

## PROBLEMS IN DEVELOPING THE INCOME SOURCES OF THE SELF-EMPLOYED POPULATION AND THEIR SOLUTIONS IN MODERN ECONOMIES

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**Abstract.** This article provides a comprehensive scientific and theoretical analysis of the structural composition of the self-employed population, the specific features of the formation, diversification, and development of their income sources, and the systemic functional problems within the legal-economic framework under the conditions of modern macroeconomic structural reforms. Today, reducing the share of the informal labor market, transitioning from unregistered activities to formal business tracks, and increasing the material well-being of households relies heavily on the institutionalization of self-employment as a key economic mechanism. Nevertheless, there are a myriad of deep-rooted structural constraints inhibiting the sustainable growth of this segment's real income. These include highly restricted access to formal commercial financial-credit resources, an extremely low level of coverage by state and private social protection frameworks, high vulnerability to macroeconomic volatility, and a lack of fundamental financial, legal, and operational accounting literacy. The article thoroughly investigates these socio-economic barriers and puts forward a highly structured package of practical proposals and strategic recommendations aimed at stabilizing the income trajectories of self-employed individuals and creating institutional pathways for their gradual transformation into robust small business entities.

**Keywords:** self-employment, informal employment, income sources, social insurance, microcrediting, tax incentives, digital platforms, economic formalization, risk mitigation, human capital development.

**Introduction.** The institutional stability, long-term socioeconomic balance, and aggregate growth dynamics of any modern national economy are fundamentally contingent upon the structural integrity of its domestic labor market and the continuous provision of highly effective, productive employment for its citizens. In the current era of hyper-globalization, accelerated industrial shifts, and the pervasive penetration of cutting-edge digital technologies, traditional paradigms of fixed institutional employment are undergoing profound transformations. These tectonic shifts are giving rise to highly flexible, decentralized, and individualized models of labor activity. Within this expanding matrix of flexible labor, the institution of self-employment (independent economic agency) has emerged as an indispensable socioeconomic buffer and an engine for grassroots entrepreneurial initiative.

The capacity of individuals to independently harness their unique knowledge systems, specialized technical skills, and personal tools of production to generate sustainable financial streams represents an optimal strategy for mitigating cyclical labor market pressures, minimizing structural unemployment, and absorbing excess labor supply. In developing and transition economies, self-employment acts as a vital mechanism for poverty alleviation and financial inclusion, turning passive welfare dependency into active economic contribution. This shift is particularly crucial in nations characterized by rapid demographic growth, where the formal corporate and state sectors cannot expand at a rate sufficient to absorb the rising wave of young labor market entrants annually.

In the Republic of Uzbekistan, systematic and far-reaching institutional reforms have been launched over the recent historical period. These initiatives are explicitly directed at shrinking the

expansive informal sector, curtailing the underground shadow economy, and fostering a favorable environment for citizens' autonomous commercial initiatives. By establishing clear legal definitions, simplifying registration procedures via mobile applications, and enacting unprecedented fiscal and tax immunities, the state has provided strong incentives for independent workers to regularize their status. This legislative framework has created a wave of formalizations across multiple economic sectors.

To date, millions of Uzbek citizens have officially formalized their commercial activities, entering vibrant segments of the economy including digital freelance services, traditional craftsmanship, localized information technology consulting, small-scale intensive agriculture, and customized household amenities. However, from an advanced economic perspective, a sharp quantitative surge in the nominal registry of self-employed individuals does not automatically translate into a qualitative optimization or long-term stability of their actual income. The structural configuration of self-employed income generation remains constrained by deep-seated systemic, operational, and financial frictions.

These ongoing impediments include a profound deficit in tailored micro-financial instruments, severe exposure to unmitigated socio-economic shocks due to a lack of social safety nets, high vulnerability to seasonal fluctuations, and weak bargaining power within monopolistic market structures. Consequently, a comprehensive scientific and empirical interrogation of these systemic barriers, alongside the engineering of optimized remedial economic mechanisms, possesses immense scholarly relevance and urgent practical policy significance for the nation's ongoing economic development.

The theoretical conceptualization of self-employment and informal labor dynamics has been a subject of intense debate among leading economic thinkers for centuries. Adam Smith, in his seminal work 'An Inquiry into the Nature and Causes of the Wealth of Nations' (1776), underscored the primary importance of individual labor and personal economic initiative as the bedrock of aggregate national wealth and market equilibrium. Smith posited that when an individual is free to deploy their labor and capital in competition with others, an 'invisible hand' optimizes resource allocation, driving innovation and elevating societal welfare. In the context of self-employment, Smith's theories validate the idea that independent agents, operating with personal accountability, possess strong incentives to maximize productivity and efficiency.

