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Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses (Employment in Uzbekistan)

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Annotation

The article examines the state of employment of the population of Uzbekistan during the pandemic and the measures taken to minimize the negative impact on the socio-economic development of the country. In particular, to prevent unemployment and the negative impact of quarantine restrictions on the labor market, the activities of enterprises and the employed population. The measures taken to reduce the unemployment rate, informal employment and support for business entities in Uzbekistan are analyzed.

Keywords: employment, labor market, social security, unemployment, labor relations, informal employment.



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Ensuring effective employment of the population in the economy and the rational use of labor resources is one of the main tasks facing any state, which is the key to sustainable economic growth of the country, consistent improvement of living standards and welfare of the population.

The employment rate of the population is the main indicator of the economic development of any country, and the issue of ensuring its effective employment has always been a key factor in socio-economic development. Since a person provides his life needs and opportunities

through employment, in many countries this problem is a priority for determining the potential and available prospects of society.

However, there is no country in the world where the labor market is not affected by the negative impact of COVID-19. The rise in unemployment and poverty in the context of the pandemic has become a serious problem even in the most developed countries. Today we will look at the lessons that the coronavirus has taught the labor market in Uzbekistan.

Manufacturing and service enterprises have suspended their activities due to quarantine. Difficulties were faced by workers who earned daily labor in service or catering establishments.

The national goals and objectives of Uzbekistan in the field of sustainable development until 2030 include the implementation of active and passive measures in the labor market, in particular, creation of favorable conditions aimed at ensuring decent work and expanding productive employment of the population, especially youth, persons with disabilities, significantly reduce the proportion of young people who are NEET (Not in Employment, Education or Training), protect labor rights and provide safe working conditions for workers. The issue of increasing effective employment by creating favorable conditions for equal employment for young people and people with disabilities and the expansion of productive employment, as well as equal employment for men and women.

1. Impact of COVID-19: Focusing on Employment Matters in Uzbekistan

The global economy has suffered serious damage as a result of the sharp spread of the coronavirus pandemic across the planet, self-isolation of states, a reduction in trade relations between countries, and the termination of passenger air, rail and road transport. Like other countries, Uzbekistan is also one of the hardest hit countries during the current crisis.

It is necessary to note that 600-700 thousand people appear in the labor market of Uzbekistan annually, and the number of jobs created is up to 500 thousand. Another two hundred are missing. According to the Ministry of Employment and Labor Relations, the total labor force in the country (men 16-59 years old and women 15-54 years old) is 19 million people. Of these, 5.1 million are employed informally, and another two million work abroad.

Unemployment has risen in Uzbekistan as a result of the impact of the pandemic, according to a June labor force survey. During the quarantine, 671 thousand people were looking for vacancies.

In Uzbekistan, due to quarantine measures, from March 20, 2020, the activities of about 95 thousand individual entrepreneurs were stopped, 196 thousand enterprises significantly reduced the volume of goods produced and services provided. In a short period, the number of people who applied to employment centers increased to 150 thousand. That is three times more than the period between January-February of this year.

Manufacturing and service enterprises have suspended their activities due to quarantine. Difficulties were faced by workers who earned daily labor in service or catering establishments.

Quarantine measures aimed at preventing the spread of coronavirus infection during the COVID-19 period have had a tangible impact on the labor market. The unemployment rate in Uzbekistan in January-July 2020 amounted to 2 million people or 13.2% of the economically active population. About 550,000 people could not go to work to other countries.¹

The citizens of Uzbekistan working abroad are in a particularly vulnerable position. Organized 311 charter flights have already delivered about one hundred thousand compatriots to the republic. Those who are still abroad are provided with consulting services, legal and social assistance, as well as financial support: it is planned to provide fellow citizens with a one-time financial assistance in the amount of \$40. Migrants who have been unemployed or found themselves in any other difficult situation due to the pandemic can report their problems, including through the sites birgamiz.com and anketa.migration.uz.

Due to COVID-19, the service sector has especially suffered, the share of GDP in 2019 was 35.5%, which accounts for more than 40% of the employed population. The number of citizens in need of work was 1.94 million people. The unemployment rate among the young aged 16 to 30 is high at 20.1%, and 17.4% for women.

