the self-employed; b) different age categories of those self-employed, including young people entering the labour market; c) categories of those self-employed of pre-retirement age (women - from 45 years old, men - from 50 years old), who are most interested in contributing an increased amount of lump sum social payment in order to qualify for the maximum state pension by age;⁴⁸
- extending partial social insurance coverage to taxi drivers by allowing them to choose their own way of formalisation;
- expanding the scope of the payment of lump sum social payment by removing barriers to its payment. More research/surveys are needed to identify these barriers.

46 From May 15, 2021 until the end of 2022, individuals in the form of individual entrepreneurs can provide taxi services. Source: Decree of the President of the Republic of Uzbekistan “On measures to further simplify the regulation of activity for the transportation of passengers by road” No. 5108 of May 7, 2021.

47 Source: the Ministry of Finance of Uzbekistan <https://upl.uz/economy/20433-news.html>

48 The pension formula consists of two parts: work experience (years) and the amount of social insurance contribution. To qualify for the maximum pension size the person must have no less than 20 years of work for women and 25 years for men, as well as high insurance contributions. Voluntary legalization allows self-employed to “gain” the necessary work experience. However, the low level of insurance contributions provided under the regime of lump sum social payment does not allow them to claim the maximum benefit level of the pension for the self-employed.

► 5.4 Options for coverage of workers in the informal sector who do not have contributory capacity

Informal workers employed in agriculture (Category 4), as well as those performing one-time and seasonal work (Category 5), tend to have low incomes. Both categories are close to being vulnerable population groups.

The main purpose of job loss protection for such categories of informal workers is to improve working and living conditions in order to prevent them from falling into poverty.

For such informal workers, it is proposed **to combine employment promotion services and protection services through a social contract mechanism**.⁴⁹ The following measures can be used:

- employment subsidizing – a combination of labour market programs (LMPs) and unemployment benefits. It is proposed that participants of **all** labour market programs (active and passive) receive unemployment benefits during the entire period they participate in the programmes;
- combining labour market programs and employment security guarantees. Informal workers involved in agriculture (Category 4) are provided with temporary employment for a certain number of days per year (off-season period in agriculture in Uzbekistan) and a minimum guaranteed income (unemployment benefit) for the same period;⁵⁰
- combining temporary employment guarantees with access to a package of social services (poverty benefits, social/health services). The package of services is the subject of national dialogue.

For the social contract mechanism to be as effective as possible, it is necessary to:

- integrate all databases that contain lists of vulnerable categories. Currently, there are several of these formed by different institutions.⁵¹ **Unemployment** is the main reason of vulnerability for most recipients within all the databases. Database integration will a) identify recipients according to the extent and cause of their vulnerability; b) avoid administrative function duplication; and c) avoid duplication in the provision of the same social services;
- introduce a social contract mechanism for social services provided by other institutions/ departments. The current pilot project consists of the provision of a social contract only for the services of the MELR (subsidies, grants, and unemployment benefits).

49 MELR starts testing the social contract option in 2021 for 28 districts, but only for the unemployment benefit and services provided by MELR. It is expected that the mechanism will be extended to the whole country from 2022 onwards.

50 For example, in India, one of the most common programs is the MGNREGS program, which guarantees rural households the right to secure employment for no more than 100 days a year.

51 Single registry of social services - administered by the State Pension Fund, Centers of public services ("Single Window") - are administered by the Ministry of Justice, but services are provided by different departments, including social services; "Iron Book" (list of citizens and families in need of social assistance and employment) - by the Agency for the Development of Public Administration under the President of Uzbekistan; "Women's Book" (list of women over 30 years old in need of social protection, medical care, legal and psychological support) - by mahalla committees; "Youth Book" (list of young people in need of work) - by "Mehnat.uz" center under the MELR.

These measures are aimed to enhance the adaptive capabilities of these categories in order to:

- a) include the recipients of unemployment benefits and other social assistance (who are able and in a position to work) in a unified system of measures to increase employability, expand employment opportunities, and ensure income security;
- b) ensure a guaranteed minimum income for long-term unemployed persons who are hindered in entering the labour market;

The State budget is the source of funding for these measures. The funds can be obtained as a result of the formalisation of Categories 1 and 2, as well as the formalisation of self-employed Categories 3 and 6.

It should also be noted that the level of the LMPs' budget (active and passive) has the lowest share of the State budget expenditures on social protection. In order to assess the impact of funding for the proposed measures, a detailed analysis of the budgeting of all social protection programmes (social protection budget review) is needed to determine funding reallocation is possible.

► 5.5 Selection, justification and implementation of an adequate option for protection in case job loss

The choice of an adequate option for protection in case of job loss is a matter of social dialogue.

This process is proposed to be organised within the framework of 'Supporting and Facilitating the process of improving the mechanism of protection in case of job loss in Uzbekistan' project. The project can be created under the joint auspices of the MELR, the Federation of Trade Unions of Uzbekistan, and the Confederation of Employers of Uzbekistan, as well as with support of the ILO.

The project activities are proposed to be divided into two phases:

Phase 1. Advocating for Unemployment Insurance through social dialogue participatory multi-stakeholder consultative process of drafting National Strategy for Social Protection for 2022-2030.

This stage is to select an option during phased discussions with all stakeholders at different levels to consider the needs of all citizens:

- form a working group under the Republican Tripartite Commission (trade unions, employers, and the state) to work on the operationalisation of approaches to extend unemployment insurance to informal workers;
- discussions with relevant ministries/departments and civil society;
- discussions with the expert community/international partners.

Phase 2. Feasibility study of key parameters of the selected option. This justification should include:

- actuarial calculations of social insurance contributions based on an analysis of the total costs that will be borne by employers, employees, and the government;
- proposals for the elaboration of new, as well as the improvement/harmonisation of existing regulatory legal acts required to implement the selected option;
- proposals for the introduction of new institutions/procedures, as well as the optimisation/unification of existing institutions/procedures, including links between them, as well as with employment programs, vocational training and retraining programs, and social protection of the population;
- proposals for additional studies/surveys;
- proposals on the formation of an effective monitoring system and interdepartmental coordination (considering the interdisciplinary nature of the mandatory social insurance issue).

