Building A Better Future

A child-sensitive social protection system for Uzbekistan
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Acknowledgements

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Preface

The aim of this policy brief is to examine Uzbekistan’s social protection system and assess its effectiveness and capacity to respond to the challenges facing the nation’s citizens, in particular its children. It is a shortened version of a report published by UNICEF entitled: Building a national social protection system fit for Uzbekistan’s children and young people. More detail on the issues set out in this paper can be found in the in-depth report.

Much of the analysis in this report is taken from a recent national representative household survey – the Listening to Citizens of Uzbekistan (L2CU) survey – which was jointly undertaken in 2018 by the World Bank and UNICEF. The L2CU dataset was commissioned specifically to analyse the effectiveness of Uzbekistan’s national social protection system while also permitting a situational analysis of the national population. The survey reached 4,000 households and is nationally representative. If information is not referenced in this publication, the reader should assume that it is taken from the analysis of the L2CU dataset.

The policy brief has been prepared by a team led by Stephen Kidd and comprised Bjorn Gelders, Anh Tran and Sarina Kidd, working in close collaboration with the Social Policy team from UNICEF, in particular Yulia Oleinik and Umid Aliev.

The wide-ranging reform agenda in Uzbekistan is a window of opportunity to transform the national social protection system and align its design to the nation’s evolving needs and aspirations. If Uzbekistan is serious about taking advantage of its potential demographic dividend in the coming decades, it will be essential to increase investments in today’s children. While it is an obligation of every state to ensure the wellbeing of its children, there has never been a better time to invest in the future human capital of Uzbekistan to prepare the nation for the challenges it will face in the future. Yet, without reforms to the national social protection system, the opportunities presented by the demographic dividend could be lost. As a result, a large share of young people could be left behind, disenfranchised and with their potential unrealized. The proposals set out in this paper aim to re-design the national system of child benefits. If implemented, the reforms could become an important means of building a more prosperous and inclusive Uzbekistan.

The time is now!
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**Key Messages**

*Uzbekistan is at a turning point in its history.* With its youthful population and declining mortality and fertility rates, it is essential that the country harnesses the potential of its children and ensures the nation’s future prosperity.

*But time is running out to take advantage of this demographic dividend.* By 2040, dependency ratios will increase as the population begins to age rapidly. Without appropriate preparations, the country’s workforce will find it challenging to sustain the increasing number of people outside the labour force.

*To ensure that the country’s children have the best start to life, it is imperative that the national social protection system is as child-sensitive and effective as possible.* Yet, in its current form, it is not aligned to the challenges facing present-day Uzbekistan, nor is it designed towards maximising future benefits.

Although the country’s social protection system has had significant impacts on household poverty, the main child benefit schemes – *The Childcare and Family Allowances* – have small and dwindling effects within the context of the changing demographic profile of the country.

Although the child benefit schemes are targeted at the poorest families, the vast majority of eligible families are excluded. In a context in which most families have similar incomes, it is extremely difficult to undertake accurate targeting of those living in extreme poverty.
Children with disabilities are also losing out. Many are not accessing the Child Disability Benefit while the additional costs of disability experienced by families are often not adequately covered. Furthermore, caregivers are not compensated for any loss of income.

To ensure that Uzbekistan fully realises its demographic dividend, the nation must act swiftly and transform its child benefit schemes. By greatly expanding the number of recipients, Uzbekistan will be able to establish the type of child benefit system that has helped high-income countries succeed in giving their children the best start in life, irrespective of their circumstances of birth. This can be achieved by returning to the same level of investment as less than a decade ago.

The reforms proposed in this publication will significantly enhance child wellbeing, while also providing children and their families with the means to maximise their potential, realise their aspirations and become fully productive members of society.
1. Introduction
Uzbekistan has a youthful population, with most families living on low incomes. Only a small proportion of the population could be considered to be part of a secure middle-class. However, under the country’s new leadership, a process has begun to move the country towards a more open and market-oriented economy. A key component of these changes must be reforms to the national social protection system.

Among middle-income countries, Uzbekistan is one of the highest investors in social protection, on a par with countries such as Brazil and Mongolia: indeed, the overall level of investment is comparable

33% of Uzbekistan’s population are children under 18 years and 24% are young people between 18 and 30 years

Only 1% of the population live on per capita incomes of more than UZS1.6 million (US$200) per month

76% of the population live on less than 2.5 times the minimum wage (UZS15,700 per person per day)

Note: Based on the minimum wage of July 2018 (the time when the L2CU survey was conducted)
to many high-income countries. However, while the national social protection system has brought a range of positive benefits, its design is not aligned to the aspirations and emerging challenges faced by the country. As Figure 2 indicates, when compared to countries with much older populations, the level of investment in old age pensions is high in Uzbekistan. At the same time, the majority of children are unable to access the child benefit system, including many children with disabilities.

**Figure 2**

Comparison between investment in pensions and the proportion of the population age 60 years and above across four countries, including Uzbekistan

![Figure 2](image)

Uzbekistan is currently at a demographic and economic crossroads. With declining mortality and fertility rates, the country’s working age population is increasing while the combined proportion of children and older people is falling. This has created a window of opportunity – known as a **demographic dividend** – during which, as Figure 3 shows, dependency ratios have decreased. With the right policies, Uzbekistan could take advantage of the demographic dividend to generate greater prosperity and tackle poverty and inequality. First of all, this requires harnessing the full potential of the nation’s children.¹

However, the opportunity generated by the demographic transition will not last for long. By 2040, the working age population will have shrunk while the number of older people will have increased rapidly. If action is not taken now, the demographic dividend could very easily turn into a curse. If the nation does not invest in its children to create a skilled and productive future labour force, there is a danger that the country will not be able to adequately support its ageing population.