In the first half of 2020, and especially in order to mitigate the negative impact of the COVID-19 pandemic on the labor market, labor authorities provided employment promotion services to 588.2 thousand unemployed and unemployed citizens (of which 159.9 thousand are persons under 30 and 229.4 thousand women).

During the quarantine period, 43% of respondents reported a decrease in income, and 29% a complete loss of income. The survey results show

¹. Data of the Ministry of Employment and Labor Relations of the Republic of Uzbekistan.

that quarantine has negatively affected the incomes of 72 percent of the population. At the same time, adding to the 13-15% of the population in need of assistance another 30% of the population below the poverty line and 43% of the population with low incomes is likely to complicate the socio-economic situation.²

One of the features of the labor market in Uzbekistan is the rapid increase in labor resources due to the high rate of population growth and the high level of informal employment in the country's economy (Table 1).

Table 1.
Main indicators of labor market of Uzbekistan, thousand people³

	2015	2016	2017	2018	2019	9 months of 2020
Employed, total	13058,3	13298,4	13520,3	13273,1	13541,1	13205,2
Labor resources	18276,1	18488,9	18666,3	18829,6	19007,8	19121,3
Economically active population	13767,7	14022,4	14357,3	14641,7	14876,4	14847,7
Unemployment	709,4	724,0	837,0	1368,6	1335,3	1642,5
Unemployment rate, %	5,2	5,2	5,8	9,3	9,0	11,1
Employed in the informal economy	7763,4*	7959,6*	8239,7*	5379,8	5368,2	5618,8
Share of the employed in the informal sector of the total employed*, in %	59,5	59,9	60,9	40,5	39,6	42,5

* with those who went to work abroad

The pandemic has mercilessly exposed the weaknesses of the labor market. The activities of both large and small enterprises have been suspended, working hours have been reduced, and personnel are being dismissed. The closure of shopping malls, hotels and restaurants, the cancellation of flights and the shift of businesses to remote work have put many on the brink of collapse. At the same time, the first to lose their jobs are those for whom it was not stable to begin with: salespeople, waiters, kitchen staff, loaders, cleaners.

². Data of the Ministry of Economy Development and Poverty Reduction of the Republic of Uzbekistan.

³. Based on data of the State Statistics Committee of the Republic of Uzbekistan.

In Uzbekistan, the number of unemployed has increased from 1.35 million to 2 million due to the coronavirus pandemic and the suspension of some businesses. The Ministry of Employment and Labor Relations solves the issue of employment by subsidizing entrepreneurship and attracting people to paid public works.

The informal sector turned out to be more resilient to shocks compared to small and micro-businesses, the report says. After the introduction of quarantine restrictions, an average of 21.8% of self-employed and 24.8% of individual entrepreneurs lost their jobs.⁴

Although the informal sector proved to be more resilient in terms of maintaining employment, quarantine restrictions had a significantly more negative impact on the income of informal categories. As shown by an express survey, almost 60% of self-employed and 64.2% of individual entrepreneurs (IE) have lost income completely or significantly. This is significantly higher compared to workers in the formal sector, where incomes were supported by the state (state-owned enterprises, institutions and organizations) or by small businesses.

Against the background of high-income losses, informally employed categories did not receive assistance during the period of quarantine restrictions. None of the individual entrepreneurs received social assistance. 82% of the self-employed also did not receive any assistance during the quarantine, the survey showed.

The rest (18%) indicated that they or their family members received assistance (cash or in-kind). In the structure of this assistance, the main part was made up of traditional social benefits, while unemployment benefits amounted to only 5%, although they should have been most in demand in the face of a surge in unemployment.

The number of people employed in the official sector of the economy amounted to 5.6 million people (a decrease of 0.2%, or 12.4 thousand people).

Individual entrepreneurs decreased by 167.5 thousand (46.4%) compared to the same period last year, which is a consequence of restrictive quarantine measures. At the same time, due to the involvement of 131.2 thousand people in paid public works, a sharp decline in the number of employed in the formal sector was prevented.

The number of economically inactive population in the first half of the year increased by 4.5%. This indicator increased due to the fact that representatives of the business and services sector, who temporarily

4. Data of the International Labor Organization (ILO) Office for Eastern Europe and Central Asia.

suspended their activities during the quarantine period, in the course of the survey, spoke in favor of resuming it after the restrictions were lifted, subsequently preferring not to engage in other activities.

