

## SHADOW ECONOMY AND ITS IMPACT ON ECONOMIC SECURITY OF BUSINESS

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**Annotation.** The article is devoted to clarifying the concept of the «shadow economy» as well as the characteristics of different methods to assess the development of this phenomenon. The authors describe the main stages specifically of the formation of the shadow economy in Uzbekistan.

**Keywords:** the shadow economy, the hidden economic activities, evaluation methods.

**Аннотация.** Цель данной статьи — уточнение понятия «теневая экономика», а также характеристика различных методов оценки развития данного явления. Охарактеризованы основные этапы и специфика формирования теневой экономики в Узбекистане.

**Ключевые слова:** теневая экономика, скрытая экономическая деятельность, методы оценки.

On January 16, 2024, a meeting of all state bodies of Uzbekistan took place with the participation of President Shavkat Mirziyoyev, where the President of Uzbekistan noted that in 2024 the shadow economy is the most urgent problem of Uzbekistan at the moment. One cannot disagree with this, since by 2024 41% of all construction companies in the country have only one employee on their staff, although in 2024 these construction companies completed projects worth 4 trillion sums last year (\$320 million at the time of February 13, 2024) [1]. This information is evidence of a high level of attempts by employees and employers of our country to avoid paying taxes. Also, according to the statements of the leader of our country for 2024, the damage to the shadow economy for the country's GDP is estimated at 135 trillion sums (10 billion\$ at the time of February 13, 2024), and the state budget — 30 trillion sums (2.4 billion\$ at the time of February 13, 2024).

There were more disappointing data, for example, at a meeting of the press club of the UzLiDeP party on September 28, 2023, it was noted that the damage to Uzbekistan's GDP by the shadow economy is estimated at 32 billion \$ which is 40% of Uzbekistan's GDP, respectively. (<https://www.gazeta.uz/ru/2024/01/16/shadow-economy/>). Experts named such areas as the secondary housing and motor transport market, informal trade and services, as well as agriculture as the main areas working mainly in the shadows. The role of smuggling and unauthorized trafficking of goods was also noted. According to the press secretary of the Agency for Strategic Development, A. Khasanov. In various spheres, the shadow economy ranges from 48% to 62%, which is shocking. More than 5 million people in Uzbekistan work in the shadows. It should be noted that 20 million able-bodied people live in Uzbekistan itself, which leads to the idea that 25% of the able-bodied population works in the shadows.

A rather gloomy picture is emerging, but for the majority of the population of our country this is not clear, in general, the very concept of the shadow economy means little to them. If you go through the theory, for example, Aguzarova L. A. and Burnatseva O. O. in their article The Essence of the Shadow Economy noted that the shadow economy has dense and quite legal ties with the real sector of the economy, and it also uses public services, for example, labor or various social factors. Such illegal activities help to make huge profits, which are not taxed and are aimed solely at their enrichment.

The shadow economy is those processes that are not advertised, they are hidden by their participants, and cannot be controlled by the state and society, these processes are not recorded by official state statistics. Individuals and groups of people are interested in such economic relations.

The shadow economy does not legally exist, it functions without taking into account state control and is also accompanied by the receipt of uncontrolled income [2].

That is, the shadow economy is like a black hole, it kind of exists, but no one knows exactly what's inside, the same thing with the shadow economy - everyone knows that it exists, everyone sees it, but no one controls it. It would seem that you can tell what its bad side is, that people work for themselves, and provide themselves with food. However, here's the catch- they don't pay taxes, and all their activities neither bring nor a sum of profit to the treasury. Moreover, this is a burden on other taxpayers; it prevents the state from raising pensions, scholarships, etc. The same taxes cannot be lowered, because this part of the population does not pay them anyway, and therefore the country's income will fall even lower if taxes are lowered.

One of the reasons why the shadow economy is a problem in any society is that it involves not only simple entrepreneurship but also activities of a criminal nature. For example, Balashov I.A. and Imamov T.D. based on the resolution of the State Statistics Committee of the Russian Federation "On approval of the Basic methodological provisions for the assessment of the hidden (informal) economy" dated January 31, 1998 No. 7 define three types of shadow economic activity in their article [3].

"Hidden" economic activity is a legal economic activity that is hidden or downplayed by economic agents who carry it out to evade taxes and social contributions or perform certain administrative duties or regulations on labor protection, sanitary, and other standards. This activity can be carried out in almost all sectors of the economy (for example, counterfeit production of alcohol, food, etc.).

"Informal" economic activity is carried out mainly on a legitimate basis by individual producers or so-called non-cooperative enterprises, i.e., enterprises owned by individuals, which are often not formalized by the established procedure, but are based on informal relations between production participants and can (fully or partially) produce products or services for their consumption. The informal economy is often based on secondary employment; in many cases, it is handled unprofessionally (for example, gardeners selling vegetables, fruits, and flowers from their gardens).