► Conclusion

The current model of job loss protection has a low level of effective coverage and weak sources of funding for the public mandatory social insurance component. Workers in formal employment have minimal insurance coverage, while workers in informal employment lack any form of job loss insurance. The shortcomings of the model were especially evident in 2020 during the large-scale job loss due to quarantine restrictions related to COVID-19.

The recommendations are aimed at expanding the coverage of Uzbekistan's unemployment protection programmes through a) strengthening job loss protection in accordance with ILO standards; b) aligning measurement of informal employment with international statistical standards; c) proposal of options to extend unemployment protection coverage to certain groups of workers in the informal economy; and d) to advocate for the Unemployment Insurance element for the social dialogue and for the proposed new National Strategy for Social Protection for 2022-2030.

In terms of options for the extension of unemployment protection coverage to some groups of workers in the informal economy, the focus is on a phased formalising of different categories of informal workers. As a result of formalising for some, or to support the formalising process for others, all categories of informal workers will either join existing social insurance programmes (solidarity mandatory social insurance scheme or partial social insurance scheme) or be covered by an employment promotion programme combined with social protection options. It is proposed to group informal workers into six (6) categories based on their degree of readiness for formalisation and their financial opportunities. The recommendations are proposed in three areas:

- i) Strengthening mandatory social insurance for workers in formal economy.
- ii) Options to bring informal workers with contributory capacity under mandatory schemes.
- iii) Options for unemployment benefit coverage for workers in the informal economy who lack the capacity to contribute (strengthened LMPs leading to the formalisation of informal workers).

In terms of advocating for the Unemployment Insurance element for the national dialogue and for the proposed new National Strategy for Social Protection for 2022-2030, a separate project is proposed, which can be divided into two phases:

Phase 1. Promote national consensus/dialogue with all stakeholders to select the acceptable option to improve protection against job loss.

Phase 2. Feasibility study of the key parameters of the option selected. The feasibility study shall include a) actuarial calculations; b) the development of new, as well as the harmonization/improvement of existing regulatory legal acts; c) proposals for the introduction of new and optimisation of existing institutions/procedures; d) proposals for additional surveys/studies; and e) a system of monitoring and interagency coordination (taking into account the interdisciplinary nature of social insurance).

This activity should become part of the National Social Protection Strategy for the period of 2022-2030,⁵² and also considered during the drafting of the Law on Social Insurance proposed for 2023.

⁵² The concept of the National Social Protection Strategy for 2022-2030, Roadmap for development of the Strategy, and creation of the Republican Working Group for Strategy Development were approved by the Resolution of the President of the Republic of Uzbekistan R-5634 'On measures to improve the system of social protection of the population of the Republic of Uzbekistan in 2021- 2030 'dated February 17, 2021.

► Annex 2. Argentina's unemployment insurance system⁵³

Historical development

As a result of a wave of privatization of numerous state-owned enterprises launched in the late '80s and continued in the early '90s, the Government adopted the National Employment Law (Law 24.013) in 1991, which includes provision for the protection of the unemployed under Title IV. The Sistema Integrado de Prestaciones por Desempleo, (Integrated Unemployment Benefit System), based on social insurance principles, started its operation in 1992. There have been only minor amendments to the scheme since then. In January 2001, the adoption of the Law No. 25.371 (Industria de la Construcción. Sistema Integrado de Prestaciones por Desempleo) extended access to unemployment benefits for workers employed in the national construction industry (around 200,000 potential beneficiaries annually). Finally, a separate scheme, the Sistema Integral de Prestaciones por Desempleo para los trabajadores rurales (System Integral of Unemployment Benefits for Rural Workers), has applied to workers in agriculture since 1999.

Main features and coverage

The unemployment benefit system provides cash benefits related to previous earnings and lasting two to twelve months, depending on the length of contributions during the last three years. It covers registered salaried private sector workers who lose their jobs involuntarily or quit for a good reason. However, it does not apply to: (i) domestic workers; (ii) public service employees (federal, provincial and municipal); (iii) employees of private teaching institutions; and (iv) teachers in private universities.

Specific practices of relevance

Along with cash benefits, the unemployed receive medical coverage and a child allowance. Another specificity is that the period under which the unemployed receives benefits is counted for retirement purposes. For entrepreneurs who submit an approved business plan to start up their own business, the unemployment insurance scheme offers a lump sum payment option of double the amount of entitled benefits.

Institutional set-up

The Administración Federal de Ingresos Públicos (National Tax Agency) collects the employers' contributions. The funds are deposited in the Fondo Nacional de Empleo (National Employment Fund) under the management of the Administración Nacional de Seguridad Social (National Social Security Administration), an agency of the Ministerio del Trabajo, Empleo y Seguridad Social (Ministry of Labour, Employment and Social Security). These contributions (for example, ARS2.4 billion in 2010), cover the cost of unemployment benefits (ARS614 million in 2010) as well as those of various training and employment measures.

⁵³ Source: Carter, J.; Bédard, M. & Bista, C.P. Comparative review of unemployment and unemployment insurance experiences in Asia and worldwide; Decent Work Technical Support Group, ILO Country Office for Eastern Europe and Central Asia (Moscow: ILO, 2014). Website for the unemployment system is available online at: <http://www.anses.gov.ar/desempleados/>.

Operational delivery system

Applications must be initiated through the internet or by phone, followed by an appointment at the National Social Security Administration (ANSES), which uses electronic checks through connected databases to verify eligibility. The unemployment benefits are managed through a national level computer system developed and used by ANSES.

