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INSTITUTIONAL IMPLEMENTATION, FISCAL IMPACT, AND KPI-BASED GOVERNANCE OF INFORMAL EMPLOYMENT REDUCTION POLICY IN UZBEKISTAN

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Abstract. Reducing informal employment requires not only accurate statistical measurement but also a robust institutional mechanism capable of translating measurement into policy action. This article examines the operational architecture of a national methodology for identifying informal jobs, the weighted estimation procedure applied to labour force survey data, and the fiscal impact assessment framework used to quantify the potential tax and social-insurance revenue foregone as a result of informality. It further analyses the institutional distribution of responsibilities among state bodies, the phased implementation plan, and the key performance indicator (KPI) system designed to convert formalization targets into an accountable management instrument. The article draws on the experience of Germany, China, and Turkey in applying job-level classification algorithms, and on Mexico and Brazil in cross-verifying income and expenditure data to detect concealed informal income.

Keywords: informal employment, fiscal impact assessment, formalization policy, key performance indicators.

1. Introduction

Beyond its statistical dimension, informal employment carries direct fiscal and institutional consequences: workers engaged informally generally do not pay income tax or social insurance contributions on the corresponding earnings, so that a portion of potential state budget and social insurance fund revenue never materializes. Addressing this gap requires a methodology capable of doing three things simultaneously — identifying informal jobs at the level of the individual workplace, translating labour force survey results into nationally representative estimates through appropriate weighting, and quantifying the fiscal consequences of informality in a manner that supports evidence-based policy design. This article addresses each of these components in turn and situates them within a broader institutional and performance-management framework, with reference to the practice of several countries that have implemented comparable systems.

2. Job-Level Classification: The Decision-Logic Algorithm

Informality is determined not at the level of the enterprise but at the level of the individual job, since even officially registered enterprises may employ some workers informally. For example, a registered construction company may report five or six permanent staff in its official filings while simultaneously engaging temporary workers on site without contracts or social insurance contributions; the latter positions are properly classified as informal jobs notwithstanding the formal status of the enterprise itself.

The classification procedure proceeds through a sequential decision algorithm. First, whether the individual is employed at all is established. Second, if employed, it is determined whether social insurance contributions are being paid on the person's behalf; if so, the job is classified as formal. Third, if contributions are not being paid, the existence of a written employment contract is examined: where a contract exists but contributions are absent, the job is classified as partially informal; where neither a contract nor contributions exist, the job is classified as fully informal. This two-criterion sequential logic — social insurance coverage and contractual status — minimizes subjectivity in classification and yields a consistent basis for calculating the shares of formal, partially informal, and fully informal employment across the economy.

Certain sectors exhibit structurally higher informality risk owing to seasonality and the prevalence of short-term engagements, most notably construction, agriculture, and retail trade. In the case of Uzbekistan specifically, segments identified as carrying elevated informality risk include temporary and day-labour construction workers, seasonal agricultural workers, market and small-scale retail traders, domestic service providers, unregistered passenger transport operators, individuals trading or providing services through social media platforms, and temporary employment linked to labour migration. The emergence of platform-based economic activity — ride-hailing, social-media commerce, online services, and remote freelance work — has introduced new, often statistically under-captured, forms of informal engagement that require dedicated monitoring instruments within the broader survey framework.

International practice corroborates the value of job-level classification. In Germany, the integration of employment-contract and social-insurance data has been used to detect hidden informal employment while maintaining a comparatively high degree of labour-market formalization. In China, the registration of jobs combined with mandatory enrolment in social insurance has supported the expansion of formal employment. In Turkey, informal jobs are identified through the combined use of labour force survey data and tax records, enabling a gradual reduction in informality over time. Similar approaches based on digitized employment registration and integrated social-insurance databases have supported formalization gains in other transition economies within the region.

