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MULTIDIMENSIONAL APPROACH TO COMBATING THE SHADOW ECONOMY: THEORY AND PRACTICE

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МНОГОМЕРНЫЙ ПОДХОД К БОРЬБЕ С ТЕНЕВОЙ ЭКОНОМИКОЙ: ТЕОРИЯ И ПРАКТИКА

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Abstract. This article presents a detailed analysis of multi-level strategies to combat the shadow economy on the example of Uzbekistan. The study delves into the theoretical aspects of the problem, identifying the factors contributing to the shadow sector, and discusses the need for integrated co-operation between government structures, business and society. The article offers practical recommendations, including improving the legislative framework and strengthening the law enforcement system. The authors draw attention to successful cases of implementing technological tools aimed at increasing the transparency of financial flows. The article also covers socio-cultural measures, including educational initiatives aimed at fostering intolerant attitudes towards the shadow economy. Based on data on the dynamics of Uzbekistan's economy, it is emphasized that a multidimensional approach can effectively reduce the shadow economy and promote sustainable economic growth.

Аннотация. Данная статья представляет подробный анализ многоуровневых стратегий борьбы с теневой экономикой на примере Узбекистана. Исследование углубляется в теоретические аспекты проблемы, вычлняя факторы, способствующие теневому сектору, и обсуждает необходимость комплексного взаимодействия между правительственными структурами, бизнесом и обществом. В работе предлагаются практические рекомендации, в том числе усовершенствования законодательной базы и укрепление правоохранительной системы. Авторы обращают внимание на успешные кейсы внедрения технологических инструментов, направленных на увеличение прозрачности финансовых потоков. Также статья охватывает социокультурные меры, включая образовательные инициативы, целью которых является формирование нетерпимого отношения к теневой экономике. Основываясь на данных о динамике экономики Узбекистана, подчеркивается, что многоаспектный подход может эффективно снизить уровень теневой экономики и способствовать устойчивому экономическому росту.

Keywords: state budget, shadow economy, financial transparency strategy, economy of Uzbekistan, economic development.

Ключевые слова: государственный бюджет, теневая экономика, стратегия финансовой прозрачности, экономика Узбекистана, экономическое развитие.

Shadow economy, epitomising the activities of economic entities that develop outside of state accounting and control. This is a complex socio-economic phenomenon, covering the entire system of socio-economic relations, and above all - the sector of reproduction uncontrolled by society, where the production, distribution, exchange and consumption of economic goods and entrepreneurial abilities are hidden from the state administration (<https://kurl.ru/wcPwY>). In the context of Uzbekistan, as in many other countries, the shadow economy becomes a challenge that requires careful analysis and development of strategies to overcome it [2]. In Uzbekistan, the problem of shadow economy is becoming a serious challenge for the economic development of the country. The President of the Republic of Uzbekistan, Shavkat Mirziyoyev, has singled out this problem as one of the most urgent today. Thus, at a meeting on 16 January 2024, he stressed that "in the sphere of services, construction and industry, a significant part of economic activity remains in the "shadow", which leads to huge losses in GDP and the state budget of the country. For example, in the construction industry alone, out of 27 thousand companies in 2023, more than 40% of them indicate only one official employee, although they perform work for multi-billion dollars" (<https://kurl.ru/OkhDw>). These facts emphasise the serious impact of the shadow economy on economic growth and the creation of obstacles to sustainable development of the country. At the same time, the problem of shadow economy is of growing concern both for government agencies and society as a whole.

The significance of the topic under study finds its justification in the fact that the breadth and secrecy of the shadow economy from the generally accepted accounting and monitoring systems make it a subject of research interest in the light of its multidimensional nature. This sector covers a wide range of socio-economic events, which are complex in their essence and are characterised by a variety of origins and contradictory mechanisms of functioning [4].

Research methodology

The study used quantitative analysis, i.e. statistical methods to analyse the volume of the shadow economy, estimate the size of unpaid taxes and other aspects of the shadow economy based on statistics and economic indicators. The contents of interviews and expert opinions were studied to identify the causes and consequences of the shadow economy and to determine strategies to combat this phenomenon. A comparative analysis of data on the shadow economy in Uzbekistan with similar data from other countries was carried out, which allows to identify unique aspects of this problem and effective strategies to combat it. Based on this, the identification of the causes of the shadow economy has been carried out. The results of application of existing strategies to combat the shadow economy and assessment of their effectiveness have been studied. Based on the results of data analysis and identified challenges, some directions of strategies and measures to combat the shadow economy in Uzbekistan are proposed.