2. Policy Responses for Employment in Uzbekistan

On a global scale, unprecedented measures are being taken to combat the spread of coronavirus infection, including imposing restrictions on the movement of people and the suspension of activities of enterprises.

This caused a sharp decline in production and consumption in the largest economies, disruption of global production chains and trade ties, falling commodity prices and deteriorating conditions in the global financial markets.

The economy of Uzbekistan, being part of the global economic system, is also influenced by these factors, which requires the adoption of effective proactive measures to mitigate their negative impact. Particular attention should be paid to supporting and ensuring sustainability of such rapidly developing sectors of the republic's economy as tourism, transport, pharmaceutical and textile industries.

To mitigate the negative impact on the economic sectors due to the coronavirus pandemic and the global crisis, since March 19, 2020, several policies proposed by the President of the Republic of Uzbekistan have been adopted to support the population and business entities during the coronavirus pandemic. These include measures to ease state regulation of entrepreneurship and self-employment.

The anti-crisis measures taken by Uzbekistan fully comply with the four basic principles of the ILO to combat the pandemic, i.e. aims to stimulate the economy and employment, support businesses, jobs and incomes, protect workers in the workplace and social dialogue.

In addition, the Government approved a temporary order to ensure the employment of family members whose social situation and standard of living have deteriorated in the context of the coronavirus pandemic. At the expense of the Public Works Fund for Temporary Employment, about 230 thousand unemployed citizens were employed; more than 33 thousand families are provided through the mechanism of subsidizing low-income families for the development of household plots and the creation of

agricultural cooperatives; 3 thousand unemployed were employed due to subsidies for the development of entrepreneurship among the population; 20 thousand unemployed people received unemployment benefits. Thus, 374 thousand citizens are provided with employment and regular income for three months of work.

Based on internal resources, one of the main tasks is to attract this category of citizens to work, since they know the profession and have worked abroad for many years. For example, 3.6 trillion sums were allocated from the Anti-Crisis Fund for the construction of social facilities in the regions. In each region, construction began on average of 50-60 such facilities. Territorial employment promotion centers identify labor migrants who could not leave, draw up a list, and attract them to facilities in their specialty in their districts.

The imperatives in the Ministry of Employment and Labor Relations response to the crisis were:

Protecting workers: Protecting workers' rights and limiting the spread of the virus in the workplace;

Support for jobs and income: Support enterprises, stimulate labor demand and expand social support for the population.

Creation of new opportunities: Allocation of grants, subsidies, training and provision of temporary employment in public works.

Strengthening social dialogue: Building public confidence, supporting measures to overcome the crisis.

From January to June, labor authorities rendered employment assistance services to 588.2 thousand unemployed and unemployed citizens (of which 159.9 thousand are persons under 30, 229.4 thousand are women).⁵

Employment for permanent jobs and involvement in paid public works provided employment for 501.1 thousand, 15 thousand unemployed were sent for professional training, unemployment benefits were paid to 27 thousand unemployed at the expense of the Employment Promotion Fund for a total of 10.1 billion soums.

In addition, subsidies from the Employment Promotion Fund provided employment for 24.8 thousand people on personal subsidiary plots, 15 thousand citizens were accepted as members of agricultural, sewing or handicraft cooperatives, 3 thousand were involved in entrepreneurial activities, 256 employers were provided with material measures and/or support for professional development, and 2.3 thousand unemployed were hired in the direction of labor authorities.

5. Data of the Ministry of Economy Development and Poverty Reduction of the Republic of Uzbekistan.

In order to ensure macroeconomic stability, uninterrupted operation of sectors and spheres of the economy, stimulate foreign economic activity, effective social support and employment of the population during the coronavirus pandemic, several measures were taken, in particular:

1) the Anti-Crisis Fund was created under the Ministry of Finance of the Republic of Uzbekistan in the amount of 10 trillion sum (sum – national currency) – about 1 billion US dollars.

