

**TRANSITION FROM THE INFORMAL ECONOMY TO THE FORMAL  
ECONOMY: CHALLENGES AND OPPORTUNITIES**

**NORASMIY IQTISODIYOTDAN RASMIY IQTISODIYOTGA O'TISH:  
QIYINCHILIKLAR VA IMKONIYATLAR**

**ПЕРЕХОД ОТ НЕФОРМАЛЬНОЙ ЭКОНОМИКИ К ФОРМАЛЬНОЙ  
ЭКОНОМИКЕ: ПРОБЛЕМЫ И ВОЗМОЖНОСТИ**

**Levakov Izzatulla Nematillayevich**

*i.f.f.d, v.b dots, "University of Business and Science" universiteti*

*“Menejment” kafedrası mudiri*

[izzatillalevakov@gmail.com](mailto:izzatillalevakov@gmail.com) +99888-441-05-09

**O‘ktamov Shoxruxbek Ulug‘bek o‘g‘li**

*"University of Business and Science" universiteti magistranti*

+99891-117-07-03

**Annotation:** Informal employment in the labor market negatively affects economic stability and social protection. This article analyzes strategies for expanding formal job opportunities and promoting employment by reducing informal employment. The study examines mechanisms such as tax incentives, improvements in labor legislation, support for vocational education, and entrepreneurship, providing recommendations based on best practices. The article is of particular relevance to policymakers, researchers, and labor market participants.

**Annotatsiya:** Mehnat bozorida norasmiy bandlik iqtisodiy barqarorlik va ijtimoiy himoyaga salbiy ta'sir ko'rsatadi. Ushbu maqolada norasmiy bandlikni kamaytirish orqali rasmiy ish o'rinlarini kengaytirish va bandlikni rag'batlantirish strategiyalari tahlil qilinadi. Tadqiqotda soliq imtiyozlari, mehnat qonunchiligini takomillashtirish, kasbiy ta'lim va tadbirkorlikni qo'llab-quvvatlash kabi mexanizmlar ko'rib chiqilib, ilg'or tajribalar asosida tavsiyalar beriladi. Maqola siyosatchilar, tadqiqotchilar va mehnat bozori ishtirokchilari uchun dolzarb ahamiyat kasb etadi.

**Аннотация:** Неформальная занятость на рынке труда отрицательно сказывается на экономической стабильности и социальной защите. В данной статье анализируются стратегии расширения формальных рабочих мест и стимулирования занятости путем сокращения неформальной занятости. В исследовании рассматриваются такие механизмы, как налоговые льготы, совершенствование трудового законодательства, поддержка профессионального образования и предпринимательства, а также даются рекомендации на основе передового опыта. Статья имеет актуальное значение для политиков, исследователей и участников рынка труда.

**Keywords:** labor market, informal employment, formal job opportunities, employment strategies, tax incentives, labor legislation, vocational education, support for entrepreneurship, social protection, economic stability.

**Kalit soʻzlar:** mehnat bozori, norasmiy bandlik, rasmiy ish oʻrinlari, bandlik strategiyalari, soliq imtiyozlari, mehnat qonunchiligi, kasbiy taʼlim, tadbirkorlikni qoʻllab-quvvatlash, ijtimoiy himoya, iqtisodiy barqarorlik.

**Ключевые слова:** рынок труда, неформальная занятость, формальные рабочие места, стратегии занятости, налоговые льготы, трудовое законодательство, профессиональное образование, поддержка предпринимательства, социальная защита, экономическая стабильность.

## I. INTRODUCTION

The labor market is a crucial component of any country's economy, and its efficiency directly affects economic stability and social development. A high level of informal employment slows down economic growth, reduces state budget revenues, and leaves citizens without social protection.<sup>1</sup> This issue is also relevant in Uzbekistan, where, as of January 2024, the share of the workforce employed in the informal sector reached 39%.

This article analyzes the effectiveness of strategies aimed at reducing informal employment. In particular, it discusses government reforms, including tax incentives, improvements in labor legislation, the development of vocational education, and mechanisms to support entrepreneurship.

