

## THE ROLE OF SELF-EMPLOYMENT IN EFFECTIVELY REDUCING INFORMAL EMPLOYMENT

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**Annotatsiya.** Bugungi kunda rivojlanayotgan mamlakatlarda norasmiy sektor ulushi rivojlangan mamlakatlarga qaraganda ancha yuqori. Norasmiy sektorda ishlovchilar sonini kamaytirishning bir nechta samarali usullari mavjud bo'lib, ulardan biri o'zini o'zi band qilishdir. O'zbekistonda bugungi kunda o'zini o'zi band qilgan shaxslar uchun ko'plab imkoniyatlar yaratilmoqda. Ushbu maqolada o'zini o'zi band qilish norasmiy bandlikni kamaytirishda va uni jamiyat hamda davlat uchun yanada foydali qilishda muhim qadam sifatida ko'rib chiqiladi.

**Kalit so'zlar:** norasmiy bandlik, investitsiya, tadbirkor, soya iqtisodiyoti, ishchi kuchi, o'zini o'zi band qilish.

**Abstract.** Nowadays, the share of the informal sector is much higher in developing countries compared to developed ones. There are several effective ways to reduce the number of people working in the informal sector, and one of them is self-employment. In Uzbekistan today, many opportunities are being created for self-employed people. This article looks at self-employment as an important step in reducing informal employment and making it more beneficial for both society and the state.

**Key words:** Informal employment, investment, entrepreneur, shadow economy, workforce, self-employment

**Аннотация.** В настоящее время доля неформального сектора в развивающихся странах значительно выше, чем в развитых. Существует несколько эффективных способов сокращения числа работников в неформальном секторе, и одним из них является самозанятость. В Узбекистане сегодня создаются широкие возможности для самозанятых лиц. В данной статье самозанятость рассматривается как важный шаг в сокращении неформальной занятости и повышении её полезности как для общества, так и для государства.

**Ключевые слова:** неформальная занятость, инвестиции, предприниматель, теневая экономика, рабочая сила, самозанятость.

### Introduction

Today, self-employment is considered one of the key factors in developing the labor market, adapting it to modern demands, and ensuring economic growth. Due to globalization

and technological progress, innovations are quickly being introduced in production and service sectors, which is leading to the creation of new jobs and types of work.

Self-employment is seen as an effective way to reduce the shadow economy and informal employment. Especially with the rapid growth of the digital economy, many opportunities are being created for citizens to start their own businesses and work independently. This situation is also highlighted in the “Development Strategy of New Uzbekistan for 2020-2026” and the “Uzbekistan-2030” strategic documents.

### **Analysis of Related Literature**

The role of self-employment in reducing informal employment has been studied by many foreign researchers. For example, according to the Italian scholar A. Preuli, the difference between entrepreneurship and self-employment mainly lies in the way labor is organized and in the use of production tools[8]. If an economic activity develops without an organizational foundation, it refers more to self-employment rather than entrepreneurship. In this context, the issue of whether the employment is voluntary or forced arises – in other words, the motivation behind the work. From the outside, people who choose to be self-employed voluntarily may seem more like entrepreneurs compared to those who are self-employed out of necessity. The former usually cannot rely on others and work independently, often becoming deeply involved in their business. In such cases, having entrepreneurial skills becomes essential, especially for those who want to survive in a competitive market.

However, people who are forced into self-employment often lack these skills.

In modern empirical studies, self-employment is often used as a synonym for owning a business and working on one's own, at one's own risk. This broad definition of self-employment leads to various interpretations, which makes it difficult to track and compare data over time and between countries [7].

Despite the differences in how self-employment is understood and defined in each country, at the European Union level, it is generally identified by the following four features [6]:

1. Use of one's own capital investment
2. Independence in the labor market
3. Responsibility and control over one's own work
4. Possibility of having employees

Self-employment requires more independence, initiative, and personal responsibility. On the other hand, hired workers are fully protected by labor laws – this includes rules about minimum wage, working hours, protection in case of dismissal, and access to social benefits. When it comes to social protection, the situation is different in every country. This difference is often called the “social gap”, and it varies even among European Union member countries [10].

According to the New Uzbekistan Strategy, Goal 34 aims to decrease the share of the shadow economy by three

times and make the service sector more attractive between 2020 and 2026. Also, Goal 85 plans to formalize the employment of 2.5 million people who currently work informally, so that they can receive social protections [13].

**Research Methodology.** In this article, various statistical tables as well as studies by both foreign and local scholars related to the topic were widely used. The theoretical and methodological basis of the article includes general economic literature and scientific articles. It also applies systematic approaches to economic events and processes, leading to specific conclusions and suggestions in the relevant areas.

