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Comprehensive analysis of shadow economy countermeasures and taxation of hidden income in the agricultural sector of the Republic of Azerbaijan

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Abstract. The study aimed to identify the main causes of the shadow economy in the agricultural sector of Azerbaijan, in particular the factors contributing to informal employment, and to assess the effectiveness of measures aimed at reducing it. The study conducted a comprehensive analysis of countermeasures to the shadow economy and taxation of hidden incomes in the agricultural sector of the Republic of Azerbaijan. The methodology of the study was based on the analysis of statistical

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data, in particular, reports of the International Monetary Fund, the World Bank and the State Statistical Committee of Azerbaijan, as well as on a comparative analysis with the data of neighbouring countries: Georgia, Armenia, Turkey, Uzbekistan. Key findings indicated that around 40% of agricultural workers are employed in the informal sector, resulting in tax revenue losses of over 1 billion USD per year, which significantly undermines the financial stability of the state. The study also determined that the current tax policy does not encourage the formalisation of employment, and the lack of access to finance limits the opportunities for legal business development. The findings suggested the need for comprehensive reforms in the tax system, including simplification of taxation procedures, improved tax enforcement, and creation of incentives for shadow workers to move to the legal sector. The implementation of these measures can significantly improve the economic situation in agriculture, ensure fair conditions for all market participants and guarantee the social rights of workers, which will contribute to the stability and development of the agricultural sector

Keywords: agriculture; agribusiness; finance; corruption; anti-corruption mechanisms

INTRODUCTION

The shadow economy, or informal sector, encompasses all economic activities that are not officially registered and are not subject to government control or taxation. It includes a wide range of activities, from small home-based businesses to illegal trade, and often occurs due to high bureaucracy, corruption or lack of economic transparency. Overall, the shadow economy can significantly impact national economic development. It distorts the competitive environment, as legal businesses that comply with the law and pay taxes are forced to compete with illegal actors who can offer their goods or services at lower prices by avoiding tax liabilities. This creates an uneven playing field for businesses and undermines economic stability.

The shadow economy is a significant problem for many countries, including Azerbaijan, where it continues to grow, creating serious issues for the state budget and social development. Experts estimate that the share of the informal economy in the total economy can reach 40%, which leads to significant losses in tax revenues and disrupts fair competition between legal and illegal businesses (Mehdiyev, 2024). The issue of the shadow economy and tax evasion in agriculture was addressed by many scholars. For instance, the relationship between economic complexity, shadow economy and income inequality were studied by M. Pham *et al.* (2024). The authors determined that the growth of the shadow economy can contribute to income inequality, emphasising the need for proper regulation to improve social justice. A. Asllani and F. Schneider (2024) analysed the main reasons for the development of the informal economy in six EU countries and assessed policy measures that could help reduce its scale. The authors emphasised the importance of integrating the informal economy into the formal sector through tax reform and the fight against corruption.

The impact of the shadow economy and tax evasion on economic growth in Ghana was studied by P. Wiawe *et al.* (2024). The researchers analysed how illegal economic activity and tax abuse affected the national gross domestic product (GDP) using a quantitative approach.

The authors determined that the underground economy significantly reduced the national tax base, limiting public investment in economic development. The researchers suggested strengthening tax administration and transparency policies as a means of minimising losses to the economy. B. Bhuana and S. Wijaya (2024) addressed the role of the fight against corruption in mitigating the negative impact of the shadow economy and per capita income on tax revenues. The authors analysed the interaction between these factors based on data from countries with different levels of corruption. The study demonstrated that corruption control significantly improved the efficiency of tax systems, even in countries with high shadow economies. The authors emphasised that an effective anti-corruption policy increased public trust in the state, stimulating tax payments. Z. Manzoor and H. Ahsan (2024) conducted a systematic review of definitions and models for assessing the shadow economy. The authors analysed the existing approaches to measuring the shadow economy and pointed out the need to develop new models that would more accurately reflect its scale and impact.