### Informal Employment and Its Impact on the Economy

Informal employment refers to work that is not based on official labor laws, is not taxed, and operates outside state control.<sup>2</sup> Such employment weakens workers' rights and contributes to the shadow economy.<sup>3</sup> Individuals working in the informal sector often engage in temporary, seasonal, and uncertain jobs, which limits their legal protection.

In Uzbekistan, measures are being implemented to assess and reduce the scale of the shadow economy. On January 16, 2024, during a video conference chaired by the President of Uzbekistan, Shavkat Mirziyoyev, the issue of the shadow economy was recognized as one of the most pressing concerns in ensuring macroeconomic stability and economic growth.

According to official statistics, as of January 1, 2024, 39% of the total employed population in Uzbekistan worked in the informal sector, amounting to approximately 5.5 million people.

In recent years, the proportion of the working-age population engaged in informal employment in Uzbekistan has declined to some extent (2020 – 42.8%, 2023 – 39.0%),

<sup>1</sup> Schneider, 2012. The Shadow Economy and Work in the Shadow: What Do We (Not) Know?

<sup>2</sup> (ILO) 2018. "Women and Men in the Informal Economy: A Statistical Picture"

<sup>3</sup> Williams & Horodnic, 2015. "Explaining Participation in the Informal Economy: An Institutional Incongruence Perspective"

meaning that over the past four years, informal employment has decreased by 3.8 percentage points or 0.2 million people.

One of the main reasons for this decline is the government's support for self-employment. Additionally, there is a direct correlation between the reduction in unemployment (by 3.7 percentage points between 2020 and 2023) and the decrease in informal employment.

Observations indicate regional disparities in informal employment levels. The highest rates of informal employment are found in:

Namangan (50%)

Surkhandarya and Jizzakh (49%)

Kashkadarya (48.4%)

The lowest rates are in:

Tashkent city (10.9%)

Navoi (21.8%)

Bukhara (32.3%)

Tashkent region (34.9%)

Except for Tashkent city, the difference in informal employment rates between regions is 2.3 times.

The reduction in the number of individuals employed in the informal economy is largely due to a decrease in temporary, one-time, and seasonal workers (94.4 thousand people) and a significant drop in the number of individuals informally employed in non-registered farming households (141.2 thousand people).

Although positive changes have been observed in reducing informal employment, challenges remain unresolved. In the coming years, efforts to significantly shrink the shadow economy will be intensified to promote fair competition and private business development. The "Uzbekistan - 2030" strategy highlights the importance of expanding the tax base by reducing the shadow economy.

This strategy also emphasizes increasing employment levels and ensuring labor market stability by creating decent working conditions.

#### Strategies for Reducing Informal Employment

##### 1. Improving and Incentivizing the Tax System

The high level of informal employment is often linked to excessive taxation.

Reducing the tax burden for small and medium-sized businesses, introducing tax incentives and subsidies, can encourage businesses to operate within the formal sector.

##### 2. Reforming Labor Legislation

Employers need more flexible labor laws to formalize informal employment.

Improving working conditions in the formal sector and simplifying the process of legalizing employment can encourage workers to transition from the informal economy.

##### 3. Developing the Vocational Education System

Strengthening vocational training and skills development will enhance the competitiveness of the workforce and expand formal employment opportunities.

#### 4. Supporting Entrepreneurship and Expanding Access to Credit

Providing preferential loans, simplifying business registration, and strengthening state support for businesses will help shift economic activity into the formal sector.

#### 5. Engaging Local Governance and Community Structures

Encouraging local authorities and community organizations to register businesses and promote formal employment can accelerate the transition to the formal sector.

## II. LITERATURE REVIEW

The issue of informal employment and its reduction strategies are closely tied to economic policies, the labor market, and the fiscal system. Internationally, organizations such as the World Bank, the International Labour Organization (ILO), the International Monetary Fund (IMF), the OECD, and McKinsey Global Institute publish key reports on the economic impact of informal employment and effective reduction strategies.