Contribution rates

Depending on the field of activity of the enterprise, the contributions remitted for unemployment benefits to the National Employment Fund by the employer are 1.11% or 0.89% cent of payroll. For agriculture workers, the contribution is 1.5% of monthly wages. **In both cases, there is no contribution from the employee.**

Qualifying conditions and continuation of benefits

The main conditions to qualify are: (i) involuntary unemployment (not caused or decided by the claimant), (ii) willingness to go back to work at any time, (iii) filing a claim within 90 days of becoming unemployed, (iv) having contributed at least six months during the last past three years, and (v) not receiving any allowances from non-contributory schemes or incompatible with unemployment benefits (retirement and disability pensions). In principle, claimants must: (i) be unemployed, actively looking for work and report occasionally to Ministry of Labour, Employment and Social Security; (ii) attend interviews and accept suitable employment or training referrals. Interconnected databases are used to check concurrent registered employment.

Benefit rate and duration

The duration depends on insured work in the last three years:

- 6-11 insured months: 2 benefit months;
- 12-23 insured months: 4 benefit months;
- 24-35 insured months: 8 benefit months;
- 36 insured months: 12 benefit months.

Workers aged 45 and over can receive six additional months. The benefit rate varies according to the duration of unemployment:

- first 4 months: 50 per cent of last 6 months average wage,
- months 5 to 8: 42.5 per cent rate,
- months 9 and over: 35 per cent rate.

Since 2006, a minimum benefit of ARS250, and a maximum of ARS400 are applicable. The package of benefits also includes: family allowances to unemployed beneficiaries; waiver of pension contributions; and continuation of health insurance.

Waiting period before receiving first payment

The waiting period is established by the Consejo Nacional de Empleo, Productividad, Salario mínimo, vital y móvil (National Council for Employment, Productivity and Minimum Wage), up to 60 days as stipulated in the Law 24.013.

Linkages with Active Labour Market Policies (ALMP)

The unemployment benefits system relies also on a national network of employment offices and a network for continuous training. For youths aged 18 to 24, the programme Jóvenes con Más y Mejor Trabajo (Youth with More and Better Work) offers a monthly allowance to help them complete their education, training and/or improve their employability. For those as well, Jóvenes con Futuro (Youth with a Future) is a public-private initiative providing monthly allowances along with in-house training and schooling delivered by the private sector. Finally, tax incentives are offered to entrepreneurs hiring new entrants to the labour market or jobseekers.

Existing non-contributory income security

In 2009 the Government launched the Asignación Universal por Hijo (Universal Child Allowance). The allowance is paid to unemployed persons and low-income individuals with children below 18 or disabled (US\$40 per child, US\$158 if the child is with disabilities), including domestic workers and workers in informal employment, subject to children's medical checkups and school attendance. In addition, a monthly allowance is paid to low-income pregnant women, the Asignación Por Embarazo (Maternity Benefits), subject to regular medical control under the Plan Nacer (Birth Programme). Finally, the Interzafra programme provides monthly financial aid during the off-season to certain registered seasonal workers in the primary sector and in specific types of agro-industry.

Performance and monitoring indicators relating to the system's efficiency and analysis of problems

Comparison between legal and effective coverage

In 2006, the unemployment insurance system registered an estimated 4.4 million out of 5.2 million workers covered by the social insurance (SI) system. In mid-2011, the labour force survey reported 5.4 million SI contributors out of 8.3 million salaried workers, the remaining group being considered as informal or non-registered employment. Informal employment thus represented 34% of salaried employment in 2011, almost recovering to the levels seen in the early 1990s⁵⁴.

In June 2011, the number of beneficiaries was 102,000 for 193,000 registered claims (in 2010). These figures are to be compared with the number of unemployed approximately at 1,216,000 in the second quarter of 2011 (based on estimates by the Ministry of Labour, Employment and Social Security), corresponding to an unemployment rate of 7.2%.

Comparison between the level of benefits and (i) the national poverty line, (ii) the national minimum wage

The average monthly benefit was ARS354 in June 2011, ARS623 for unemployment insurance benefits including family allowances. As comparison, the national minimum wage was raised to ARS2,300 monthly in September 2011.

In January 2012, the value of the market basket of basic needs used to represent the poverty line was officially estimated at ARS461 per month per adult in Buenos Aires (according to the National Statistics Institute). According to that measure, 8.3% of individuals were estimated living under the poverty line.

⁵⁴ Source: Labour Force Survey and analysis by SEL Consultores in October 2011.

Strengths and weaknesses of the UI scheme

Strength: A person receiving unemployment insurance benefits will maintain entitlements to other social insurance benefits.

Weakness: Maximum and minimum benefits have not been adjusted since 2006, despite a nearly fourfold increase in minimum wages. As a result, benefits rates are quite low compared to previous earnings. The benefit schedule shows large discontinuities, for example the 24th month of insured work gives rise to four extra months of benefits.

► Annex 3. Brazil's social insurance for the self-employed⁵⁵

Social security oriented toward hired workers

As atypical forms of employment and migration increased, several groups have been deprived of social protection (the unemployed, agricultural and urban workers without official registration, as well as the self-employed). The government began looking for ways to provide greater social security and to provide minimum social guarantees to those employed in the informal sector including the self-employed.

Attempts to broaden social security for those groups had begun during the late 1960s and early 1970s. With experience it became clear that simply including them among the insured would not guarantee them social protection or access to social services. Self-employed workers are a significant fraction of those who lack social protection and do not participate in social insurance. According to a survey of domestic service providers conducted by the Brazilian Institute of Geography and Statistics in 2009, 43.1 million (46.5%) of those 16 years of age or older in Brazil's workforce were not paying contributions into the social insurance fund.

Reforms that formalize the self-employed were begun in 2000

The first solution came with Law No. 10666/2003, which amended the regulations on social insurance for the self-employed. Then came Law No. 123/2006, which provided a simplified social insurance scheme that reduced the contribution to social security from 20% to 11% of the minimum wage for those self-employed who were entitled to benefits within the general social security system, including entitlement to a pension (based on minimum wage). At the end of 2008, Law No. 128 established the classification of self-employed micro-entrepreneur (microemprededor individual or MEI) for the self-employed with a gross annual income of BRL36,000 (about US\$17,800) and who pay into a special unified system of taxes and contributions for small and micro-enterprises. This MEI programme is part of a comprehensive simplified system for payment of taxes and contributions by small and micro-enterprises called the Simples Nacional. The option to be under this regime is open to two kinds of companies: micro-enterprises with a maximum gross income of BRL120,000 (US\$36,000) and small companies with income from BRL120,000 to BRL1,200,000.⁵⁶

Micro-entrepreneurs are permitted to hire employees and, when registered for the MEI programme, are subject to lower rates for social contributions. Micro-entrepreneurs had originally paid 11% of the minimum wage as the social insurance contribution, as well as a fixed tax of BRL1 for state bodies and BRL5 for municipal authorities. The social insurance contributions through MEI were cut back in 2011 to 5% of the minimum wage. The purpose of the reduction in contributions and relief from federal tax was to encourage formalization and inclusion of self-employed workers in the social insurance system.

