

REDUCING INFORMAL EMPLOYMENT AND THE SHADOW ECONOMY THROUGH FINANCIAL INCENTIVES FOR SELF-EMPLOYMENT OF THE POPULATION

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Article history:	Abstract:
<p>Received: 8th April 2025</p> <p>Accepted: 7th May 2025</p>	<p>The article examines issues of self-employment, ensuring permanent employment through financial incentives, reducing informal employment and the hidden economy, foreign experience in this area, and reforms implemented in our country. It also presents proposals for improving the organizational and legal framework, types of activities, and taxation procedures for self-employment.</p>
<p>Keywords: self-employment, types of activities carried out, financial incentives, informal employment, shadow economy, tax, turnover tax, social tax.</p>	

1. INTRODUCTION.

In recent years, self-employment has been recognized in global practice as the most optimal form of ensuring employment and one of the most effective ways to reduce poverty. Accordingly, in the Republic of Uzbekistan, more favorable economic and legal conditions are being created for the establishment of new jobs, ensuring permanent employment of the population, broader involvement in entrepreneurial activities, and the implementation of labor activities by self-employed individuals. As a result, as of March 1, 2025, 4.78 million self-employed citizens were registered in Uzbekistan. This is 81.8% (2.1 million people) more than in the corresponding period of the previous year.

According to the International Labour Organization (ILO) and a number of economists, the increasing proportion of self-employed individuals among the population has a significant impact on reducing informal employment and the shadow economy. This is because in many countries, the government's provision of extensive opportunities for entrepreneurs, particularly economic and legal support as well as financial incentives for their activities, is contributing to the population's freedom to conduct business, increase their income, and achieve financial stability. Therefore, in our country as well, it is necessary to conduct scientific research on sources of income through self-employment, improving their organizational and legal framework, types of activities, and taxation procedures, expanding the scope of existing opportunities and benefits.

2. LITERATURE REVIEW.

The concept of self-employment has been given various definitions and explanations in existing regulatory legal documents, as well as by economists and researchers.

The Law of the Republic of Uzbekistan "On Employment of the Population" (2020) stipulates that a person of working age acquires the status of a self-employed person after registering as such. Additionally, this law states that "individuals who are not registered as individual entrepreneurs and independently carry out activities based on personal labor participation, aimed at receiving wages (labor income), as provided for in the list of types of activities (works, services) that self-employed persons may engage in, can be registered as self-employed persons".

The Regulation approved by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan (2020) defines "self-employed persons **as individuals who independently carry out activities aimed at obtaining labor income, based on their personal labor participation in providing services and performing work for individuals and legal entities, who are not registered as individual entrepreneurs, but are registered with the state tax service bodies, with the right to have their work experience accounted for and to use incentive benefits**".

The Arizona Department of Economic Security defines self-employment as "working for oneself, not for an employer". According to their definition: self-employed individuals work for compensation received from clients and customers, not from an employer. They can dedicate their time to one client or multiple clients.

Alexey Nechayev, founder of the "New People" party, emphasizes that the self-employed are "people of the new economy, they don't expect a salary from anyone: neither from the state nor from corporations. These people are self-sufficient and develop the country through their activities". Alexey Nechayev explains: "These people generate income for themselves and the state".

According to the International Labour Organization (ILO) and a number of economists, an increase in the proportion of self-employed people among the population, along with informal employment and the shadow economy, also contributes to a reduction in poverty levels. This is because when governments create wide opportunities for entrepreneurs, particularly through economic and legal support, it stimulates an increase in the population's income through free enterprise (Gary S. Fields, Yoonyoung Cho, Hilal Atasoy).

3. RESEARCH METHODOLOGY.

Our research was conducted with the aim of improving the procedure for earning income through self-employment of the population. The tasks were set

to identify and analyze problems in the field of self-employment, find solutions based on the experience of foreign countries, expand the scope of financial incentives and benefits, improve the types of activities, their organizational and legal foundations, as well as taxation procedures. During the research process, conclusions and proposals were developed using methods such as studying, analyzing, comparing, and grouping practical materials.

4. ANALYSIS AND DISCUSSION OF RESULTS.

According to the analysis of the International Labour Organization, the global self-employment rate averages 42.5%. Today, the number of self-employed people in proportion to the total working-age population varies significantly across countries. Figure 1.

