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**ISSUES OF ILLEGAL FINANCIAL FLOWS AND SHADOW
ECONOMY**

***Abstract:** The article provides a classification of shadow budget flows in accordance with the directions of their transfer, discusses some modern problems of countering various illegal financial structures and flows in the Republic of Uzbekistan. The article clarifies the generally accepted definition of the shadow economy, its structure, main points, its share in GDP, its impact on the country's economy and budget revenues, foreign experience in recognizing and reducing the degree of the shadow economy and measures taken in our country. There are also proposals to reduce the level of the shadow economy in Uzbekistan.*

***Keywords:** shadow economy, illegal financial flows, criminal economy, market mechanisms, tax burden.*

“Fighting the shadow economy does not mean punishing entrepreneurs, hindering their activities. This is especially important during a pandemic. It is necessary to take strict measures against everyday corruption, strengthening public control at the local level”, Shavkat Mirziyoyev [13].

To our today's realities, the shadow economy has become one of the most acute problems on the path of development of our state, affecting absolutely all areas, especially the profitability of the state budget. In turn, the shadow economy is the secret production of material goods and services by companies, socio-economic relations between individuals and social groups. This relationship is a way to generate illegal income. Recently, the share of the shadow economy has tended to grow, which is most likely associated with

increased volatility in markets around the world. In such moments of heightened market volatility, the departure of more and more businesses into the “shadow” becomes a predictable scenario. Accordingly, the factors that lead to the emergence and growth of the shadow economy require identifying the problems that form their basis, as well as conducting scientific research based on foreign experience to eliminate it.

Since the beginning of the XXI century, not only new technologies and discoveries have arisen in various spheres of human life, but also new challenges and problems that humanity has to cope with. One of these problems is globalization, which is currently acting as a catalyst for the withdrawal of more and more funds into the shadow sector. This trend of increasing the volume of funds in the shadow turnover is also preceded by numerous global financial and economic crises, such as: The Dot-com crisis (2000-2003), the World financial crisis (2007-2009), the debt crisis in the EU (2010-2013) and, of course, the Crown Crisis (2020).

The shadow economy is mostly a negative phenomenon, which is the result of an insufficient level of development of economic, financial, legal and political relations and institutions in society, as well as worthy mechanisms of effective public administration. In most cases, businessmen conduct their business in the shadows due to high taxes, as well as the desire to receive excess profits. But this can turn into negative consequences for both the state and the entrepreneur. Identifying the sources of shadow cash flows, ranking them according to the degree of unfavorable results for the economy and the public system are considered important messages for conducting an effective fight against illegal activities. The globalization of the world space has led to a high dynamic of development, nonlinearity and self-organization of national economic systems. Considering the banking system as part of the economic system, it should be borne in mind that it is a large, complex, open and conscious system, which is under the influence of external and internal factors for a long time period and is a cyclical set of institutions that carry out banking

activities and perform the function of an internal managing them. In modern conditions, synergetic acts as a new stage in the development of a systems approach for open nonequilibrium systems. The new paradigm of economic thought makes it possible to move away from the limitations of dialectics.

Taxation reduces the marginal utility of productive labor and reduces production; the shadow economy raises the marginal utility of labor and increases production. But this comes with the risk of detection by government officials and agents and possible retaliation from courts and prisons. The risk is directly proportional to the productivity of the underground worker. This is minimal for the average worker who makes a few dollars by working off-schedule on weekends. His tax return may not even require an IRS inspection. But the weekend entrepreneur, who can make thousands of dollars in profit, is a moving target for auditors and, when it turns out that he is working in the underground economy, ready to be subject to fines and jail time. It's easy to foresee the wrath of a federal judge and the brutal punishment he is likely to give to a businessman who has evaded taxes on a million dollars [10].

In the process of preparing a scientific article, methods of comparative analysis of information based on tables, sorting of data, statistical grouping based on a systematic analysis of abstract-logical thinking, induction and deduction, as well as expert judgment were applied.

The scientific literature presents different interpretations from different authors regarding the concept of "shadow economy" (Table 1).

Table 1. Interpretation of the very concept of the shadow economy as a phenomenon at different times

№	Author	Year	Interpretation of the concept
1	E. Sutherland	1939	The shadow economy is an economic activity that contradicts the provided legislation, that is, it is a complex of illegal economic activities that fuel criminal offenses of varying severity.

