

UDC 33:303.7; 330.44

**RECOMMENDATIONS ON REDUCING THE SHADOW ECONOMY IN THE REPUBLIC OF UZBEKISTAN  
BASED ON THE WORLD EXPERIENCE**

**D. MAKHKAMOV, A. MALEI, K. ASATULLAEV**

Polotsk State University, Belarus  
Tashkent Financial Institute, Uzbekistan

*The article dwells on the types of shadow economy. The authors of the article analyse the causes of the occurrence and increase in the volume of the shadow economy. The authors of the article demonstrate how the world experience in a fight against the shadow economy is implemented in Uzbekistan.*

The level of the development of a country first of all depends on the economic relations within a society, which develop under the influence of the applied mechanisms of public administration. Insufficient economic policy creates favourable conditions for the growth of shadow economy. The shadow economy is inherent to any economic system, both the command-and-control one and the market one. Many developed countries around the world tend to have some presence of the shadow economy, which demonstrates the relevance of this issue. In Uzbekistan, the volume of the shadow economy is currently estimated as high.

The shadow economy is represented by hidden economic activities not controlled by the society, the purpose of which is to extract super profits to meet both personal and group needs of a small part of the population. Consider the main types of the shadow activity in table 1.

Table 1. - The main types of shadow activity

<b>The type of shadow economy</b>	<b>Definition</b>
White collar" ("second")	Hidden, prohibited by the law economic activity of the workers of the "white" economy at their workplaces, which leads to hidden redistribution of the previously created national income. Carries out officially permitted types of economic activity. Entrepreneurship entities do not reflect a certain share of the shipped products and performed services in the accounting, statistical and tax reports
"Gray" (informal)	Permitted by the law, but not registered economic activity (mainly small businesses) in the production and implementation of ordinary goods and services. This is the most extensive sector of shadow economy. Examples are: fraudulently obtained income (miscounting customers at the salespoints, home registry, embezzlement, bribery), organizing clandestine shops. Concealment of the real amount of their salary and mandatory allocations to social funds and the budget from the labour resources accounting. Questionable financial transactions in order to withdraw funds to the offshore zones
"Black" (the economy of organized crime)	Illegal economic activity related to the production and implementation of the prohibited goods and services (smuggling, drug trafficking, hidden trafficking of fake alcohol and tobacco products, arms trade)
Corruption revenues in the public sector	Bribes for "resolving issues" to officials, representatives of regulatory bodies, as well as in the areas of healthcare, education, municipal and state services
Note. Source: (Россолов П.Г. Основные подходы к определению доли теневого сектора в экономике / П.Г. Россолов // Terra Economicus. 2011. Т. 9. № 3. Ч. 3.)[1]	

The main reasons for the existence of shadow economy are:

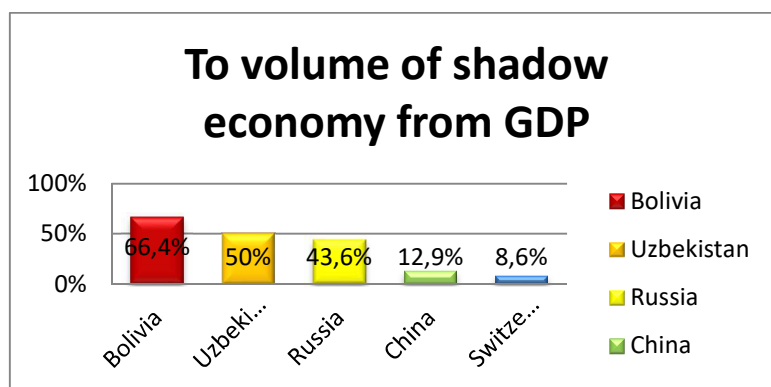
- increase in the administrative barriers to enter the market
- high tax rates

## Economics

- “informal payments” upon getting a license, certificates
- systemic corruption
- financial crises
- rise in the unemployment
- inflation

It is also worth noting the main social factor for going into the shadows, which is dangerous for maintaining the integrity of the state, – loss of citizens' trust in governance bodies. If the authorities, while collecting taxes, do not properly provide decent social services in the field of medicine, education, and public services, then citizens lose the desire to pay allocations to the state budget.

In recent years, the shadow economy has been growing steadily. According to the Ministry of Economy and Industry of the Republic of Uzbekistan as of September 17, 2019, the shadow economy in Uzbekistan is estimated at 40-50% with respect to GDP. The global average level of the shadow economy is 17.2% of GDP, but this indicator differs from country to country. The graph below shows the levels of shadow economy[2].