In modern economic literature, the socio-economic vulnerabilities of independent, non-traditional workers have been deeply re-examined. Guy Standing, in his influential treatise 'The Precariat: The New Dangerous Class' (2011), illuminated the emergence of a distinct global socioeconomic class characterized by acute employment insecurity, a complete absence of occupational identity, and systematic exclusion from state-mandated social protection benefits. Standing argued that while flexibility in labor markets offers certain operational efficiencies for macro-economies, it simultaneously transfers systemic economic risks entirely onto the shoulders of individual workers. This 'precariatization' is highly visible among the self-employed population in developing countries, where independent labor often masks underemployment and lacks long-term financial stability or social safety guarantees.

Furthermore, contemporary global research conducted by the International Labour Organization (ILO, 2023) in reports titled 'Women and Men in the Informal Economy: A Statistical Picture' demonstrates that informal and self-employed labor structures still encompass more than 60% of the global workforce, with a high concentration in developing regions. The ILO highlights that the primary challenge for this global cohort is not merely legal registration, but the stubbornly low quality of the income generated, the absence of capital accumulation mechanisms, and a structural gap preventing these independent workers from accessing mainstream commercial financial services. This extensive body of international scholarship confirms that transitioning self-

employment from a survival strategy to an accumulation strategy requires active, targeted institutional interventions by state authorities.

This research paper utilizes a multi-dimensional methodological approach combining qualitative and quantitative economic analysis. The empirical basis of the study relies on detailed statistical data, analytical reviews, and performance indicators compiled by the Ministry of Poverty Alleviation and Employment of the Republic of Uzbekistan covering the recent historical cycles. The theoretical framework integrates core principles of labor economics, institutional economics, and public finance theory to diagnose the underlying causes of income stagnation among independent workers.

To evaluate the structural challenges faced by self-employed individuals, a comparative qualitative mapping technique was deployed, categorizing macro-impediments into specific thematic vectors: financial constraints, social security deficits, and human capital deficiencies. Each vector was analyzed based on its underlying economic mechanisms and its direct, measurable impact on the revenue streams and long-term stability of independent operators. This systemic diagnostic model allows for the creation of policy recommendations that match the specific economic realities of transition economies.

According to the current statutory legislation and regulatory decrees of the Republic of Uzbekistan, self-employed persons are defined as individual citizens who independently generate financial income by executing specialized works or rendering commercial services to individuals and organizations, without being registered as formal individualized business entities (such as sole proprietorships), and strictly on the condition that they do not employ salaried, hired laborers. To accelerate the formalization of the domestic labor market, the government has progressively expanded the scope of permissible self-employed operations, now authorizing engagement in more than 100 distinct occupational fields.

Crucially, under the Tax Code of the Republic of Uzbekistan, all legitimate revenue generated by certified self-employed individuals is completely exempt from personal income tax (PIT). This radical fiscal policy choice acted as a powerful incentive, driving millions of citizens out of the unregulated 'shadow' economy into the official, transparent state registry. By legalizing their status, independent workers gained an official identity, protecting them from administrative harassment and laying a foundation for formal financial interaction. However, despite these sweeping regulatory improvements, practical evidence indicates that severe systemic bottlenecks continue to hinder the capacity of self-employed citizens to achieve sustainable income growth, accumulate capital, and expand their economic activities.

To design viable solutions, we must systematically dissect the primary structural barriers that restrict the financial advancement of the self-employed segment. These barriers are not isolated issues, but are interconnected institutional frictions that lock independent workers into low-productivity cycles.

First, Limited Access to Capital and Financial Credit Services (Financial Constraints). Because self-employed persons lack the formal status of a legal corporate entity and do not maintain structured, audited accounting records or standard balance sheets, mainstream commercial banking institutions generally view them as high-risk, un-bankable clients. Consequently, traditional commercial business credit lines, which feature favorable terms and extended maturities, are routinely denied to them. The micro-financial products currently available in the marketplace are tightly restricted in volume, carry short repayment timelines, and feature high interest rates. These expensive, small-scale credit lines are entirely inadequate for financing substantial capital investments, such as purchasing modern industrial equipment, advanced machinery, or commercial real estate, thereby forcing self-employed individuals to remain confined to low-scale operational capacities.