It is, therefore, imperative that Uzbekistan invests in its future, starting with ensuring that the national social protection system aligns with its development goals. A social protection system – with well-designed

¹ Further information on Uzbekistan’s demographic dividend can be found in UNICEF (2018).
child benefit schemes – should not only provide recipients with income security but also offer all citizens the best start in life, alongside the opportunity to realise their aspirations and become productive members of society. Access to well-designed, regular and predictable transfers can have a transformative effect on children and their families, improving nutrition, health and school performance while also encouraging families to invest in income-generating opportunities and accessing employment.

**Figure 3**

*Changes in dependency ratios in Uzbekistan, over time*

Yet, the benefits do not stop there. As seen in other countries, the reforms proposed in this report would go a long way towards generating economic growth, enhancing social cohesion and strengthening the national social contract. They would provide a safety net for the population as the country moves towards a more market-orientated economy. And, the good news is that these reforms have political value. They should be welcomed across the national population as they will make a real difference to the lives of the majority of families with children. The proposed reforms in this report will help secure the country’s future. Policymakers will find that they are an investment worth making.
2. Context
2.1. The situation of children

Around 33 per cent of Uzbekistan’s population are children and 57 per cent are aged 30 years and below. As Figure 4 shows, 30 per cent of young children and 27 per cent of children aged 5-14 years are in the poorest quintile of the population. While the poverty rate across Uzbekistan – when measured as half of the median income – is 21 per cent, the poverty rate among children is 24 per cent (see Box 1).

Figure 4
Distribution of different age groups of the population across each wealth quintile of the population

51% of households comprise parents with children and young people under 25 years

57% of children are living on less than UZS 10,000 per day
In fact, the majority of Uzbekistan’s children are living in families with incomes of less than UZS 10,000 per capita per day. This is the equivalent of 1.5 times the minimum wage, the income eligibility threshold for families receiving means-tested child benefits. Consequently, most children are living in families who are struggling to care for them. Further, as Figure 5 shows, per capita household incomes fall significantly the more children there are in a household.

**Box 1**

**Explanation of differences in poverty rates**

The poverty rate of 21% estimated from the L2CU dataset uses a relative poverty threshold of 50% of the median per capita income of the entire population, which is a common method in high-income countries. This is different to the Government’s national poverty rate of 13%, which uses a measure that is calorie based. This methodology, however, could not be replicated in the L2CU dataset.

**Figure 5**

*Mean monthly household income per capita, by number of children*

The wellbeing of a household plays an important role in determining the opportunities that are available for children. Vulnerable and insecure households are less likely to have regular employment and receive an adequate monthly income. Given the high levels of inequality in Uzbekistan, children born into wealthier families are more likely to succeed than the majority of children living on low incomes.

Uzbekistan is making strides towards providing its children with more equal opportunities, such as ensuring high levels of access to basic education. Recognizing that 64 per cent of children are still without access to pre-school education, the government has made a commitment to swiftly address this issue.
Box 2

The importance of tackling undernutrition among children

As Figure 6 shows, most brain development happens very early on in a child’s life and so it is critical that all children receive adequate diets, in particular during the first 1,000 days of their lives. If children experience stunting during this time, it may cause irreversible damage to their cognitive development, which can affect their future productivity. Children who are stunted are likely to earn 26% less as adults than their non-stunted peers.

Figure 6

The stunting of young children is a massive future loss to any economy

Uzbekistan has made significant strides by reducing stunting from 21% in 2002 to 8.7% in 2017. Supporting families and children early in life to ensure they receive proper nutrition will nurture the child’s developing brain and, therefore, contribute to building the human capital – and future productivity – of Uzbekistan.

DHS, 2002 and Richter et al, 2017
2.2. Children with Disabilities: The importance of having the best start to life

Children with disabilities are some of Uzbekistan’s most vulnerable children, and they receive fewer opportunities than their non-disabled peers. While access to general education is near universal for the population as a whole, many children with disabilities are not attending school and are unable to complete their education.

People with disabilities are more likely to live in low-income families and have a median income that is 18 per cent lower than the rest of the population. Further, as Figure 7 shows, they face significant disability-related expenses, which reduce their standard of living. These extra costs can be considerable: in other countries, they range from an additional 10 per cent of household consumption to more than 50 per cent.2

Figure 7
The additional costs of disability

2 Loyalka et al (2014); Kidd et al. (forthcoming)
Unfortunately, past and future vulnerability are intimately linked. The poverty, exclusion and poor quality services experienced by disabled children have consequences for them as adults. Around 1 per cent of young people have a severe disability and the vast majority are not in employment.

This is partly a result of the more limited opportunities that people with disabilities have been provided with as children. They often have a lower level of skills and their ability to find work is further hindered by the discrimination they experience when seeking employment. Moreover, there is a likelihood that some employers are put off by the extra costs of employing people with disabilities. More research is needed into whether the low rates of employment among people with disabilities may also be due to the interpretation of the guidance on eligibility for the disability benefit system: do those assessing disability often assume that people should not access a disability benefit if they are in work?

What is clear is this: Uzbekistan’s children with disabilities are not being provided with the same opportunities as their non-disabled peers, and these disadvantages follow them throughout their lives.

Despite many being very capable of working, 77% of young persons with a severe disability are outside the labour force and not in education or training, rising to 91% for those with a profound disability. This compares to 42% of the overall population of young people.

7% of young women with a disability are married or living with a partner, compared with 63% among females without a disability.
2.3. What are children’s future prospects in Uzbekistan?