2) the Republican Anti-Crisis Commission was formed to promptly resolve the problematic issues and develop additional measures to ensure the smooth operation of industries and sectors of the economy, social support for the population during the period of countering the spread of coronavirus infection and other global risks;

3) an operational headquarters has been created to ensure expedited passage of goods through border customs posts, their uninterrupted customs clearance, as well as the issuance of permits for exported and imported goods;

4) the Republican Commission for the Development of the Export Potential of Regions and Industries approved effective measures of targeted support for exporters;

5) ensuring timely payment of wages to employees who have suspended their activities, in particular, preschool, general secondary, secondary specialized and higher educational institutions, sports and cultural institutions and other departments financed from the State budget; and

6) a deferral was provided for the payment of debt on loans (without charging penalties) issued to travel operators, hotel business entities, transport and logistics companies and other enterprises of the tourism industry, as well as business entities that faced financial difficulties due to the introduction of restrictions on foreign trade operations.

To attract unemployed citizens to public works, to the Ministry of Employment and Labor Relations was allocated 200 billion sums from the Anti-Crisis Fund.

Also, in order to further promote widespread involvement of the population in entrepreneurial activity and create additional conditions for the implementation of legal labor activity and reduce the level of informal employment was adopted a normative act which allows from July 1, 2020:⁶

- income received as a result of the labor activity of self-employed persons is not included in the total income of an individual;

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

- the list of activities has been expanded to 67 (works, services) that self-employed persons can engage in;
- registration of self-employed persons was introduced in a notification procedure through a special mobile application or a personal account of a taxpayer with the issuance of a matrix bar code (QR code), certifying the fact of registration as self-employed, with the abolition of the procedure for issuing temporary labor certificates; and
- self-employed persons pay social tax for 2020 in the amount of at least 50% of the base calculated amount.

In addition, it is envisaged to provide self-employed persons with preferential loans for 67 types of activities within the framework of the program “Every family is an entrepreneur”. These measures are aimed at accelerating the growth of the service sector, supporting entrepreneurship and creating new jobs for the population.

To self-employed persons are given the opportunity to pay social tax for 2020 in the amount of at least 50 percent of the minimum wage, regardless of the time actually worked as self-employed. This amount is completely directed to the off-budget Pension Fund, which is the basis for calculating pensions for individual entrepreneurs.

Also, self-employed persons providing services (performing work) through the Internet (freelancing) are granted the right to:

- accept from individuals and legal entities, non-residents from abroad payment in foreign currency for services rendered (work performed) to accounts in banks of the Republic of Uzbekistan without entering relevant information into the Unified Electronic Information System of Foreign Trade Transactions;
- provide services (perform work) to foreign individuals and legal entities without concluding a contract by accepting a public offer for an agreement (offer) or exchanging electronic messages or issuing invoices (invoices), including in electronic form.

The most important thing is that the wages of these citizens are not subject to the calculation of a single social payment and that income received as a result of self-employment **is not subject to personal income tax.**

Also, commercial banks for the development of the industry have been allocated a credit line from the Fund for Reconstruction and Development in the equivalent of \$100 million. Concessional loans in the amount of up to 1 billion sums at the level of the Central Bank’s refinancing rate will be provided to business entities in the service sector, especially in the field of consumer services, education, medicine, information and communication technologies and in other popular areas. With the use of these funds,

projects are currently being formed in all regions of the republic for the further development of the industry and ensuring employment of the population.

To increase the share of the service sector in GDP, it is envisaged to attract additional financing, taking into account an in-depth analysis of the possibilities, potential and geographical location of the regions. All of these reforms are aimed at further supporting the industry most affected by the pandemic and providing employment for the population.

In particular, due to employment in permanent jobs and attraction to paid public works, employment was provided for 501.1 thousand, 15 thousand unemployed were sent for vocational training, and unemployment benefits were paid to 27 thousand unemployed at the expense of the Employment Promotion Fund.

From community service to one's own business, the list of areas of paid public works in the country was expanded to 20. The list included disinfection works, sanitization and improvement, construction and repair of basic infrastructure, and care of representatives of vulnerable groups of the population (veterans and the elderly).

The salary of citizens participating in public works ranges from 751 thousand sums to 1.1 million. For this purpose, an additional 250 billion sums were allocated from the Anti-Crisis Fund and the Public Works Fund for temporary employment.

Funds are allocated to low-income families for the development of household plots and the creation of agricultural cooperatives. More than 18 thousand people were attached to them, who were given about 40 billion sums of subsidies.

