



The Ministry of Labour
of the Republic of Uzbekistan



Uzbekistan

THE ROLE OF SOCIAL ENTERPRISES IN EMPLOYMENT AND SOCIAL PROTECTION OF POPULATION

Tashkent – 2016



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of the Republic of Uzbekistan



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The role of social enterprises in employment and social protection of population

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The development of social enterprises in Uzbekistan is important, especially in the light of the issues of employment and social protection of people not able to compete in the labor market, as well as to ensure the financial sustainability of Non-governmental organizations (NGOs). At the same time, the potential of social enterprises to address these issues is not fully employed. Thus, the number of social enterprises under Disabled People Organizations has decreased in 1991–2015 by 3.5 times. A low level of employment maintains among vulnerable groups of population. Only every twentieth NGO is attempting to earn money on their own, which often end up unluckily. The share of own financial resources in the structure of NGOs funds is only 7%.

The purpose of this paper is to analyze the role and potential of social enterprises in providing employment and social protection of vulnerable groups, as well as in ensuring the financial sustainability of NGOs.

In the paper:

- 1) the role of domestic social enterprises in addressing the issue of employment for socially vulnerable groups of population, ensuring financial sustainability of NGOs, expansion of social services rendered by these types of enterprises has been defined;
- 2) the experience of the pilot social enterprises set up by UNDP and the Ministry of Labour has been analyzed;
- 3) the business environment for NGOs and their business entities, including tax, legal and other issues, has been assessed;
- 4) problems of the development of social enterprises have been identified and analyzed and the relevant recommendations have been developed.

The policy paper was developed within the joint project of the Ministry of Labour of the Republic of Uzbekistan and UNDP “Inclusive employment and social partnership”.

The results of the paper can be used within elaboration of issues (legal acts, etc.) on the development of social enterprises in Uzbekistan.

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ANNOTATION



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INTRODUCTION

Social enterprises are the result of the fact that the government and non-government organizations were not fully able to meet the needs of particular groups of the population using the traditional tools of employment support and social protection of population (social payments, humanitarian aid, free social service delivery and others).¹ In other words, social enterprises have emerged in response to specific needs arisen in those areas, where the private sector or the government is not able to ensure their accessible and full satisfaction. Particularly, it concerns the problems of socially vulnerable groups of the population.

In foreign countries, social enterprises make a significant contribution to the solution of social problems and the social and economic development in general. For example, more than 60 thousand such kind of enterprises operate in the UK that have more than 800 thousand employees. The total turnover of 100 largest social enterprises in this country in 2011 (in the period of economic recession in the country) has increased by 85% to 480.2 mln.USD. Two thirds of social enterprises in the UK generate profit and 16% are break-even enterprises.²

The issue of social enterprises development in Uzbekistan is widely considered in the discussion of problems with ensuring the employment of people, who are unable to compete equally in the labour market, as well as the issues of ensuring the financial stability of NGOs (non-governmental organization), when the UNDP in partnership with the Ministry of Labour of the Republic of Uzbekistan³ launched the joint project on the development of social enterprises in 2010. Ten pilot social enterprises in different business forms were established and equipped: affiliated economic structures within NGOs, LLCs, the private enterprise, and the government unitary enterprise (GUE). These enterprises included the dairy shop and bakery in Jizzah, shoe company in Samarkand, garment enterprises in Shahrisabz, Tashkent, Nukus, as well as the mortar company in Tashkent. In case of pilot enterprises, their social and economic benefit for the government, society, population, was assessed, as well as the relevant recommendations on the development of social enterprises were elaborated. UNDP has supported the establishment of a network of social enterprises in Uzbekistan, conducted The first national exhibition of social enterprises that allowed establishing the exchange of information and mutual relations between social enterprises in the country.

The following types of social enterprises can be highlighted in case of Uzbekistan:

- 1)** The Public Association of Persons with Disabilities, “Nuroni” Foundation and the Association of “Чернобыльцы Узбекистана” (Chernobylers of Uzbekistan) that are focused on achieving at least two goals: ensuring the employment of vulnerable groups and contributing to the financial stability of leading NGOs.
- 2)** Affiliated enterprises of other NGOs and NPOs engaged in entrepreneurial activity. The majority of these enterprises are engaged in the commercial activity with the purpose of ensuring the statutory

¹ The concept “social enterprises” is described in more details in Annex 1.

² http://en.Wikipedia.org/wiki/Social_enterprise.

³ In February 2016 the Ministry of Labour and Social Protection of Population was restructured into the Ministry of Labour.

activity of their parent organizations. 945 self-initiative non-profit organizations have 23 affiliate enterprises.

- 3) Commercial structures that solve the social problems primarily of socially vulnerable groups in addition to the commercialization as an ultimate goal. Mainly they include the enterprises that have a significant number of employees among socially vulnerable groups (persons with disabilities, low-income people and etc.). The total number of such enterprises is unknown, but the UNDP in the frame of the project “Social partnership in ensuring the employment” has identified about 10 such enterprises (LLC “Iroki kashtachilik”, PE “TopMenShoes” and others).
- 4) Affiliate enterprises of the government organizations established to address social problems (temporary (for the period of training/retraining) or the permanent employment of persons among socially vulnerable groups). For example, they include enterprises of the system of the Main Penitentiary Department of the Ministry of Internal Affairs. There is no data on the total number of such enterprises; however, the UNDP supported one of such enterprises AE “Shahrisabz kasanachilik” aimed to develop professional skills and the employment of women with disabilities and other socially vulnerable groups.

The work of social enterprises is attractive for any country, because for the government system of social protection it is the additional instrument and financial resource on the solution of social issues, especially on the local level. Therefore, many countries create the special favorable conditions, including the regulatory as well as the preferences and benefits to support the establishment and development of social enterprises.

A number of commercial structures in Uzbekistan associated with NGOs also have the particular benefits and preferences. For example, legal entities owned by public associations of persons with disabilities, “Nuroni” Foundation and the association of “Чернобыльцы Узбекистана” (Chernobylers of Uzbekistan) are exempted from a single tax payment and no less than 50% of the total number of their employees are persons with disabilities, veterans of war and labour front of 1941–1945, except legal entities engaged in commercial, intermediary, supply and sales, and procurement activities as well as the work on the conduct of lotteries (article 358 of the Tax Code).

However, the capacities of social enterprises is not used fully to address the challenges associated with providing employment vulnerable groups or to ensure NGO financial sustainability. For instance, the level employment of persons with disabilities is less than 5% of the number of persons with disabilities at the age of employment, but according to the UN assessment, in developing countries they make up about 10–20% and 30–50% in developed countries.⁴ According to different surveys, more than a half of NGOs are financially unstable and cannot effectively implement their statutory goals.⁵ At the same time, the number of social enterprises within public organizations of persons with disabilities reduced from 700 in 1991 to less than 200 enterprises in 2014. Only each twentieth NGO tries to earn money independently and the share of private earned funds in the structure of the NGO funding in Uzbekistan is only about 11%.⁶

The aim of the present analytical report is the analysis of the role and capacity of social enterprises in employment and social protection for vulnerable groups of population and ensuring financial sustainability of NGOs.

⁴ <http://www.un.org/disabilities/default.asp?id=255>

⁵ According to data of the research project of IIMFSC and Public [Opinion] Survey Center (“Ijtimoiy Fikr”) “The role of civil society institutes and NGOs in the formation and development of civil society”.

⁶ Data of the research “Capacity of non-governmental non-commercial providers of social services in Uzbekistan”.

Objectives of the research are:

- defining the role of local social enterprises in the solution of issues on ensuring the employment of socially vulnerable groups of the population, ensuring the financial stability of NGOs and the expansion of social service delivery.
- analyzing the experience of pilot social enterprises of (issues, achievements and lessons learned).
- assessing the environment of conducting the entrepreneurial activity of NGOs and their affiliate economic entities, including tax, legal and other bases.
- identifying problems of the development of social enterprises and developing relevant recommendations.

The research object is the enterprises of NGOs.**In the policy paper:**

- the findings of the survey of commercial structures of NGOs (100 enterprises of NGOs were surveyed in the frame of the research) have been used;
- the review of regulatory norms, including those of foreign countries, on the issues concerning the social enterprises has been conducted.

SECTION 1

THE IMPORTANCE AND ROLE OF LOCAL SOCIAL ENTERPRISES

1.1. THE ROLE OF SOCIAL ENTERPRISES IN ENSURING THE EMPLOYMENT OF POPULATION AND ITS SOCIALLY VULNERABLE GROUPS

Social enterprises have the following key (distinctive) characteristics that define their roles and activities (see Chart 1):

- firstly, social enterprises realize the interests of not individuals, businesses owners, but vulnerable groups of population;
- secondly, the profits are not distributed among the founders of the social enterprise, but is reinvested in its development or for social purposes;
- thirdly, as in NGOs, social enterprises are managed by all members equally, regardless of their share, on the principle of “one person-one vote”;
- fourthly, the social enterprise is carried out simultaneously both entrepreneurial and social activities.

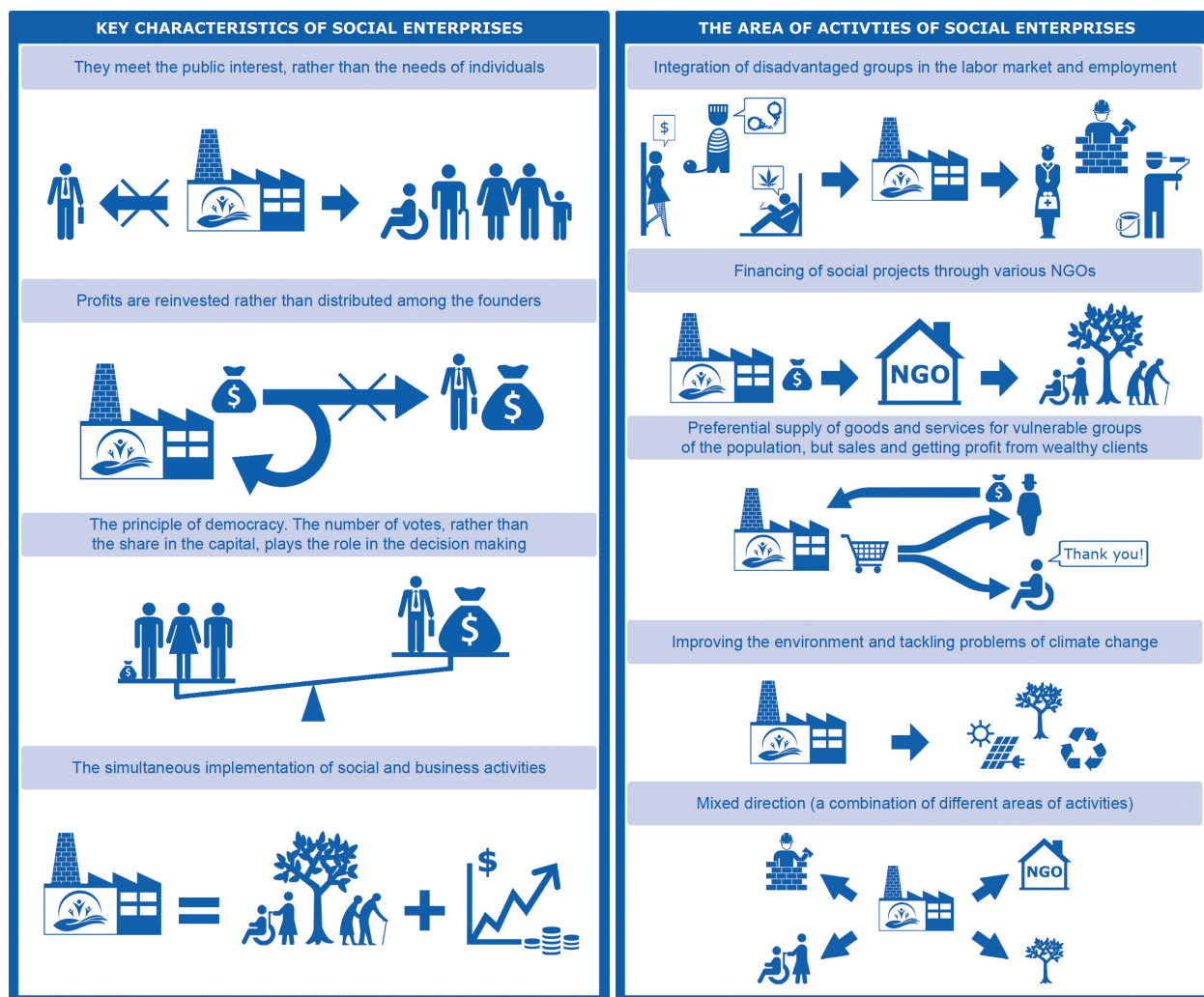
In this context, one of the main tasks, functions and roles of social enterprises is to provide employment and social protection of the population, especially its vulnerable groups.

In Uzbekistan, people who cannot compete in the labour market on equal basis with others have special guarantees by the government on the support in employment. According to the Law of the Republic of Uzbekistan “On the employment of the population” (article 7), the government ensures additional guarantees on the employment for:

- persons in need of social protection, having difficulties in job finding and who are unable to compete in the labour market on equal basis with others, including lonely parents and parents of a large family, who have children at the age up to 14 and children with disabilities;
- young people graduated from secondary special, professional educational institutions, as well as the graduates of universities, who have studied based on the government scholarships;
- persons dismissed from the national military service of Armed Forces of the Republic of Uzbekistan;
- people with disabilities and pre-retirement persons;
- persons released from penitentiary facilities or subjected to coercive measures of a medical nature by the court decision;
- victims of human trafficking.

CHART 1

KEY CHARACTERISTICS AND AREAS OF ACTIVITIES OF SOCIAL ENTERPRISES



Additional guarantees for all these citizens are ensured through the creation of employment, establishment of the specialized enterprises, including the enterprises for employment of persons with disabilities, the organization of special training programs, establishment of the minimal number of jobs for these groups of people in enterprises, institutions and organizations. In practice one instrument is widely used – the reservation of jobs for these groups of people in enterprises with the number of employees exceeding 20 persons.⁷ The total number of reserved jobs in accordance with the decision of local government authorities cannot be more than 7% from the average eligible number of employees of the organization, including no less than 3% for persons with disabilities.