As Uzbekistan’s children transition into youth, many are unable to realise their aspirations for prosperous and secure livelihoods. The move from the education system to the labour market is challenging for most young people. This is due to a number of reasons, including a mismatch of skills and job market requirements, as well as limited employment opportunities.³

Out of the country’s 8.5 million young people, nearly half are not in employment, education or training. Only 12 per cent of Uzbeks between the ages of 25-29 years have completed a university education, which will undermine Uzbekistan’s capacity to grow its economy in the long-term and adopt an innovation-driven development pathway.

Education also has an impact on household wellbeing. Among households in which the head has not completed any level of education, the poverty rate is 62 per cent. However, it is only 10 per cent when the household head has a university education.

3 See UNDP (2018) for further information.
Due to the lack of jobs in Uzbekistan, many young people have been obliged to seek employment abroad, and these migrant workers often take on semi-skilled jobs in precarious conditions. A consequence of the high migration rate is that remittances form a significant part of the country’s economy.

Currently, Uzbekistan’s children and young people are not being equipped with the tools to become a prosperous and innovative workforce, and this is hindering the country’s ability to unlock its demographic dividend. As the following pages show, the national social protection system is not yet designed to enable children to harness their full potential.
3. The national social protection system
3.1. The current social protection system

Uzbekistan invests 9.7 per cent of GDP in its national social protection system. As Figure 8 shows, the system is financed from a combination of social insurance contributions and general government revenues.\(^4\) As in high-income countries, Uzbekistan has built a national social protection system with schemes addressing the challenges faced by people across the lifecycle, from childhood to old age.

### Figure 8

**Key schemes in Uzbekistan’s lifecycle social protection system\(^5\)**

<table>
<thead>
<tr>
<th>Children</th>
<th>Working age</th>
<th>Old age</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Child Benefits:</strong></td>
<td>Unemployment and poor relief:</td>
<td><strong>Pension:</strong></td>
</tr>
<tr>
<td>Childcare Allowance – 0.29% GDP</td>
<td>Public works – 0.23% GDP</td>
<td>Old age allowance – 0.01% GDP</td>
</tr>
<tr>
<td>Family Allowance – 0.14% GDP</td>
<td>Low-income allowance – 0.01% GDP</td>
<td></td>
</tr>
<tr>
<td><strong>Disability Benefits:</strong></td>
<td>Unemployment benefit – 0.01% GDP</td>
<td></td>
</tr>
<tr>
<td>Child Disability Benefit – 0.14% GDP</td>
<td><strong>Gender:</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Tax-financed</strong></td>
<td>Maternity Benefit – 0.06% GDP</td>
<td></td>
</tr>
<tr>
<td><strong>Social Insurance</strong></td>
<td>Survivor: Breadwinner loss social allowance – 0.01% GDP</td>
<td></td>
</tr>
<tr>
<td>Child Birth Allowance – 0.08% GDP</td>
<td><strong>Survivors:</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Disability:</strong></td>
<td>Breadwinner loss pensions – 6.94% GDP</td>
<td></td>
</tr>
<tr>
<td>Disability Pension – 0.98% GDP</td>
<td><strong>Pension:</strong></td>
<td></td>
</tr>
<tr>
<td>Unemployment and poor relief:</td>
<td>Old age pensions – 6.94% GDP</td>
<td></td>
</tr>
<tr>
<td>Allowance for disabled from childhood – 0.22% GDP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disability social pension – 0.01% GDP</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Survivors:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Breadwinner loss social allowance – 0.01% GDP</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

54 per cent of the population lives in a household receiving a social protection benefit. As Figure 9 shows, the highest proportion of recipients are older people, which is mainly a result of the relatively high coverage of the old age pension. Most households receive only one benefit although 8 per cent of households receive multiple benefits.

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\(^4\) In reality, although some schemes are referred to as social insurance – such as the old age pensions – they are partly funded from general government revenues.

\(^5\) Details on a range of additional small schemes can be found in the longer background report accompanying this publication.
In total, 85 per cent of all social protection investment and 56 per cent of the total number of benefits paid are financed from social insurance – in other words, by the contributions of members of the Pension Fund. Figure 10 shows where social protection recipients are located across the wealth distribution. Despite the fact that some social protection schemes are targeted at the poorest families, those living under the poverty threshold coverage only account for 48 per cent, meaning that 52 per cent of the poorest households are excluded from any support by the national social protection system.
3.2. Social protection for children

Overall, 54 per cent of children live in a household receiving some type of social protection programme. However, the majority — about three-quarters of the total — are indirect recipients of old age pensions and disability benefits.

**Figure 11**

**Uzbekistan’s child benefit system**

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Number of Households</th>
<th>Benefit per Month</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Family Allowance</strong></td>
<td>283,624</td>
<td>UZS 121,638</td>
<td>($15.10) per month to families with one child;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>UZS 202,70 ($25.20) to families with 2 children;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>UZS 283,822 ($35.30) to families with 3 or more children</td>
</tr>
<tr>
<td><strong>Childcare Allowance</strong></td>
<td>222,631</td>
<td>UZS 405,460</td>
<td>($50.40) per month</td>
</tr>
<tr>
<td><strong>Child Disability Benefit</strong></td>
<td>98,100</td>
<td>UZS 396,500</td>
<td>($49.30)</td>
</tr>
</tbody>
</table>

As Figure 11 shows, Uzbekistan’s child benefit system comprises three main schemes: a Childcare Allowance for non-working mothers with a child under the age of 2 years; a Family Allowance for families with children aged 2-14 years; and, a Child Disability Benefit for children up to 15 years of age. Coverage is very low for the first two schemes which are targeted at the poorest families. However, as Figure 12 indicates, coverage varies across the country:

**Figure 12**

**Percentage of children aged 0-17 years living in a household receiving one of the three main child benefits**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 7%</td>
<td>Karakalpakstan, Navoiy, Namangan, Andijan</td>
</tr>
<tr>
<td>7 - 13%</td>
<td>Bukhara, Jizzakh, Fergana</td>
</tr>
<tr>
<td>13 - 19%</td>
<td>Tashkent City, Tashkent, Namangan, Andijan</td>
</tr>
<tr>
<td>19 - 25%</td>
<td>Samarkand, Fergana</td>
</tr>
<tr>
<td>25 - 31%</td>
<td>Karakalpakstan, Surxondaryo</td>
</tr>
</tbody>
</table>

31 per cent of children live in a household receiving the benefit in Karakalpakstan, while the proportion is only 1 per cent in Tashkent City.

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6 There is a separate Maternity Benefit for working mothers.
This geographic distribution is broadly in line with poverty rates across the different regions of the country.

The Child Disability Benefit is a key programme for many of Uzbekistan’s most vulnerable children. However, based on information from the L2CU survey, the scheme only reaches 52 per cent of children with severe disabilities despite it being offered on a universal basis. Clearly, many families do not know about the benefit or are struggling to overcome barriers to accessing it. This requires further analysis.

Coverage of child benefits used to be much higher. In fact, the system of child benefits was universal when it was inherited from the Soviet Union. However, as Figure 13 shows, in recent years the number of recipients has fallen. Since 2006, the number of families receiving the Family Allowance has shrunk by 70 per cent. And, since 2009, the Childcare Allowance has seen a fall of 60 per cent. In 2018, there was a small increase in the number of recipients of Family Allowance although coverage is still very low.

The level of investment in child benefits has also decreased over the past two decades. In 2000, the level of investment was 1.6 per cent of GDP and, by 2011, it was 1.24 per cent. It currently stands at 0.43 per cent, following a small increase in investment in 2018.

Uzbekistan’s investment of only 0.43% of GDP in the Childcare and Family Allowance is well below the level of investment in child benefits by some other middle-income countries:

Mongolia invests 1.4% of GDP in its universal Child Money programme, which reaches 99% of all children.

South Africa invests 1.26% of GDP in its Child Support Grant, reaching 63.4% of all children.

Argentina invests 1.04% of GDP in its system of child benefits, which reaches 83% of all children.

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7 Source: Background figures for CODI (2018) and Aliev (2017).
3.3. Impacts of the social protection system

Uzbekistan would be a very different country if it did not invest heavily in social protection. Its social protection system is responsible for a number of significant positive impacts including on poverty and inequality (see Figure 14 for the reduction in poverty rates across age groups).

Figure 14
Reduction in poverty rates across different age groups

Unsurprisingly, given the high level of investment, it is the old age pension that has had the largest impacts: while it is responsible for 77 per cent of the overall reduction in the national poverty rate, the child benefit system only contributes 8 per cent.

International experience would suggest that the social protection system has had a wide range of other impacts, including on human development (such as better health, nutrition and education for children), labour force engagement, local market dynamism and broader economic growth.\(^8\) However, to date, this evidence is not available for Uzbekistan due to an absence of research.

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\(^8\) Summaries of the evidence on the impacts of social protection can be found in DFID (2011), Kidd (2015), UNESCAP (2018), and Bastagli et al (2016; 2018).
4. The effectiveness of the social protection system in addressing the needs of children
4.1. Child benefit schemes have had minimal impacts on children

Children have benefited greatly from the social protection system. Overall, the child poverty rate has reduced by over a third.\(^9\)

However, Figure 15 shows that, as with poverty rates nationally, these reductions are largely due to the old age pension. In fact, the child benefits themselves have only been responsible for 12 per cent of the overall reduction in the child poverty rate. Of particular concern is the fact that the old age pension is being relied upon to support children since this is not its purpose. Rather, countries should build strong child benefit systems to improve child wellbeing. Indeed, child benefits are a key component of a modern, lifecycle social protection system.

The **old age pension** has had the **largest impact on child poverty reduction**, even though only **39%** of children live with an old age pensioner.

Child benefits reduce child poverty by only **2 percentage points**, due to the low level of investment in the schemes.

**Figure 15**

Contribution of different social protection schemes to the overall reduction in the child poverty rate caused by the social protection system

**Box 3**

**Impacts of child benefits on recipients**

While the child benefit system as a whole has had minimal impacts on child poverty nationally, among recipient families it has made a significant difference to child wellbeing. Among the poorest 20% of recipients, the income from child benefits represents 39% of the value of total household consumption expenditure. Moreover, the Childcare Allowance – which offers a high transfer value – increases consumption among the poorest 20% of recipients by 53%.

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\(^9\) As indicated earlier, the poverty line is set at 50 per cent of median income.
Low investment and low coverage are key factors that have reduced the effectiveness of Uzbekistan’s child benefit system. The following pages will examine some further factors, in particular: 1) the rationing of benefits; 2) the challenges with poverty targeting; and, 3) the potential disincentives to work created by the design of the schemes.

**Issue 1: Rationing of the child benefits**

The value of the child benefits is not, in itself, a cause of the low impact of the schemes. In fact, as Figure 16 demonstrates, when compared to other countries, the transfer amount is high when measured as a percentage of GDP per capita, at least when there is one child in the family. However, among families with many children, the real value of the Family Allowance for each child falls significantly: for example, when families have four children it is only UZS70,956 (US$8.80) per child, or 8.8 per cent of GDP per capita, per month.