Special opportunities have also been created for those wishing to become individual entrepreneurs. For example, training and subsidies in the amount of 2.2 million sums to cover the costs of registering as a businessman and insurance policy for a start-up loan. This made it possible to register almost 3.6 thousand new entrepreneurs since the beginning of the year, receiving more than 800 million sums of payments. Among them are both women and youth.

3. Analysis and Policy Implication

The scale of the government's response to the economic crisis caused by the consequences of the spread of COVID-19 has been unprecedented. The

measures and tools taken were aimed at mitigating the economic impact of COVID-19, promoting a sustainable and rapid recovery of the labor market, and developing follow-up efforts to ensure productive employment and decent work in Uzbekistan in the post-crisis period.

The effectiveness of the measures taken and are being taken depends on the duration of the pandemic, trends in the global and national markets, as well as the discipline of the executive branch, as well as the economic decisions of business and the population. In this regard, the World Bank's updated economic growth forecast for Europe and Central Asia says that economic growth in Uzbekistan in 2020 will amount to only 1.6% (compared to 5.7% at the beginning of the year).

Large-scale anti-crisis measures were taken by the Government in order to stimulate employment, preserve jobs and incomes of workers, ensure safety and health at work in the field, and prevent discrimination and social exclusion. So, to support small - and micro - businesses, guarantees and deferred payments were provided for individual taxes and payments, tax deductions and rates on preferential loans were reduced.

In Uzbekistan, the state budget deficit may be 5.6% of GDP in 2020 and 4.7% in 2021. At the same time, the monetary measures of the Central Bank and the fiscal measures of the Ministry of Finance will be appropriate only if they are aimed at a coordinated increase in economic efficiency. In particular, making timely rational decisions to support enterprises and business entities that are experiencing economic depression due to the difficult economic situation will play an important role in maintaining jobs and increasing employment.

It's possible to solve this difficult situation by identifying people who have lost income and providing them with targeted support. First of all, it is necessary to implement controls over the payment of wages by employees by monitoring the structure of tax revenues from wages in the country by the State Tax Committee. If it is determined that tax revenue from the wages of officially registered workers has stopped or is sharply reduced, it becomes clear that the employee is not paid or is underpaid.

Also, the employee is not protected from industrial injuries and occupational diseases. Currently, during the period of measures taken to prevent the spread of a new coronavirus infection (COVID-2019), citizens who applied to employment centers in order to find a suitable job, obtain unemployed status and unemployment benefits have problems - the inability to confirm the length of service, place, period work, professional experience, salary, which affects the amount of unemployment benefits.

It should be noted that the pandemic had the most negative impact on

the informally employed population (5.6 million people), as a result of which they found themselves without work and income which made their financial and economic situation very difficult. Since they are not registered with the state tax service as taxpayers and employed and state support was not accepted for this category of persons during this difficult period, their position turned out to be very precarious. Considering that the level of the informal employed population in the country is almost 40%, this can lead to negative social-economic consequences.

In the informal sector, social benefits and material assistance were provided to support people who have lost their jobs. Therefore, the government pays special attention to reducing the informal economy and informal employment, and adopts regulations especially in the COVID-19 period based on international experience in this area.

Institutional change, the creation of a decent business climate and effective integrated employment policies will lead to the expansion and productivity of economic units and the transition of informal employment to the formal sector.

The coronavirus pandemic also showed the need for a qualitative revision of the current Labor Protection Law. The regulatory framework should maximize the organization of safety and decent working conditions for workers in accordance with the requirements of the current situation and international standards.

During the pandemic, the issues of illegal dismissals arose sharply, while refusals to pay wages and maternity benefits became more frequent. During the COVID-2019 pandemic, the State Labor Inspectorate considered 8.2 thousand complaints from citizens on violations of labor laws and discrimination in the workplace, of which 3 thousand were from women. As a result of inspections, labor rights of 3.6 thousand citizens, including 1.2 thousand women, were restored.

For eight months of 2020, almost 826 thousand people were employed throughout the country. With the participation of employment assistance centers, more than 198 thousand unemployed have found permanent jobs in areas. And more than 19 thousand people have been trained, retrained and retrained in the directions of regional specialized bodies. 206 companies received subsidies totaling over 6 billion sums to train their employees to keep jobs. In the first half of the year, 37 thousand unemployed were paid benefits under the new rules.