2	G. Becker	1968	The shadow economy is the production, consumption, circulation and distribution of material goods, which are not taken into account by official statistics, as well as not controlled by society.
3	Yu. G. Alexandrov	1999	The shadow economy is all options for activities aimed at developing or satisfying needs that cultivate all kinds of vices in a person.
4	Yu. V. Latov	2001	The shadow economy is the financial ties of the people of society, spinning spontaneously, bypassing the existing state laws and general rules. The income of this business is withheld and is not a taxable economic activity.
5	A. Oleinik	2009	The shadow economy is a set of different types of economic relations and unaccounted for, unregulated and illegal types of economic activity.
6	A. M. Yakovlev	2015	The shadow economy is the production, distribution, exchange and consumption of commodity-material values, money and services, uncontrolled by the state and hidden from it.

The problem of combating money laundering has been studied by economists and lawyers for several decades. The works of a large number of foreign scientists, such as A.V. Kovalenko, E.Kh. Sutherland, G.S. Becker, A.N. Oleinik, A.M. Yakovlev, M.K. Belyaev, E.T. Gaidar, V.A. Zubkov, E.I. Ishchenko, D.M. Robinson, L.M. Timofeev, G.A. Tosunyan, A.V. Ulyukaev, O. I. Lavrushin and others. The aforementioned scientists introduced the term “money laundering” into scientific practice, defined the general laws of organizing criminal schemes and studied the main approaches to organizing systems for combating money laundering and terrorist financing, mainly from a legal point of view.

Domestic economists studied this issue not as a separate study, but as an article or in the context of economic security. In particular, some aspects of these problems were studied in scientific articles or textbooks of Uzbek scientists and economists Karimov, Isroilov, Khotamov, Islamov (2018), Abdulkasimov (2018), Artikova (2010), Ganiev (2010).

The Association of Chartered Certified Accountants (ACCA) conducted a 2017 study on assessing and forecasting the development of the global shadow economy, which also indicated the level of shadow economies of some major countries in 2017. Judging by the ACCA calculation, Azerbaijan has become the world leader in terms of the shadow economy in relation to GDP, and its share has reached 66%. The next places are occupied by Nigeria (48%), Ukraine (46%), Russia (39%) and Sri Lanka (38%) [7]. Unfortunately, our country was not included in this study.

Table 2. The share of the shadow economy to GDP in the countries of the world for 2017

<i>Country</i>	<i>Share of the shadow economy to GDP</i>	<i>Country</i>	<i>Share of the shadow economy to GDP</i>
Entire world	22,5%	USA	7,69%
Australia	11,09%	India	16,55%
Azerbaijan	66,12%	Italy	26,5%
Brazil	34,75%	Russia	39,29%
China	10,17%	Japan	9,89%
Canada	14,15%	Great Britain	11,29%

But, judging by the study of the Ministry of Economic Development and Poverty Reduction, the share of the shadow economy in the country was more than 52% [8]. This puts Uzbekistan in first place in Central Asia in terms of the share of the shadow economy to GDP. A similar indicator of the shadow economy is the number of informally employed people. According to World

Bank reports in 2019, the total number of people employed in Uzbekistan was 13.2 million. Of these, 7.9 million (59.8%) are informally employed and 5.3 million (40.2%) are formally employed. That is, more than half of the economically active labor force of the country is exposed to huge risks, that is, they do not have social insurance and are potentially underpaid taxes [6].

Accordingly, in 2018, the country adopted the Concept for Improving the Tax Policy of the Republic of Uzbekistan, according to which the tax burden on the wage fund was reduced by introducing a single tax rate on personal income of 12% for all citizens and canceling insurance contributions to the off-budget pension fund. Turnover taxes were optimized by abolishing mandatory contributions to state trust funds. The criteria for determining the tax regime have been changed. A procedure has been introduced for the payment of property tax, land tax and tax for the use of water resources by legal entities. At the same time, the property tax rate for legal entities has been reduced from 5% to 2%. The value added tax rate has been reduced from 20% to 15% from October 1, 2019 (for the first time since 1994). The tax rate on income from the source of payment of dividends and interest income has been reduced from 10 to 5 percent. As a result of these reforms, by 2019 the number of income tax payers will increase by 1.2 times, the number of income tax payers will increase by 5.8 times, the number of VAT payers will increase 12 times, the number of excise tax payers will increase by 3 times and the number of payers will increase by 7 times resource tax [12].

In conclusion, I would like to write here my vision of this situation and present a set of potential solutions for whitewashing (shading) the economy:

1) It is necessary to make VAT differentiated. Now it is 15% for everyone. It would be better if younger businesses could receive some benefits from this tax. In the end, VAT is levied on the final consumer, and this would increase the paying capacity of the population.

2) Give more freedom to business and begin even more ambitious reforms to liberalize the economy as a whole. It will be better if entrepreneurs work according to the principle “it is allowed to do everything that is not prohibited”.

3) Reduce bureaucratic pressure on business. At the moment, there are a considerable number of ineffective documents and acts that once again regulate the business, shackling and more and more pushing it to work in the shadows.

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