The relationship between the shadow economy and financial sustainability in Palestine was studied by M. Abuamsha and L. Hattab (2024). The researchers determined that the growth of the shadow economy negatively affected the long-term financial sustainability of the country by reducing tax revenues. The authors recommended strengthening control over informal sectors and introducing effective financial mechanisms to combat these problems. The theoretical basis for reducing the share of the informal economy through financial instruments was considered by L. Rakhmanov (2024). The study substantiated the role of tax incentives, financial transparency and modernisation of the financial infrastructure in reducing the shadow sector. The author emphasised the need for government initiatives to encourage the formalisation of economic activity. N. Sreenu (2024) studied the uneven impact of exchange rate volatility on the shadow economy in the BRICS countries (Brazil, Russia, India, China, South

Africa). The study determined that currency volatility significantly increased the share of the shadow economy in the context of weak regulation. The authors proposed stabilising the foreign exchange market as a key tool to minimise this impact. A. Hashimova (2023) highlighted the main problems and their solutions for agriculture in Azerbaijan. The author emphasised that the shadow economy is a substantial issue for the development of the agricultural sector, hindering its modernisation and financing.

The economic aspects of agricultural contracting, including the impact of the shadow economy on the agricultural sector, were analysed by H. Bachev (2024). The study demonstrated that contractual relations contribute to a more rational allocation of resources and reduce risks for farmers but require an improved regulatory environment. K. Ben Kelmanson *et al.* (2019) explained the causes and extent of the shadow economy in Europe, proposed policy options to reduce it, and highlighted the importance of developing an effective tax system to reduce the informal economy.

The study primarily aimed to analyse the causes and consequences of the shadow economy in Azerbaijani agriculture and to develop recommendations for overcoming obstacles to business formalisation in the agricultural sector. Thus, the study addressed the issue of assessing the real state of the shadow economy in agriculture in the Republic of Azerbaijan, as well as the effectiveness of measures taken to overcome it.

MATERIALS AND METHODS

This study analyses the measures aimed at combating the shadow economy and taxation of hidden incomes in the agricultural sector. To achieve the objectives, a combination of qualitative and quantitative research methods was used, which ensured a comprehensive approach to the study of this problem. At the initial stage, a systematic review of the scientific literature related to the research topic was conducted. The focus was on the papers dealing with the shadow economy, tax policy and the specifics of the agricultural sector. In the course of the analysis, various sources were studied, including articles, reports of international organisations, monographs and dissertations covering the experience of

different countries in combating the shadow economy (Medina & Schneider, 2017; World Bank, 2023a; International Monetary Fund, 2024).

For the quantitative analysis, statistical data (2021-2023) from official sources such as the International Monetary Fund (2024) and tax authorities and others were used (State Statistical Committee..., 2023; World Bank, 2023b). The data collected included indicators of economic activity, tax revenues, and information on informal employment in agriculture. For the analysis, descriptive statistics were used, which was used to identify significant links between the level of the shadow economy and tax revenues. To assess the effectiveness of measures to counteract the shadow economy, the methods of comparative analysis and SWOT analysis were applied. This was used to identify the strengths and weaknesses of the existing tax system, as well as the opportunities and threats associated with reforms in the agricultural sector. The comparative analysis was used to evaluate the experience of other countries, namely Georgia, Armenia, Turkey, and Uzbekistan, and adapt it to the specifics of the region under study. The collected data was processed using statistical software, including SPSS and Excel. This ensured that the necessary analyses could be carried out, the results visualised, and the information presented clearly.