3. Weighted Estimation of the National Informality Level

Because labour force surveys observe only a sample of the population, sampling weights are required to project sample-based findings onto the national population. Each respondent's weight indicates the number of persons that respondent statistically represents, based on the sample design, selection probability, and the regional and demographic structure of the population. The number of persons in informal employment is calculated as:

$$NE = \Sigma\,(wi \times informal_jobi)$$

where wi is the sampling weight of respondent i and informal_jobi takes the value 1 if the corresponding job is informal and 0 if it is formal. For example, if three sampled respondents are classified as informally employed and represent, respectively, 1,200, 800, and 1,000 persons in the underlying population, the estimated number of informally employed persons is 3,000; if total employment is estimated at 10,000, the implied informal employment rate is 30 per cent. Without such weighting, survey findings would remain confined to the sampled respondents alone and would not represent the labour market as a whole; weighted estimation is therefore a fundamental methodological requirement for credible national-level informality statistics. Results obtained

through this procedure are treated as estimates subject to a defined statistical margin of error and are updated annually.

4. Fiscal Impact Assessment

4.1. Value Added Generated through Informal Employment (IVA). Informal employment is not solely a social or statistical concern; it also generates measurable economic output. Within the System of National Accounts, informal economic activity is treated as part of overall production, and the value added attributable to informal employment can be estimated using the production approach:

$$IVA = GO - IC$$

where GO is the gross output of goods and services produced through informal employment and IC represents the intermediate consumption incurred in that production. The relative macroeconomic weight of informal activity is expressed as:

$$IVA\ share = (IVA / GDP) \times 100$$

In an illustrative example, if national GDP equals 100 billion currency units and the value added generated through informal employment equals 20 million units, the IVA share equals 0.02 per cent — a stylized figure intended purely to demonstrate the calculation procedure. Quantifying this share allows policymakers to gauge the scale of unrecorded economic activity and to assess the potential gains from bringing such activity into the formal economy, including an expanded tax base.

4.2. Potential Fiscal Revenue from Formalization (FL). The fiscal cost of informality can be estimated through conditional calculations that project the additional tax and social-insurance revenue that would accrue if informally employed persons were formalized. Potential annual income-tax revenue is calculated as:

$$FL = NE \times AW \times 12 \times TR$$

where NE is the number of informally employed persons, AW is average monthly income, and TR is the applicable income tax rate. The corresponding potential social-insurance revenue is:

$$FL_sp = NE \times AW \times 12 \times SR$$

where SR is the social insurance contribution rate, and total potential fiscal impact is:

$$FL_total = FL + FL_sp$$

In an illustrative scenario with NE = 10,000, AW = 2,000,000 currency units, TR = 12 per cent, and SR = 12 per cent, FL and FL_sp each equal 28.8 billion units, yielding FL_total = 57.6 billion units. These figures are presented solely to illustrate the calculation methodology and are not empirical estimates for any specific economy. Such calculations enable authorities to forecast additional tax revenue attainable through formalization, evaluate the economic efficiency of formalization programmes, and incorporate expected fiscal gains into medium-term budget planning.

4.3. Formalization Scenario Analysis. Because formalization is necessarily a gradual process, scenario analysis is used to project the fiscal and economic consequences of formalizing defined shares of the informally employed population — typically 10, 20, and 30 per cent — while taking into account labour-market absorption capacity, projected economic growth, sectoral composition, and the ability of the formal sector to accommodate new jobs. This scenario-based approach allows policymakers to identify which formalization pathway yields the greatest fiscal and economic return

and to calibrate policy instruments accordingly, replacing broad qualitative judgements with quantified projections.