Using a combination of the above-mentioned research methods allowed to obtain a more complete and deeper understanding of the shadow economy in Uzbekistan and to develop effective strategies to overcome it.

Analysis of the literature used

The concept of shadow economy is the subject of a sufficient number of scientific studies. Research in the field of measuring the scale of the shadow economy in the world economic community was most developed in the 80-90s of the last century.

In the 80-90s of the last century. Among foreign scientists, the most recognised authority in determining the scale of the shadow economy is the Austrian economist Friedrich Schneider [3]. According to his estimates, the largest values of the shadow sector parameters are registered in developing countries and countries with economies in transition, and the

The lowest values are registered in developed countries.

Studies conducted by M. Abdullaeva shed light on the shadow economy as a complex phenomenon consisting of interrelated processes. She defines the shadow economy as economic transactions hidden from official reports, which negatively affect the stability and development of society [4].

Researchers F. Akhmedov [5] and L. Rakhmanov[6] emphasise that the importance of an effective fight against corruption, which in addition to increasing legality and transparency also contributes to the reduction of the shadow economy and ensures sustainable and equitable economic growth.

Alimov, G.A., Isroilov, B.I. in their monograph study in detail the general concepts of shadow economy, corruption and bribery as crimes, criminal and legal aspects of qualification of corruption, bribery and features of this corpus delicti, their characteristic features, distinctive features of commercial bribery [7].

Burov, V. Y., Khudainazarov, A. K. and Mamatkulov, I. A. note that sample surveys are widely used to study the shadow economy, but they have their limitations. These limitations include the dependence on the willingness of respondents to cooperate and the difficulty of estimating the volume of illegal activities [8].

Analyses and results

Globally, the underground economy is a growing phenomenon, affecting most countries, including both developed and developing economies. The Quarterly Informal Economy Survey shows that at least two-thirds of the world's 201 countries face this problem. This demonstrates the global nature of the underground economy and the need for urgent action to counter it. According to the Quarterly Informal Economy Survey (QIES) by World Economics, London in 2024, the average share of the "shadow economy" of GDP by countries is as follows (<https://kurl.ru/wDYei>):

Worst score:

1.	Afghanistan	73.6
2.	Zimbabwe	64.7
Best performing countries		
	USA	7.2
	Switzerland	7.5
	Japan	9.6
	Netherlands	10
	Germany	11.2
	France	13.2
Some post-Soviet countries		
	Ukraine	44.2
	Moldova	41.0
	Russia	38.2
	Belarus	37.9
	Tajikistan	37.2
	Kazakhstan	32.1
	Kyrgyzstan	31.1
	Uzbekistan	27.3

The shadow economy, which embodies illegal or unregistered economic activities, represents a serious obstacle to the sustainable development of a country. In the context of Uzbekistan, as in many other countries, the shadow economy becomes a challenge that requires careful analysis and the development of strategies to overcome it. The shadow economy is often referred to as one of the main obstacles to economic growth. The shadow economy in Uzbekistan includes economic activities unrecorded by official statistics, illegal turnover of goods and services, as well as tax evasion and labour force accounting (Figure). Examples of shadow economic activity include unrecorded employment in the construction sector, unrecorded sale of agricultural products by farms, and shadow entrepreneurship in trade, especially in bazaar-type markets.

Type of Activity	Monetary Transactions		Non Monetary Transactions	
ILLEGAL ACTIVITIES	Trade in stolen goods; drug dealing and manufacturing; prostitution; gambling; smuggling and fraud		Barter: drugs, stolen goods, smuggling etc. Produce or growing drugs for own use. Theft for own use.	
	Tax Evasion	Tax Avoidance	Tax Evasion	Tax Avoidance
LEGAL ACTIVITIES	Unreported income from self-employment; Wages, salaries and assets from unreported work related to legal services and goods	Employee discounts, fringe benefits	Barter of legal services and goods	All do-it yourself work and neighbor help

Figure. Structural elements of the shadow economy

These phenomena have a negative impact on the economic stability and social well-being of the country. The problem of the shadow economy in Uzbekistan is partly due to historical factors, such as the established practices under Soviet rule and the recent opening of the country to market relations. In addition, the lack of transparency and bureaucratic obstacles in the economy contribute to the development of shadow sectors.