⁵⁵ Source: Aleksandr V. Burlak, Expansion of the Sphere of Social Insurance for Self-Employed Citizens in the BRICS Countries (case of Brazil). Article published in the journal Трудовое право, право социального обеспечения [Labour and Social Security Law], 2018.

⁵⁶ The simplified plan and special unified scheme of taxes and contributions for small and micro-enterprises (Simples Nacional) are two different programmes. The former is for the self-employed, and the latter is for legal entities including micro-entrepreneurs.

MEI quickly produced excellent results

The main advantage was in reducing the cost for the self-employed to legalize. Between 2008 and 2011 the MEI programme resembled the Simplified Plan (paying 11% of the minimum wage into the social insurance system), but there is a difference between the two schemes. Although both of them employ financial incentives to encourage participation in the social insurance system, the MEI is for enterprises while the Simplified Plan is for individual persons. Registering for the MEI is quite easy and may be done online. The self-employed can quickly be registered as micro-entrepreneurs and receive a temporary permit to work for 180 days, which becomes permanent if there is no objection from municipal authorities. Within the Simplified Plan workers retain the status of individual persons, but in the MEI programme they become legal entities.

Alongside the favourable tax rate and reduced bureaucracy, there is another factor contributing to the success of MEI. It opens the door to services that had previously been available only to enterprises: the option to issue invoices and to take out bank loans as a legal entity with better terms and interest rates than for individuals. About 44,000 micro-entrepreneurs were registered with MEI at the end of 2009, but by December 2012 there were 2.6 million. Statistics from the Brazilian Ministry of Social Protection indicate that 1.5 million micro-entrepreneurs paid contributions to social insurance in 2012.

The Simplified Plan is also an important way to broaden the scope of social insurance. In 2012 the number of self-employed who paid into social insurance at least once a year reached 11.9 million, of whom 2.1 million were participants in the Simplified Plan.

From 2002 to 2012 the overall number of self-employed participants in social insurance increased from 4.3 to 11.9 million, or by about 10.8% per year. The substantial increase of the insured under MEI took place while the participation of the self-employed increased together with that of hired workers, which means that **there were new participants in social insurance and not merely a shift from one form of contribution to another**. The number of hired workers who made at least one contribution to the system increased by more than 23 million. Likewise, the number of participants in 2012 was 53.8 million compared to 30.8 million in 2002.⁵⁷

Conclusions

Brazil's labour market is characterized by a severe lack of social security because of high informal employment. Hired workers, domestic workers and the self-employed lack social protection. The self-employed are one of the least protected groups of workers and need to be incorporated into the social insurance system. The Brazilian government's measures along these lines, such as the Simplified Plan for social protection and the MEI programme for micro-entrepreneurs, have shown good results **through simplified registration, a favourable rate of taxation and contributions adapted to the means of self-employed workers**. Furthermore, participation in MEI enables private entrepreneurs to get loans at better interest rates, issue invoices to their clients and so gain access to major commercial markets, and also to enjoy other advantages. The programme then encompasses more people who participate in social insurance, minimizes administrative procedures and encourages the self-employed to become micro-entrepreneurs.

The Simplified Plan and MEI programme demonstrate that a developing economy that attempts to encourage legalization of the self-employed must reduce the tax burden and tailor the amount of insurance contributions to match the modest income of the self-employed. The main idea is to carry out a series of reforms that will increase social security while combining short-term prospects for development with long-term arrangements for protection.

⁵⁷ Statistics from the official registry of the Ministry of Social Protection of Brazil. Available online at: <http://www.previdencia.gov.br/>.

► Annex 4. Employment insurance in the Republic of Korea⁵⁸

Historical Development

Until the 1970s, the Republic of Korea had mainly prioritized economic development over social security, relying on full employment and family support to meet income security and social protection needs. The oil crisis of the 1970s and the wave of lay-offs revealed the need for unemployment benefits and better support of the unemployed. However, it took twenty years of lengthy debate before the Employment Insurance Act (Law No. 4644) was adopted in December 1993. The Employment Insurance (EI) system was finally introduced in 1995. It was called an **Employment Insurance** (EI) system to stress the key coordination of social protection with labour market policies.

In the wake of the 1997-98 Asian financial crisis, the unemployment rate went from below 3% to 7% in 1998 and 6.3% in 1999, for the first time since the 1960s. Spurred by unprecedented unemployment rates, the Government reacted by expanding the scope of EI coverage, which only covered 15% of workers at the time, and initiated labour market programmes which were later folded into the Employment Insurance Act.

Main features and coverage

The objectives of the EI scheme are twofold: (i) to prevent joblessness, promote employment and vocational competency; and (ii) to provide financial support and employment assistance to the unemployed. As such, the Korean EI system consists of four main components: 1) employment stabilization; 2) vocational competency development; 3) unemployment benefit; and 4) maternity leave benefit. The three first programmes, focusing on unemployment and employment support, have multiple subprogrammes (80 to 90) offering labour incentives for specific goals, such as the "Employment Promotion Grant for the Elderly" or the "Vocational Training Subsidy". Unemployment benefits are divided into job seeking benefits, corresponding to an allowance to look for work, and employment promotion benefits, consisting in additional allowances for finding work, such as vocational training and moving expenses.