**Analysis and results.** Creating jobs through self-employment should be seen not only as a social and economic factor that helps increase employment, but also as one of the key reforms in the country's economic development. This process changes outdated mindsets, improves people's living standards, reduces dependency attitudes, and helps develop entrepreneurial qualities among the population [5].

A number of reforms are being carried out in our country to reduce the level of the shadow economy and informal employment. In particular, the Presidential Decree of the Republic of Uzbekistan No. PF-6098, dated October 30, 2020, titled *"On Organizational Measures to Reduce the Shadow Economy and Improve the Efficiency of Tax Authorities"*, was adopted [2]. Since

2021, the Ministry of Finance has put forward several proposals aimed at reducing the shadow economy and creating fair competition conditions. One of the proposals suggested that, for one year, the payments made by individuals through payment systems and bank cards to small businesses in the food and restaurant sector should not be counted as part of their taxable income. According to Goal 34 of the New Uzbekistan Development Strategy for 2022–2026, along with increasing the attractiveness of the service sector, the share of the shadow economy is planned to be reduced by three times during this period [1].

QFrom the diagram below, we can see that thanks to the targeted reforms carried out over the years, the share of informal employment has been steadily decreased year by year.

The table above shows the share of informal employment in relation to total employment in Uzbekistan. According to the data, from 2012 to 2023, the share of informal employment decreased from 56.2% to 39%.

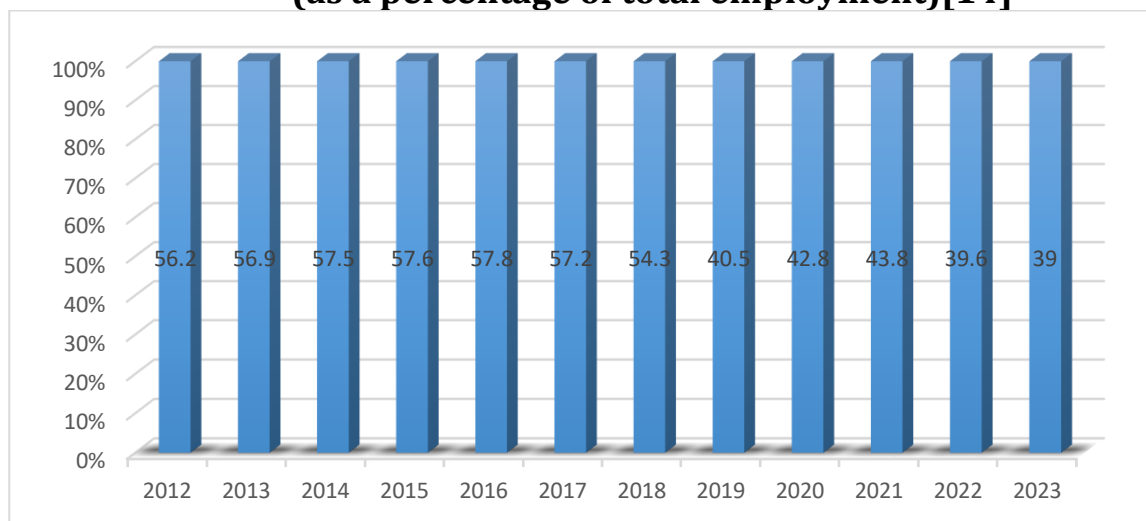
We can highly value the role of self-employment in reducing the share of informal employment. Even today, in order to further increase the number of self-employed people in the country, several benefits and conveniences are being created to encourage them. For example, the launch of an online registration service for self-employed individuals has become an effective way for them to start their activities more

quickly. In addition, starting from July 1, 2020, the list of allowed activities (jobs and services) for self-employed people was expanded to give them more opportunities. Also, for self-employed persons working in family businesses made up of at least three people, the turnover tax rate was reduced by 50% from the standard amount [3]. Changes in the labor market play an important role in the social and economic development of any society. In this regard, self-employment is considered a key part of rebuilding the labor market and ensuring economic stability [9]. Chapter 8 of the Law “On

Employment of the Population” is dedicated to self-employed individuals. According to this law, the following people are considered self-employed: citizens who independently provide their own jobs, artisans, members of family businesses, members of farming and production cooperatives, members of agricultural (farmer) households, individuals officially registered as self-employed, sole entrepreneurs, and those who carry out activities based on personal labor, including work or service contracts under civil-law agreements [4].

1-diagram

**Dynamics of Informal Employment in Uzbekistan  
(as a percentage of total employment)[14]**



In recent years, several presidential and government decisions have been adopted in Uzbekistan to regulate self-employment, involve more people in entrepreneurial activities, and encourage legal labor

practices. For example, self-employed individuals have been exempted from paying income tax on their work earnings. In addition, the process of registering self-employed persons was simplified — now it can be done by

simply sending a notification through a special mobile app or the taxpayer's personal account [3].