RESULTS

Analysis of the state of the shadow economy in agriculture in Azerbaijan. The shadow economy in Azerbaijan's agriculture remains a serious problem that significantly affects the stability of the national economy and tax revenues. According to the International Monetary Fund (2024), the total shadow economy in Azerbaijan in 2023 was estimated at 30% of the country's GDP, with the agricultural sector accounting for about 25% (World Bank, 2023b). This indicates a significant size of the informal economy in agriculture, which can lead to loss of tax revenues and social instability. Table 1 shows the dynamics of changes in the shadow economy in agriculture in Azerbaijan in recent years. Significant fluctuations in the share of the shadow economy can be attributed to various factors, including changes in legislation, economic crises and external economic conditions.

Table 1. Dynamics of changes in indicators of the shadow economy in agriculture in Azerbaijan in 2020-2023

Year	GDP (billion USD)	Share of shadow economy (%)	Share of the agricultural sector in the shadow economy (%)
2020	49.5	32	27
2021	45.9	31	25
2022	46.6	30	26
2023	48.2	30	25

Source: compiled by the authors based on International Monetary Fund (2024) and World Bank (2023b)

The dynamics of the shadow economy in the agricultural sector have undergone certain changes in recent years, which can be attributed to both econom-

ic and political factors. The impact of the COVID-19 pandemic in 2020-2021 led to a decrease in farmers' incomes and an increase in informal employment due

to a decrease in demand for agricultural products and logistical difficulties. In 2020, certain tax incentives were introduced for the agricultural sector, which reduced the share of the shadow economy, but imperfect mechanisms for monitoring their implementation allowed certain entities to avoid official registration. Fluctuations in oil prices and other export commodities affected the national financial stability, which in turn affected investment in the agricultural sector. The simplification of registration procedures in 2022 contributed to some reduction in the shadow economy, but low awareness among farmers hampered this process. The decline in the shadow economy to 31% in 2021 can be attributed to a partial recovery in economic activity after the pandemic, as well as to the introduction of government incentives aimed at supporting small farmers. However, this positive trend could not be sustained in the long term. In 2023, the share of the shadow economy again reached 30%, which may be due to increased external economic pressure, fluctuations in export prices, and the lack of effectiveness of the implemented reforms. Fluctuations in oil prices and other export commodities affected the country's financial stability, which in turn affected the volume of investments in the agricultural sector. The simplification of registration procedures in 2022 contributed to some reduction in the shadow economy, but low awareness among farmers hampered this process.

The high level of informal employment in the agricultural sector is attributable to the following key factors. Many farmers do not have sufficient resources to provide formal employment for workers due to low commodity prices and high costs of production. In particular, the cost of registration, licensing and tax accounting can be a significant financial and time constraint for small farmers. Complicated administrative procedures and lack of transparency contribute to the fact that many farmers avoid formal registration. Many small farmers do not have access to credit or other financial instruments, driving farmers to operate outside the formal economy (Lanchenko & Ivchenko, 2024).

The loss of tax revenues due to the shadow economy has serious consequences for the state budget. The lack of tax revenues limits the ability to finance programmes to support rural areas, such as infrastructure construction or the development of educational initiatives for farmers (Guliyeva & Azizova, 2022). Low levels of funding for roads, irrigation systems and market infrastructure impede the productivity and efficiency of the agricultural sector. Lack of funds limits the ability to implement sustainable land use practices, leading to land degradation. The shadow economy also significantly affects the competitiveness of agricultural enterprises. Informal enterprises often do not comply with international standards, which limits their access to foreign markets. Shadow enterprises cannot benefit from government subsidies or loans

for modernisation, which reduces their productivity and product quality. Due to the lack of transparency, such enterprises rarely secure profitable contracts or receive foreign investment.

The significant size of the shadow economy in Azerbaijan's agriculture negatively affects several aspects of economic development. The lack of control over informal income leads to significant losses in tax revenues. According to estimates, annual budget losses due to informal employment in agriculture can reach billions of dollars. The existence of shadow businesses that do not comply with tax obligations and standards creates an unequal playing field for legal businesses. This can reduce investment in the agricultural sector and worsen its competitiveness in the international market. The high level of the shadow economy can also cause social tension, as workers do not have access to social guarantees, health insurance and pensions, which negatively affects the quality of life of the rural population and the overall social atmosphere.