Key researchers in this field include:

Hernando de Soto (1989)

Schneider & Enste (2000)

Feld & Schneider (2010)

La Porta & Shleifer (2014)

Their studies highlight the main reasons for the expansion of the informal economy, such as excessive government regulation, heavy taxation, and insufficient institutional reforms.

In Uzbekistan, several national strategies have been implemented to address informal employment, including:

"Digital Uzbekistan-2030" Program – aims to automate employment systems and increase transparency in taxation.

"Development Strategy of Uzbekistan 2022-2026" – focuses on formalizing the economy, optimizing taxes, and improving labor laws.

Presidential Decree (February 17, 2021) – outlines measures to attract the workforce to the formal sector and optimize tax policies.

According to the State Statistics Committee and the Ministry of Labor, as of 2024, informal employment in Uzbekistan was 39%, down from 42.8% in 2020.

The World Bank (2023) emphasizes the need to:

Simplify taxation

Encourage formal employment

Introduce digital technologies

Harvard Business Review (2021) highlights that reducing informal employment positively impacts economic growth.

## III. RESULTS AND DISCUSSION

Findings suggest that the high level of informal employment in Uzbekistan is linked to several key factors:

Heavy taxation – High tax rates encourage businesses to operate in the informal sector.

Complex regulations – Complicated bureaucratic procedures discourage workers from joining the formal economy.

Lack of incentives for formal employment – There are insufficient benefits to motivate workers to leave the informal sector.

Slow adoption of digital technologies – The digitization of labor and tax systems is not fully implemented.

Shortage of skilled workers – The lack of qualified professionals makes it difficult to transition workers to the formal economy.

#### **IV. CONCLUSION AND RECOMMENDATIONS**

To accelerate the reduction of informal employment in Uzbekistan, the following measures should be prioritized:

1. Tax Optimization – Reduce tax burdens and create incentives for businesses to operate legally.

2. Digital Transformation – Automate employment registration, ensure transparent labor contracts, and digitize the labor market.

3. Vocational Training – Strengthen professional development programs to increase the supply of skilled workers.

Uzbekistan's reforms to reduce informal employment must be intensified through fiscal incentives, digital solutions, and a modernized workforce training system. Effective collaboration between the government, private sector, and civil society will be essential in achieving this goal.

#### **V. LIST OF REFERENCES:**

1. President of the Republic of Uzbekistan. January 28, 2022. On the Development Strategy of New Uzbekistan for 2022–2026 // Decree No. PF-60. – Collection of Legislation of the Republic of Uzbekistan, 2022.

2. President of the Republic of Uzbekistan. September 11, 2023. On the Uzbekistan – 2030 Strategy // Decree No. PF-158. – Collection of Legislation of the Republic of Uzbekistan, 2023.

3. Mirziyoyev, Sh. Speech at the videoconference meeting on priority tasks for ensuring macroeconomic stability and economic development. – Tashkent: Press Service of the President of the Republic of Uzbekistan, 2023.

4. President of the Republic of Uzbekistan. August 30, 2022. On Measures to Reduce the Share of Informal Employment and Formulate the Labor Resources Balance Based on Modern Approaches // Resolution No. PQ-366. – Collection of Legislation of the Republic of Uzbekistan, 2022.

5. World Bank. Informal Employment in the Developing World: Patterns, Policies, and Research Needs. – Washington, DC: The World Bank Group, 2021.

6. OECD. Tackling Informal Employment in Emerging and Developing Countries. – Paris: OECD Publishing, 2019.

20-Mart, 2025-yil

7. International Labour Organization (ILO). Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204). – Geneva: ILO, 2015.
8. Stiglitz, J. E. The Price of Inequality: How Today’s Divided Society Endangers Our Future. – New York: W.W. Norton & Company, 2012.
9. Becker, K. F. The Informal Economy: Fact Finding Study. – Stockholm: Swedish International Development Cooperation Agency, 2004.