For these purposes, city/district Centers for the support of employment (hereinafter CSE) annually identify the needs in employment of these groups of people, as well as enterprises that shall reserve jobs for them. The list of enterprises compiled with the information on assigned jobs is approved by the order of the city or district Khokim (Head of local government).

In 2012, more than 107 thousand jobs for 19 thousand enterprises were registered in the country for these groups of people (Table 1). Around 103 thousand people were employed in these job positions, that is to say that the occupancy of job positions was 96% from their total number. This means that they occupy

⁷ Regulation "On the procedure of reservation of job positions for persons in need of social protection and having difficulties in employment".

almost all reserved job positions. About 40% of the total number are reserved for persons with disabilities, pre-retirement and retired persons, persons released from penitentiary facilities or subjected to coercive measures of a medical nature by the court decision, lonely parents and parents of a large family, who have children at the age up to 14 and children with disabilities.

Despite the high need in employment of these persons, the occupancy of assigned job positions by them is not sufficiently high (see table 1). For instance, the occupancy of “persons released from penitentiary facilities or subjected to coercive measures of a medical nature by the court decision” makes up 65.6%.

TABLE 1. EMPLOYMENT OF VULNERABLE GROUPS ON THE RESERVED JOB POSITIONS

№	The category of citizens	The number of assigned job positions in 2012	The number of employed persons in assigned job positions
	TOTAL	107147	103117
1	Vulnerable people unable to compete in the labour market on equal basis	42841	37733
1.1	Persons with disabilities	15328	6196
1.2	Pre-retirement and retired persons	4370	4172
1.3	Persons released from penitentiary facilities or subjected to coercive measures of a medical nature by the court decision	5254	3444
1.4	Lonely parents and parents of a large family, who have children at the age up to 14 and children with disabilities	17889	23921
2.1	Other categories	64306	65384
2.1	Young people graduated from secondary special, professional educational institutions, as well as graduates of universities studied based on the government scholarships	50841	57059
2.2	Persons dismissed from the national military service of Armed Forces of the Republic of Uzbekistan	9647	7065
2.3	Others	3818	1260

Source: The Ministry of labour of the Republic of Uzbekistan

We will assess this problem in-depth by way of example of persons with disabilities.

As in other foreign countries, the amount of pensions and disability benefits do not allow to cover all needs of their beneficiaries, and it is less than a minimal salary. In 2014 the mean average pension for disability was 379 thousand soms, and the average size of social benefit was 217.6 thousand soms, while the average wage was more than 700 thousand sum.⁸ In this regard, the demand for employment among persons with disabilities should be high, however, the employment rate of persons with disabilities is within 5%.

So the reservation of jobs for persons with disabilities and certain other groups of socially vulnerable people do not fully address issues of their employment as in other countries of the globe.⁹

One of the main reasons for instability of the employment of persons with disabilities in general enterprises is that the significant number of persons with disabilities from childhood do not have skills required for the employment and further successful work due to the compelled segregation (in-home education or education in closed boarding schools, inability to freely move due to inaccessible physical environment), which creates additional difficulties for employers. The experience of 10 social enterprises supported in 2009–2013 by the UNDP shows that the employees with disabilities face difficulties to adapt to a labour discipline and working condition. It is difficult to fulfill the quality requirement and scope of production. This is additional burden for the employer. It is required to do some work, including the social work, on the development of these skills that might be unnecessary headache for employers of general enterprises.

The problem of social deadadaptation also applies to other categories of socially vulnerable groups. Primarily they are:

- alcohol and drug addicts,
- persons without permanent place of residence,
- victims of human trafficking,
- persons with HIV/AIDS, who don't have a disability,
- persons released from custody.

In this respect, the interest of many employers in the involvement of persons with disabilities and other groups of socially deadadapted persons is not high. Employers are mainly hiring persons only with light forms of impairments and social deadadaptation, while persons with severe forms of disability or deadadaptation, including mental and physical disabilities are left ignored.

The analysis of work of the service for the support of employment of persons with disabilities piloted by the UNDP in partnership with the Public Fund under the Oliy Majlis showed that none of 18 persons with disabilities of the first and second degree employed in regular enterprises have kept their jobs after three months of employment. While all 25 persons employed in specialized enterprises for persons with disabilities have kept their job positions.

Of course, the best option of employment of people with disabilities and other socially vulnerable persons from the point of their social inclusion is the employment in regular enterprises. However, for many of them this may be possible only after temporary employment in the social enterprise, where they can obtain necessary professional and social skills. Moreover, for many persons with visible intellectual or psychiatric disability the employment in the regular enterprise is impossible, and in the specialized social enterprise, they have the possibility to receive additional income, socialization and communication with other employees of the enterprise. Some persons with sensory disorders may prefer the permanent employment in the specialized social enterprise. For example, for employees with hearing impairments it might be more comfortable to easily communicate with each other in sign language.

⁸ Statistics bulliten "Women and Men", Tashkent, 2015

⁹ See , for example, http://www.emes.net/uploads/media/PERSE_04_04_Trans-ENG.pdf

Social enterprises on the integration of socially vulnerable groups to the labour market and ensuring their employment provide job positions for the temporary/transition employment of person with disabilities and other vulnerable groups (victims of human trafficking, drug addicts, ex-inmates and others), organize job trainings for them, as well as develop their social skills (work discipline, daily schedule, communication with colleagues and administration). This is necessary for the development of social and professional independence of people, who have no or lost their skills necessary for the employment. The work of such enterprise is focused on increasing the competitiveness of these persons, and in the end, ensuring their stable employment out of the frame of social enterprises. Permanent specialized job positions are created in enterprises for some employees, who are unable to work in regular conditions (who have visible mental disability, other serious impairments).

In the light of abovementioned, the support of social enterprises specialized in employment and social work with persons with disabilities and socially deadadapted persons, who are unable to be employed in the open labour market, is the most important measure for ensuring the employment of these groups of people.

Social enterprises on the employment of socially deadadapted persons do not only ensure their employment, but also the training/retraining of profession directly in the duty station, formation of necessary social skills and their social (re)integration.

Although the national legislation does not define “social enterprise”, there are some enterprises for one category of socially vulnerable groups, namely persons with disabilities, of public association of persons with disabilities, “Nuroni” Foundation and the association of “Чернобыльцы Узбекистана” (Chernobylers of Uzbekistan). The government provides certain benefits for industrial and other types of enterprises of these organizations that have more than 50% of employees with disabilities. Employed persons with disabilities also have certain benefits.

According to table 2, the number persons with disabilities employed in enterprises owned by public associations of persons with disabilities and “Nuroni” Foundation is more than 3.3 thousand people and about 10% of the total number of person with disabilities working in the official economy sector of the country.

However, there are virtually no specialized enterprises for employing other socially deadadapted groups. Moreover, the existing enterprises for persons with disabilities do not fully solve the problem of low employment.

The number of successful affiliated enterprises under disabled people organizations has been reducing: from 700 in 1991 to less than 200 enterprises in 2014. Social enterprises of other legal forms go under to strong competition from regular commercial enterprises and cannot make a significant contribution to ensuring the employment of persons with disabilities. Reasons of these problems and proposed solutions will be discussed in the second section of this report.

TABLE 2. EMPLOYMENT OF PERSONS WITH DISABILITIES IN ENTERPRISES OWNED BY PUBLIC ASSOCIATIONS OF PERSONS WITH DISABILITIES

Name of the organization	Number of affiliated enterprises		Number of employees		Number of persons with disabilities employed								Share of employees with disabilities	
	2010	2012	2010	2012	2010				2012				2010	2012
					Total	I degree	II degree	III degree	Total	I degree	II degree	III degree		
Uzbek Society of Persons with Disabilities	80	80	400	400	335	15	70	250	330	15	45	270	83,8	82,5
Uzbek Society of the Blind	66	66	2269	2269	1535				1535				67,7	67,7
Society of the Deaf of Uzbekistan	14	13	458	296	356	0	0	356	184	0	0	184	77,7	62,1
National Association of Business Women with Disabilities	13	13	101	101	101				101				100	100
Society of Women with Disabilities "Opa-singillar"	1	0	8,00	0	7	2	4	1	0	0	0	0	80	0
Association of entrepreneurs with disabilities "Nur"	12	16	67	89	48		30	18	65		46	19	71,6	73
NGO "Millenium"	5	2	60	30	31	5	26	0	15	0	15		51,6	50
Municipal Society of social relations of persons with disabilities "Mehribonlik"	10	4	100	30	55	17	33	5	16		16		55	53,3
NGO "Yoruglik"	17	19	108	88	54	14	40	0	44	12	32		50	50
Total	152	147	3571	3303	2529	53	203	630	2290				70,6	69,3

Source: Data of public associations of persons with disabilities.

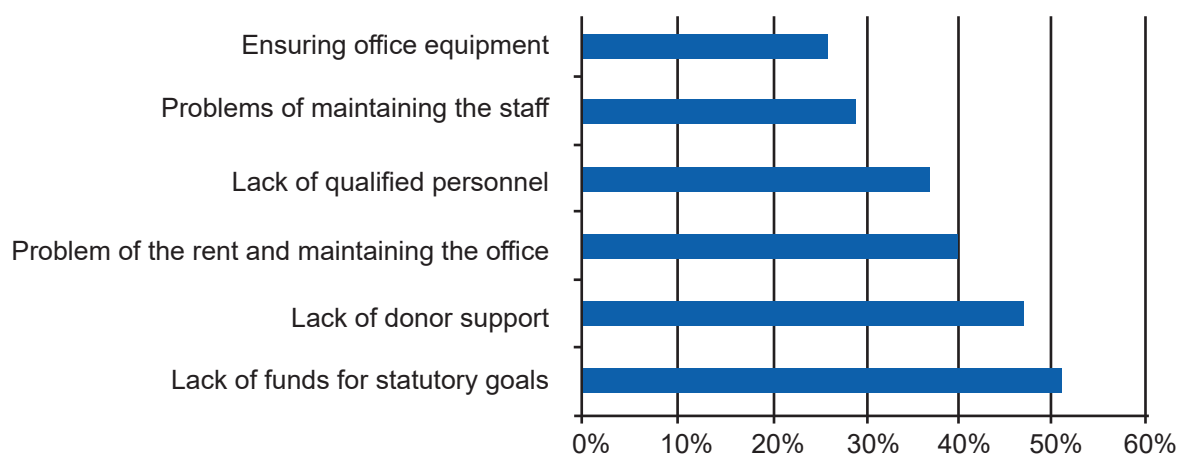
1.2. THE ROLE OF SOCIAL ENTERPRISES IN ENSURING THE FINANCIAL STABILITY OF NGOS

Non-governmental non-profit and commercial enterprises and organizations are also making a significant contribution in the field of social protection of vulnerable groups of the population.

During the last five years, the number of NGOs has been increased by 1.6 times and exceeds 8240.¹⁰ At the same time, the local sector of non-government non-profit organizations is not sufficiently financially stable. In the frame of the joint research project of IIMFSC and Public [Opinion] Survey Center (“Ijtimoiy Fikr”) “The role of civil society institutes and NGOs in the formation and development of civil society”, it was indicated that the majority of non-profit organizations (51% from the number of surveyed) emphasize that they have no funds to implement statutory goals and objectives (see figure 1).

40% of NGOs have problems with the absence of money to pay the rent and cover office expenses (despite the fact that the occupied space is so small, so that it interferes with exercising basic functions). 29% of organizations are worried about keeping their team and upkeep of personnel.

FIGURE 1. RANKING THE MOST IMPORTANT ISSUES IN THE WORK OF NGOS



Source: Report “The role of civil society institutes and NGOs in the formation and development of civil society”

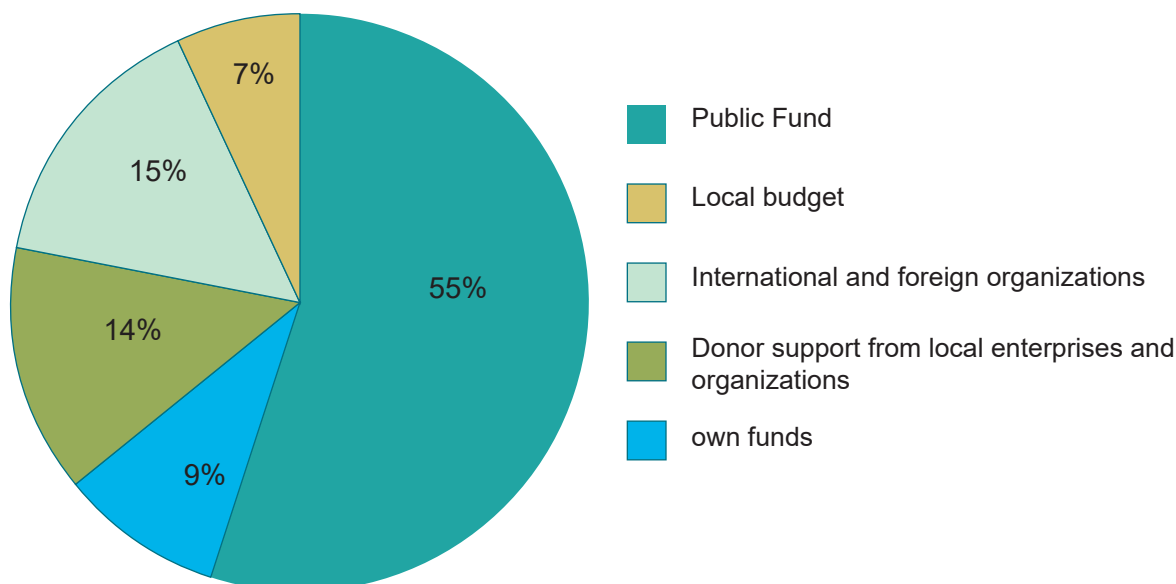
Non-profit organizations in the country, especially regional NGOs have the weak facility and equipment. To date, not more than 40% of non-profit organizations in the country are ensured with the permanent premises. Only 16% of NGOs among them have their own premises, and 24% of them use the premises provided for them free of charge. More 40% of non-profit organizations rent the premise on the short-term and payment basis, and 16% of self-initiative organizations do not have the premise using public places on nonrecurrent basis (libraries and others).

According to the survey outcomes, more than one fifth NGOs (22%) do not have office equipment at all, and 32% of them do have office equipment of one old computer and the printer.