The scientific analysis of the phenomenon of shadow economy requires an in-depth study of many factors responsible for its emergence and spread. Among the most relevant determinants are the following:

1. *Fiscal pressure*: high taxation entails the desire of taxpayers to minimise tax deductions by avoiding payments of personal income tax, value added tax and other forms of taxes.
2. *Social contributions*: compulsory social security payments are also subject to evasion, as it is more profitable for many people to avoid such contributions.
3. *labour market regulations*: strict labour law rules on minimum wages, working time limits and labour safety standards sometimes encourage informal employment schemes.
4. *Regulatory burden*: high density of legislation in the formal economy can be an obstacle for businesses and encourage them to go into the shadows.
5. *Civic participation*: low levels of trust and loyalty to state institutions, as well as limited participation of citizens in public life, can contribute to the expansion of the shadow economy.

6. *Tax culture*: poorly developed tax discipline and moral disapproval of taxation among the population give impetus to the informal economic activity.

7. *efficiency of public administration*: inefficiency of executive power and high level of corruption weaken the effect of regulatory instruments and facilitate the organisation of shadow schemes.

Understanding these drivers of the shadow economy from the point of view of the multidisciplinary scientific background provides a basis for the development of measures to compress and minimise it.

The Agency for Strategic Reforms under the President of the Republic of Uzbekistan estimates that in 2023, the shadow sector occupies between 48% and 62% in various industries (<https://kurl.ru/JIMiF>). But there is no exact data on the size of the economy in the shadow economy. The larger size of the shadow economy leads to negative consequences that worsen the standard of living in the country.

In addition, the high level of corruption in Uzbekistan contributes to the flourishing of the shadow economy. According to Transparency International's 2023 report, Uzbekistan is ranked 121st out of 180 in the corruption perception rating with a score of 33, demonstrating positive dynamics, marked by an increase of five steps compared to the previous year, being in the same line with such countries as Angola, Mongolia and Peru. However, it should be noted that since 2016 Uzbekistan has risen 32 ranks, consistently improving its position (<https://kurl.ru/JLkJv>).

In the 100-point corruption index categories (where a range of 0 indicates an extremely high level of corruption activity and a range of 100 indicate an extremely low level), Uzbekistan gains 33 points, two points more than in the same period last year.

The organisation's regional analysis focuses on key innovations that have helped Uzbekistan to significantly improve its position in the rankings over the past year. These include the establishment of a specialised anti-corruption agency, improvement of the legislative framework and promotion of economic liberalisation. At the same time, it should be emphasised that regulations and measures to effectively enforce these laws have been stepped up, and formal charges have been brought against a number of corrupt civil servants. In addition, the Government has implemented a set of strengthened internal controls and audit procedures in various ministries and local governments, including strategies to counter bribery practices.

As the analysis shows, products worth tens of trillions of soums in the services, construction and industrial sectors remain in the shadows. And this leads to the loss of GDP and budget, which amount to 135 trillion soums and 30 trillion soums respectively. A clear example is the fact that 41% of construction enterprises "showed" in their reports the presence of only 1 worker. And it was these enterprises that last year performed construction works for 4 trillion soums (<https://anhor.uz/news/dark-economy/>). At the same time, it should be noted that now 14 agencies are engaged in combating the shadow economy and economic crime in Uzbekistan, but there is no unified system of work to coordinate their activities.

In our opinion, the losses of the state associated with the shadow economy can be expressed through:

1. Loss of tax revenues: non-payment of taxes reduces the flow of state revenues, which limits the government's ability to implement social programmes and investments in economic development.

2. Unfair competition: legal businesses that pay taxes in good faith and comply with regulations face competition from shadow businesses that circumvent legislation and tax obligations.

3. Risks to public security: the shadow economy can be linked to criminal groups, trade in illicit goods, smuggling and other illegal activities, which threaten public security and stability.