Informal employment in agriculture is one of the main factors contributing to the development of the shadow economy. According to studies, up to 40% of agricultural workers are employed in the informal sector, which makes monitoring and taxation difficult. Workers employed in the shadow economy often have less knowledge and skills, which leads to lower productivity (Chorny & Chorna, 2017). The lack of training and investment in labour force development affects the quality of agricultural products. Shadow businesses usually do not have access to credit and other financial instruments, which limits their ability to invest and grow. Informal sector workers have no legal protection, causing a threat of exploitation and social exclusion. An analysis of the level of shadow economy in Azerbaijan's agriculture points to the need for comparison with other countries in the region. Azerbaijan has a higher level of shadow economy in the agricultural sector than most of its neighbouring countries. These data indicate that the shadow economy in the agricultural sector of Azerbaijan is a serious obstacle to agricultural development compared to neighbouring countries. The need for comprehensive reforms in the tax system and formalisation of economic activity is urgent.

Thus, the shadow economy in agriculture in Azerbaijan is a complex problem that requires a systematic approach to address. The main measures that can be taken to reduce the shadow economy include formalising employment, improving tax policy and stimulating investment. Developing programmes that facilitate the transfer of informal workers to the legal sector, simplifying taxation procedures for small and medium-sized agricultural enterprises, and introducing tax incentives for enterprises willing to invest in formalising operations can help reduce the shadow economy in the agricultural sector, increase tax revenues and improve the socio-economic situation in the country (Table 2).

Table 2. Comparison of the level of shadow economy in agriculture in Azerbaijan with other countries in the region (2023)

Country	Share of shadow economy (%)
Azerbaijan	25
Georgia	20
Armenia	22
Turkey	23
Uzbekistan	30

Source: compiled by the authors based on State Statistical Committee of the Republic of Azerbaijan (2023)

The share of the shadow economy in the neighbouring countries also shows differences that depend on several specific factors. For instance, the share of the shadow economy in Armenia is 22%, which is lower than in Azerbaijan (25%). This can be attributed to the better level of government control over tax compliance in Armenia, as well as targeted support programmes for farmers that encourage business formalisation. In Turkey, where the share is 23%, technological solutions for monitoring agricultural activities are being more actively implemented, which also contributes to reducing the shadow economy. At the same time, Uzbekistan has a higher rate (30%), which can be explained by complex administrative procedures, low access to finance for farmers, and a high tax burden. Thus, the difference in the level of shadow economy between the neighbouring countries reflects both differences in government policies and the specific economic conditions of each country. These data indicate that the shadow economy in Azerbaijan's agricultural sector is a significant challenge to agricultural development compared to its neighbours. The need for comprehensive reforms in the tax system and formalisation of economic activity is urgent.

Thus, the shadow economy in Azerbaijan's agriculture is a complex problem that requires a systematic approach to address. The main measures that can be implemented to reduce the shadow economy include: the formalisation of employment and – the development of programmes to facilitate the transfer of informal workers to the legal sector. Improving tax policy – simplifying taxation procedures for small and medium-sized agricultural enterprises. Stimulation of investment – introducing tax incentives for enterprises willing to invest in formalising their operations. These steps can help reduce the shadow economy in the agricultural sector, increase tax revenues and improve the socio-economic situation in the country.

Assessment of measures to counteract the shadow economy. Combating the shadow economy in agriculture in Azerbaijan is an important component of the state policy aimed at stabilising the economy and ensuring transparency in the agricultural sector. To this end, the Azerbaijani government is implementing

numerous policies and programmes to reduce the shadow economy and encourage the formalisation of agricultural enterprises. One of the main strategies is to improve tax administration. As part of this initiative, the government is introducing new technologies to automate tax collection, which allows for more effective control of budget revenues and reduces tax fraud. For instance, since 2020, electronic platforms for registering farms have been introduced, which simplifies the tax payment process and reduces the administrative burden (International Monetary Fund, 2024).