¹⁰ <http://ngo.uz/ru/novosti/54-v-uzbekistane-dinamichno-razvivaetsya-tretij-sektor>

The main source of funding for the majority NGOs is grants, social orders and subsidies provided by the Public Fund for the support of NGOs and other civil society institutes under the Oliy Majlis of the Republic of Uzbekistan. In the structure of source of financing of the surveyed NGOs¹¹ by us, the major share was the financial resources provided by the Public Fund.

FIGURE 2. SOURCES OF ATTRACTED FUNDS BY SOCIALLY ORIENTED NGOS



Source: NGO survey results within the research "The role of civil society institutes and NGOs in the formation and development of civil society"

However, the financial resources of the Public Fund are restricted. In the frame of the grant competitions, the Public Fund supports projects of 300 NGOs¹². Social subsidies and social orders are received mainly by 10-15 institutional and major NGOs (National Association of NGOs in Uzbekistan, Independent Institute for Monitoring and Formation of Civil Society, National Association of Electronic Mass Media, Regional Policy Fund, Public Fund on the support and development of independent print media and information agencies of Uzbekistan, Ecological Movement of Uzbekistan and others).¹³ Thus, the number of NGOs that may be supported by the Public Fund is incommensurably less in comparison with their total number in the country.

As it can be seen from figure 2, the second important source of funding for socially oriented NGOs is funds of international and foreign organizations. However, a domestic NGO cannot bet on international and foreign organizations to ensure the sustainability of its activities. Among the main reasons are the following. Firstly, an NGO must find a foreign or international donor willing to finance its activities. Secondly, it is very often the allocation of funds by foreign or international organizations takes place in the framework of ongoing (grant) competitions, so the NGO needs to win such a contest. Donors usually finance the implementation of the tasks in which they are interested, and such activities may not coincide with the main statutory activities of the NGO, so NGO needs to find the donors who are interested in financing its statutory activities. Thirdly, funding is allocated for a limited time, so afterwards the NGO needs to look for new sources of funding. Fourthly, even if the donor is willing to provide funds, the NGO need to pass certain administrative procedures that require a certain time and effort.¹⁴

¹¹ In the frame of development of the research on "The capacity of non-government non-profit organizations in sector of social service delivery".

¹² In the frame of the competition of the Public Fund, 211 projects of NGOs were supported in 2012 for total amount of 2.6 billion sums (or 43.8% of the total amount of funds of NGOs allocated by the Public Fund), and 255 projects for the amount of 3.5 billion sums in 2013.

¹³ 56.2% of the budget of the Public Fund was allocated for social subsidies and social orders in 2012 and in 2013 50%.

¹⁴ For example, in accordance with the Decree of the Cabinet of Ministers dated 04.02.2004, № 56 "On measures to improve the effectiveness of funding technical assistance, grants and humanitarian aid received from international and foreign governmental and non-governmental organizations"

In such circumstances, the best strategy for ensuring the stability of local NGOs in the long-term period is the diversification of sources of their incomes.

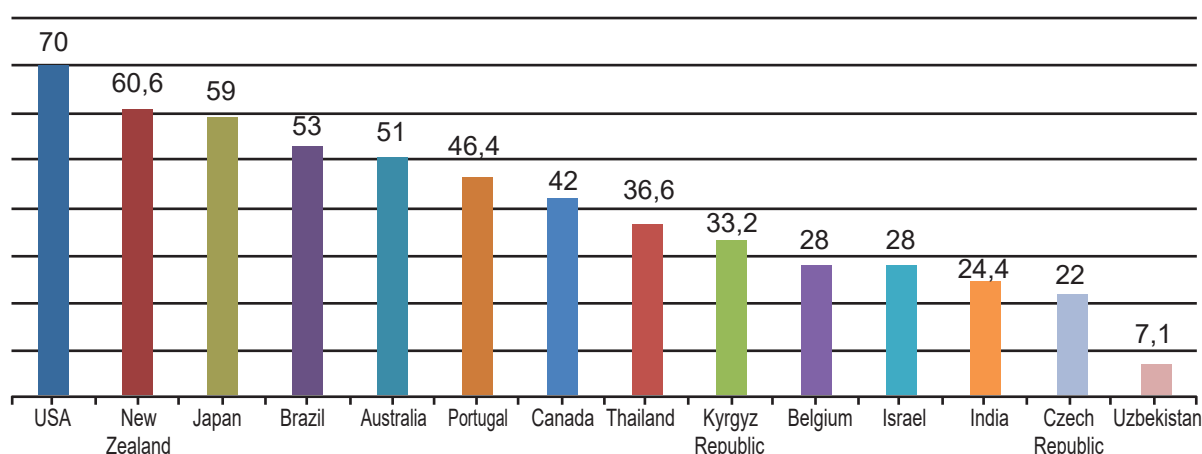
As the international experience shows such an opportunity has become commercial activities of NGOs especially after 2008, when NGOs started to face difficulties in finding donors due to the global financial crisis. This became an additional reason for strengthening the development of social enterprises funding the statutory activities of NGOs.

The average share of funding of NGOs in the world from sales of own goods and services is reaching 40%, which shows the general trend in the development of NGOs showing the decrease their dependent on the foreign aid.

Main sources of funding of NGOs in developed countries are the funds received from their entrepreneurial activities. For example, in the US, NGOs earn 70% of funds from sales of their own goods and services (figure 3).

According to the national legislation, NGOs can be engaged in entrepreneurial activities within their relevant statutory goals¹⁵. It is important to underline that besides addressing issues of funding the activities of NGOs, the encouragement of independent earning of funds by them will allow to reduce the dependency of NGOs from international and foreign donor organizations, allow NGOs to independently determine priorities of their activities based on needs of the country and not focusing on requests of the foreign organizations.

FIGURE 3. THE PERCENTAGE OF EARNINGS FROM THE SALE OF OWN GOODS AND SERVICES IN THE TOTAL AMOUNT OF FUNDING OF NGO ACTIVITIES



Source: The Social Entrepreneurship Spectrum: Nonprofits With Earned Income, 2008
 The State of Global Civil Society and Volunteering Latest findings from the implementation of the UN Nonprofit Handbook, 2013
 Portugal's Nonprofit Sector in Comparative Context, 2005
 Satellite Account of Non-profit Institutions and Volunteering: 1997 to 2005
 Non-Profit Institutions Satellite Account of Thailand: 2006-2008 Edition
 Non-Profit Institutions in the Kyrgyz Republic: Special Publication, 2011
 Press Release: Revenues and Expenditures of Non-Profit Institutions – 2004 Survey, 2008
 Final Report on Non Profit Institutions in India A Profile and Satellite Accounts in the framework of System of National Accounts (including State-wise Comparison of Profiles), 2012, as well as according to survey outcomes of local NGOs.

However, the Figure shows that the share of own earned funds in the structure of NGO funding in Uzbekistan is only about 7%. There are around 300 affiliated management structures within NGOs in the country, notably less than 5 per cent of NGOs try to earn money independently. Reasons of this situation will be discussed in the section 2.

¹⁵ Article 31 of the Law on non-government non-profit organizations.

1.3. THE ROLE OF SOCIAL ENTERPRISES IN EMPLOYMENT AND AND SOCIAL PROTECTION OF THE POPULATION

Social services within NGOs are playing an important role in the national system of social protection. One of the main reasons of importance of these services is that certain types of specialized social services are delivered only by NGOs. The implementation of the system of this service delivery in the government institutions requires sufficient amount of time and resources, while these services for vulnerable groups are necessary “here and now” (particularly, services to support families with children with disabilities, crisis centers for victims of family conflicts and etc.).¹⁶

Along with the specialized social services, some types of general social services can be important for returning a vulnerable person to the normal/independent life. First of all, we are talking about those services that ensure the socialization among others. These types of services include sporting, travel, animation, entertaining and other services that anticipate the creation of a certain community even for the short period of time.

At the same time, these types of social services are very less accessible for socially vulnerable groups (due to the cost of such services or the lack of physical accessibility for them). Despite the fact that there is no accurate data on the demand for such services by this group of the population, it is possible to judge on their needs based on the assessment of NGOs that represent vulnerable groups of population. For example, according to the assessment of public associations of persons with disabilities, less than 1% of persons with disabilities are engaged in sport activities; attend theaters, movies or other entertaining and cultural facilities on systematic basis. At the same time, by ensuring the cost or physical affordability of such facilities, more than 10% of persons with disabilities can demand for such types of services.

Moreover, persons from socially vulnerable groups, for instance, alcohol or drug addicts may not want to be engaged in such activities, however, such services (for example, doing sports) may be the effective mechanism in the program of their social rehabilitation in case of the right organization of works on the involvement of these persons in such activities.

At the same time, currently many NGOs are not sufficiently financially stable. This may lead to the situation that the present capacity of NGOs in service delivery may be fully enforced in the period, when NGOs have sufficient funds, and their shortcomings lead to unstable or fragmented delivery of such services.

One of the solutions of ensuring the stable funding of NGO social projects may be the entrepreneurial activity. This activity may be and may not be relevant with NGO social projects. For example, the NGO may establish its affiliated enterprise on stitching clothes and the income from such activity can be directed for social service delivery to support children with disabilities. At the same time, social agencies may deliver services to customers for the price less than a market price or only to some groups of customers at the market value. For example, non-government agency for in-home care of elderly people and persons with disabilities may provide services free of charge for elderly people and person with disabilities from families in need, however, if these persons have their relatives ready to pay for such services, the NGO may deliver them on fee basis. In this case, the social agency will act as a social enterprise. However, as it was mentioned in the previous section, less than 5 per cent of NGOs try to earn money independently, and among social agencies within NGOs, there was no a single organization that would officially deliver such types of service on fee basis.

¹⁶ For more detailed information see the analytical report “The necessity for NGO support delivering social services”.

SECTION 2

MECHANISMS OF THE DEVELOPMENT OF SOCIAL ENTERPRISES AND THEIR SOLUTIONS

2.1. ECONOMIC INCENTIVES FOR SOCIAL ENTERPRISES AS A MECHANISM TO PROMOTE THE EMPLOYMENT OF VULNERABLE GROUPS

This section analyzes economic reasons of the issue of employment and social protection of persons with disabilities and socially vulnerable groups of population

One of the reasons for low-level of employment among socially deadapted persons is the assumption of non-specialized enterprises that the work of such persons is more cost-based due to the requirements prescribed by the legislation.

We will discuss this issue by the example of work of persons with disabilities.

The employer should bear the following expenses in order to use the work of persons with disabilities. In order to employ the person with disabilities, it is important to conduct the assessment of the work place, which will cost 100–150 thousand sums for the employer.¹⁷ According to the interview results conducted with representatives of public associations of persons with disabilities, it was determined that the minimal additional expenses on ensuring work conditions for wheelchair users make up about 700 thousand sums (building the ramp and mounting the handrail in the WC), for the blind and persons with visual impairments – additional 40% to the cost of non-specialized work place, for the deaf and persons with hearing impairments – expenses for sign language translation that is about 700 thousand sums monthly.

Moreover, according to the Labour Code, recommendations of the Medical and Labour Expert Commission (MLEC) “on the schedule of partial work time, relaxation and other work conditions for persons with disabilities are mandatory to implement by the employer” (article 220 of the Labour Code). Persons with disabilities of I and II degree are guaranteed of reduced work time not more than 36 hours a week without cutting the salary. Also, persons with disabilities of I and II degree have annual extended leave for no less than 30 days (article 135 of the Labour Code). The involvement of persons with disabilities in the night work, as well as the overtime work and the work on weekends is permitted only with their consent given that these types of work are not prohibited by medical recommendations. In enterprises, where persons with disabilities work, the assessment of work conditions and work places shall be definitely conducted at the expense of the employer.

Employers using the work of persons with disabilities have certain benefits. One of the main benefits is the low rate of dues for social insurance. Legal entities using the work of persons with disabilities working in specialized factories, premises and enterprises have mandatory dues for social insurance equal to 4.7% from the salary fund for persons with disabilities instead of 25%.¹⁸ At the same time, the express survey

¹⁷ The prices and calculations in this section are for 2013

¹⁸ Resolution of the Cabinet of Ministers “Issues of social protection of persons with disabilities in the Republic of Uzbekistan”.

among 100 employers of non-specialized enterprises shows that less than 10% of respondents are informed about these benefits. Local tax authorities can interpret the present benefit in different ways and provide these benefits only for enterprises of public associations of persons with disabilities since regulatory acts do not define specialized factories, specialized premises and specialized enterprises.

In this regard, it is necessary to develop a guide for employers with the indication of all benefits and preferences for them in the employment of persons with disabilities and give it together with the certificate of MLEC on work conditions of persons with disabilities. Moreover, in order to interpret the present benefit correctly, the paragraph of the Resolution of the Cabinet of Ministers “Issues of social protection of persons with disabilities in the Republic of Uzbekistan” shall be described in the next edition as “For legal entities using the work of persons with disabilities, whose work places were assessed in accordance with existing legislation, the amount of mandatory dues for social insurance is 4.7% from the salary fund for persons with disabilities instead of 25%”.

Let’s see what will be the cost and income by paying the same salary for person without a disability and person with disabilities for the same work. We will proceed from the amount of net salary, i.e. the salary after tax. We will proceed from the salary in the sector of small business (300 thousand sums with tax).

According to the table 6, the use of work of persons with disabilities of I and II degree will cost for 33 thousand sums less in a month, and persons with disabilities of III degree is for 48.3 thousand sums. Which means that the employer will save 396 thousand sums a year and 579.6 thousand sums accordingly. Thus, the employer will cover initially expended funds to create necessary work conditions for persons with disabilities of I and II degree only during 1.5–2 years.

TABLE 4. EXPENSES OF THE EMPLOYER FOR THE WORK PAYMENT FOR PERSONS WITH AND WITHOUT DISABILITIES (PER MONTH)

Expenses	Person with disabilities of I and II degree	Person with disabilities of III degree	Person without disabilities
Net salary	238,0	238,0	238,0
Single social payment	11,2 (4,7%)	11,2 (4,7%)	59,5 (25%)
Income tax for individuals	0,0	17,8 (7,5%)	17,8 (7,5%)
Expenses due to the shortened working day	25,1 (no more than 36 hours a week – art.135 of the Labour Code)	0,0	0,0
Vacation pay	19,8 (30 days - art.220 of the Labour Code)	11,7 (no less than 15 working days - art.134 of the Labour Code)	11,7 (no less than 15 working days - art.134 of the Labour Code)
TOTAL	294,0	278,7	327,0

Source: calculations of authors

At the same time, the most of the concerns for many employers is that the employee with disabilities may often get sick and take sick-leave. In 2013, the number of days on sick-leave certificates of employees was at average 10.5 days across the country, and employees with disabilities – 25.4 days.