When the EI system started, coverage was limited to enterprises with at least 30 employees. The ceiling was progressively lifted. Since October 1998, all employees, whatever the size of the enterprise, must join the EI system except for those working for companies engaged in farming, forestry, fishery or housekeeping. For the construction sector, workers employed in construction sites with contracts not exceeding KRW20 million are not covered. Those working less than 60 hours per month (less than 15 hours a week) as well as those with family ties to the employer, and public service employees are not eligible for coverage. Migrant workers are covered under the EI programme (depending on the worker's visa status). Finally, the self-employed and small business owners (less than 50 employees) may voluntarily register with the scheme.

⁵⁸ Source: Carter, J.; Bédard, M. & Bista, C.P. Comparative review of unemployment and unemployment insurance experiences in Asia and worldwide; Decent Work Technical Support Group, ILO Country Office for Eastern Europe and Central Asia (Moscow: ILO, 2014). Website for the unemployment system is available online at: <http://www.anses.gov.ar/desempleados/>.

Specific practices of relevance

A key feature of Korea's EI system is its active labour market policies that aim at preventing and supporting early reemployment. In February 2012, an initiative was launched and has been expanded nationally in July 2012, to reduce social security exclusion by subsidizing the coverage of low-paid workers in small workplaces. The objective is to promote participation to both the EI and national pension schemes.⁵⁹

Institutional set-up

The Ministry of Employment and Labour supervises the Employment Security Offices (ESO), which are responsible for processing claims and paying benefits. The Korea Worker's Compensation and Welfare Service (COMWEL) collects EI contributions for both EI and work injury insurance.

Operational delivery system

An employer will issue on termination of employment a "Confirmation of Separation" with the required information to determine entitlement to job seeking benefits. Immediately after termination of employment, the unemployed worker must report to the ESO, which then approves eligibility for unemployment benefits.

Contribution rate

Since April 2011, contributions are divided as follows:

- ▶ for Unemployment Benefits (job-seeking plus employment promotion benefits): both employers and employees pay 0.55% of workers' earnings;
- ▶ for Vocational Competency Development plus the Employment Stabilization Program: only employers contribute, from 0.25% of wages if they have less than 150 employees, to 0.65% if they employ more than 1,000 workers.

Qualifying conditions and continuation of benefits

In order to qualify, unemployed claimants must:

- ▶ have worked at least 180 days in the last 18 months, with a minimum of 60 hours per month;
- ▶ register for job placement at the ESO;
- ▶ be available for work and/or vocational training;
- ▶ demonstrate their efforts to be re-employed.

The unemployed workers must report to the ESO. Benefits are suspended for two to four weeks if vocational training is rejected. Workers who have left their job voluntarily because of personal circumstances without good causes are not entitled to unemployment benefits. Likewise, claimants lose their entitlement if they were fired due to misconduct or as a result of a labour dispute.

⁵⁹ Korea Workers' Compensation and Welfare service (COMWEL): Presentation of the EI system in Korea, for the ILO/Korea- COMWEL Fellowship training on EI and EII, Seoul, 25 October – 2 November 2012.

Benefit rate and duration

The amount of job-seeking benefit paid is 50% of the past three-month average wage. The minimum amount of benefits is set at 90% of minimum wage and the maximum is set at KRW40,000 per day. If an unemployed person finds a job quickly, they will receive 50% of their remaining job-seeking benefits as a re-employment bonus. For example, if someone was entitled to six months of benefits and found a job in the second month, they would receive half of the remaining four months as a lump sum bonus.

The duration of benefits depends on the age of the worker and the length of insured employment with the former employer. The minimum duration of benefit for all workers is 90 days; while the maximum benefit is 180 days for workers under the age of 30, it is 210 days for workers from 31 to 50 years old and 240 days for people over 50 or persons with disabilities. If the insured unemployed fails to find a new job before exhausting their job-seeking benefits, extended benefits (at 70% of the former level) are granted for not more than 60 days if the recipient meets certain criteria, in particular those failing to find a new job, younger or elderly workers, workers with dependents with disabilities, or those completing a prescribed vocational training course. Lastly, special extended unemployment benefits are provided through an announcement of the Minister of Employment and Labour in times of high unemployment. This rule is used when the ratio of unemployment benefit recipients among all EI-insured persons exceeds 3% for three consecutive months, or the unemployment rate exceeds 6% for three consecutive months.

Waiting period before receiving first

The waiting period was originally 14 days, but was reduced to seven days on 1 January 2004.

Legal practices regarding severance pay

Until 2005, Article 38 of the Labour Standards Act provided a mandatory severance pay payable at the termination of contract either due to lay-off or retirement for all enterprises with at least five employees. The severance pay amounted to one month of salary for each year of continuous service to employees working at least 15 hours per week. In 2005, a reform of the severance pay laws introduced the option to either apply the severance pay as formerly stated in the Labour Standards Act or to establish a pension plan, portable between employers and complementary to the national pension fund. That decision is negotiated between employers and employees on an individual and voluntary basis. In December 2010, agreement between employers and employees on application of the severance pay or establishment of a pension plan was extended to all enterprises.⁶⁰ In the event that severance pay exceeds KRW100 million, the job-seeking benefit payments are postponed for three months.

Linkages with ALMPs

Korea's EI system operates two main active labour market programmes, namely:

- Vocational Competency Development, which consists of subsidies for jobseekers in vocational training either in enterprises or educational centres, employee training subsidies, and vocational training subsidies.
- Employment Stabilization Program, which assists in employing jobseekers through job creation subsidies, grants to start up one's own business, through maintaining employment with wage subsidies, and through facilitating employment for seniors and workers with disabilities.

60 R. Holzman, M. Vodopivec: Reforming severance pay: An international perspective (Washington DC, World Bank, 2012).

Existing non-contributory income security

The National Basic Livelihood Security System (NBLSS) was introduced in 2000 based on the concept of “productive welfare”. It provides eligible low-income people with cash transfers to ensure that they maintain a minimum standard of living regardless of work ability. In particular, the Self-Support Program, a component of the NBLSS, refers social assistance clients who are able to work to local self-support agencies, where they receive training and job placement assistance as well as support to establish their own businesses. However, despite social assistance and insurance programmes in place in the Republic of Korea, an OECD report in 2011 concluded that Korean families typically offset about two-thirds of the impact of large reductions in workers’ earnings through earnings of other family members.

