

REASONS AND FACTORS FOR WIDESPREAD OF THE UNTAXED ECONOMIC ACTIVITY IN UZBEKISTAN

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Abstract. The article assesses the scale and structure of the untaxed economy in Uzbekistan. In addition, it reveals the essence of the concept of the untaxed economy. Moreover, the article analyzes the reasons and factors envisaging the wide spread of shadow economic activity in Uzbekistan, as well as provides considerations on the limitations of the full coverage of informal economic activity.

Keywords: untaxed economy, social factors, cultural factors, social networks, poverty reduction, income distribution, formalization.

In the early years of independence, economic liberalization and privatization processes resulted in the growth of unregistered small businesses and informal trade. The untaxed (informal) economy further expanded as people struggled to adapt to the new market conditions, leading to widespread underemployment and unregulated business beyond official statistics. Informal economic activity has become a coping mechanism for many in this period of economic change.

Over the following years the untaxed economy continued to play an important role in Uzbekistan under the impact of such factors as bureaucratic barriers, limited formal employment, and cultural norms. Despite the government's efforts to formalize the economy, informal practices persist and shape the economic process in ways that require comprehensive verification. Understanding this process is very essential to undertake effective policy measures in the current situation of the untaxed economy in Uzbekistan. The wide spread of untaxed economic activity in Uzbekistan can be referred to the combination of cultural and socio-economic factors that have shaped the national economic environment (Table 1):

In reliance upon the data in Table 1, understanding these cultural and socioeconomic factors provides important insights into the drivers of untaxed economic activity in Uzbekistan. Policymakers aiming to solve untaxed sector challenges and encourage formalization must consider this complex interaction of culture, history, and socio-economic conditions.

Table 1 Reasons and factors for widespread of the untaxed economic activity in Uzbekistan¹

Cultural standards and traditions	Cultural values that emphasize self-reliance and entrepreneurship support the adoption of informal activities. In Uzbekistan, where family and community ties are important, untaxed economic practices often conform to traditional assumptions and community support networks.
Historical inheritance	The historical legacy of Soviet-era central planning has made a lasting impact. The transition to a market-oriented economy created difficulties and uncertainties, which encouraged individuals to turn into untaxed economic activities as a means of adapting to changing conditions.
Limited formal employment opportunities	Formal employment opportunities may be limited, particularly in certain areas or sectors. As a result, people turn to informal activities to earn income and support their livelihoods out of economic necessity.
Bureaucratic barriers	Complex bureaucratic rules and procedures and regulatory barriers associated with formal business registration and compliance prevent individuals from entering the formal sector. Informal activities provide a more affordable and flexible alternative for those seeking economic opportunities.
Informal social networks	Informal economic activities often develop within existing social networks. Trust and familiarity within communities foster the growth of informal enterprises, as people prefer to do business with people they know or within their social circle.
Flexible work schedule	Informal employment offers a degree of flexibility not always available in formal employment.
Economic inequality	Socio-economic disparities can push people to engage in untaxed activities as a survival strategy.
Lack of access to financial services	Limited access to formal financial services may be an essential factor. In the absence of formal banking, individuals may rely on informal financial networks, further blurring the lines between formal and informal economic activity.

Measuring the scale of the untaxed economy presents many challenges due to its inherently unregulated and often hidden nature. Key challenges in determining the scale of the untaxed economy, including unregistered businesses and informal employment, include:

- unregistered enterprises and informal labor structures often operate outside official sources, making it difficult to collect accurate data. Individuals engaged in untaxed activities may not voluntarily disclose their involvement, leading to under-reporting and incomplete data;
- the untaxed economy is dynamic and includes a wide range of activities. Traditional economic measurement tools may not capture the diverse forms and scales of untaxed enterprises, preventing a full representation of its scale and structure;

¹Developed by the author in reliance upon the literary sources studied.

- untaxed employment arrangements, including self-employment, and outside official statistical data contribute to the complexity of the assessment. The lack of formal contracts, wage data and official documents complicates determining the level of untaxed employment;
- most informal transactions are done in cash, avoiding formal financial systems. Dependence on cash transactions and lack of formal financial reporting prevent proper monitoring and measurement of economic activity in the untaxed sector;
- due to data limitations, researchers often resort to estimation methods that may introduce uncertainties in the accuracy of measurements. Measuring the scale of the untaxed economy involves assumptions that do not fully reflect its complexity and leads to misleading perceptions;
- untaxed economic activities, particularly those related to agriculture or seasonal work, may experience significant changes throughout the year. Traditional measurement approaches have a hard time accurately accounting for these seasonal and cyclical fluctuations;
- globalization has facilitated cross-border untaxed activities and adds additional complexity to measurement efforts. Informal cross-border trade and economic interactions further complicate the task of accurately measuring the scale of the untaxed economy within national borders;

some formal businesses may be engaged in untaxed practices to reduce costs or avoid certain regulations. Differentiating between formal and informal aspects within a single entity creates difficulties, making it difficult to classify enterprises correctly.