Social programmes are also substantial in countering the shadow economy. They are designed to improve the living standards of the rural population and provide access to financial resources. In 2021, the government launched a programme to support small farmers, which includes subsidies for the purchase of machinery and seeds, helping to legalise their activities and reduce their dependence on shadow practices. It also includes unemployment programmes that provide financial support to those who have lost their jobs in the agricultural sector (World Bank, 2023b). Regulatory reforms are also an important aspect of the fight against the shadow economy. The Azerbaijani government contribute to the simplification of legislation to make it more understandable and accessible to farmers. This includes reducing the number of documents required to do business and shortening the time it takes to process them. For example, in 2020, the number of licences required to conduct agricultural activities was reduced, which helped to reduce bureaucratic obstacles.

Educational programmes are also important to raise awareness among farmers about the importance of legal employment and taxation. Training seminars and workshops for farmers help them better understand the benefits of operating legally, including access to credit, social guarantees and markets. In 2021, such programmes reached more than 10,000 farmers, indicating a growing awareness of the importance of legalising their activities (State Statistical Committee..., 2023). The effectiveness of these measures can be assessed through a SWOT analysis, which allows identifying strengths, weaknesses, opportunities and threats (Table 3).

Table 3. SWOT analysis of measures to counteract the shadow economy in agriculture in Azerbaijan

Category	Elements
Advantages	State support in the form of subsidies and training programmes for farmers. Growing awareness of the benefits of legalisation among farmers. Introduction of new technologies to improve tax administration. Openness to international investment.
Disadvantages	High level of corruption in the tax authorities, which hinders transparency. Insufficient training of personnel to administer the new systems. Limited access to information on tax legislation for small farmers.
Possibilities	Attraction to international investment in agriculture. Partnership with NGOs to raise awareness. Expansion of support programmes for small farmers, including access to credit and technology.
Threats	Economic crises that may reduce funding for government programmes. Competition from the informal sector. Changes in legislation that may complicate business operations.

Source: compiled by the authors

This SWOT analysis reflects a comprehensive approach to assessing measures to counteract the shadow economy in agriculture in Azerbaijan. Strengths point to positive trends that may contribute to the legalisation of activities. However, problems related to corruption and lack of training need to be prioritised. Attracting international investment and cooperation with civil society organisations could be important drivers of development, although threats such as economic crises could significantly affect programme implementation.

For a more detailed assessment of the effectiveness of measures to combat the shadow economy in

agriculture, it is necessary to monitor and analyse indicators such as the dynamics of tax revenues, the level of formalisation of employment, and changes in the business environment. For instance, data analysis shows that tax revenues from agricultural enterprises increased in 2023 compared to the previous year, which indicates the effectiveness of the reforms implemented. Table 4 shows the dynamics of tax revenues from agricultural enterprises in 2021-2023. The growth of tax revenues after the introduction of electronic platforms and other reforms is an important indicator of the effectiveness of these measures.

Table 4. Tax revenues from agricultural enterprises for 2021-2023

Year	Tax revenues (AZN million)	Growth (%)
2021	200	-
2022	230	15
2023	265	15.2

Source: compiled by the authors based on State Statistical Committee of the Republic of Azerbaijan (2023)

The introduction of electronic platforms in 2022 was an important step in the fight against the shadow economy. Compared to 2021, tax revenues in 2022 increased by 15%. This growth can be attributed to increased transparency in accounting for farmers' income and reduced opportunities for tax evasion. In 2023, the positive dynamics continued with a further 15.2% increase in revenues, which demonstrates the sustainability of the reforms implemented. Electronic platforms simplified access to government services, such as farm registration and reporting, reducing administrative burdens for farmers. Furthermore, subsidies provided to small and medium-sized farms have contributed to their economic activity, which has also contributed to the growth of tax revenues. For

instance, farmers who legalised their activities gained access to financial support, which expanded production and, consequently, increased their tax liabilities. The author's assessment shows that measures aimed at digitalisation and financial support have demonstrated a positive impact on tax revenues. However, to maintain this momentum, it is necessary to continue to improve the electronic administration system and increase the amount of subsidies to encourage business formalisation.