According to existing legislation,¹⁹ since 2007 the benefit payments on temporary unemployment shall be provided by business entities from own funds, and by government-funded organizations within the budgetary allocation to the salary fund. Employed persons with disabilities receive benefits of temporary unemployment for not more than 2 months on end and not more than 3 months a year except cases of the work injury or occupational illness. In case of payment even of the minimal amount of benefit (60% of the salary that is 300 thousand sums in the sector of small enterprises) for 3 months a year, the total amount will make up 540 thousand sums, which is more than a calculated above savings of funds by the employment of persons with disabilities of I and II degree. Even the speculative possibility of using such time of sick-leave automatically repels the employer from employing the person with disabilities.

The employer has a right to remove the indicated expenses from the tax base in the calculation of income tax. However, first of all, this benefit can be used by large enterprises- income tax payers (in the frame of generally established terms of taxation), since the majority of small enterprises and small firms choose the single tax payment (in the frame of simplified terms of taxation). While 90% of the total number of enterprises and organizations in the country are small enterprises and small firms. Secondly, in any case these payments are the factors of reducing the ultimate income of the employer, who is aimed for the maximization of it.

It is suggested to divide expenses on the payment of benefits on temporary unemployment between the government and employer. The government may cover the amount of income tax at the cost of reduction or the single tax payment for the certain period of sick-leave of the person with disabilities, and the employer shall pay in addition to these days. If the government is not able to subsidize this sector, then it is necessary to fix those days that will be covered by the amount of single tax payment paid by employers from salaries of the person with disabilities at the rate of 4.7%. This will make up about 14 days a year.²⁰

One of the reasons of low-level of employment among persons with disabilities is their low professional level. There are relatively few specialists with higher degree among persons with; in specialized colleges, they receive education on a very limited set of professions, mainly in the field of public services. Because of this, they mainly work in low-paid jobs.²¹ Their training and re-training directly in the work place also require additional expenses from the employer. The employer shall also pay the salary for the period of training. The possible option for solving the problem of the high expense of the employer related to the employment of person with disabilities could be the compensation of these expenses through providing tax benefits and preferences. As it was mentioned above, the preferential rate of the single social payment does not cover all expenses to ensure the employment of persons with disabilities.

Some of the compensations partly could be ensured by the benefit provided by the article 158 of the Tax Code “For legal entities that have employed more than 3% of persons with disabilities from the total number of employees, the payable amount of income tax for these legal entities shall be reduced for 1% for each percent of employed persons with disabilities exceeding the abovementioned requirement established by the present paragraph of this article”. However, this benefit can be only used by generally established tax payers.

For small enterprises it is much better to choose the simplified procedure of taxation and pay the single tax payments in which the income tax is not calculated, and this benefit is not applied accordingly. Almost all enterprises using the work of persons with disabilities are small enterprises.

¹⁹ Regulation on the procedure of setting and payment of benefits of the government social insurance. Approved by the Order of the Minister of Labour and Social Protection of the Population from 01.04.2002 with № 21, registered by the Ministry of Justice on 08.05.2002 with № 1136

²⁰ Formula evaluation: The total amount of payments of the single social payment ÷ Amount of one day benefit of temporary unemployment = $(4,7\% \cdot 12 \cdot X) \div (1/25,4 \cdot X) = 16,9$ days, where X is a monthly salary of the person with disabilities, 12 – 12 months, 1/25,4 – one working day of the work month.

²¹ For more detailed information see the report “Problems and prospects of the employment of persons with disabilities”.

Annex 2 illustrates the computation of taxes and other mandatory payments for one existing private small enterprise in the selection of payment of generally established taxes and the single tax payments. Even in the employment of 80% of employees with disabilities, the selection of the general procedure of taxation to use the present benefit is almost twice less profitable than the selection of payment of the single tax payments, which is applicable regardless of the employment of person with disabilities. Notably, the present benefit does not have the significant impact on the increase of employment of persons with disabilities.

According to the article 358 of the Tax Code of the Republic of Uzbekistan, enterprises owned by public associations of persons with disabilities, “Nuroni” Foundation and the association of “Чернобыльцы Узбекистана” (Chernobylers of Uzbekistan) that have employed in total no less than 50% of persons with disabilities, war and labour front veterans of 1941–1945 (except legal entities engaged in the commercial, mediatory, supply and sales and procurement activity) are exempted from paying the single tax payment. These measures of the government support are being reduced by enterprises of only these organizations.

However, the potential of these organizations is not sufficient to create such a large number of jobs, which are necessary for the employment of all people with disabilities who want to work. If we consider that the number of such main NGOs in the country is 5 (Society of persons with disabilities, Society of the Blind, Society of the Deaf, “Nuroni” Foundation and the association of “Чернобыльцы Узбекистана” (Chernobylers of Uzbekistan)) and even in the absence of territorial divisions of all these organizations in each 192 administrative and territorial units of the country, as well as separately at the level of 14 regional centers and at the country level, then the total number of such NGOs with their territorial divisions is about 1035 organizations. The number of persons with disabilities at the working-age in Uzbekistan is around 500 thousand people.

If it was required to employ all persons with disabilities at the working age (as it was emphasized earlier, the majority of persons with disabilities would work if there was a possibility), then each of these NGOs should create jobs and employ in their enterprises about 500 persons with disabilities. Taking into account the fact that the average size of small enterprises and small firms in the country is around 10 persons,²² then each of such organization should establish 50 enterprises given that all their employees will be persons with disabilities, or 100 enterprises given that 50% will be employees with disabilities.

Non of these NGOs can establish this number of enterprises: currently, at the average less than one enterprise goes to one organization of this type across the country.

Of course, there are some other enterprises of self-initiated public associations of persons with disabilities. However, there are not many such associations across the country (less than 20 NGOs). In order to establish the specialized enterprise for persons with disabilities and receive tax benefits in the form of exemption from the single tax payment, it is necessary to form the public association of persons with disabilities, which is associated with financial and temporary expenses. For instance, only the government fee for the state registration of public associations of persons with disabilities is 1 or 2 minimum wage, and for the state registration – nominal 0.5-1 minimum wage.²³ Moreover, the following resources are necessary to establish NGOs and prepare documentation required for the state registration:

- a) Charter or regulation on the separate division that is the legal entity in the state language in two copies. The Charter (Regulation) shall be enumerated, stitched and attested with the signature of the person authorized by the founder(s);
- b) foundation agreement for associations (unions) of NGOs;

²² The ratio of employees in small enterprises and microfirms to the number of such enterprises

²³ For more information, see the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan from 10.03.2014 with № 57 “On measures of the implementation of the Resolution of the President of the Republic of Uzbekistan from December 12, 2013 with № ПП-2085 “On additional measures of providing support for the development of civil society institutes”.

- c) protocol of the inaugural congress (conference) or the general meeting either the decision of founder on the NGO establishment (for republican and inter-regional NGOs, the information on the formation of relevant separate divisions shall be also indicated);
- d) document, certifying the right of property or using the real estate assumed to use as a postal address of the NGO;
- e) information on initiators of formation or founders of NGO except for political parties, with the indication of the surname, name, middle name, date of birth, place of residence for individuals and the name, postal address, identification number of the taxpayer (INT) and the date of state registration for legal entities;
- f) list of no less than ten initiative citizens.

After foundation of the public association, it is necessary to form the enterprise that also requires some resources.

The total number of public associations of persons with disabilities, “Nuroni” Foundation and the association of “Чернобыльцы Узбекистана” (Chernobylers of Uzbekistan) is not enough to establish sufficient number of specialized enterprises for persons with disabilities.

The solution of this issue is the expansion of the list of enterprises that can use this benefit of the single tax payment in the employment of 50% of persons with disabilities from the total number of employees.

In the frame of piloting different forms of social enterprises, the UNDP has supported 5 selected affiliated enterprises within societies of persons with disabilities on a competitive basis. Enterprises received requested equipment facilities from the UNDP in accordance with their request forms. After that, for about two years, enterprises received the legal aid and consultations on taxation. They have received trainings on business skills. They have also received trainings and services of designers on the development of output bar. Moreover, the UNDP has established cooperation with the network of supermarkets Korzinka.uz with the purpose of ensuring the sale of their products. Despite all these efforts, as well as the significant amount of tax benefits provided by the government, only one is firmly operating at the result among 5 enterprises. The vast majority of enterprises owned by public associations of persons with disabilities do not have the entrepreneurial capacity required for the development of production and increasing the number of work places. If the purpose of providing tax benefits is to stimulate the employment of persons with disabilities, then why the range of enterprises having the possibility to receive these benefits are limited to only enterprises owned by public organizations?

Enterprises that are not owned by public organizations of persons with disabilities, but the number of which is much more, and entrepreneurial skills are higher, and that could more effectively support the employment of persons with disabilities are in less favourable conditions from the prospect of creating employment opportunity for persons with disabilities.

There is a need for additional measures of support of enterprises that have employed persons with disabilities. In 1990th, enterprises that have employed more than 50% of persons with disabilities were exempted from taxation. However, this benefit was abolished. This was probably due to the fact that persons with disabilities were formally employed in particular sectors of enterprises, but in reality the work has been done by persons without disabilities.

The following benefit and the criteria to receive it is proposed with the purpose of preventing improper use of benefits.

It is suggested to provide the benefit for payers of the single tax payment similar to payers of income tax: for legal entities – payers of the single tax payment that have employed more than 3% of persons with disabilities from the total number of employees, the payable amount of the single tax payment for these

legal entities shall be reduced for 1% for each percent of employed person with disabilities exceeding more than 3% of the requirement in compliance with the following conditions:

- 1) duty station of the person with disabilities shall be the main focus (for example, this may be possible to track through INT and the income tax payment of individuals);
- 2) the increase of the number of employees for 1 percent point (p.p.) shall be maintained with the increase of the share of payment for persons with disabilities in the total amount of the Work Payment Fund (WPF) for 0.5 p.p.

In this case, employers will be obliged to increase the professional level of employees of persons with disabilities to comply with the salary they receive. Of course, the employer may credit the part of the salary of employees without disabilities to the salary of the person with disabilities in collusion. In this case, the employer will be in uncomfortable situation in relation to the employed person with disabilities, because the person with disabilities may contact government agencies in any time for unlawful actions of the employer.

Of course, this benefit will be used not only by social enterprises but also enterprises pursuing the extraction of profit as an ultimate goal.

As it was emphasized earlier, the employment of persons with disabilities is not only the source of income, but also a factor of socialization, development of social and professional skills and others. These tasks require certain expenses by enterprises. In these conditions, it is necessary “to close” the income (or the majority part of it) within the enterprise and use it mainly for addressing social issues. This is the purpose of social enterprises and social entrepreneurship: entrepreneurial activities is used as an instrument for addressing social issues.

Therefore, the support of enterprises that ensure the employment of persons with disabilities, but do not pursue the commercial income as an ultimate goal shall be more essential.

In order to increase the number of specialized enterprises for persons with disabilities within NGOs, it is suggested to expand the benefit on the exemption from the single tax payment for affiliated enterprises of all NGOs that have employed no less than 50% of persons with disabilities as permanent employees. According to existing legislation, NGOs do not have the right to distribute the profit and improperly use the income.

In order to increase the professional and social qualification of persons with disabilities, receive this benefit on the single tax payment, it is necessary that the place of work of the person with disabilities is permanent and the work payment of the person with disabilities in the WPF is no less than 30%. These criteria shall be expanded also to existing enterprises of public associations of persons with disabilities, “Nuroni” Foundation and the association of “Чернобыльцы Узбекистана” (Chernobylers of Uzbekistan).

In order to increase the number of specialized enterprises for persons with disabilities, there is also a need for the mechanism of their formation without building-up in the form of the public association of persons with disabilities. In this context, the most optimal mechanism is the social cooperative.

Along with the legislation on cooperation in general, there are specialized laws on social cooperatives in many countries of the Western and Eastern Europe, for instance in Italy, Portugal, France, Poland.

There is a similar regulatory act in Uzbekistan: the Law of the Republic of Uzbekistan “On cooperation” adopted in 1991. However, this organizational and legal form in the business sector is not widely expanded. One of the main reasons is that according to this law, the employees of the cooperative are responsible for its debts not only with dues, but also with the personal property. In this respect, for the development of the cooperative form of entrepreneurial activities, there is a need for changes in the legislation provided for establishing cooperatives with limited responsibility, i.e. cooperatives responsible for their duties and debts only with the investment to the statutory fund.

From the point of social entrepreneurship, cooperatives that work in the field of employment or addressing other social issues of socially vulnerable persons (named in the international practice as social cooperatives) are one of the optimal forms, since they comply with all criteria of social enterprises that were assessed in the section 1. Particularly, they have the following advantages.

- 1) The entry or withdrawal from the cooperative does not require financial and temporary expenses. The decision of the common assembly of the cooperative is sufficient to admit the person as a member of the cooperative. For instance, in order to become a member/co-founder of the Society with limited responsibilities, it is necessary to make changes in the constituent document/charter every time with the state registration of these changes that requires the decision of co-founders, to pay the government fee (in the amount of 50% from the charter registration fee) and the registration itself requires 2 days.
- 2) Each member of the cooperative has equal rights to manage the enterprise, including the issues of using the income, and also has one vote in decision making related to the work of the enterprise regardless the amount of his/her assets. Among others, the participation in the management of cooperative activities is important for the socialization and social inclusion in the community of socially vulnerable people.

At the same time, there is a need for addressing two issues in order to ensure full participation of socially vulnerable people in the work of the cooperative.

FIRST, there might be the situation of deception of persons with mental disabilities working in the cooperative by other members in the process of decision-making. In order to solve this problem, it is important to foresee the mandatory participation of guardians of these persons in meetings of the common cooperative assembly to make sure that they can explain the positive and negative consequences of certain decisions to their wards.