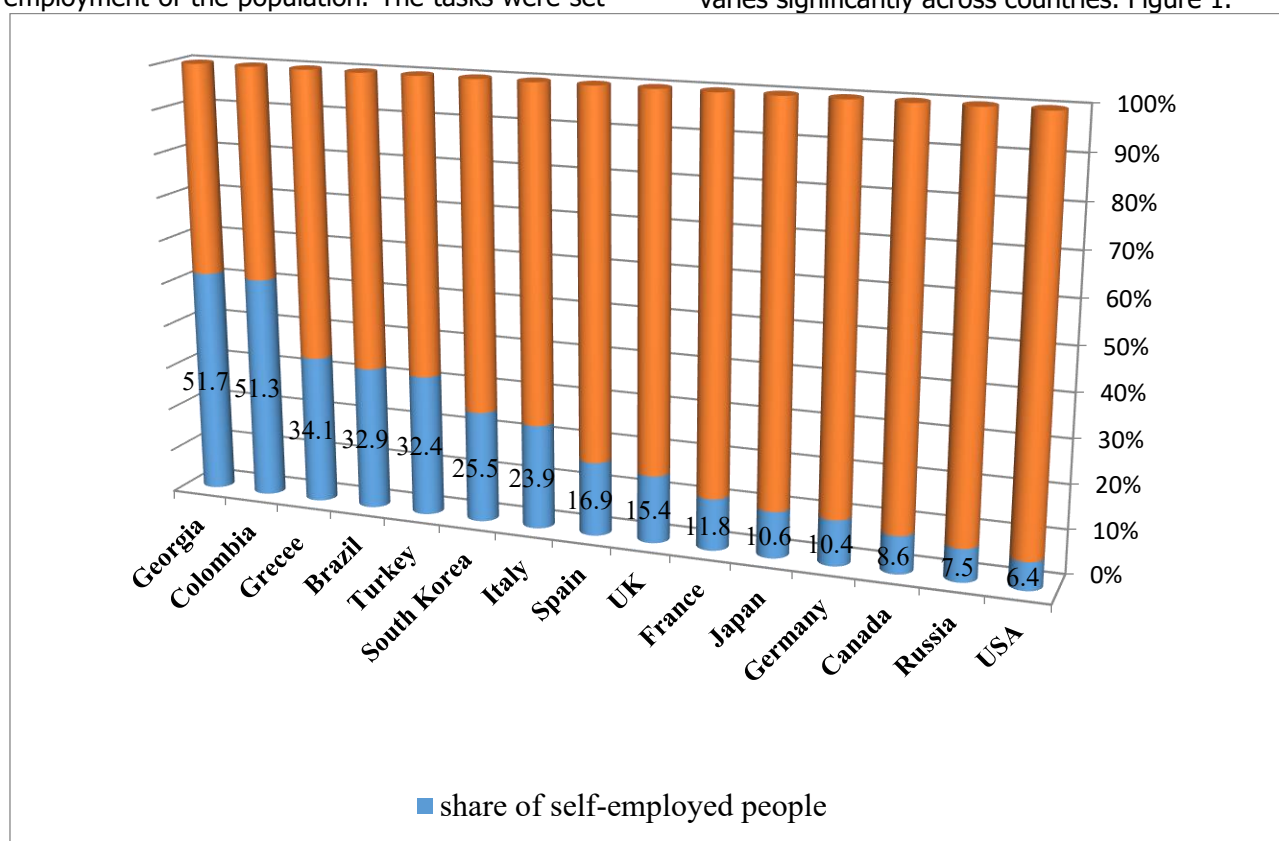


Figure 1. The share of self-employed people in relation to the total working-age population in countries around the world

According to Forbes, the highest proportion of self-employed individuals is observed in developing countries, which is one of several ways to ensure the minimum necessary standard of living for the population. In economically developed countries, the share of such citizens is significantly lower. Consequently, this indicator ranges from 6 to 52 percent across countries worldwide. In Uzbekistan, in recent years, the proportion of self-employed people has constituted more than 10 percent of the total labor force.