Graph №1. – The volume of the shadow economy of the world for 2019 year

According to the IMF rating (a specialized UN unit, which calculates the size of the informal economy and publishes annual dynamics of change), Switzerland takes the first place in the low level of shadow economy. At the bottom of the ranking is Bolivia[3]. *The Republic of Uzbekistan is not officially included in the ranking of countries according to the level of informal economy*, but had Uzbekistan been included in the IMF rating based on the assessment of the Ministry of Economy, our country would occupy the 152nd line out of 159 countries. The reasons for such low rate are:

1. **Taxes.** Firstly, the Republic of Uzbekistan has a high tax burden that impedes the development of the economy, in particular, the marginal rate on investments is 49%. Secondly, the high tax rate on the wage fund leads to the concealment by taxpayers of the actual number of employees and wage fund (50% from the nominal salary level). Also, frequent changes in tax rates, the absence of internationally recognized concepts of taxation and the imperfection of tax control lead to citizens deviating from paying taxes;

2. **Low level of trust in the governance bodies and the financial system;**

3. **High level of corruption;**

4. **Lack of confidentiality in the banking system and the tax authorities [4];**

President of Uzbekistan Shavkat Miromovich Mirziyoyev noted that a large amount of shadow economy negatively affects the development of Uzbekistan. “Everyone knows about the presence of a large volume of shadow economy - both entrepreneurs, and buyers, and deputies. Fighting this will create favourable conditions for legal business. As a result, working officially will be profitable, convenient and simple” [5].

It is very difficult to cope with unofficial activities, given the scale of distribution. The fight against shadow economy should be comprehensive and address various aspects. Focusing the measures in only one direction (for example, focusing on strengthening control) can not only fail, but also lead to opposite consequences – such as the growth of shadow economy. International experience in the fight against shadow economy shows that different countries have different methods for solving these problems, for example:

– In Latvia, a certain mechanism is being developed that could form a database of customers, who spent more than two thousand dollars in cash.

– There is also the practice of an active transfer of salary payments to a card account, which makes it impossible to illegally withdraw money to other countries and avoid taxation.

- Italy has also approved payment by cards of goods and services for an amount from two thousand euros.
- In the UK there is an organization that brings together 200 agents working on the verification of high incomes of the population.
- The US government has created a special organization for identifying tax evasion from the money, which is later exported abroad.
- Stricter requirements for tax deduction applications in industries with high risks of going into shadows (Canada, Sweden, UK, USA).
- A way to expand the use of the practice of using data from “the third parties” in identifying “conspicuous” consumption (ultra-expensive goods and luxury goods) is in practice in Australia.
- Publication of the names of major tax evaders in the public domain – “naming and shaming” policy (UK).
- Create a system of standards or model indicators for industries, that would show the ratio between costs and output is practised in Australia.
- Sweden practises the forced use of employee registers with the obligatory indication of the employees’ personal data, the hours worked, the type of activity of the organization and its name;
- Additional fines for taxpayers who have previously been convicted of tax evasion (UK);
- One of the most successful measures in the fight against the shadow sector is also the creation of voluntary programs to break from the shadow for large enterprises. The emphasis in such programs is put on reducing the penalties for the voluntary withdrawal of funds from offshore companies [6].

Given international experience, we propose the following measures to reduce the shadow economy in the Republic of Uzbekistan:

- Forced use of the certified cash registers for the organizations, which use cash
- Forced use of employee registers with the obligatory indication of the employees’ personal data, the hours worked, the type of activity of the organization and its name – introduction of the personalized accounting following an example of the Republic of Belarus;
- Increased use of the practice of using data from “the third parties” in identifying “conspicuous” consumption (ultra-expensive goods and luxury goods);
- Introduce payment for goods and services for an amount from two thousand euros in a cashless order (debit card);
- Creation of voluntary programs to get out of the “shadow” for large capital with a limited period of income legalization;
- By further optimization of the tax burden with a reduction in the share of indirect taxes to 35%;
- Optimization and simplification of tax legislation in order to ensure its stability and predictability for taxpayers;
- Identification of conceptual problems in the context of specific taxes, the introduction of the world’s best practices and global trends in taxation (BEPS, automatic exchange of tax information, MLI, CbCr, CFC, TPO, etc.);
- Improvement of the tax control procedures and consideration of tax disputes by the introduction of ICT and automation tools, as well as advanced training of tax authorities.

Achieving these goals is possible only in the correct and planned distribution of tasks, which requires the development of "road maps" for a sharp decline in shadow economy. Moreover, the inclusion of our country in the IMF rating on the level of informal economy will give a real assessment of the level of shadow economy in Uzbekistan, recognized by an international organization. Which, in turn, will show the transparency and development of the economy of Uzbekistan.

#### REFERENCES

1. Россолов П.Г. Основные подходы к определению доли теневого сектора в экономике / П.Г. Россолов // Terra Economicus. 2011. Т. 9. № 3. Ч. 3.
2. [www.worldbank.org](http://www.worldbank.org)
3. Official site of “International monetary fund” [www.imf.org](http://www.imf.org)
4. Концепция стратегии развития Республики Узбекистана до 2035 года (Buyuk kelajak) [www.Spot.uz/ru/2019/11/08/shadow/](http://www.Spot.uz/ru/2019/11/08/shadow/)
5. [www.ekonomika-student.com/borba-s-tenevoj-ekonomikoj.html](http://www.ekonomika-student.com/borba-s-tenevoj-ekonomikoj.html)