SECOND, persons with disabilities and other socially vulnerable people may not have or may have insufficient resources and skills to establish the enterprise.

Receiving the loan from the bank, from one hand, requires the development of valid business plan, and from other hand, mortgage guarantees that may not be available for socially vulnerable people. Therefore, for social cooperatives it is important to involve members, who are ready to invest their assets and/or existing entrepreneurial skills.

It is possible to admit socially vulnerable persons to membership of the cooperative without a membership fee. The entrance fee and share could be gradually paid from the salary in the future. Monthly amount of payments shall not exceed the salary of employee excluding the rate of the minimal wage grade (1.47 of minimal salary). In this case, it is important to give an opportunity to the cooperative for the annual denomination of payment of the remained part of fees or interests considering the inflation, and in case of withdrawal, to pay fully back the part of fees or interests considering the inflation.

To support the employment of persons with disabilities and other socially vulnerable groups, it is possible to introduce one more form of cooperatives that is “social cooperative” and to grant this status to cooperatives that have employed no less than 50% of persons with disabilities and other groups of socially vulnerable people among other member employees. Similar to affiliated enterprises of public associations of persons with disabilities, cooperatives that have such status and meet the requirement of 35% share of the salary of persons with disabilities and other socially vulnerable groups in the WPF shall be exempted from the single tax payment.²⁴ This is associated with the fact that in other equal conditions, the social cooperative will make a choice in favor of income allocation even if there is a possibility to address issues with the support of employment of socially vulnerable persons.

²⁴ Affiliated enterprises of NGOs shall direct the profit to NGOs that may use these funds only for the implementation of statutory activities and may not pay these funds as an income to individuals or legal entities.

Thus, it is important to revise the Law of the Republic of Uzbekistan “On cooperation” in light of above-mentioned proposals of introducing the form of cooperative with limited responsibility and the status of social cooperative with above indicated terms and privileges.

Benefits of the single tax payment are not the sufficient measure to develop the sector of social enterprises. The outcomes of our survey show that more than 80% of enterprises of public associations of persons with disabilities work in the sector of production of consumer goods and the delivery of consumer services for the population. The competition is very strong in these sectors: about 60% of survey respondents indicated that the high competition, first of all, by the shadow angle is the main factor of issues related to the production distribution or service delivery. According to the outcomes of Enterprise Surveys, about 40% of respondents of enterprises in the sector of industry, construction and services experience the competition by unregistered firms. The competition by the informal sector cause a problem for 47% of respondents (from moderate to very complicated).²⁵

If we consider that the average size of social enterprises is 10 employees and they shall be paid the minimum salary in the amount of 1.47 minimal salary, then only for the salary it is necessary to allocate each month about 2.4 mln.sums, and with mandatory social deductions – more than 3 mln.sums, which will be in the annual calculation about 29 mln.sums and more than 36 mln.sums accordingly.

Not every enterprise may afford such expenses, especially it is difficult for enterprises that have socially vulnerable persons in the staff among all employees, whose employment is associated with additional expenses as it was mentioned above. Benefits on the single tax payment reduce the cost of products in the consumer sector only for 6%. If we consider the fact that the average gross income of social enterprises surveyed by us is less than 60 mln. sums, then the cost cutting from nonpayment of the single tax payment will be 3.6 mln. sums.

In this regard, there is a need for additional measures of supporting enterprises. For instance, in some countries employees from socially vulnerable groups are subsidized with the salary.²⁶ In time of budgetary restrictions, the idea on direct deductions from the state budget may not be supported by the government. At the same time, there are indirect mechanisms of supporting social enterprises. One of the most widespread forms of such support is the preferential access to the state procurement. For example, in Russia, special conditions of participation in the placement of orders in accordance with the article 14 of the Federal Law from 21.07.2005 № 94-ФЗ “On the placement of orders for the delivery of goods, jobs, services for the government and municipal needs” are provided for institutions and enterprises of the system of criminal procedure and organizations of persons with disabilities. The contract with the organization of persons with disabilities recognized as a winner in the identification of provider (contractor, executor) shall be concluded based on the price, but no higher than a starting (maximum) price of the contract indicated in the procurement notice.

With the Resolution of the Government of the Republic of Kazakhstan from January 31, 2011 № 64 “On certain issues of the government procurement of organizations established by public associations of persons with disabilities”, the followings have been approved in Kazakhstan:

- 1) the list of organizations producing goods, performing works, delivering services by public associations of persons with disabilities of the Republic of Kazakhstan;
- 2) the list of certain types of goods, jobs, services purchased from organizations producing goods, performing works, delivering services established by public associations of persons with disabilities of the Republic of Kazakhstan;

²⁵ The business environment in Uzbekistan from the perspective of representatives of the private business. *The international financial corporation*, 2009. (insert 6 p.84).

²⁶ For example, see the Law on social enterprises of Finland.

- 3) terms of purchasing certain types of goods, jobs, services from organizations producing goods, performing works, delivering services established by public associations of persons with disabilities in the Republic of Kazakhstan.

Goods, jobs, services foreseen by the list are purchased from organizations producing goods, performing works, delivering services established by public organizations of persons with disabilities in the amount of 100 percent from the total amount of purchase of these goods, jobs and services.

In Uzbekistan, with the adoption of the Resolution of the President of the Republic of Uzbekistan from February 7, 2011 “On the optimization of the system of government purchases and the expansion of involvement of small business entities” and various other regulatory norms, the access of small businesses to receive government orders for delivering goods (jobs, services) has been substantially expanded.

According to this Resolution, there is an established procedure, in accordance with which the new, more ultimate, open and transparent mechanism of the government procurement is being introduced since April 1, 2011 that include the establishment of quota assigned for small business entities. Moreover, there is an approved list of goods (jobs, services) for the government needs that are mainly purchased from small business entities that may be changed and expanded based on the decision of the State Commission.

The amount of financial security for small business enterprises shall not exceed three percent from starting cost of goods (jobs, services) at the auction, and the amount of the commission fee of Uzbek Commodity Exchange no more than 0.05% from the amount of deals of each party.

At the same time, in the database of arranged deals for 2014 (12200 deals on corporate purchases and 130789 deals on the government purchases²⁷) there was no single winner among enterprises of public associations of persons with disabilities, “Nuroni” Foundation and the association of “Чернобыльцы Узбекистана” (Chernobylers of Uzbekistan). This indicates the lack of competitiveness of social enterprises in comparison with regular commercial enterprises in order to win in auctions in the frame of the government and corporate purchases.

Taking into account the issue of employment of socially vulnerable groups, social importance of the work of specialized enterprises for these persons, the followings are proposed with the purpose of ensuring the financial stability of these enterprises and supporting the employment of these groups of the population.

FIRST, prepare the assortment of goods (services and jobs) produced by enterprises of public associations of persons with disabilities, “Nuroni” Foundation and the association of “Чернобыльцы Узбекистана” (Chernobylers of Uzbekistan) based on the request from the headquarters of the organization and posting of this list on the web-portal of Uzbek Commodity Exchange, where the electronic auction happens. According to the outcome of our survey, these enterprises are mainly engaged in the production of foodstuffs, clothing, shoe products and beddings, as well as small (electric) household accessories.

SECOND, oblige budgetary organizations and business entities with the government share of more than 50% in their statutory funds to place 3% of orders among social enterprises (enterprises of NGOs and social cooperatives) taking into account the assortment of provided goods, services and jobs.

THIRD, develop the sub-system of electronic auctions for social enterprises.

FOURTH, in order to increase the accessibility of electronic auction for all social enterprises, especially for those having insufficient financial resources, establish ultimate amount of financial deposits

²⁷ <http://uzex.uz>

of two percent from starting cost of goods (jobs, services), but no more than one minimum salary, put up to auction for small business entities.

FIFTH, disseminate information on preferences provided for social enterprises among headquarters of organizations of public associations of persons with disabilities, “Nuroni” Foundation and the association of “Чернобыльцы Узбекистана” (Chernobylers of Uzbekistan), as well as in the IIMFCSI with the purpose of informing affiliated enterprises of NGOs.

Finally, the general problem limiting the employment of persons with disabilities in social as well as regular enterprises is the lack of clear and concrete mechanism of the development of work related recommendations (including restrictions on employment) accepted by the regulatory act. This leads to the fact that in the section of “the level of deprivation of the professional working ability” of the disability certificate, Medical and Labour Expert Commissions (MLEC) in many cases write “incapacitated”, and in some cases they do not fill in this section at all. According to the outcome of random surveys of 140 persons with disabilities conducted by the employees of the Society of Persons with Disabilities, it was determined that 68% of respondents wrote in this section “incapacitated”, 11%–“can work in special conditions” or similar answers, 21% (mainly persons with disabilities of III degree, who don’t have the right to receive disability benefits)– “can work” or similar answers.

The employer can not hire the person with disabilities, who has the conclusion of MLEC “incapacitated”²⁸. This leads to the fact that the majority of persons with disabilities are either deprived of access to the labour market, but as it was mentioned in the sub-section 1.1., they need sources of income in addition to the disability benefit, or they work in the shadow angle, in which the work environment does not comply with their conditions ruining their health even more.

It was also determined during the interview that since recently in some of the cases, [the MLEC] started not to fill in the section “the level of deprivation of the professional working ability” of disability certificates. However, the secret rule on filling in the present section does not mean that all employees of MLEC are fulfilling it. From one hand, this contradicts the existing legislation, and from other hand, there is unsolved issue regarding those persons with disabilities, whose certificate has already indicated the status of disability. Many persons with disabilities are concerned about the fact that the reconversion to the Medical Labour Expert Commission (MLEC) with the request of reconsidering the decision on incapacity of the person may lead to the condition that the MLEC reconsiders the group of disability and deprives the person from prescribed social payments.²⁹

In order to solve this problem, it is necessary to:

- 1) Remove the section of “degree of occupational disability”³⁰ from the disability certificate, as it was done in many countries of CIS.³¹

²⁸ In accordance with the article 220 of the Labour Code of the Republic of Uzbekistan, recommendations of MLEC on the on part-time working conditions, workload reduction and other working conditions for persons with disabilities are binding for the employer. In accordance with the Procedure of conducting the assessment of work places in case of using the labour of person with disabilities in the enterprise (Registered by the Ministry of Justice of the Republic of Uzbekistan on 18.11.1999 with № 839) with the addition according to the Order of the Ministry of Labour and Social Protection of the Population “On making amendments and additions to the Procedure of conducting the assessment of work places in case of using the labour of persons with disabilities in the enterprise” (Registered by the Ministry of Justice of the Republic of Uzbekistan on 29.10.2010 with № 839-1), the employer shall assess the work place for the concrete person with disabilities. In accordance with article 24 of the Law of the Republic of Uzbekistan “On social protection of persons with disabilities”, the rejection in concluding the employment contract with the person with disabilities is permitted, when his/her health conditions hamper the performance of professional duties or threaten the health and occupation safety of the person with disabilities or other persons.

²⁹ For more detailed information, see the Analytical report “Problems and prospects of ensuring employment for persons with disabilities in the Republic of Uzbekistan”, UNDP, Tashkent, 2012.

³⁰ See the sample of disability certificate in the Regulation on the procedure of examination of citizens in Medical Labour Expert Commissions (Annex 1 to the Resolution of the Cabinet of Ministers from July 1, 2011 № 195).

³¹ For example, in Russia from April 1, 2011 the Order of the Ministry of Health and social development of the Russian Federation from 24.11.2010 №1031H “On the form of the certificate affirming the fact of disability, and the excerpt from the citizen examination act admitted as a person with disability and provided by the federal government institutions of medical and social expertise, and the procedure of their execution” came into force by introducing new forms of the certificate affirming the fact of disability, and the excerpt from the citizen examination act admitted as a person with disabilities. <http://gu.spb.ru/news/detail.php?ID=13019>

- 2) Develop a standard certificate for agencies on the assessment of work places with recommendations of the MLEC on part-time working conditions, workload reduction and other working conditions of persons with disabilities binding for the employer (according to the article 220 of the Labour Code of the Republic of Uzbekistan).

These certificates shall be provided by the request of the person with disabilities regardless of the degree of disability and shall not be considered as a reason for reexamination (the sample of certificate and this statement shall be indicated in the Regulation on the procedure of examination of citizens in Medical Labour Examination Commissions (Annex 1 to the Resolution of the Cabinet of Ministers from July 1, 2011 № 195).

If certain benefits are provided for supporting the work of person with disabilities, then for other categories of socially vulnerable persons there are no any economic incentives, while the level of unemployment among them is also high. Therefore, there is a need for expanding the following benefits provided for persons with disabilities:

- 1) preferential rate on the single social payment (4.7% together with 25%),
- 2) covering 14 sick-leaves by the government at the expense of reducing the amount of income tax or the single tax payment (STP),
- 3) registration of not only persons with disabilities, but also the following categories of vulnerable groups in providing benefits on reducing the income tax or STP for enterprises employing these categories of people more than 5% rate subject to the increase of the work payment in WPF for 0.6p.p. for each 1 p.p. of job growth,
- 4) registration of not only persons with disabilities, but also the following categories of vulnerable groups in the exemption from STP of NGO enterprises and social cooperatives on conditions that these enterprises involve no less than 50% of persons with disabilities and the following categories of people, their work places are permanent and the share of their work payment in WFT is more than 30%,
- 5) registration of not only persons with disabilities, but also the following categories of vulnerable groups in the preferential access to the government and corporate orders.

It is necessary to expand these benefits among the following groups of the population taking into account temporary restrictions:

- a) victims of human trafficking having the relevant status approved by the Ministry of Internal Affairs (MIA)- during 3 years from the date of receiving the status;
- b) drug and alcohol addicts registered in relevant dispensaries- during 3 years from the date of receiving the status;
- c) persons without a permanent place of residence having the certificate received from special care centers- during 5 years subject to the support of the employer in finding the place of residence;
- d) persons with HIV/AIDs, who don't have the status of disability - permanently.

Moreover, it is suggested to allow the participation in grant competitions conducted by the Public Fund to support NGOs and other civil society institutes for NGO enterprises and social cooperatives that have employed no less than 50% of socially vulnerable people based on the approved list.

2.2. MECHANISMS FOR DELIVERING SOCIAL SERVICES ON THE BASE OF NGOS THROUGH FINANCIAL AND ECONOMIC INDUCEMENTS FOR SOCIAL ENTERPRISES

As it was mentioned in the previous section, the entrepreneurial activity of NGOs plays an important role in ensuring their financial stability.