Table 5 shows how state subsidies are distributed among farmers in different categories. The role of subsidies in supporting business formalisation is important, as they encourage farmers to legalise their activities to receive financial assistance.

Table 5. Distribution of subsidies for farmers in 2023

Category of subsidies	Number of recipients	Amount of subsidies (million AZN)
Seed subsidies	5,000	20
Subsidies for equipment	2,500	15
Fertiliser subsidies	4,000	10
Other subsidies	3,000	5
Total	14,500	50

Source: compiled by the authors based on State Statistical Committee of the Republic of Azerbaijan (2023)

The analysis shows that subsidies for seeds and machinery had the greatest impact on farm formalisation. Recipients of these subsidies demonstrated higher levels of legalisation than those who did not receive support. For instance, among farmers who received subsidies for machinery, the level of business registration increased by 25%, expanding access to markets and credit. Seed subsidies also increased productivity, which had a positive impact on farmers' incomes and increased their interest in legalising their activities. In comparison, farmers who did not receive subsidies

showed significantly lower registration rates, remaining mostly in the informal sector. This suggests the importance of financial support as an incentive to formalise farms. The author's assessment indicates that expanding subsidy programmes and making them more accessible could be effective in combating the shadow economy in the agricultural sector. Table 6 on the results of the educational programmes shows a great interest in the training and a high level of satisfaction among participants. This underscores the importance of raising awareness of business legalisation in agriculture.

Table 6. Results of educational programmes in 2023

Application type	Number of participants	Satisfaction (%)
Seminars on tax awareness	8,000	85
Business planning training	4,000	90
Women support programs	2,000	88
Total	14,000	88

Source: compiled by the authors based on State Statistical Committee of the Republic of Azerbaijan (2023)

Participation of farmers in tax awareness workshops and business planning training can significantly influence the conduct of farmers, including the legalisation of employment and increased tax revenues. Workshops that raise awareness of tax obligations and the benefits of legalising activities can motivate farmers to register their businesses and employees. This is particularly important in rural areas where many farmers operate informally. In addition, participation in business planning training helps farmers to better organise their activities, which can also facilitate the registration of new farms and ensure more efficient resource management. Participants' satisfaction with the training plays an important role in further behavioural change. Farmers who have had a positive experience with the programmes are more inclined to make changes in their activities, such as farm registration and tax compliance. For instance, a high level of satisfaction with business planning training (90%) may correlate with a greater willingness of farmers to legalise their business and seek new development opportunities, such as attracting investment or expanding production. In 2023, new subsidy programmes for farmers were also introduced to improve productivity and encourage the legalisation of agricultural activities. For instance, 400

million manats were allocated to support small and medium-sized farms (World Bank, 2023b).

Combating the shadow economy in Azerbaijan's agriculture is an important step towards ensuring economic stability and transparency in the agricultural sector. Measures taken by the government, such as the introduction of electronic platforms to simplify farm registration, subsidies and educational programmes, have shown some positive results. There has been an increase in tax revenues and an increase in farmers' awareness of the benefits of legalising their activities. Overall, the assessment of the effectiveness of these measures demonstrates a gradual impact on the formalisation of economic activity. Over the past three years, tax revenues from the agricultural sector have increased, and the level of farm registration has also shown positive dynamics. This indicates that the initiatives taken are helping to reduce the size of the shadow economy. At the same time, significant levels of corruption and imperfections in some administration mechanisms remain significant challenges.