![Figure 16](image)

Value of child benefits compared to other countries, as a percentage of GDP per capita (using values for families with one child)

However, many recipients of Childcare and Family Allowances only receive the benefits for short periods of time. This suggests that Mahalla committees – which are responsible for selecting recipients – are rationing an insufficient number of benefits by sharing them across the high number of families who are eligible since not all are able to access the scheme at any particular time. The downside of this rationing is that it significantly reduces the effectiveness of the child benefits since families are unable to access regular and predictable transfers for a long enough period of time for them to have a significant impact.

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10 Sources: Background figures are from: UNICEF and WB study using CODI; OECD Family Database (2017); Kidd et al. (forthcoming); Kidd and Damerau (2016); Kidd et al. (2015).
If rationing by Mahallas continues, it reduces the effective transfer value of the schemes when measured over a two-year period. For example, for a one child family, the Family Allowance would be UZS23,800 (US$3.00) per month – or 3.0 per cent of GDP per capita – assuming that the family only received it for one period of 4.7 months over two years. This is a very low value for a child benefit.

### Issue 2: Poverty targeting is a major challenge

Both the Childcare and Family Allowance are targeted at families living in poverty: the income eligibility line for the schemes is set at 1.5 times the value of the minimum wage for each person in the family.

However, a major reason for the low impact of the child benefit system is the poor performance of poverty-targeting. As Figure 17 demonstrates, the vast majority of eligible families – those to the left of the vertical line – are excluded from both schemes.

The Mahallas are responsible for selection and, in reality, they do it well, since few selected families have incomes above the eligibility criteria. Yet, since around half of children nationally are eligible for the schemes, the Mahalla committees are placed in an almost impossible position as they can only select a very small proportion of them. Furthermore, in a context of high levels of informal employment, it is very challenging to identify incomes accurately. Indeed, most eligible families have similar levels of income, which makes it difficult to differentiate between them. And, of course, family incomes can vary significantly over short periods of time.

In 2012, families received the Childcare Allowance for an average of 6.7 months and the Family Allowance for 4.7 months (UNICEF 2012)
67% of eligible families are unable to access the Childcare Allowance, while 10% of those receiving the allowance are ineligible.

88% of eligible families are excluded from the Family Allowance although only 3% of those receiving the allowance are ineligible.

The effectiveness of poverty targeting in Uzbekistan is on par with many other countries.

While Uzbekistan’s child benefits may appear to be poorly targeted, when compared to international experience they perform reasonably well. Figure 18 shows that, when assessing the exclusion errors of schemes against their coverage, Uzbekistan is more or less on the trend line. This suggests an average performance: no worse and no better than may be expected.
Many low- and middle-income countries have tried to improve their targeting by using a methodology called the proxy means test. For example, in 2015, Indonesia spent US$100 million undertaking a proxy means test while, in 2009, Pakistan spent $60 million. Yet, as Figure 19 shows, Uzbekistan’s current targeting effectiveness is similar to other countries that have used the proxy means test.
Analysis of the L2CU dataset indicates that, if a proxy means test were used in Uzbekistan, it would not improve on the current level of targeting effectiveness. Figure 20 compares the current targeting effectiveness of the Family and Childcare Allowances combined with the design errors that would be expected using a proxy means test in Uzbekistan. (In fact, following implementation, the accuracy of the proxy means test would be even worse). It would also be likely to cost over US$40 million per year to implement.

In reality, international experience indicates that universal provision is the most effective means of ensuring that the poorest families can access social protection. For example, Mongolia’s universal Child Money scheme reaches 99 per cent of all children, including virtually every child living in poverty. Of course, universal schemes are more expensive, but this is the price of greater effectiveness. Most successful high-income countries offer their child benefits on a universal basis to support all children in getting the best start in life.
Issue 3: Poverty-targeting may discourage people from working

Some claim that the Childcare and Family Allowances are making recipients lazy and that a ‘dependency culture’ is being created in Uzbekistan. However, it is likely that this is a misconception and that it is the design of the schemes that may be discouraging some families from working.

Box 4

In Georgia, women receiving the Targeted Social Assistance Scheme were 9-11 percentage points more likely to be economically inactive compared to those in non-participant households. In Uruguay, formal employment fell by 20% among women who received the targeted child benefit. In Argentina, the rule that women receiving the child benefit recipients had to be in the informal economy has encouraged many recipients to remain in informal labour.

A potential negative impact of poverty targeting – which is used in the Childcare and Family Allowances – is that it can disincentivise recipient families from seeking work. Since only poor families can receive the benefits, if recipients enter the labour market they are likely to have their benefits removed. In fact, recipients of the Childcare Allowance lose their benefit when a family member enters the workforce. So, poverty targeting can punish recipients if they take a job and reward them if they remain poor. As a result, poverty targeting can create poverty traps with families unintentionally encouraged by the state to continue living in poverty. Consequently, many families receiving the Childcare and Family Allowances may feel that, logically, it is not worthwhile entering the workforce if it means that they may lose the benefit. This will especially be the case if their income from work is low.

Universal child benefits do not create the same disincentives to work since, if recipients take jobs, they are not punished by the removal of the benefit. Indeed, the opportunity of a much higher income from the combination of benefits and employment is likely to encourage those in receipt of universal benefits to find employment. In fact, the cash they receive from the benefits is likely to help them access work or invest in income-generating activities. Across Europe, in countries that offer universal benefits, mothers are more likely to be in work than in countries where benefits are means-tested. And, in 2010 Iran introduced a universal household benefit offering high transfer values, as a compensation scheme for the removal of oil subsidies. Research has shown that the scheme has not discouraged people from working.