In Uzbekistan, the official registration of self-employment began for the first time as a pilot program in 2019. According to the Resolution No. 582 of the Cabinet of Ministers of the Republic of Uzbekistan, dated July 9, 2019, titled *"On the Procedure for Supporting Citizens' Self-Employment Using the Funds of the State Employment Promotion Fund under the Ministry of Employment and Labor Relations,"* a new system was introduced. Under this system, self-employed citizens were allowed to receive temporary labor certificates. These certificates gave them the right to have their work experience officially counted and to benefit from special incentives. According to this new procedure, self-employed citizens could register and receive a labor certificate by paying a social tax equal to up to 4.5 times the base calculation amount (BHM) for one year. They were allowed to work in 24 different types of occupations under this scheme [12].

According to the table mentioned above, in 2020, a total of 561.2 thousand people in Uzbekistan were self-employed. By the end of 2023, this number had increased to 2,533.9 thousand. This means that the number of self-employed individuals grew by 4.5 times during this period. At the same time, the total amount of social

tax collected from them rose from 125.3 billion UZS to 861.5 billion UZS — an increase of 7 times.

As of January 1, 2024, 39.0% of the total employed population in Uzbekistan is working in the informal sector. Around 5.5 million people in the country are employed informally. In recent years, the share of the working-age population involved in informal employment has slightly decreased — from 42.8% in 2020 to 39.0% in 2023, which is a reduction of about 0.2 million people. One of the main reasons for this decline is the government's support for self-employment. In addition, the overall unemployment rate in the country also dropped by 3.7 percentage points between 2020 and 2023, which also contributed to the reduction in the share of informal employment [11].

**Conclusion and suggestions.** In Uzbekistan, the self-employment system is becoming an important tool for formalizing the labor market, reducing informal employment, and increasing people's economic activity. From 2020 to 2023, the number of self-employed individuals increased by 4.5 times, and social tax revenues grew by 7 times — showing the system's economic effectiveness. However, there are still some challenges in this area. These include the lack of full protection of labor rights and social guarantees, as well as cases where some employers misuse the system. These issues remain relevant and need to be addressed.

Table 1[12]

**Growth Rate of Self-Employed Citizens by Regions of the Republic, 2020-2023**

Regions		In 2020 (thousand people)	Self- employment rate (in percentage)	In 2023 (thousand people)	Self- employment rate (in percentage)	Growth rate from 2020 to 2023 (times)
Across the Republic		561,2	4,2	2533,9	18,1	4,5
1	Republic of Karakalpakstan	24,8	3,6	108,8	14,8	4,4
2	Andijan Region	60,3	4,9	224,4	16,9	3,7
3	Bukhara Region	40,0	5,1	177,9	22,2	4,4
4	Jizzakh Region	17,7	3,3	110,2	19,9	6,2
5	Kashkadaryo Region	37,8	3,2	270,1	22,1	7,1
6	Navoi Region	17,0	4,2	85,9	20,1	5,1
7	Namangan Region	53,8	5,0	194,9	17,3	3,6
8	Samarkand Region	78,0	5,5	339,2	22,6	4,4
9	Surkhandarya Region	36,7	3,7	194,1	19,2	5,3
10	Syrdarya Region	13,6	4,1	68,4	20,2	5,0
11	Tashkent Region	37,7	3,2	173,6	14,0	4,6
12	Fergana Region	63,0	4,4	229,7	14,8	3,6
13	Khorezm Region	26,2	3,7	137,9	17,8	5,3
14	Tashkent City	54,6	4,4	218,8	15,7	4,0

To solve these problems and further improve the system, the following specific measures are proposed:

1. It is necessary to expand the social protection system on a voluntary basis. For example, the government could support social tax payments

through subsidies: in the first year, it could cover 50% of the social tax, and in the second year, 30%, while the remaining amount would be paid by the individual. In addition, simplified pension and social insurance packages should be offered to self-employed individuals. These packages could



include basic protections such as sick leave, paid leave, and maternity leave in exchange for minimal monthly contributions.

2. Programs tailored to regional differences should also be created. For fast-growing regions like Qashqadaryo, Jizzakh, and Surkhandarya, special pilot projects should be developed — for example, launching credit systems to support self-employment in industries like agriculture or manufacturing. In areas with low self-employment

activity (such as Tashkent region), additional support is needed to encourage participation. This could include free online courses, network grants, and other incentive programs. These systematic approaches will help transform self-employment into a truly formal and socially protected form of employment. In turn, this will help reduce the level of informal employment, increase household incomes, and contribute to overall economic stability in the country.

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