The types of public works have been expanded from 8 to 20. The following types of works have been introduced: disinfection works, sanitization and improvement; construction and renovation of basic infrastructure; and

caring for vulnerable segments of the population (veterans and the elderly). For these purposes, an additional 250 billion sums (25 million US dollars) were allocated from the Anti-Crisis Fund to the Public Works Fund for temporary employment.

In general, for eight months of 2020, paid public works provided temporary employment to 479,492 people.

A mechanism has been developed to subsidize low-income families for the development of household plots and the creation of agricultural cooperatives. Based on the Chinese experience, 18.2 thousand, including 6.7 thousand women and 7.6 thousand unemployed among young people, members of low-income and poor families were attached to 389 cooperatives created on 8.6 thousand hectares of land in the country, and they were allocated 41.7 billion sums of subsidies as a share in the authorized capital of cooperatives.

For the development of household plots, 28.7 thousand, including 11.7 thousand women and 7.3 thousand youths, received subsidies in the amount of 73.5 billion sums for the construction of a greenhouse with a light structure, the purchase of seeds and seedlings, and also purchase of irrigation equipment.

Paying tribute to the efforts and some positive results of the measures taken in the republic in this area, we consider it expedient to carry out the following comprehensive measures in the area of employment:

- implementing macroeconomic policies for employment that support aggregate demand, efficient investment and structural transformation, and help create new businesses and jobs;
- trade, industrial, tax, sectoral and infrastructure policies that promote employment, increase productivity and facilitate structural transformation; and
- corporate policies that support sustainable enterprises, including micro, small, medium-sized enterprises and entrepreneurship, as well as sound, transparent regulations to facilitate the transition to the formal sector and ensure fair competition.

4. Conclusion

The pandemic not only exposed weaknesses in the labor market, but also revealed gaps in the social protection system of the population, especially among migrants and informal workers.

The operability of the anti-crisis measures taken in Uzbekistan made it possible to prevent more serious socio-economic consequences of the pandemic.

The state has stepped up work to protect workers' rights, support jobs and income, create new opportunities (grants, subsidies, training and temporary employment in public works), and strengthen social dialogue.

Many companies and enterprises have adapted their activities in the conditions of quarantine and restrictive measures by switching to remote work mode. To ensure the correct transition and compliance with all norms, the Ministry of Employment and Labor Relations has developed and implemented the "Regulation on the temporary procedure for the transfer of workers to work remotely."

Experts of the World Bank and other international organizations note that the world economy, including the economy of Uzbekistan, is in decline, but there are opportunities to achieve the planned development indicators and even strengthen their positions in the international division of labor. This requires the implementation of crisis and post-crisis measures based on thoughtful economic and political decisions. In particular, it is necessary to strengthen measures to ensure income stability during the coronavirus pandemic. Regardless of the form of ownership, it is necessary to prevent the loss of labor income by providing subsidies or benefits from the anti-crisis fund when it is established that enterprises and organizations that temporarily suspend work during the quarantine period cannot reach the average wage. Income, in turn, will help maintain the purchasing power of the population and help them get out of the crisis faster.

The ILO concept considers decent work as an opportunity to work effectively in conditions of freedom, social justice, equality and security. The prevalence of decent work depends on the standard of living, quality and lifestyle of the population.

We consider it necessary to take a set of measures aimed at stabilizing the labor market, creating new jobs in the economy, including:

1. Implementing macroeconomic policies for employment that support aggregate demand, investment and structural transformation, new enterprise creation, jobs and business.
2. Reducing the tax burden to achieve the competitiveness of goods and services and the attractiveness of Uzbekistan for investment, in particular, the reduction of value added tax and excise tax, as well as the adoption of a legislative act regulating the minimum wage, based on international experience; improvement of the pension system.
3. Improving the quality of education, developing a new system of

remuneration, regulatory legal acts that stimulate the transition to formal employment.

4. Continuation of institutional and structural reforms aimed at further development of private entrepreneurship, small and medium business and, reducing the role of the state in the economy, preventing unjustified interference of local authorities in the activities of small business.