The legal framework for regulating the labor activity of individuals who provide for themselves through self-employment in Uzbekistan was established in 2019-2020. Specifically, on July 1, 2020, a list of types of activities (works, services) that self-employed individuals can engage in was approved. Subsequently,

the types of activities were expanded, and by 2025 their number reached 104. One of the main goals of expanding the types of activities that self-employed individuals can engage in in Uzbekistan is the full legalization of business entities, reduction of the shadow economy, and informal employment. Significant results have been achieved in this regard. In particular, from 2020 to 2023, the unemployment rate in Uzbekistan decreased from 10.5% to 6.8%, and the poverty rate decreased from 17.0% to 11.0%. During this period, the number of formally employed people among the working population increased from 5.7 million to 6.5 million, while the share of informally employed people decreased from 43.0% to 39.0%. One of the main reasons for this was that the population earned income by formalizing their self-employment. As a result of favorable legal and socio-economic conditions, as well as a favorable tax climate for conducting activities, as of January 1, 2025, the number

of self-employed individuals in Uzbekistan exceeded 4.4 million. This is 76.5% (1.9 million people) more than in the same period of the previous year. The areas with the highest growth rates (compared to 01.01.2024) are:

- household services - 104.3% (976 thousand);
- production and services - 94.6% (203.1 thousand);

- information and communication - 87% (55.7 thousand).

In recent years, income from self-employment in Uzbekistan has not been taxed. Starting from 2024, the portion of income from self-employment activities exceeding 100 million soums will be taxed according to the procedure established for individual entrepreneurs. Table 1.

Table 1.
Taxes paid by self-employed individuals

Annual turnover	Type of tax payable				
	Personal income tax	Turnover tax	Profit tax	VAT	Social tax
Annual turnover up to 100 million	Not taxed	–	–	–	+ annually once voluntarily
Annual turnover from 100 million up to 1 billion	–	+	–	–	+ annually once voluntarily
Annual turnover over 1 billion	–	–	+	+	+ annually once voluntarily

The purpose of expanding the types of activities that self-employed individuals can engage in within the country is primarily to reduce the shadow economy and informal employment, as well as to fully legalize business entities. Simultaneously, one of the most crucial priorities for the country is to create equal conditions for entrepreneurs in the same category, thus fostering further development of entrepreneurial activity. Accordingly, based on the Decree of the President of the Republic of Uzbekistan No. UP-50, starting from May 1, 2025, mechanisms will be implemented to encourage the consolidation of business entities along the chain of "self-employed individual - individual entrepreneur - small business - medium business - large enterprise". These mechanisms stipulate that:

a) when self-employed individuals register with the state as an individual entrepreneur or legal entity, no state duty will be charged;

b) self-employed individuals and business entities that have expanded their activities to the category of individual entrepreneurs, microfirms, or small enterprises, respectively, will be provided with unsecured loans of up to 50 million soums within the Family Entrepreneurship Development Program, and up to 150 million soums within the Comprehensive Program for Continuous Support of Small Business;

c) For business entities that have expanded their activities to qualify as medium or large businesses - the reimbursement (refund) of value-added tax amounts will be processed through an expedited procedure within seven days for a period of one year.

In light of the above, starting from January 1, 2026, with the aim of creating a more favorable competitive environment in Uzbekistan, and considering that it is more convenient and fair for certain types of activities to be conducted by individual entrepreneurs or small businesses (such as small enterprises or micro-

firms), the number of activities that self-employed individuals can engage in has been reduced from 104 to 72.

5. CONCLUSIONS AND RECOMMENDATIONS.

Based on the analyses conducted, the following conclusions can be drawn.

1. According to statistical data, 42.8% of the total employed population in Uzbekistan worked in the informal sector in 2020, while as of January 1, 2024, this figure was 39%. Thus, in recent years, the employment of the working-age population in the informal sector in Uzbekistan has decreased to some degree. Consequently, the country has significant opportunities for the population to engage in self-employment, stabilize their incomes, and further improve their standard of living. To utilize this opportunity, it is necessary to enhance various institutional, legal, and economic mechanisms. In particular, it is essential to further improve the mechanism for calculating their length of service and assigning pensions. In this regard, in cases where self-employed individuals pay less than the established amount of social tax, it is recommended, as an exception, to either consider the length of service proportionally to the amount of tax paid or allow for the refund of the paid amount to the taxpayer.

2. To stimulate the growth of business entities, self-employed individuals should be exempt from paying income tax for the first six months after registering as an individual entrepreneur or legal entity.

3. Citizens who do not have sufficient work experience (for example, lacking 6 months to 1 year) for the assignment of an old-age pension should be provided with the opportunity to obtain the necessary work experience through self-employment.

4. It is necessary to introduce an obligation for self-employed individuals operating in non-residential

facilities and providing services to legal entities to maintain records of their income and expenses.

5. It is essential to intensify awareness campaigns and conduct seminar-trainings among the population regarding official employment through self-employment, work experience, and pension provisions. This includes informing about the requirement of at least 7 years of work experience for old-age pension eligibility, as well as promoting existing freelance exchanges, portals, platforms, and other resources designed to offer jobs and services or find performers for these tasks.

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