Performance and monitoring indicators relating to scheme’s efficiency and challenges

Comparison between legal and effective coverage

In 2008, 44.7% of establishments were covered by the EI programmes, which accounted for 56.8% of hired workers (due to a large number of irregular workers) and 80% coverage for permanently employed workers. In 2008 47.1% of all workers were insured in 2008. In 2011, there were 1.45 million covered establishments with 10.7 million insured workers out of 13.9 million employees, of whom 10.9 million were permanent employees. Total employment in Korea was 25.6 million workers. There were 906,000 new claims made in 2011.

Comparison between the level of benefits and (i) the national poverty line, (ii) the national minimum wage (when established)

The average monthly benefit in 2011 was KRW337,000. Comparatively, the legal minimum wage has been set at KRW4,320 per hour for 2011 (reviewed annually) or KRW777,600 per month (working 40 hours per week). This compares with the national average monthly wage at KRW2.9 million (in the third quarter of 2011).

Reemployment rate before end of entitlements

The monthly re-employment rates among benefit recipients as provided in January 2012 by the Bulletin of the Ministry of Employment and Labour were in 2011: 42.4% in September; 42% in October; 40% in November; 37.6% in December.

Strengths and weaknesses of the UI/EI schemes

Strengths: The EI system maintains a strong and continuing focus on helping individuals return to employment.

Weaknesses: The active labour market programmes are often adjusted and revised which makes monitoring them a difficult task.

► Annex 5. China's unemployment insurance⁶¹

Historical development

In China, the unemployment insurance system was established in 1986, targeting urban employment and especially State-Owned Enterprises (SOEs). A new Social Insurance Law was adopted on 10 October 2010 and entered into force on 1 July 2011. The SI Law covers basic old-age pensions, medical insurance, working injuries and occupational diseases, maternity benefits and unemployment insurance. The main modification brought about by the new Law is the harmonization and **unification of social** insurance plans into one national system, ensuring portability of rights across locations.

Main features and coverage

Coverage now extends to all employees in urban enterprises and public institutions (civil servants are covered by the Civil Servant Law). All employees also include rural migrant workers who have signed a labour contract with their employers. Self-employed and workers in flexible employment can register on a voluntary basis but must pay the contributions themselves. While guaranteeing the basic livelihood of the unemployed, the State seeks to steer unemployment insurance in the direction of promoting re-employment. It has strengthened the link with re-employment services through registration of employment, providing employment information and guidance, and providing job-matching services as well as utilizing the unemployment insurance fund for vocational training.

Specific practices of relevance

While receiving unemployment insurance benefits, the unemployed continue to be covered by the health insurance scheme. The health insurance contributions of the unemployed are paid by the unemployment insurance fund. If an unemployed person dies, their family can receive a lump-sum funeral subsidy from the unemployment insurance fund, the amount of which will be determined by the local provisions on death of in-service employees.

Institutional set-up

The Ministry of Human Resources and Social Services (MHRSS), under the State Council, oversees unemployment insurance nationally. Administration of the scheme is decentralized to social insurance institutions at the county level, which are also in charge of paying benefits. Contributions are collected by local tax departments or social insurance institutions and deposited in special state accounts at commercial banks.

Contribution rates

Employer's contributions are 2% of wages and worker's contributions are 1%; however, provincial governments can adjust the local contribution rate with the approval of the State Council.

Qualifying conditions and continuation of benefits

There are three conditions to qualify for unemployment insurance: having paid contributions for at least one year, having become unemployed involuntarily; and registering and seeking employment.

⁶¹ Source: Carter, J.; Bédard, M. & Bista, C.P. Comparative review of unemployment and unemployment insurance experiences in Asia and worldwide; Decent Work Technical Support Group, ILO Country Office for Eastern Europe and Central Asia (Moscow: ILO, 2014). Website for the unemployment system is available online at: <http://www.anses.gov.ar/desempleados/>.

Benefits terminate under the following conditions: re-employment; being recruited into military service; emigrating to another country; becoming eligible for old age pension; or refusing to take jobs recommended by the designated local government authorities.

Benefit rate and duration

The unemployment insurance benefit rate is determined by provincial governments. It is a flat rate, lower than the local minimum wage level but higher than the urban minimum livelihood guarantee. Some provinces link unemployment insurance contributions to the amount of benefit rate. The duration of benefits varies according to the unemployed worker's contributions: less than 5 years qualifies for 12 months; 5 to 10 years for 18 months; and more than 10 years for 24 months.

Waiting Period before receiving first payment

There is no waiting period to be served.

Legal Practices regarding severance pay

Before unemployment insurance was introduced, SOEs provided lifelong employment for their employees and various employment-related benefits, such as old-age pensions and free education and health care, known as a "cradle to the grave" welfare system. There was no need for severance payments at that time.

The 2008 Labour Contract Law made severance pay mandatory, to a maximum of three times the local average monthly wage times 12 years worked. Unemployment benefits are paid regardless of entitlements to severance pay.

Linkages with ALMPs

In 1998, in a period when SOEs underwent major restructuring that led to numerous lays-off, the Government launched the Urban Employment and Re-employment Promotion Programmes. The fund provides subsidies to social insurance contributions when jobseekers are re-employed, micro-loans and subsidized interest rates for small businesses employing jobseekers, and fees for re-employment training, among other supports. Amongst all jobseekers, men aged over 50 years and females over 40 years are the primary target.⁶²

In 2002, the State Council introduced a comprehensive set of economic and social policy measures (known as Document No.12) which emphasized: expansion of employment opportunities through multiple channels; development and extension of the support and incentive structure (e.g., independent job seeking by individuals, business start-ups); and establishing the public employment service and developing and expanding its mandate for job placement, training and retraining facilities. In 2008, the Employment Promotion Law (EPL) was passed focusing on China's active employment policies. The EPL policy structure evolved from past concerns of assisting laid off workers from SOEs to a complete set of policies to address unemployment, promote employment and extend social protection.⁶³

The unemployment insurance fund can be used to subsidize the vocational training and career counselling for the unemployed (Art. 10 of the Regulations on Unemployment Insurance, 1999).