In accordance with the national legislation, the NGO may be engaged in entrepreneurial activity within the frame of its statutory goals³². The entrepreneurial activity of NGOs may be conducted independently or through forming affiliated business entities, and the overall profit received by NGO from this entrepreneurial activity shall be used for the implementation of its statutory activities.³³ At the same time, despite the fact that the overall profit of NGO may be used for socially useful activity in accordance with the approved regulation, they are on even less beneficial terms on conducting entrepreneurial activity than regular business entities.

In accordance with the legislation of NGOs, the engagement in entrepreneurial activity (regardless of the average annual number of employees) does not apply to small business entities.³⁴ This leads to the condition that NGOs don't have the right to use the preferential simplified tax procedure, which is the single tax payment (STP) that is more favorable from economic side as well as from the point of documentation and reporting provided for small firms and small enterprises.

In order to transfer to the simplified tax system in conducting entrepreneurial activity for self-funding of NGOs, it is necessary to establish the affiliated enterprise/affiliated business entity (ABE) with corresponding number of employees.

From one hand, division of commercial and non-profit activity of NGOs to two separate legal entities (NGO and affiliated enterprise) allows to significantly reduce expenses of the government, including time for monitoring of commercial and non-profit activity of NGOs for institutions of justice and law-enforcement agencies (taking into account the ban of using NGO activities to receive income by its founders), tax authorities (taking into account the fact that non-profit activity of NGOs is exempted from taxes) and other institutions.

From other hand, as it was mentioned in the section 2.1, the establishment of ABE requires considerable amount of financial and temporary resources. Moreover, there is a need for capital to form the statutory fund. Many NGOs do not have such resources. We will below discuss other issues that specify the situation of receiving funds to fund NGOs through ABE, and not directly from own entrepreneurial activity of NGOs.

In this respect, taking into account the high demand of NGOs in ensuring their financial stability, it is necessary to grant NGOs the right to choose the simplified procedure of taxation (STP) in conducting entrepreneurial activity without establishing the affiliated enterprise, if they comply with this procedure on the number of employees.

The existing system of the government control does not in any way stimulate the ABE of NGOs to increase the amount of income deducted by their headquarter organizations, the legislation does not stipulate the minimal share of deductions from the income of affiliated business entity of their headquarter organizations, which may lead to difficulties in receiving sufficient amount of funds in order to fund the activity of NGOs.

The lack of not only funds, but also the relevant skills and knowledge in the organization and conducting entrepreneurial activities are quite expanded problems among NGOs. Therefore, some NGOs engage other ABE-entrepreneurs with their assets. The incentive for entrepreneurs in this case is the possibility to use the equipment or facility owned by NGOs, and in most of the cases, if we talk about public associations of

³² Article 31 of the Law on non-government non-profit organizations.

³³ The same place, article 29, article 17 of the Tax Code of the Republic of Uzbekistan, Collection of the legislation of the Republic of Uzbekistan, 2007, № 52 (II).

³⁴ In accordance with requirements of para. 2 of the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan N 439 from 11.10.2003.

persons with disabilities, “Nuroni” Foundation and the association of “Чернобыльцы Узбекистана” (Chernobylers of Uzbekistan), it is to receive tax benefits. Taking into account the fact that tax benefits are fully provided only for enterprises owned by these organizations, entrepreneurs may transfer the ownership right at their own risk and responsibility, and at the expense of their own resources (or rent them) to enterprises by becoming directors of the enterprise. In this case, the entrepreneur – director of the enterprise is not interested in the increase of funds in the account of the enterprise since the enterprise is formally owned by the NGO, and the director may be anytime replaced to receive the access to these funds.

Moreover, many other international and local donor organizations in the frame of different grant programs and projects quite often give equipment facilities to NGOs with the purpose of the professional training and employment of vulnerable groups. For instance, in the frame of the joint grant competition of UNDP and Public Fund to support NGOs and other civil society institutes under the Oliy Majlis, more than a half of projects have requested such equipment. In order to successfully conduct the entrepreneurial activity, create work places, compete in the market, these NGOs shall establish ABE and give the equipment to them. In this case, donors lose the opportunity of ensuring targeted use of equipment, since the ABEs do not have any formal responsibility controlled by the government on distribution of profit and employment of vulnerable groups.

For the last three years, the UNDP has allocated equipment for NGOs in the amount of more than 300 thousand USD. In order to ensure its targeted usage, the regulation of ABE has included commitments on its usage, but until these requirements are consolidated by the legislation, regulations may always be changed, and commitments prescribed by them may not be met.

Therefore, it is necessary to define in the legislation the minimum amount of deductions of ABE to the headquarter organization, if we talk about the NGO sector and the enterprise has certain benefits. It is suggested to establish the amount of deductions of the affiliate enterprise to the NGO-headquarter organization by binding the amount of deduction to the gross income that is the tax base of STP (for example, 0.5% of gross income), and the minimum standard- no less than 50% of the minimum amount of STP, which makes up threefold amount of land tax taking into account reducing rates (except the retail field).³⁵

As it was already mentioned, more or less important tax benefits are granted for enterprises owned by public associations of persons with disabilities, “Nuroni” Foundation and the association of “Чернобыльцы Узбекистана” (Chernobylers of Uzbekistan). These benefits are mainly aimed not to support the activity of headquarter organizations, but to stimulate the employment of persons with disabilities, and providing benefits depends on the number of employed persons with disabilities.

The single benefit prescribed by the legislation is reducing the tax base of income to the amount of deductions from the income of the enterprise owned by religious and public associations (except professional unions, political parties and movements), charity foundations directing these associations and foundations to conduct the statutory activity.³⁶

However, this benefit for ABE of NGOs is practically not used. This benefit may be used only in the selection by ABE of the total procedures of taxation and not the payment of STP.

In practice, even in the use of this benefit on reducing the amount of taxable income, the STP is still advantageous form of taxation, except the case, when 100% of income is sent to the headquarter NGO, and the amount of VAT, property tax, land tax is quite low.

Moreover, if the number of founders includes other legal entities and individuals except NGOs, then the tax benefit on the absence of taxation of income directed to conduct the statutory activity of the headquarter NGO shall not be applied.

Moreover, this benefit does not apply to NGO enterprises established in the form of institution.³⁷

³⁵ Resolution of the Ministry of Finance of the Republic of Uzbekistan, Ministry of Economy of the Republic of Uzbekistan, State Tax Committee of the Republic of Uzbekistan “On the approval of the Regulation on the procedure of calculation and payment of the single tax payment taking into account the introduction of the minimum amount of the single tax payment” (Registered by the Ministry of Justice of the Republic of Uzbekistan on March 3, 2011; Registered № 2203).

³⁶ Article 159 of the Tax Code of the Republic of Uzbekistan, Collection of the legislation of the Republic of Uzbekistan, 2007, № 52 (II).

³⁷ Согласно Закону о негосударственных некоммерческих организациях, ННО может быть учреждена в трёх формах: общественное объединение, фонд и учреждение.

It is suggested to expand this benefit on the income tax also among NGO enterprises established in the form of institution, as well as among NGO enterprises that are the payers of STP.

In order to ensure the possibility of involving entrepreneurs, there is a need to expand the benefit on reducing the amount of income tax or STP also among affiliated enterprises, whose founders are other legal entities or individuals apart from NGOs.

The most important is ensuring the financial stability of NGOs delivering social services taking into account their role and significance in the system of social protection of the population.³⁸ The financial stability of these organizations may be ensured by partially delivering social services on payment basis. Abovementioned problems and their solutions do also apply to the activity of social service providers on the base of NGOs. The following is suggested in addition to them.

In accordance with the Decree of the President of the Republic of Uzbekistan “On the development programme of services in the Republic of Uzbekistan for 2012–2016”, before January 1, 2017 small firms and small enterprises delivering certain types of services are exempted from income tax payment or STP. These services also include social services on the care of children, persons with disabilities and elderly people.

It is suggested to expand the benefit on the exemption from income tax and STP not only among commercial enterprises, but also among NGOs engaged in entrepreneurial activity without establishing the ABE. It is suggested to extend this benefit to NGOs and their ABE permanently. Moreover, it is necessary to expand the list of required social services. In the frame of the preparation of the analytical report “The necessity for support of NGOs delivering social services”, the following required types of social services not fully satisfied by government organizations were identified:

- a) day care centers for children and young people with severe physical and intellectual impairments in need of someone’s care;
- b) family support agencies providing psychological services and social work services;
- c) crisis centers for persons without a permanent place of residence;
- d) medical communities for drug addicts;
- e) crisis centers for victims of domestic conflicts.

Funds received from delivering services on payment basis shall be used to expand the delivery of services free of charge. Social enterprises delivering such services shall implement the system of case management in conducting their activities.³⁹ Particularly, it is necessary to have separate cases for all clients, as well as the list of persons receiving/received services free of charge. The case management will substantially simplify the control over targeted usage of funds.

³⁸ For more information on the role of NGO-based social service providers, see “The Status And Prospects Of Government Support To NGOs That Provide Social Services”.

³⁹ For more detailed information on the system of case management, see the analytical report “The necessity for the support of NGOs delivering social services”.

CONCLUSION

In Uzbekistan social enterprises are becoming the important tool for employment and social protection of socially vulnerable persons and the financial stability of NGOs, as well as expanding the delivery of necessary types of social services.⁴⁰

In Uzbekistan, the level of unemployment among socially vulnerable persons is substantially higher than the general country level. For example, only 5% of persons with disabilities in working age are employed, although the need in employment of these people is quite high. Traditional mechanisms of the support of employment (for instance, through quota system) of socially deadadapted persons are less effective than social enterprises. This is particularly related to the fact that regular enterprises are not very much interested in their employment due to their social deadadaptation. Our analysis showed that in case of employment in regular enterprises, persons with disabilities resign due to inability to work in non-specialized conditions (ensuring physical accessibility, as well as social maintenance).

The work of social enterprises in Uzbekistan on ensuring the employment of vulnerable groups is mainly limited to the employment of persons with disabilities. Even in the sector of employment of persons with disabilities, these enterprises are not sufficiently developed: during the years of independence, their number has been reduced 3.5 times.

Despite the certain benefits for maintaining the employment of persons with disabilities, requirements on the payment of medical certificates and some other payments make the work of persons with disabilities unattractive for employers of non-specialized enterprises. Therefore, it is suggested that the government covers **income tax or STP at the expense of reducing taxation base of taxes** during the period of 14 days of going to sick-leave of the person with disabilities, and the employer shall cover in excess of these days.

The government support in ensuring the employment of persons with disabilities applies only enterprises of public associations of persons with disabilities, “Nuroni” Foundation and the association of “Чернобыльцы Узбекистана” (Chernobylers of Uzbekistan). However, the total number of such organizations is not enough to establish sufficient number of specialized enterprises for persons with disabilities. Each of such organizations shall establish 50 enterprises on condition that all employed persons will be persons with disabilities, or 100 enterprises on condition that 50% of employees will be persons with disabilities. One organization of this type cannot establish this number of enterprises: currently, at the average less than one enterprise goes to one organization of this type across the country.

The solution of this situation is the expansion of the list of enterprises that may use this benefit on STP while employing 50% of persons with disabilities from the total number of employees.

It is suggested to provide the benefit for payers of the single tax payment similar to payers of income tax: for legal entities – payers of the single tax payment that have employed more than 3% of persons with disabilities from the total number of employees, the payable amount of the single tax payment for these legal entities shall be reduced for 1% for each percent of employed person with disabilities exceeding more than 3% of the requirement in compliance with the condition on the work payment (1 p.p. increase of employment shall ensure no less than 0.6 increase of WPF of persons with disabilities in the total amount of WPF) and on the main place of work of the person with disabilities.

⁴⁰ Appendix 3 provides information on the procedure for registration of social enterprise in Uzbekistan.

It is also suggested to extend the benefit on the exemption from STP to affiliated enterprises of all NGOs that have permanently employed no less than 50% of persons with disabilities or other socially vulnerable groups on the main place of work in accordance with the approved list and on condition that the WPF of the payment of their work is no less than 30% from the total amount of WPF.

It is also important to introduce the new organizational and legal form of the legal entity- social cooperative with limited liability, and provide them same benefits as enterprises of public associations of persons with disabilities and other NGOs.

Taking into account that existing measures are not enough to develop specialized enterprises for person with disabilities, it is necessary to oblige the placement of 3% of the government and corporate orders among social enterprises (NGO enterprises and social cooperatives) taking into account the list of goods, services and jobs provided by them.

If certain benefits are provided to support the work of persons with disabilities, then there is no any economic incentive for other categories of socially deadadapted persons, while the level of unemployment among them is also quite high.

Therefore, it is necessary to extend benefits provided for persons with disabilities to the following groups:

- a) victims of human trafficking having the relevant status approved by the Ministry of Internal Affairs (MIA);
- b) drug and alcohol addicts registered in relevant dispensaries;
- c) persons without a permanent place of residence having the certificate received from special care centers;
- d) persons with HIV/AIDs, who don't have the status of disability.

Moreover, it is suggested to allow the participation in grant competitions conducted by the Public Fund to support NGOs and other civil society institutes of NGO enterprises and social cooperatives that have employed no less than 50% of socially deadadapted persons.

The financial stability of NGOs is also an important issue in the country. Survey outcomes of IIMFCSI and Public Opinion Study Center show that 51% of NGOs have no funds to implement statutory goals and objectives. In the international practice, the share of earned own funds in the structure of NGO funding is 40%, and in Uzbekistan it makes up about 7%. Around 300 affiliated business entities within NGOs operate in the country, notably only each twentieth NGO tries to earn money independently.

Main reasons are the following:

- 1) The NGO engaged in entrepreneurial activity without establishing the ABE cannot choose the simplified procedure of taxation even if they belong to the category of small enterprises based on the number of employees;
- 2) The present system of the government control does not in any way stimulate ABE of NGOs to increase the amount of income paid to their headquarter organizations;
- 3) Significant tax remissions are granted only to enterprises owed by public associations of persons with disabilities, "Nuroni" Foundation and the association of "Чернобыльцы Узбекистана" (Chernobylers of Uzbekistan).