"Illegal" (criminal) economic activity is illegal, i.e. it covers such types of production of goods or services that are directly prohibited by existing legislation — withdrawn from free economic circulation (for example, production and sale of drugs, production and sale, bypassing established rules, weapons, prostitution, smuggling). [3]

Many experts consider several factors to be the main reasons for the emergence of the shadow economy, most of them corruption, bureaucracy, and high taxes.

However, at the same time, L. Aguzarova A. and Burnatseva O. O. in their article The Essence of the Shadow Economy divided the causes of the shadow economy into more detailed sections [2]:

- 1) Economic – this is a high tax burden on entrepreneurs and economic crises, as a result of which the common population cannot conduct their business officially because of the tax burden and goes into the shadows.

2) Social means a low standard of living of the population and a high unemployment rate. A bad life and lack of work in the legal labor market push ordinary people to work illegally to earn at least some money for food.

3) Legal ones are the strongest bureaucracy and imperfection of legislation, and the poor work of law enforcement agencies in the fight against the shadow economy.

[1]

Well, it is clear how the shadow economy arises, and its causes are clear, but what about deciding what to do, how to heal the national economy and the people themselves from this ruin?

Let us first look at the experience of other countries in combating the shadow economy. E.A. Hakobyan, considering the policy of European countries, concludes that coercive or punitive measures have very little effect or may completely contradict the legislation of the country, for example, the law adopted in Bulgaria, according to the requirements of which employees engaged in labor activities without a valid employment contract are obliged were to pay a fine in the amount of three monthly social security contributions. [4] However, this law was soon repealed by the Constitutional Court. In this regard, the author emphasizes that countries to combat the shadow economy should increasingly involve electronic mechanisms and a system for encouraging citizens and entrepreneurs to conduct their activities officially. He also notes the perniciousness of cash turnover because it is difficult to control them.

I would also like to review what our government has already done over the years to combat the shadow economy.

1) First of all, of course, I would like to note the complete simplification of the opening of legal entities for doing business, for example, to open an LLC in Uzbekistan, you will need an identity document of the applicant and constituent documents (articles of association and founding agreement) the process of opening an LLC will take no more than 30 minutes. [5] Thanks to these innovations, anyone can quickly and easily open an LLC, which reduces the risk of doing business in the shadows.

2) Strengthening the role of online document management

Most of the documents related to business activities can be submitted and created in one click. In particular, the same LLC can be opened in one click from the phone through the domestic Yagona Darcha platform, the entire tax document flow can also be conducted online through the Soliq uz application.

3) Creating greater incentives for citizens

Including such reforms as receiving 1% cashback from the purchase if the buyer signs the QR code on the receipt and uploads it to the Soliq uz application. (<https://www.gazeta.uz/ru/2022/01/14/cashback/>) Simplify online money transfers, the ability to pay for purchases using bank cards and Touch ID.

4) The emergence of the legal concept of self-employed

According to recent reforms, any citizen of Uzbekistan can register himself as self-employed and pay taxes to receive a pension in the future. Thanks to that reform, such specialties as tutors, hairdressers, etc. can pay taxes and hope to retire in old age. [10]

5) Creation of rating lists of entrepreneurs.

According to the Resolution of the Cabinet of Ministers of the RCM No. 55 dated January 30, 2024 "On approval of the Regulation on the procedure for determining the sustainability rating of business entities", each entrepreneur will receive an assessment that will be visible to consumers in connection with which they will be able to make their information about the manufacturer. For the highest rating, entrepreneurs will receive bonuses. [11]

This small enumeration of reforms is not the entire detailed pathology of all new developments in Uzbekistan over these years, but it can show a general picture of everything new in the field of combating the shadow economy.

In the end, I would like to list what else can be imported into Uzbekistan to combat the shadow economy.

1) expansion of credit card activity.

A credit card is a tool that allows every citizen to spend more, but at the same time, money from a credit card cannot be cashed out and spent in enterprises operating in the shadows. It turns out a triple benefit, banks receive a good percentage from the use of credit cards, provide additional financial resources for their expenses, and the state minimizes cash flows into the shadow economy. For banks to make it more profitable to provide credit cards to citizens, we propose to reduce the tax burden on banks that have the most customers with credit lines.

2) Tax relief support for taxi agencies and companies engaged in the transportation of people between regions. Strengthening the agency's data will result in a decrease in the percentage of unofficial taxi drivers working without paying taxes.

3) The appearance of rating lists gives the state a broader picture of what is happening in the private sector. However, all entrepreneurs of Uzbekistan must be included in this rating. In this regard, I propose to increase incentives for entrepreneurs who have received an A rating, for example, providing preferential

business loans primarily to those with a high rating. Benefits for customs payments in case of transshipment of goods across the border.

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