Second, Severe Deficits in Social Protection and Institutional Safety Guarantees (Lack of Social Security). Under current legislative guidelines, self-employed persons can voluntarily build a recognized formal employment history by remitting a modest social tax once per annum, calculated relative to the national Base Calculated Value (BCV). However, empirical data reveals that the actual rate of social insurance coverage among this cohort remains dangerously low. Because they lack structural access to mandatory corporate benefits like paid medical sick leave, state-subsidized maternity allowances, and paid annual vacations, these individuals face severe precarity. Any sudden health disruption, temporary incapacity, or broader macroeconomic shock immediately results in the total, catastrophic cessation of their primary income streams, rapidly pushing vulnerable households toward financial distress.

Third, Low Technological Equipment and Depreciated Human Capital. A substantial majority of self-employed labor resources operate within low-technology spaces, relying heavily on intensive manual effort or obsolete tools. Furthermore, there is a pronounced deficit in critical modern business skills, including tactical digital marketing, brand development, basic accounting principles, and the strategic utilization of digital marketplaces (e-commerce platforms) to diversify customer bases. This lack of specialized competencies suppresses average labor productivity, limiting independent operators to low-margin localized markets where the economic value-added of their products or services remains minimal.

The core structural challenges and functional frictions described above can be mapped into an analytical taxonomy to illustrate how specific institutional failures directly impair the income stability of self-employed workers.

| Type of Problem                    | Systemic Socio-Economic & Institutional Essence                                                                                                 | Direct Negative Impact on Income and Financial Stability                                                                                        |
|------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| Credit & Capital Shortage          | Inability to secure formal commercial business loans or attract low-cost capital due to a lack of collateral and certified financial histories. | Prevents strategic business expansion, capacity modernization, and scaling, trapping workers in small-scale, survivalist operational cycles.    |
| Social Insurance Deficit           | Absence of structured social safety nets, institutional medical coverage, sick leave allowances, and formal unemployment safety mechanisms.     | Exposes independent workers to high risk; cyclical crises or health shocks instantly drive personal and household incomes to absolute zero.     |
| Technological & Marketing Weakness | Over-dependence on intensive manual labor, lack of modern branding, and inability to bypass predatory localized middle-men networks.            | Forces workers to sell output below market values, suppressing profit margins while the primary economic surplus is captured by intermediaries. |

*Table 1: Detailed Taxonomy of Economic Obstacles Facing the Self-Employed Workforce.*

To achieve a durable, sustainable increase in the real income streams generated by the self-employed population, it is imperative to execute comprehensive structural reforms that modernize their legal and financial status within the broader economy. Rather than treating self-employment as a static, permanent pool of low-tier labor, public policy must view it as an active incubator for

future micro- and small enterprises. Achieving this paradigm shift requires the implementation of targeted institutional mechanisms.

First, we recommend the integration of alternative digital data into formal banking credit-scoring frameworks. The state should introduce mechanisms whereby verified transaction data, digital invoice tracking sheets, and verified revenue logs generated on authorized e-government service systems (such as my.gov.uz or integrated payment applications) are legally recognized as valid financial records by commercial banking institutions. When an independent worker's digital footprint demonstrates consistent, stable monthly cash flows, this data should serve as a sufficient risk-assessment basis to unlock specialized, low-interest, and collateral-free commercial micro-loans. This reform would allow industrious individuals to bypass traditional collateral requirements, empowering them to invest in productivity-enhancing assets.

Second, the structural attractiveness and accessibility of social insurance mechanisms must be fundamentally enhanced. Drawing on successful international models, the government should consider subsidizing a percentage of the annual social tax contributions made by registered self-employed individuals, particularly targeting vulnerable groups such as youth and female entrepreneurs. Concurrently, the state should collaborate with private insurance providers to design modular, flexible medical and income-protection packages funded through specialized corporate mutual funds. Introducing these structural safety nets reduces household vulnerability, boosting long-term confidence among citizens who choose independent paths of economic self-reliance.

**Conclusion.** In conclusion, the strategic transition of a national workforce away from informal survival practices toward structured, value-generating economic models represents a critical milestone in sustainable macroeconomic development. The exhaustive analysis presented in this study demonstrates that while the formalization of self-employed individuals via tax exemptions is an excellent initial policy step, it is inherently insufficient on its own to drive long-term, compounding income growth or capital accumulation. If the deep-seated systemic barriers of formal credit exclusion, social precarity, and technological or educational stagnation are left unaddressed by policy-makers, the self-employed segment will remain an economically volatile labor pool that covers only basic survival needs.

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