Discussions

Measures to combat the shadow economy. The analysis revealed that in the Republic of Uzbekistan the legal basis for combating corruption is the Constitution of the Republic of Uzbekistan, universally recognised principles and norms of international law, international treaties of the Republic of Uzbekistan, the Law of the Republic of Uzbekistan of 3 January 2017 "On Combating Corruption" (<https://lex.uz/docs/3088013>), the Laws of the Republic of Uzbekistan of 5.05.2014. "On openness in the activities of the bodies of state power and administration"[16], the Decree of the President of the Republic of Uzbekistan of 5.05.2014 (<https://kurl.ru/fKvCg>),

Decree of the President of the Republic of Uzbekistan, dated 06.07.2021, No-5177 "On additional measures for the effective organisation of anti-corruption activities" (<https://lex.uz/docs/5495538>), Decree of the President of the Republic of Uzbekistan, dated 06.07.2021, No-6257 "On measures to create an environment of intolerant attitude towards corruption, cardinal reduction of corruption factors in state and public administration, as well as broad involvement of the public in this process" (<https://lex.uz/docs/5495531>), Decree of the President of the Republic of Uzbekistan No-6013 of 29.06.2020 "On additional measures to improve the system of countering corruption in the Republic of Uzbekistan" (<https://lex.uz/docs/5495531>), Decree of the President of the Republic of Uzbekistan, dated 29.06.2020 (<https://lex.uz/docs/5495531>), Decree of the President of the Republic of Uzbekistan, dated 27.05.2019, No-5729 "On measures to further improve the system of combating corruption in the Republic of Uzbekistan" (<https://lex.uz/docs/4355399>), dated 25.09.2014. "On social partnership" (<https://lex.uz/docs/2468216>), dated 22.04.2021 "On public procurement" (<https://lex.uz/docs/5382983>), dated 12.04.2021 "On public procurement" (<https://lex.uz/docs/5382983>), dated 12.04.2018. "On public control" (<https://lex.uz/docs/3679099>) and other normative legal acts aimed at combating corruption.

The Strategy "Uzbekistan - 2030" adopted by the Decree of the President of the Republic of Uzbekistan, dated 11.09.2023, No. UP-158 (<https://lex.uz/ru/docs/6600404>) separately in the goal emphasises "Ensuring fiscal stability and effective management of state obligations", which could result in "using the possibility of additional expansion of the tax base by reducing the "shadow economy".

Strategies for combating the shadow economy

1. Improvement of tax policy and administration: reforms of the tax system, simplification of tax payment procedures and reduction of tax rates can make legal enterprises more competitive and reduce the incentive to participate in the shadow economy.

2. Strengthening the rule of law: Effectively countering organised crime and drug trafficking is a key element in combating the shadow economy. Ensuring law enforcement, including combating corruption and bribery in government structures. This includes improving law enforcement, the judiciary and anti-corruption measures.

3. Improving the efficiency of tax and customs authorities, including through the introduction of modern IT systems for tracking and collecting taxes.

4. Increasing transparency and openness in the economy: Increasing the transparency of business processes, simplifying business registration procedures and reducing bureaucratic hurdles will help reduce the precedents for participation in the shadow economy.

5. Developing alternatives for financial institutions to finance SMEs to reduce the dependence of entrepreneurs on informal sources of credit.

6. Expanding the volume of non-cash turnover in the economy. Increasing the number of non-cash payments through the use of mobile banking applications, the use of QR code, modernisation of the Central Bank platform, in which continuous settlements of economic entities B2B [9].

7. Creation of social protection mechanisms for informal sector workers, which will reduce their vulnerability and predisposition to shadow activities.

Conclusion

The shadow economy is a multifaceted phenomenon emerging from diverse roots and requires purposeful and reflexive management. Deep integration of the fight against illegal economic turnover into the processes of economic modernization and sustainable development is of strategic importance for the Republic of Uzbekistan.

The implementation of articulated strategic plans will require investment of time and material resources, but their implementation can serve as a starting point for achieving economic stability and progressive growth of the nation. Interaction between the public authorities and the commercial sector, ensuring increased financial transparency and economic integrity, is key. Adequate implementation of these measures will allow Uzbekistan to markedly reduce the black market and consolidate the trajectory of sustainable economic progress.

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