11 Kits et al, 2013
12 Amarante et al, 2011
13 Maurizio and Vásquez, 2014
14 Kidd (2012).
5. Proposals to reform the child benefit system
5.1. Why should Uzbekistan invest in a child-sensitive social protection system?

All nations need to ensure that their children can enjoy the best possible start in life. Not only is this a critical human rights issue, it makes economic sense if countries want to be competitive in a global market. Over the next couple of decades, Uzbekistan will only be able to take advantage of the demographic dividend if it starts investing now in its children, to ensure that they can become a highly productive workforce in the future. If it fails to do this, the opportunities that will result from demographic change may be lost.

Unfortunately, as described earlier in this publication, many of Uzbekistan’s children and their families are struggling. Many are low-income families, at risk of malnutrition, the development of chronic diseases and poor school performance. Few are able to make it through to university. It is essential, therefore, that they are given every chance to live fulfilling lives and develop the skills that will enable them to contribute to the nation’s progress, once they enter adulthood. Without this investment in children, not only will many families be unable to escape the vicious cycle of poverty, but Uzbekistan’s future competitiveness in the global economy will be undermined.

South African children who received the Child Support Grant are up to 3 cm taller than those who did not (Aguero et al 2007).

The earlier the children start receiving the Child Support Grant, the higher their test scores in maths and reading (DSD, SASSA and UNICEF 2012).

Losses in productivity due to not effectively addressing disability – in particular during childhood – can range from 1-7\% of GDP (Buckup (2009), cited in Banks and Polack 2014).
Box 5

Pension reforms and the impact on children

If reforms to the pension system move ahead as currently discussed within government, child wellbeing may be negatively affected. For example, if the eligibility age for pensions is raised from 55 years to 58 years for women and from 60 years to 63 years for men, according to the L2CU dataset around 6.5 per cent of children across Uzbekistan would lose the support they currently receive as a result of living with pensioners. Even if this change is introduced gradually, some children could lose out. There is no guarantee that those missing out on early pensions would be able to compensate by staying in work. Indeed, the parents of some children may have to give up work if older people are no longer available to provide free childcare at home. To ensure that any harm to children is minimised, it will be important to broaden access to child benefits as the pension reform moves forward.

Furthermore, as Box 5 indicates, reforms to old age pensions could also harm child wellbeing. If this happens, it is important that children are protected.

International evidence shows that social protection plays an essential role in contributing to the development of children. Access to regular and predictable transfers can have a transformative effect on children and their families, tackling undernutrition, improving physical and mental health and enhancing attendance at school. A regular child benefit can mean that children no longer have to work to supplement family incomes and are more likely to enjoy a stimulating home environment that is more conducive to studies. And, as Figure 21 shows, investment in social protection plays an important role in generating economic growth.

Figure 21

Social protection: a virtuous cycle promoting economic growth

5.2. Building a comprehensive child benefit system

It is possible for Uzbekistan to gradually build a comprehensive child benefit system that reaches all children in need. This could initially be financed by reallocating the funding that is currently available for social protection schemes for children and then gradually expanding the system year on year, until all children are reached. Under the proposal presented here, the maximum level of funding required would not rise above the amount invested by Uzbekistan in the Childcare and Family Allowance as recently as 2011 and would be similar to the amount invested by Mongolia and South Africa in their child benefits.

The effectiveness of child benefits depends on the number of children covered and the value of the transfer. The higher the coverage and transfer values, the more effective the system. However, it is also important to ensure that the cost of child benefits are within the capacity of the nation to finance. Therefore, the proposal presented in this paper begins at a relatively small scale – though it is an expansion on the current system – but grows over time, thereby ensuring that the level of investment required is both economically and politically feasible.

Box 6

Rationale for including older children in the child benefit system

It is important to include children aged 15-17 years into the child benefit system so that they are encouraged to remain at school, rather than being tempted to find work. Further, among this age group, international evidence indicates that child benefits can reduce early marriage, in particular among girls.

The proposal also initially prioritises the youngest children since it is critically important to ensure that every child in Uzbekistan has the best start in life. As discussed earlier, it is during the first 1,000 days of life that the greatest gains can be made in child development. Therefore, the proposal set out in this paper begins with the youngest children, who will also receive a higher level of transfer.

It should also be noted that, while these children will the direct beneficiaries of the scheme, all other children living in the same households will, of course, also benefit.

The proposal: Uzbekistan could offer a child benefit initially to children aged 0-3 years, providing each child with UZS 100,000 (US$12) per month (in equivalent 2018 values) while children in their first two years of life would receive UZS 150,000 (US$18) per month. No children would be removed from the scheme until their 18th
birthday, ensuring that they are supported all the way through school. So, by 2027, the scheme would cover children aged 0–10 years and would reach children aged 0–17 years in 2034. Figure 22 illustrates the phased expansion of the age group covered by the proposed child benefit.

**Figure 22**

Proposal for a phased increase in the coverage of age categories by the proposed child benefit

As a further means of reducing costs, the child benefit would be offered to 75 per cent of children in the age category. This would prioritise the children most in need, since around three-quarters of children are currently living on less than UZS 15,700 per day. So, rather than targeting the poorest children – which is impossible to do accurately – the child benefit would exclude better-off families. This is a form of means-testing called affluence-testing (Box 7). It has been used successfully in South Africa and has recently been introduced into the United Kingdom’s child benefit.

**Box 7**

**Explanation of an affluence test** An affluence test is a form of means-testing. However, it recognises that, as in Uzbekistan, most families are in need of social protection while only a few – the richest – could get by without it.