4.4. Related Indicators: The Wage Gap and Shock Sensitivity. The average wage gap between formal and informal employment is calculated as SWG = AW_formal − AW_informal; in an illustrative case with a formal average wage of 3,000,000 units and an informal average wage of 2,200,000 units, SWG equals 800,000 units, underscoring the income-stability advantage associated with formal employment. Sensitivity to macroeconomic shocks is assessed through the informality elasticity, IE_elasticity = (percentage change in IE / percentage change in GDP), and through the vulnerable-employment shock coefficient, VE_shock = VE_crisis − VE_base; in an illustrative case where vulnerable employment rises from 18 to 26 per cent during an economic downturn, VE_shock equals 8 percentage points, indicating a measurable deterioration in employment stability during periods of economic stress.

5. Institutional Framework and Implementation Mechanism

Effective implementation of the methodology requires a clear allocation of responsibilities among state bodies and coordinated inter-agency cooperation. The ministry responsible for poverty reduction and employment functions as the principal coordinating body, formulating national formalization policy, overseeing methodology implementation, and monitoring KPI achievement. The national statistical agency serves as the primary calculating authority, conducting labour force surveys in accordance with the methodology and integrating administrative data into official statistics. A dedicated research institute provides scientific and analytical support, including econometric analysis and policy recommendations. Tax authorities supply data relevant to the fiscal dimension of informality, while social insurance and pension bodies supply coverage data required to compute social protection indicators. An inter-agency working group, operating under the coordination of the Cabinet of Ministers, ensures data integration and methodological consistency across all participating institutions.

Implementation proceeds in four phases. In the initial phase (0–6 months), technical and organizational foundations are established, including the updating of survey questionnaires and the standardization of calculation algorithms. In the second phase (one year), the first national report is prepared and indicators are incorporated into official statistics. In the third phase (three years), regional and sectoral analysis is deepened and the effectiveness of formalization policy is assessed. In the fourth phase (five years), the overall effectiveness of state policy is comprehensively evaluated and the methodology itself is reviewed against evolving international standards.

6. The KPI System as an Accountability Mechanism

To convert measurement into governance, the methodology introduces a system of key performance indicators covering the reduction of the informal employment rate, the reduction of vulnerable employment, the expansion of social protection coverage, and the contraction of the informal sector's share of economic activity. Target indicators are set relative to a defined base year and are revised periodically in light of updated statistical results, labour-market capacity, and projected economic growth; targets are also aligned with medium-term fiscal strategy to ensure that formalization objectives are consistent with the government's broader economic policy stance.

Crucially, the KPI system incorporates a corrective feedback loop: where actual performance deviates from the target level by three percentage points or more, the responsible authorities are required to conduct a causal analysis and design corrective measures. This feature transforms the

KPI framework from a passive statistical record into an active management instrument, and KPI outcomes are integrated into the broader performance evaluation of responsible institutions, thereby reinforcing institutional accountability for formalization outcomes.

7. International Alignment and SDG Integration

The methodology is designed to be consistent with the statistical standards of the ILO and the International Conference of Labour Statisticians, thereby enabling cross-country comparison of labour-market outcomes. Results generated under the methodology feed directly into the monitoring of Sustainable Development Goal indicator 8.3.1 (the proportion of informal employment in total employment) and are linked to SDG 1 (poverty reduction), SDG 5 (gender equality), and SDG 10 (reduced inequalities). Regional and global benchmarking against countries with comparable income levels and economic structures allows policymakers to identify which international experiences are most transferable to the domestic context and to prioritize reform efforts accordingly.

8. Conclusion

A statistically sound measurement framework for informal employment realizes its full policy value only when embedded within a functioning institutional and fiscal governance structure. The job-level classification algorithm, the weighted estimation procedure, and the fiscal impact model together provide a coherent quantitative basis for assessing both the scale and the economic consequences of informality, while the phased implementation plan and the KPI-based accountability mechanism ensure that formalization targets translate into monitorable institutional action.

International experience across a range of country contexts confirms that combining precise measurement with clear institutional responsibility and performance-based governance is a prerequisite for sustained progress in reducing informal employment, expanding social protection coverage, and strengthening the fiscal foundations of the state.

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