In this regard, it is suggested to:

- 1) allow NGOs to choose the simplified procedure of taxation (STP) in conducting entrepreneurial activity without establishing affiliated enterprise, if they comply with the present procedure on the number of employed people;

- 2) establish the amount of payments of the affiliated enterprise to the NGO-headquarter organization binding the amount of deductions to the gross income that is the tax base of STP (for example, 0.5% of gross income), and the minimum standard- no less than 50% of the minimum amount of STP;
- 3) reduce the taxation base on the income tax or STP to the amount of deductions from the income of enterprises, the co-founder of which is the NGO, directed to conduct the statutory activity of these NGOs.

Some types of general and specialized social services are not very accessible for socially vulnerable groups of the population. For example, according to the assessment of public associations of persons with disabilities, less than 1% of persons with disabilities are engaged in sport activities; attend theaters, movies or other entertaining and cultural facilities on systematic basis. At the same time, by ensuring the cost or physical affordability of such facilities, more than 10% of persons with disabilities can demand for such types of services. These types of services of agencies to support families with children with disabilities, crisis centers for victims of family conflicts and other entities are delivered only by NGOs.

However, significant financial restrictions lead to the situation that the present capacity of NGOs in service delivery may be fully enforced in the period, when NGOs have sufficient funds, and their shortcomings lead to unstable or fragmented delivery of such services. One of the mechanisms of ensuring financial stability may be the partial delivery of social services on payment basis (for example, for self-reliant clients).

In order to ensure the financial stability of these NGOs, it is suggested to exempt NGOs from income tax or STP, delivering the following types of social services on partial payment basis without and with establishing ABEs:

- a) social services on the care of children, persons with disabilities and elderly persons,
- b) day care centers for children and young people with severe physical and intellectual impairments in need of someone's care;
- c) family support agencies providing psychological services and social work services;
- d) crisis centers for persons without a permanent place of residence;
- e) medical communities for drug addicts;
- f) crisis centers for victims of domestic conflicts.

Funds received from delivering services on payment basis shall be used to expand the delivery of services free of charge.

ANNEXES

ANNEX 1. SOCIAL ENTERPRISE: WHAT IS IT?

Social enterprises are established with the purposes of:

- 1) ensuring the permanent employment or labour integration through the temporary employment (in the period of the professional training) of socially vulnerable persons unable to compete in the labour market on equal basis with others;
- 2) promoting the financial stability of NGOs through earning funds for funding their statutory activity;
- 3) producing goods and services ensuring the social inclusion⁴¹ of socially vulnerable groups or the population of undeveloped areas that are unable to buy goods or services for a market price, as well as increasing the quality of the environment and addressing the climate change.

In addition to explicit social mission for separating the social enterprises from all other forms of business, there is a certain set of terms or criteria to use. Non-government organization “EMES” that is one of the competent organizations on the research of social enterprises in the world proposes the following criteria by generalizing the experience of foreign countries.

Economic indicators:

- a) ongoing process of the production of goods and/or selling of services;
- b) availability of business risks;
- c) availability of paid employees.

Social indicators:

- a) clear social purpose of being of use for the local community or the particular group of people;
- b) the initiative launched by the group of citizens or civil society institutes;
- c) restrictions on the distribution of profit.

Management indicators:

- a) a high level of autonomy;
- b) the independence of decision-making from the contribution of the party to the authorized capital;
- c) participation of beneficiaries in the enterprise management.

However these indicators have never been intended to provide a set of conditions that the enterprise shall meet in order to assign it to a social enterprise. Instead of defining the prescribed criteria, these

⁴¹ Social entrainment – the process that provides persons in the situation or on the brink of social rejection with the opportunity and resources for full participation in the economic, social and cultural life and the achievement of living standards and wellbeing that are considered as normal in the society, where they live.

indicators describe the “ideal image”, i.e. the design that allows the researchers to determine the various forms of social enterprises.⁴²

The activities of social enterprises significantly differ from the activities of the enterprises with social business responsibility as well as non-government non-profit and public organizations that are not engaged in entrepreneurial activity.

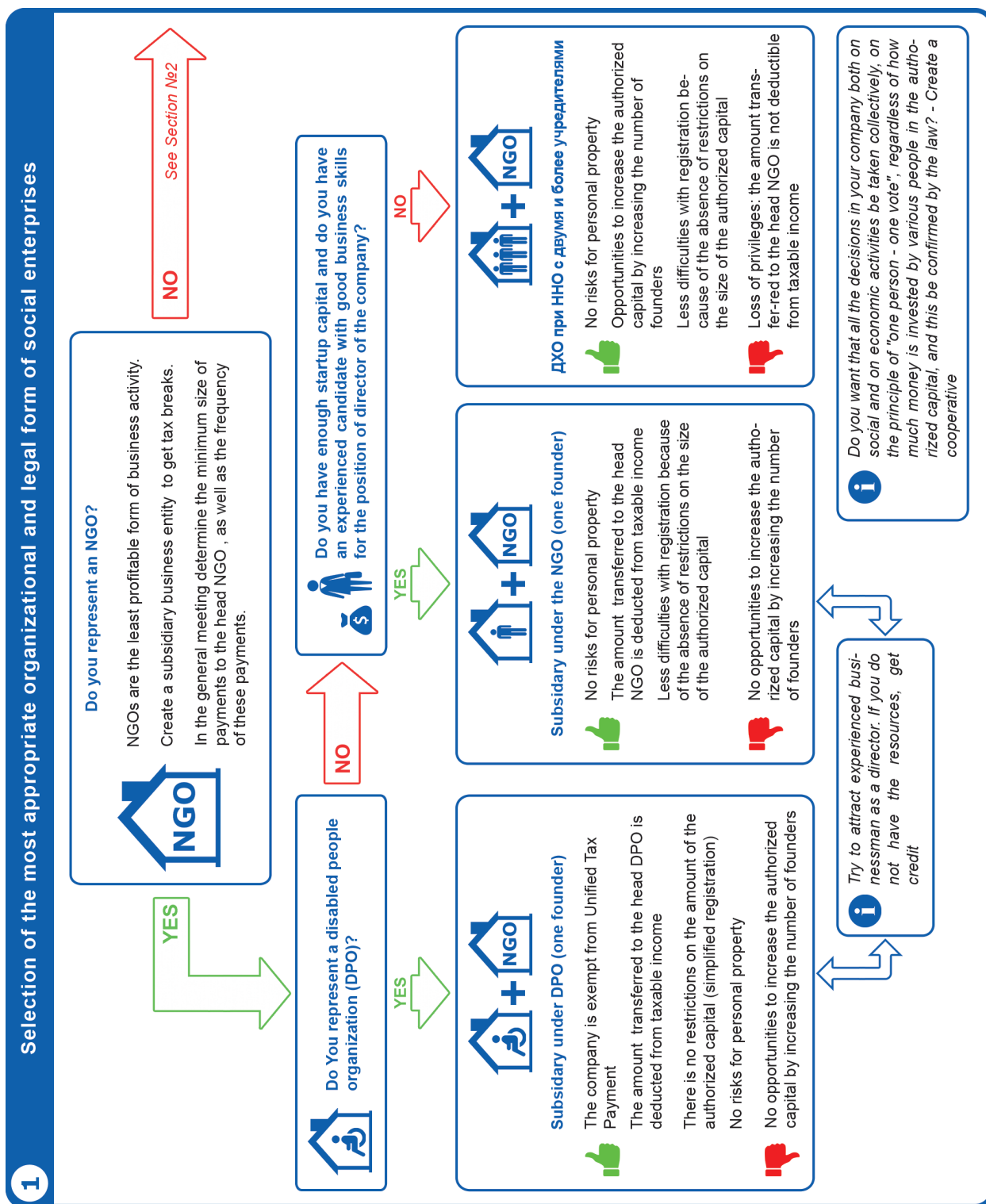
The difference of social enterprise from the enterprise with social business responsibility is the predominance of social goals over the economic goals. Moreover, the social responsible business is often motivated more by financial gain in the conduct of socially useful activity: creating the positive image of enterprises in order to stimulate the sales or use the tax benefit provided by the state for the employment of socially vulnerable persons, for instance, persons with disabilities. The work of enterprises of social business responsibility may lead to the indirect positive social changes: through taking corporate social responsibility voluntarily (through the adoption and support of charity funds, the use of ecologically friendly raw materials or the production of such goods, the payment of equal salaries, support of volunteers and others). At the same time, the maintenance of social enterprises directly focuses on the solution of social issues either through production and sale of social goods and services or through ensuring the employment of socially vulnerable groups.

The difference of social enterprises from socially oriented non-government non-profit organizations (NGO) that are not engaged in entrepreneurial activity is the commercial bases of social enterprises ensuring its steady position in the market and the financial independence in the implementation of social goals. In carrying out socially useful activities, the NGOs depend on the help of donors and operate “from the project to project”, and the social enterprise is economically independent and funds its social activity independently. The role of social enterprises increases dramatically in the condition of limited opportunities for NGOs in receiving funding of its activities through the system of government social orders and grants, and the international donor assistance. Nevertheless, the social enterprise shall not be considered as an adequate substitute for NGOs. The majority of NGOs are not aimed to deliver services, and they work on raising awareness and advocacy. For these NGOs, the social entrepreneurship is either impossible or it has significant financial risks or it threatens the effectiveness of their activities.

It is significant that the legal status of social enterprise is either commercial or non-profit activity and it doesn't have a significant impact, and it is determined by the benefit that promises a particular legal status in the concrete sector (see Chart 2).

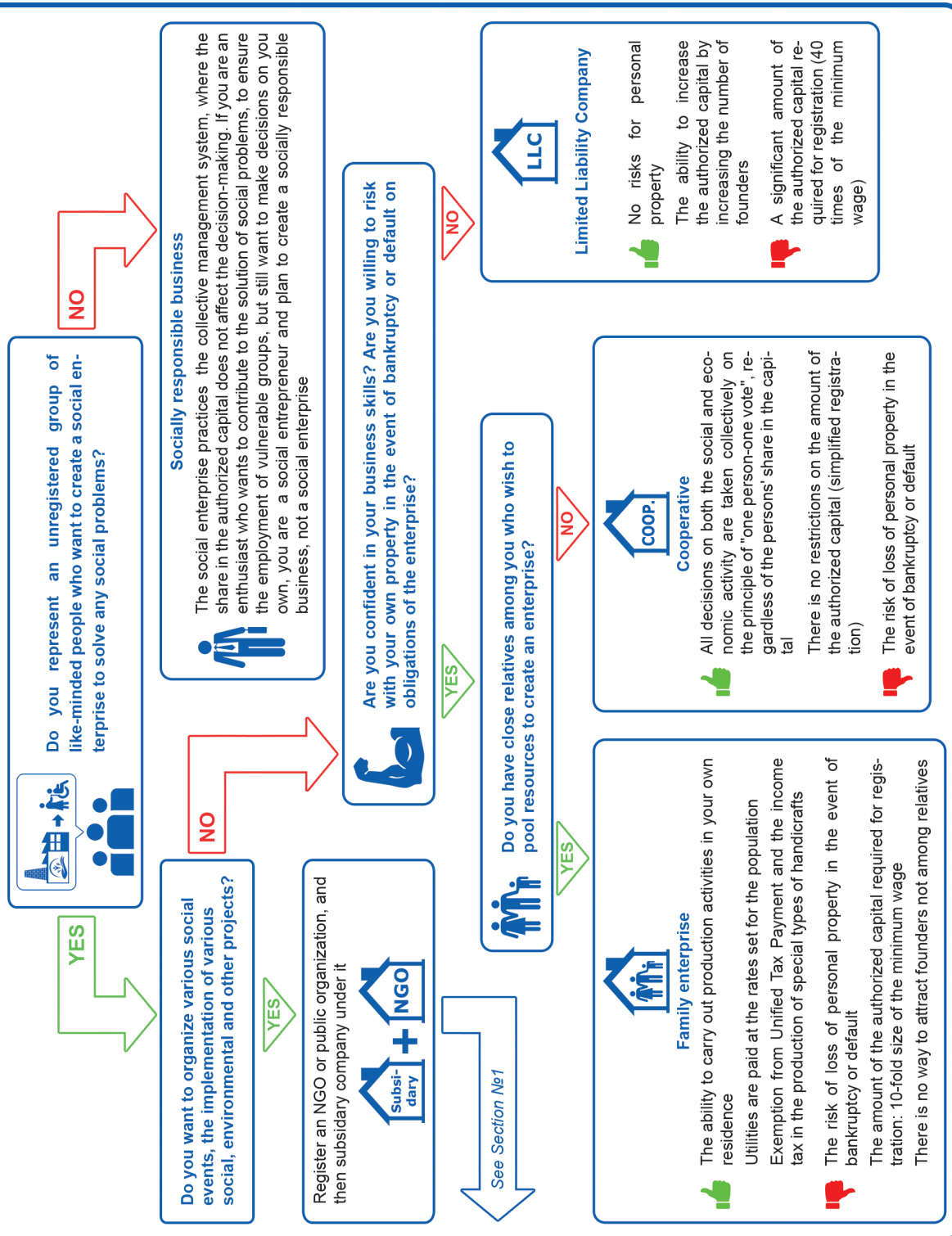
⁴² <http://www.emes.net/about-us/focus-areas/social-enterprise/>

CHART 2 SELECTION OF THE MOST APPROPRIATE ORGANIZATIONAL AND LEGAL FORM OF SOCIAL ENTERPRISES



2

Selection of the most appropriate organizational and legal form of social enterprises



Source: Chicherina Ya., Hudoyarov H., Hodjayev A., Tangrikulov A., Ismailov J., Sharapov B./ Practical recommendations for the creation of the social enterprise in Uzbekistan. – Tashkent: Publishing House «Baktria press», 2014 (in Russian and Uzbek)

ANNEX 2. THE COMPUTATION OF TAXES AND OTHER MANDATORY PAYMENTS OF THE SMALL ENTERPRISE IN THE SELECTION OF PAYMENT OF GENERALLY ESTABLISHED TAXES AND SINGLE TAX PAYMENTS

The enterprise of 120 mln. sums received from this resource 20 mln. sums of income and having own funds in the amount of 10 mln. sums, and 0.1 hectares of land, 15 mln. sums of WPF, with 10 employees, 8 of them are persons with disabilities.