⁶² Source: Urban Employment and Reemployment Promotion Programmes (Geneva, ILO, 2012).

⁶³ Source: China: From an active employment policy to Employment Promotion Law, (Beijing, ILO, 2011).

Existing non-contributory income security

In 1998, the government extended nationwide the establishment of the “Minimum Living Standard Guarantee Scheme (Dibao)” for urban residents. In 2006, the dibao was extended to rural residents. It is a means-tested benefit financed out of government revenues. The dibao provides cash assistance for households with per capita incomes falling below poverty lines. It caters to a mixed group of people including the unemployed, seniors, children and the disabled.

Performance and monitoring indicators relating to the scheme’s efficiency and challenges

Comparison between legal and effective coverage

The number of employed persons in China was reported at 761.1 million for 2010, 346.9 million urban workers and 414.2 rural workers. Participants in unemployment insurance were reported to be 143.17 million people at the end of 2011. Urban registered unemployment was stated to be 4.1% for 2010. The number of people receiving unemployment insurance payment was reported to be 1.97 million at the end of 2011.⁶⁴

Comparison between the level of benefits and i) the national poverty line, ii) the national minimum wage

The Social Insurance Law (2010) stipulates that the unemployment insurance benefits, a flat amount fixed at the provincial level, must not be lower than the standards for the minimum living guarantee for urban residents set for the urban dibao, revised on an annual basis at the provincial level. The average monthly dibao amounted to CNY230 in 2010. As a point of comparison, the national poverty threshold was raised to CNY2,300 per capita annually in November 2011, an 80 per cent increase over the 2009 threshold. In 2011, the annual per capita net income of rural households was CNY6,977. The annual per capita disposable income of urban households was CNY21,810.⁶⁵

Strengths and weaknesses of the unemployment insurance schemes

Strengths: It guarantees the basic livelihood of the unemployed, promotes their re-employment, and effectively maintains the social stability.

Weaknesses: Among the weaknesses are the narrow coverage of the unemployment insurance system, the low benefit level, and its weak role in promoting re-employment. Furthermore, the current system cannot meet the requirements of regional differences.

64 Source: National Bureau of Statistics of China. Available online at: <http://www.stats.gov.cn/english/>.

65 Source: National Bureau of Statistics of China: Income of Rural and Urban Residents in 2011, (Beijing, NBS, 2012). Available online at: http://www.stats.gov.cn/english/pressrelease/t20120130_402787464.htm.

► Annex 6. Distinctive features of Chile's mixed system of unemployment insurance⁶⁶

The Chilean government introduced a new unemployment insurance system in 2002, a mixed one which is financed by the government, employers and workers. It employs two kinds of financing:

- individual savings accounts for each worker;
- a fund to cover emergencies, which is called the Solidarity Fund.

When workers become unemployed, they are entitled to withdraw the savings accumulated in their individual bank accounts. If that money is insufficient to live five months without a job, then workers are entitled under certain conditions and within limits to collect a subsidy from the Solidarity Fund.

How the unemployment insurance system works

Employers contribute 1.6% of wages to a worker's individual account, which is set up as a kind of pension account. The workers put in 0.6% of their monthly wage. A total of 2.2% of workers' monthly wages goes into the accounts, and over a year this comes to one quarter of the workers' monthly wages. Employers also contribute 0.8% of their income to the Solidarity Fund, which receives additional funding from the state budget. Other conditions apply to workers on fixed-term contracts: employers must pay 3% of monthly income into workers' accounts while the contract is in effect; over a year this would amount to about a third of the worker's monthly income.

Chart 1: Structure of Chile's unemployment insurance system

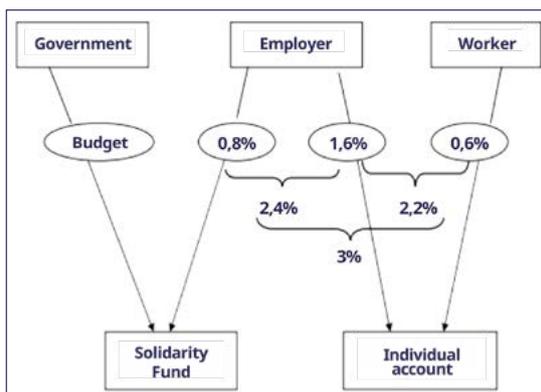


Table 1: Payments from the Solidarity Fund

Length of unemployment, months	Minimum payment, USD	Payment compared to previous 12-month average income, %	Maximum payment, USD
1	92,025	50	198,691
2	76,339	45	178,822
3	66,928	40	158,953
4	58,562	35	139,084
5	50,196	30	119,215

Source: Journal of Regional Economics: Theory and Practice [Журнал «Региональная экономика: теория и практика»], No. 38, 2011.

⁶⁶ Source: Journal of Regional Economics: Theory and Practice [Журнал Региональная экономика: теория и практика], No. 38, 2011.

Contributions are made for a maximum of 11 years. If a worker has been employed by a single employer for 11 years, contributions stop because the individual account of the worker is considered to have enough accumulated savings to weather any period of unemployment. Prior to any withdrawal of savings from the account, the worker must have been under an official employment agreement and must have made contributions for 12 months (6 months for workers with short-term agreements) before becoming unemployed, must be between 18 and 65 years old, and must have been employed for at least 30 days. The last condition ensures that the unemployed cover the first month of unemployment themselves.

Structure of payments is determined by the average length of unemployment in Chile (during normal economic conditions), which runs about five months. Therefore the number of withdrawals from an account is five regardless of the amount accumulated. Only workers under fixed-term agreements are entitled to withdraw all their savings at once. If a worker changes jobs without becoming unemployed, they are entitled either to withdraw their savings or leave them in their account, which has no bearing on the new employer's payment obligations.

