

**INTEGRATING THE SHADOW ECONOMY INTO THE FORMAL SECTOR
THROUGH FINANCIAL MECHANISMS**

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Abstract

The shadow economy in Uzbekistan plays a significant role in affecting macroeconomic stability, reducing the tax base, and hindering entrepreneurial growth. This article examines financial strategies designed to formalize the shadow sector, such as tax system reforms, streamlined financial reporting, encouragement of digitalization, and automation of processes. Emphasis is placed on leveraging international practices and adapting them to Uzbekistan's specific circumstances. The study provides recommendations to mitigate the adverse impacts of the shadow economy on the country's economic development.

Keywords: legalization, shadow economy, financial mechanisms, tax reforms, Uzbekistan, digitalization, transparency, entrepreneurship.

Introduction

The shadow economy is economic activity that is not accounted for by government authorities and is excluded from official statistics. It includes illegal, partially legal, and hidden activities such as tax evasion, the use of informal labor, and income concealment.

In Uzbekistan, the share of the shadow economy remains significant, with estimates ranging from 30% to 50% of GDP. This creates serious challenges for the economy, including:

- A reduction in budget revenues;
- Limited access to resources for official companies;
- A slowdown in economic growth.

The goal of the research is to study and analyze effective financial mechanisms that can contribute to the legalization of the shadow sector.

Materials and Methods**The following materials were used for the research:**

1. Official data from the State Committee on Statistics of Uzbekistan.
2. International reports from the World Bank, the International Monetary Fund (IMF), and the Organisation for Economic Co-operation and Development (OECD).
3. Scientific publications on tax regulation and financial transparency.

**The research methods include:**

- Comparative analysis: studying the experience of CIS and Eastern European countries, such as Georgia, Kazakhstan, and Estonia.
- Economic modeling: assessing the impact of proposed measures on reducing the shadow economy.
- Expert interviews: gathering opinions from specialists in the fields of finance and tax administration.

Results**The research showed that the key factors for the existence of the shadow economy in Uzbekistan are:**

High tax rates and the complexity of tax administration, leading to tax evasion.

- Lack of trust in government institutions: low financial literacy and concerns about the misuse of income data.
- Insufficient digitalization: absence of integrated digital systems for accounting and control.

Positive changes already occurring in Uzbekistan:

1. Implementation of an electronic invoice system to monitor transactions between enterprises.
2. Conducting tax reform, including reducing the tax burden for small businesses.
3. Legalization of assets through capital amnesty, which allowed significant financial resources to be brought out of the shadow economy.

Discussion**The Role of Financial Mechanisms****1. Tax Reforms**

Simplifying tax administration and reducing rates for small businesses encourage entrepreneurs to transition to the legal economy. An example of this is Kazakhstan, where the implementation of the "single tax" regime significantly reduced the shadow sector.

2. Digitalization of the Economy

- Implementation of digital platforms for accounting financial transactions.
- Automation of calculations and reporting.

Uzbekistan can adopt the experience of Estonia, which implemented e-government, ensuring the transparency of tax and financial operations.

3. Stimulating the Banking Sector

- Simplifying the process of opening accounts for entrepreneurs.
- Introducing preferential loan programs.

4. Combating Corruption

Financial transparency is impossible without reducing corruption mechanisms. Strict measures are required in monitoring the work of civil servants.



Possible Risks

- Insufficient readiness of the population for digital changes.
- Resistance from participants in the shadow sector.
- Limited resources for implementing innovative technologies.

Conclusion

The legalization of the shadow economy through financial mechanisms in Uzbekistan requires a comprehensive approach. Key steps include:

- Modernization of the tax system;
- Digitalization of accounting and control over financial flows;
- Creation of incentives for businesses to move from the shadow economy to the legal sector.

The implementation of these measures will increase tax revenues, improve the business climate, and stimulate economic growth.

Confirmation

The results of the study are confirmed by:

- Reports from the World Bank on progress in tax reforms in Uzbekistan;
- Data from the National Statistical Committee on the increase in the number of registered entrepreneurs following the reform;
- Expert assessments from specialists in the fields of economics and finance.

References

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