Generally established taxes and payments

Income tax – $20 \text{ mln. sums} \times 9\% = 1.2 \text{ mln. sums}$ – $(1.2 \times 77\%) = 1.2 - 0.92 = 0.28 \text{ mln. sums}$.

The calculation was made with using the benefit in the form of reducing the amount of income tax for 1% of reduced amount of income tax of legal entities for each percent of employed persons with disabilities exceeding the standard.

The tax for improvement and development of social infrastructure- amount of income is 20 mln. sums – the amount of income tax is $1.2 = 18.8 \text{ mln. sums}$, this amount is a clear profit of the enterprise, notably the amount of tax is:

$18.8 \text{ mln. sums} \times 8\% = 1.5 \text{ mln. sums}$.

The value-added tax (VAT) is $120 \text{ mln. sums} \times 20\% / 120\% = 20 \text{ mln. sums}$. The amount of VAT of purchased materials that were bought by VAT payers, the approximate amount of which is 15 mln. sums, then the amount of tax is $20 \text{ mln. sums} - 15 \text{ mln. sums} = 5 \text{ mln. sums}$.

Property tax – amount of main funds is $10 \text{ mln. sums} \times 3.5\% = 0.35 \text{ mln. sums}$.

Land tax – at the rate of 500 thousand sums for 1 hectare, the amount of tax for 0.1 hectare is $0.1 \text{ hectare} \times 500 \text{ thousand sums} = 50 \text{ thousand sums}$.

The single social payment in total is 1.32 mln. sums;

The single social payment – WPF of $3 \text{ mln. sums} \times 25\% = 0.75 \text{ mln. sums}$;

The single social payment for 80% of persons with disabilities – WPF of $12 \text{ mln. sums} \times 4.7\% = 0.57 \text{ mln. sums}$.

For 80% of persons with disabilities, the SSP is payed at the rate of 4.7% instead of 25% from the WPF.

Insurance dues of citizens to non-budgetary Pension Fund – WPF of $15 \text{ mln. sums} \times 6\% = 0.9 \text{ mln. sums}$;

Mandatory payments to non-budgetary Pension Fund – turnover minus VAT- $100 \text{ mln. sums} \times 1.6\% = 1.6 \text{ mln. sums}$;

Mandatory payments to the Republican road fund – turnover minus VAT – $100 \text{ mln. sums} \times 1.4\% = 1.4 \text{ mln. sums}$;

Mandatory payments to non-budgetary Fund of reconstruction, overhaul and equipment of mainstream schools, professional colleges, academic lyceums and medical institutions – turnover minus VAT – $100 \text{ mln. sums} \times 0.5\% = 0.5 \text{ mln. sums}$;

The total amount of taxes and mandatory payments is 12.9 mln. sums

In case of choosing the expected tax refund (ETR), the total amount of taxes and other payments for enterprises that have employed 80% of persons with disabilities is reduced from 15.75 mln. to 12.4 mln. sums, i.e. 3.35 mln. sums less.

Single tax payment

Single tax payment – $120 \text{ mln. sums} \times 5\% = 6 \text{ mln. sums}$;

Single tax payment in total = 1.32 mln. sums;

Single tax payment – WPF of 3 mln. sums $\times 25\% = 0.75 \text{ mln. sums}$;

Single tax payment for 80% of persons with disabilities – WPF of 12 mln. sums $\times 4.7\% = 0.57 \text{ mln. sums}$.

Insurance dues of citizens to non-budgetary Pension Fund – WPF of 15 mln. sums $\times 6\% = 0.9 \text{ mln. sums}$;

The total amount of taxes and mandatory payments is 7.22 mln. sums (5+1.32+0.9).

Source: calculations of authors

ANNEX 3. HOW TO REGISTER A SOCIAL ENTERPRISE IN UZBEKISTAN

Documentation required for the state registration of a social enterprises

Scheme 1 and Chart 3 shows the procedures of state registration of a social enterprise. From the social enterprise management requires only two steps: to prepare the necessary documents and to reserve the name of the company. Responsible persons from khokimiyats (local authorities) will take care of the rest. The deadline from the date of submission of the application-notification with all necessary documents till state registration with the issuance of the certificate of state registration of the business entity should not be more than 2 working days.

You will receive all the following documents:

- a certificate of state registration of the legal entity;
- the constituent documents with the “registered”;
- sketch of the seal and stamp.

You can start your business after obtaining the certificate of state registration and opening a bank account.

The Founders are individuals or organizations that establish a business entity as per their joint decision and each of them invests a definite sum of money or their property.

Constituent documents are document regulating the relationship between the founders, the employees, the issues of creation, reorganization and liquidation of the business entity, profit distribution, etc. For social enterprises, it is the charter and (or) the foundation agreement.

1. You have to prepare the following documents for registration:

- originals (in two copies) of the founding documents in the official language (the charter, if the business entity has one founder, the charter and the foundation agreement if there are more than one founders);
- the bank payment document on payment of the established state fee (except for dehqan farms, as well as joint-stock companies created on the basis of state-owned enterprises);
- a unique username and password that confirm the reservation of the company name in the centralized database of company names (hereinafter - the confirmation of the reservation of the company name);
- the sketches of the seal and stamp (in two copies).

Whatever the organizational legal form you choose, the charter of the social enterprise will have the following features: it is clearly spelled out the social mission of your company, the direction of profits for social purposes, as well as the participation of employees of the enterprise in decision-making. Samples of charters and foundation agreements can be found in *Practical recommendations for the creation of social enterprises*.⁴³

2. You have to reserve the name of your enterprise in the centralized database of company names

The name of your company should be different from the names of other companies and organizations, so it is necessary to apply to the State Statistical Committee. If the name of the company you choose is not in

⁴³ Chicherina Ya., Hudoyarov H., Hodjayev A., Tangrikulov A., Ismailov J., Sharapov B./ Practical recommendations for the creation of the social enterprise in Uzbekistan. – Tashkent: Publishing House «Baktria press», 2014 (in Russian and Uzbek)

SCHEME 1. STATE REGISTRATION OF BUSINESS ENTITIES

Stage 1	Founder, Chamber of Commerce, business consultants or any other person	1. Prepare the necessary documents for state registration of business entities. 2. Develop projects of founding documents.	At the discretion of the founders
Stage 2	The founder or authorized person by the founders in accordance with the legislation of the Republic of Uzbekistan	1. Provides documents to the registration authority for the state registration of business entities.	At the discretion of the founders
Stage 3	Responsible Officer of the registration authority	1. Considers the documents submitted for state registration of business entities.	No more than 3 hours
Stage 4	Responsible Officer of the registration authority	1. Sets businesses statistical codes of OPF, FS, OKONH, OKED. 2. Directs the request for assignment of Individual Number of Taxpayer to district (city) Tax Office. 3. Assures sketch.	
Stage 5	Responsible Officer of the Tax Office	1. Sets Individual Number of Taxpayer to the business entity through the centralized database in real time. 2. Make an appropriate entry in the central database of Individual Numbers of Taxpayers. 3. Directs a certificate of assignment of Individual Number of Taxpayer to the responsible officer of the registering authority via e-mail or fax.	No more than 8 hours
Stage 6	Responsible Officer of the registration authority	1. Enters data on state registration of business entities into the State Register. 2. Gives the state registration certificate and other documents	No more than 2 working days from the day of providing the documents
Stage 7	Responsible Officer of the registration authority	1. Provides the information from the State Register and other documents to the relevant government bodies.	Within 1 day from the date of state registration
Stage 8	The relevant public authorities	1. Carry out the registration of the business entity, including as payers of insurance payment to the Pension Fund, Employment Fund and the Road Fund (for entities-payers of the relevant funds). 2. Include the business entity to EGRPO	Within 2 days from the day of providing the documents

EGRPO - Unified state register of enterprises and organizations,
 OPF – Organizational legal form,
 FS – Form of ownership,
 SOATO – System of designation of administrative-territorial entity,
 OKONH – National classifier of the sectors of economy,
 OKPO – National classifier of enterprises and organizations
 INN – Individual Number of Taxpayer.

the database of the State Committee on Statistics of Uzbekistan, it will be reserved for you for 60 days. This means that another organization will not be able to select it. Reservation of requested brand names in the centralized database of company names of the State Committee on Statistics of Uzbekistan is carried out all the time via the Internet by the founders or by the registration authority based on the electronic application. You can also contact the khokimiat, and within one hour the responsible person of the khokimiat must fill in an electronic application for you via the Internet. Providing consultations, receiving e-application and reservation of the company names are free of charge.

Pay attention! The validity of the reserved company name is 60 days from the reservation date. During this time, the company must be registered or the name should be registered once again. One of the pilot enterprises needed to pick a new name, as the founders didn't register the company in 60 days, and the original reserved name was chosen by another enterprise.

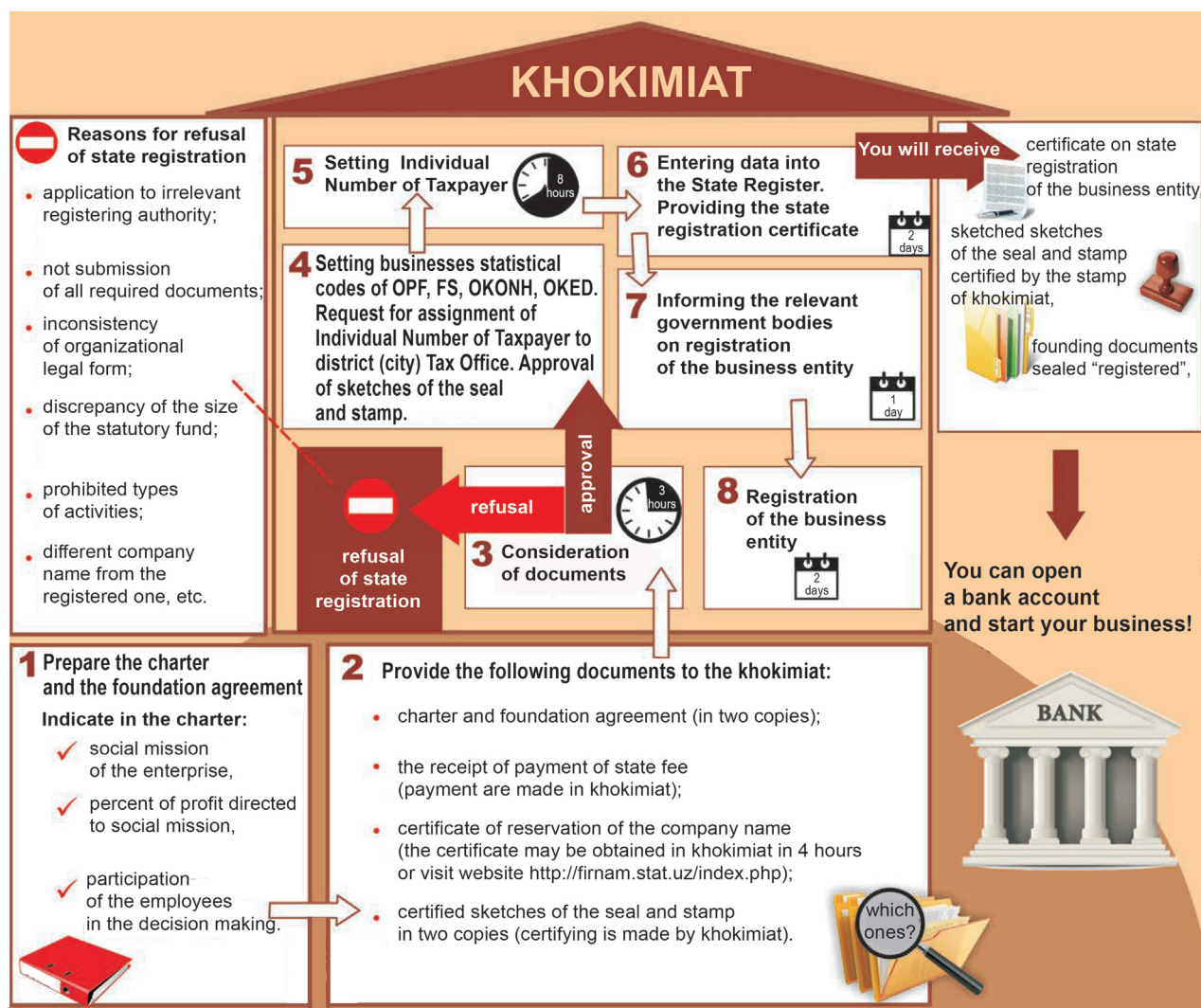
The reasons for refusal of state registration of business entities are:

- application to irrelevant registering authority;
- not submission of all required documents;
- inconsistency of the company name indicated in the founding documents and sketches of the seal and stamp to the company name indicated in the application for the reservation of the company name in the in the database of company names;
- inconsistency of the legal form indicated in the founding documents and sketches of the stamp and stamp to the types of legal forms as per the legislation of the Republic of Uzbekistan;
- inclusion of the activities prohibited by the legislation of the Republic of Uzbekistan activities (in the founding documents);
- discrepancy of the size of the statutory fund as per the founding documents to the size of the statutory fund as per the legislation of the Republic of Uzbekistan for the respective categories of business entities;
- discrepancy of the size of the share of foreign investments to the size of the share as per the legislation of the Republic of Uzbekistan for enterprises with foreign investment;
- the absence of a foreign legal entity among the founders of the company with foreign investment.

The refusal of state registration of business entities on other grounds is not allowed.

The decision with the reasoned refusal of state registration is taken by the registration authority and issued to the applicant within 3 working hours after the submission of documents. In case of discord with the decision of the registering authority, illegal actions (inaction) of the registration authorities, or violation of registration terms the entrepreneur can go to court (the law).

CHART 3. STATE REGISTRATION OF A SOCIAL ENTERPRISE



Source: Chicherina Ya., Hudoyarov H., Hodjayev A., Tangrikulov A., Ismailov J., Sharapov B./ Practical recommendations for the creation of the social enterprise in Uzbekistan. – Tashkent: Publishing House «Baktria press», 2014 (in Russian and Uzbek)

Electronic version of this paper and Manual
 “Practical recommendations for the creation of the social enterprise in Uzbekistan” and other publications can be downloaded
 from the websites of the Ministry of Labour
 (www.mehnat.uz)
 and UNDP in Uzbekistan
 (www.uz.undp.org).