Moreover, traditional economic indicators often fall short of capturing the full range of untaxed economic activity due to a number of inherent limitations. Traditional economic indicators rely mainly on official sector data such as registered enterprises and official labor journals. This focus excludes the large contributions of unregistered enterprises and untaxed labor arrangements, giving an incomplete picture of economic activity. The main limitations are presented in Figure 1.

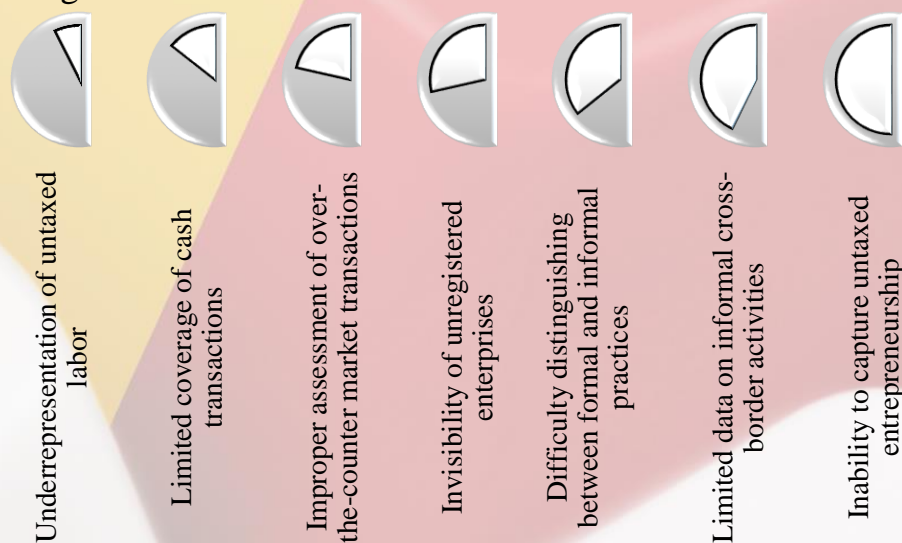


Figure 1. Restrictions on full coverage of untaxed economic activity²

² Developed by the author.

If we look at Figure 1, each restriction makes its own impact, so it cannot represent the full extent of untaxed economic activity. For example, considering these in sequence, standard employment indicators often do not take into account untaxed employment arrangements, including self-employment and employment outside of official statistics. This omission results in an underestimation of the true extent of employment in the untaxed economy.

Traditional economic indicators rely heavily on transactions within formal financial systems, ignoring the spread of cash transactions in the untaxed economy. Untaxed economic activities often involve cash transactions, making them less visible in traditional financial data.

Traditional indicators struggle to measure the barter exchange and non-market transactions prevalent in the untaxed sector. Informal economic activity often involves non-monetary exchanges or transactions outside of traditional markets, bypassing traditional means of measurement.

Many untaxed enterprises and businesses operate without formal registration, making them invisible to traditional business registration databases. Consequently, traditional indicators cannot reflect the economic contribution of this unregistered sector.

Traditional indicators cannot effectively distinguish between formal and informal practices in businesses operating in both sectors. Herewith they often lack the data on the informal cross-border trade and economic interactions. The globalization of the untaxed activity is not adequately reflected in traditional economic indicators, ignoring the international dimensions of the untaxed economy.

Business activity within the untaxed economy is not adequately reflected by traditional indicators. The innovation-based aspects of informal entrepreneurship are often not taken into consideration hindering a comprehensive understanding of economic change. Overcoming these limitations requires a shift to more comprehensive measurement approaches that capture the complexity of informal economic activity.

According to experts, the share of the shadow economy in our country is 40 percent and is estimated at approximately 32 billion USD. This value is mainly due to the secondary market of real estate and vehicles, wholesale and retail trade, services, smuggling of tobacco products, trafficking of illegal goods, agriculture, etc³.

Based on Table 2, we will analyze the data provided on the untaxed economy in Uzbekistan from 2021 to 2023 from the scientific point of view. The consolidated national indicator for the Republic of Uzbekistan demonstrates the trend of growth of both the number of entities and sales, during this period the total amount of sales accounted for 24 225.8 billion UZS. It shows the overall economic activity in the untaxed sector.

Summing up, while the presented analysis highlights the untaxed industrial sector, making a conclusion about the scale and structure of the untaxed economy requires a specialized research focused on informal activities. It would not be wrong to say that the untaxed economy

³ <https://kun.uz/news/2023/10/03/ozbekistonda-yashirin-iqtisodiyot-ulushi-32-mlrd-dollarga-baholanmoqda>

in Uzbekistan was developed by the complex interaction of cultural and historical factors deeply rooted in the national heritage. The historical inheritance of Soviet-era centralized planning, along with the subsequent transition to a market economy, has resulted in a changing process in which people manage uncertainty through untaxed economic practices.

Rich traditions of entrepreneurship deeply embedded in the culture of Uzbekistan contribute to the widespread distribution of informal business and trade. Relationships based on trust, which is a peculiarity of Uzbekistan's society, further contribute to the growth of informal economic transactions in social networks. Resilience embedded in the cultural fabric enables people to adapt to economic changes, while informal activities serve as the mechanisms for survival.

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