And, as Figure 23 demonstrates, around 85 per cent of Uzbekistan’s families have relatively similar incomes and it is only among the richest quintile that there is greater differentiation. Therefore, setting income eligibility at the 85th percentile – and assuming some exclusion of children – should reach 75 per cent of children. It should be much easier to identify recipients on this basis compared to targeting the poorest children, which no country is able to do.
5.3. Impacts of the child benefit

The proposed child benefit would have a meaningful positive impact on child wellbeing, in particular among the poorest and most vulnerable children. These impacts will grow over time as the scheme expands and more children are reached.

Impacts on poverty

As discussed previously, children are overrepresented among those living in poverty. Figure 24 shows the potential impact of the proposed scheme on the national poverty rate in both 2020 and 2030, compared to the current impacts of the Childcare and Family Allowances. While there would already be a small improvement when the Child Benefit is introduced in 2020, by 2030 the impact on the national poverty rate would be significant. It would fall by over 21 per cent, around three times more than the current impact of the poverty targeted Childcare and Family Allowances.
Impacts on household consumption

As described earlier, the majority of households in Uzbekistan are living on low incomes. So, it is important to examine the impacts of the proposed child benefit across the wealth distribution. Figure 25 shows the potential increase in consumption in households with children across the wealth distribution, again comparing the status quo with potential situations in 2020 and 2030 if the proposed child benefit were introduced.

Even in 2020, households with children – from poorest to richest – would, on average, experience some increase in consumption. However, by 2030, the average growth in consumption would be significant, reaching almost 40 per cent among the poorest households while middle-income households would benefit from a 10 per cent increase. The proposed child benefit would, therefore, enhance the standard of living of all children in need.

Broader impacts

As indicated by the international evidence on similar schemes, both options would have a range of other impacts on, for example, the health and nutrition of children, their school attendance and improved educational performance.

17 The simulations undertaken for this paper have assumed a targeting error by incorporating the design errors of a proxy means test into the analysis. For this reason, it is assumed that there will be some leakage to households in the most affluent 25 per cent, and some exclusion of poorer households. If an effective affluence test were introduced, it is likely that the errors could be reduced.
Both options are also likely to lead to greater engagement of working age members of recipient families in the labour force. The introduction of an affluence test should tackle disincentives to work since only the richest 15 per cent families would be ineligible. Furthermore, the increase in spending by recipients would likely provide a stimulus to local economies, spreading benefits across entire communities, including offering new markets to entrepreneurs.

Box 8

Do child benefits impact on fertility?

Occasionally, concerns are raised that child benefits could promote greater fertility. However, international evidence has shown that this is not the case. When South Africa introduced its child benefit, there were worries expressed that it would lead to an increase in pregnancies. A number of studies have shown that this was not the case and, in contrast, fertility fell (Makiwane 2010; Roberts 2011). Fizbein and Schady (2009) reviewed other countries and also found little evidence. In reality, most child benefits – such as those proposed for Uzbekistan – are too small in value to encourage families to have children.
5.4. Coverage of children by the child benefit proposal

A significant advantage of the proposed child benefit is that, not only will children, on average, experience higher standards of living, but many more children will be reached. Figure 26 compares the coverage of children across the wealth distribution of the current Childcare and Family Allowances with the proposed child benefit in both 2020 and 2030. While the Childcare and Family Allowances only reach 13 per cent of all households with children, as soon as the proposed child benefit is introduced in 2020, coverage will increase to 33 per cent. It will also be distinctly pro-poor, since it will reach more than half of the poorest 20 per cent of households with children. By 2030, coverage will have expanded even more: 64 per cent of households with children will be incorporated within the scheme including around 90 per cent in the poorest quintile of the population.

Furthermore, coverage would be highest among the largest families, which are most at risk of poverty: by 2030, 87 per cent of households with 4 or more children would access the child benefit, as well as 75 per cent of those with 3 children. It would also be more likely to support households in rural areas, where 67 per cent of households with children will be incorporated within the scheme.

In 2030, the proposed child benefit would reach 64% of households with children compared to only 13% reached by the current Childcare and Family Allowances

In 2030, the proposed child benefit would reach 67% of households with children in rural areas compared to 52% in urban areas

While the current Childcare and Family Allowances only reach 21% of households with four or more children, by 2030 the proposed child benefit would reach 87% of these households

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18 According to data from the Ministry of Employment and Labor Relations, in 2018 83 per cent of households who applied for childcare received a child benefit.
5.5. Level of investment required for the proposed child benefit

In 2019, the government is planning to invest 0.64 per cent of GDP in the Family, Childcare and Low-Income Allowances. Introducing the proposed child benefit in 2020 would require only a further small increase to 0.8 per cent of GDP. And, as Figure 27 demonstrates, even though the age of eligibility would increase annually by one year, the level of investment required would expand only slowly, reaching 1.29 per cent of GDP in 2020. This is similar to the amount that Uzbekistan was investing in the Childcare and Family Allowances in 2011.

Indeed, from 2025, the increase in budget required year on year would be minimal. This is the result of the decrease in fertility rates across Uzbekistan in coming years, meaning that fewer and fewer new-born children will enter the scheme each year. Further, if the purchasing power of child benefits is kept constant rather than having their value increased in line with the growth in GDP per capita, the transfer value – as a percentage of GDP – will decrease each year. In fact, once the proposed child benefit reaches children up to 17 years of age by 2034, it will have reached the peak of its cost, with the level of investment required subsequently falling year on year.