These conditions apply to all hired workers regardless of the cause of their unemployment. Workers whose bank accounts hold less than two month's wages are entitled to supplement their savings from the Solidarity Fund. The amount and number of permissible withdrawals are calculated in accordance with Table 1. However, if the account holds more than two monthly wages, then the entire total in the account is divided by five and issued in monthly installments.

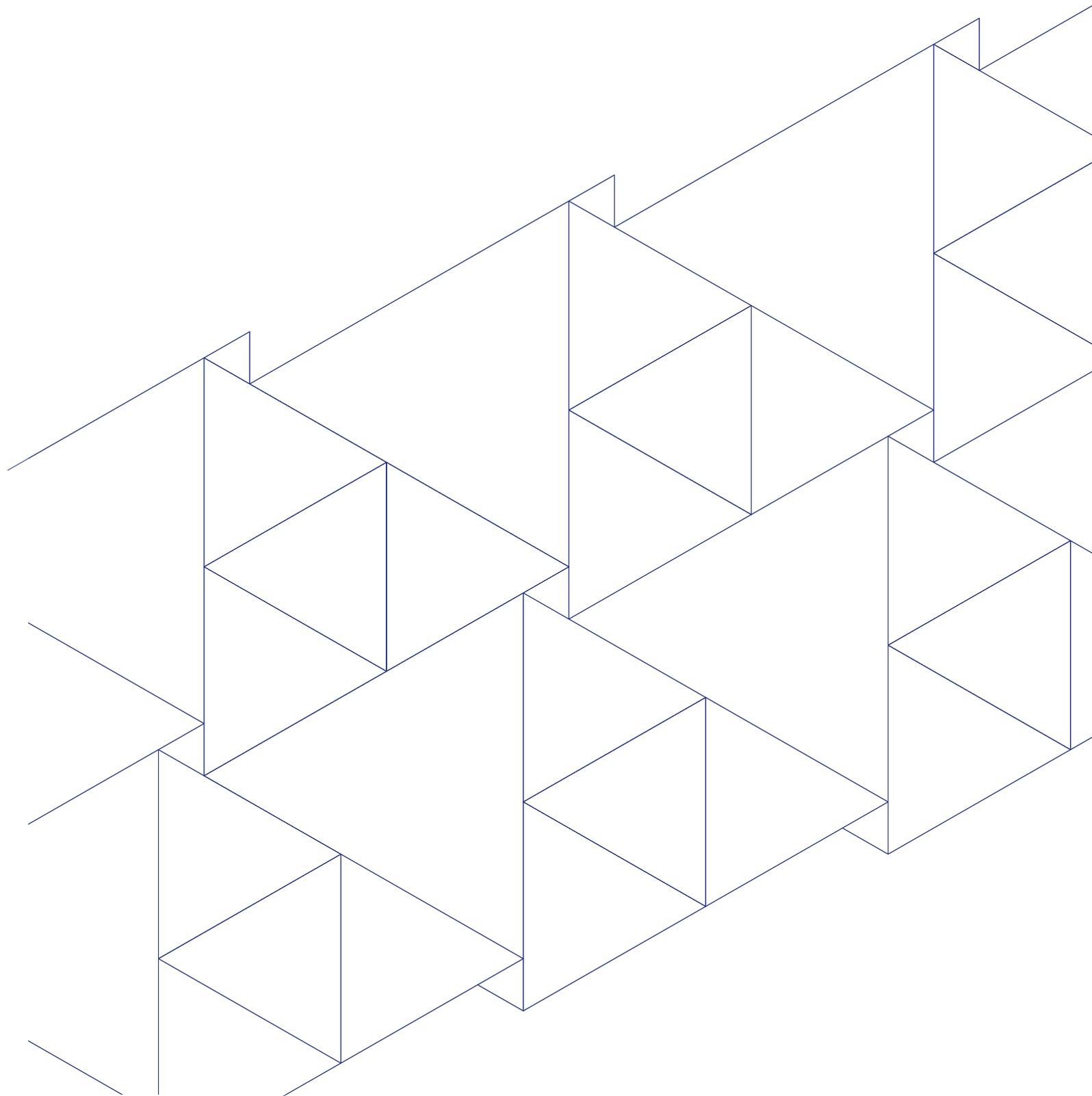
Recipients of insurance payments must be registered with municipal employment agencies by the main insurance authority. This means that they will automatically be registered with services that are intermediaries in providing jobs. The unemployed who use this system and have lost their jobs due to "business considerations" have priority in receiving the occupational training provided by the National Training and Employment Service.

Advantages and disadvantages in Chile's unemployment insurance. The system's protection from unemployment applies only to the official workforce. It barely qualifies as full-fledged unemployment insurance or as an individual savings system because the insurance element is quite minimal. And of course, it cannot be considered as social protection for the poor or a programme for the unemployed. A system of this kind can at best be regarded as just one element in a comprehensive social security system.

► Table 2: Advantages and disadvantages in Chile's unemployment insurance

	Indicator	Comment
Advantages	Minimal risk of moral hazard	Recipients of unemployment benefits are withdrawing their own savings, except for the Solidarity Fund which may be tapped only in specific circumstances. The main thing is the capacity of individuals to save.
	Needs only minimal institutional infrastructure	This plan can be carried out by agencies and organisations that already are in place, especially if the country also has a pension system in operation
	Additional resources for investment	Unemployment insurance funds can be invested in money market securities. This improves liquidity of financial markets and provides extra funds for investment.
	Protection of workers	The large segment of the workforce in the official sector will have protection.
Disadvantages	Low percentage of the unemployed are covered	This insurance system excludes individual entrepreneurs, hired workers without an official agreement, as well as workers under 18 and over 65 years of age. Workers who have not paid in contributions for at least 12 months (6 months for fixed-term contracts) or who have been jobless for less than 30 days also may not make withdrawals from their accounts.
	Insufficient protection for the unemployed	The theoretical presuppositions diverge widely from the real labour market.

Source: Journal of Regional Economics: Theory and Practice [Журнал Региональная экономика: теория и практика], No. 38, 2011.



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