Of course, at this point, the government could choose to keep the level of investment constant and gradually expand the coverage of the scheme from 75 per cent to reach all children. This is likely to be a very popular decision.
There is no question that there is fiscal space available to introduce the proposed child benefit. For example, if all transfers for children — including free school materials, the Child Birth Allowance and the Maternity Benefit — as well as the Low-Income Allowance were consolidated, this would generate over 0.8 per cent of GDP of fiscal space, more than enough to pay for the proposed child benefit in 2020.\(^{19}\)

This consolidation would not remove income from families in need since the majority are likely to be compensated by accessing the expanded child benefit system. The Maternity Benefit could also be replaced by maternity and paternity insurance (see the accompanying in-depth report for more detail on this proposal).

As discussed above, the further expansion of the proposed child benefit system beyond 2020 would take place gradually, with the age of eligibility increasing by one year, each year. The cost of this expansion could be easily covered by the additional revenue from taxation that would be generated by economic growth, without any need to increase the tax base or introduce new taxes. For example, if the growth in national GDP is, on average, 5.5 per cent per year up to 2030 — and government investment remains at the 32.2 per cent of GDP predicted by the IMF for 2018 — then each year almost 1.8 per cent of GDP in additional taxation would be generated.

\(^{19}\) This consolidation of benefits does not take into account the Child Disability Benefit, which should remain separate.
The proposed child benefit would require, on average, an annual increase of only 0.05 per cent of GDP per year up to 2030, a fraction of the increase in government revenue that will be generated by economic growth. As this report argues, investing a portion of this new taxation in social protection of children would provide significant payoff in the form of reduced poverty and inequality.

In fact, the only requirement for the government to expand its investment in the child benefit system – and ensure a good start to life for all children – is political will.

**Box 9**

**Alternative child benefit options**

The proposed child benefit option outlined in this publication is only one among many other potential options. The Government could choose to vary the coverage of children and transfer value in a range of ways. And, of course, greater investment – as long as it is well-designed – will result in greater impacts.

The main report accompanying this publication offers two further options:

1. One option begins with children aged 0-3 years, but provides all recipient children with UZS150,000 per month. This would cost 0.97 per cent of GDP to introduce in 2020 but the impacts would be greater. For example, the national poverty rate would fall by 13.4 per cent in 2020 and 35.8 per cent in 2030.

2. The other option would begin with children aged 0-7 years but offer a smaller transfer of UZS100,000 per month. It would cost 1.3 per cent of GDP to introduce in 2020 but would reduce the national poverty rate by 17.2, rising to a 31.3 per cent decrease in 2030.
5.6. Reforming the child disability benefit

The Child Disability Benefit

Given that 48 per cent of children with severe disabilities between the ages of 3-17 years are unable to access the Child Disability Benefit, it will be important to undertake research to determine why they are excluded. The Government will need to take pro-active measures to seek out children with severe disabilities so that their families apply.

Disabled children have different levels of needs and the additional costs experienced by their families as a result of their disability vary. Therefore, in the long term, the Government may wish to develop a system of variable transfer values which are tailored to the specific needs of each disabled child. So, children with higher additional costs would receive a higher level of benefit.

All children with disabilities should receive the mainstream child benefit. A child disability benefit should be offered on top of a mainstream child benefit, as compensation for the additional costs of disability.

Child Disability Benefit = Compensation for additional costs of disability

Caregivers’ Benefit = Compensation for loss of income
A Caregivers’ Benefit

Often, a child disability benefit alone is not enough to give disabled children a good start in life. Since many parents are unable to work due to being full-time caregivers of their disabled child, the President’s recent commitment to establish a Caregivers’ benefit, which would compensate caregivers for their loss of income, is a very positive move. It would also make it more likely that children remain in the family rather than being put into residential institutions as a result of their parents being unable to care for them.

Since this would be a scheme that is meant to replace a wage, the Caregivers’ benefit should be set at the same value as the minimum old age pension, at least.
The time to act is now!

At this critical point in Uzbekistan’s socio-economic development, it is essential that much more is done to support children and reverse the cuts in financing of the child benefits that have happened over the past 20 years. Although Uzbekistan is one of the largest investors in social protection across middle-income countries, the design of its system is not aligned to the challenges faced by the country. Despite Uzbekistan’s young population, only 17 per cent of children are able to access Childcare and Family Allowance schemes. The impacts of these schemes have been minimal, reducing child poverty by only 2 per cent.

The proposal to reform the child benefit system suggested in this report would transform the lives of children in Uzbekistan, potentially reducing the child poverty rate by 27 per cent and benefiting over 60 per cent of children by 2030 (and more in subsequent years). It would bring Uzbekistan into line with middle-income countries and help establish the type of child benefit system that has been successful in high-income countries. A minimum level of income security could be offered to the majority of families with children while also generating greater economic growth, reducing inequalities, enhancing social cohesion and promoting more inclusive development. And, Uzbekistan would be much better placed to take advantage of the demographic dividend.

But, if Uzbekistan does not act soon, the window of opportunity will be lost. The country’s youthful population will not be adequately supported to realize their full potential and help build an innovative and prosperous society. The population structure will transition towards an ageing society, and the economy will struggle to provide for everyone. The demographic transition could turn into a curse rather than an opportunity.

The good news is that the current child benefit schemes can be easily reformed. And the funds are available. 9.7 per cent of GDP – the current level of investment in social protection – should be enough to provide a world class national social protection system if it can be effectively re-designed, in particular by consolidating programmes and reforming old age pensions to bring them in line with international good practice. And, given that inclusive lifecycle social protection systems are popular across the population, any policymakers implementing these reforms will also reap the political rewards.

This is an important moment for Uzbekistan. With the right political will, the country can move further along the path to prosperity. The reform of the child benefit system is an essential first step: for children, for their families and for the nation.

Reforming Uzbekistan’s child benefit system is a reform for everyone. It’s time for action!


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