The importance of these measures is determined by their contribution to national economic stability. Reducing the shadow economy strengthens the financial stability of the state, creates conditions for fair

competition and provides social guarantees for agricultural workers. Transparency of economic activity also helps to attract international investment and increase public confidence in government programmes. However, to be more effective in combating the shadow economy, subsidy programmes, for small and medium-sized farms, should be expanded and access to finance should be simplified. Mechanisms for monitoring the activities of agricultural sector entities should be improved, with a focus on combating corruption. It would be advisable to intensify educational activities aimed at raising awareness among farmers about the benefits of formalising their activities and to simplify tax and administrative procedures to encourage business legalisation. Thus, the measures taken are important for stabilising Azerbaijan's economy and creating a transparent environment for the development of the agricultural sector. Further efforts should be made to improve existing programmes and develop new initiatives that will help formalise economic activity and increase the efficiency of public resources.

Recommendations for tax policies improvement.

The agricultural sector in Azerbaijan, similarly to many countries, faces challenges related to the shadow economy and hidden incomes. To overcome these challenges, it is necessary to implement a comprehensive approach that includes improving tax policy, increasing transparency and formalising farmers' incomes. One of the top priorities is to simplify farm registration procedures. Currently, the existing bureaucracy is often a barrier for new farmers wishing to legalise their activities. The government should reduce the complexity of registration processes, including simplifying the requirements for documents and shortening the timeframe for their review. This will allow more farmers to register their farms and thus reduce the shadow economy. To facilitate income formalisation, it is necessary to introduce support programmes for farmers willing to legalise. These programmes could include training courses to teach farmers how to keep books and prepare tax returns. Studies show that education is one of the key factors that influence farmers' willingness to legalise their income. Such programmes must be accessible and understandable, as not all farmers have the necessary level of knowledge in financial matters.

Addressing the experience of other countries, such as India and Brazil, it is possible to assess how such reforms have contributed to the fight against the shadow economy in the agricultural sector. India conducted substantial economic reforms in the 1990s, addressing the reduction of state control and developing market mechanisms in agriculture. Efforts were made to improve infrastructure and increase transparency in agricultural policy. This improved the efficiency of the tax system, by reducing barriers for small farmers. However, the reforms faced difficulties due to uneven access to resources and difficulties in monitoring in large

regions. At the same time, the shift in production patterns towards high-quality agricultural products has become an important development factor, partly leading to an increase in foreign trade and a reduction in informal economic activity in the agricultural sector (Sreenu, 2024). Brazil has also implemented reforms in the agricultural sector to improve transparency and reduce the impact of the shadow economy. Investments in infrastructure and electronic platforms for farmers have reduced opportunities for tax evasion. However, the reforms faced challenges due to large regional differences in access to new technologies and monitoring systems. These examples demonstrate that the effectiveness of reforms in the agricultural sector aimed at reducing the shadow economy often depends on a combination of infrastructure investment, access to modern technology, and proper monitoring.

The private sector can actively engage in educational programmes for farmers in accounting and tax returns through various mechanisms. One possible form of cooperation is partnerships with educational institutions and non-governmental organisations. Businesses can cooperate with universities and colleges to develop specialised courses that are targeted at farmers, accounting for their level of knowledge and needs. This approach will ensure access to quality financial education that meets the requirements of farmers. Another important area is the development of digital platforms and mobile applications. Private companies can create online courses, video tutorials, and interactive tools for farmers who want to learn the basics of accounting, tax returns, and financial planning. This will allow access to training regardless of location and time, which is especially important for farmers who often work in conditions of limited access to traditional educational resources.

The private sector can also participate in financing and sponsoring training programmes. Large agricultural enterprises or financial institutions could invest in seminars, workshops and courses for small farmers. This would not only increase financial literacy among farmers but also contribute to a more transparent and efficient agricultural economy. The private sector can also offer farmers consulting services in accounting and taxation. This can be either individual consultations or group training to help farmers better understand complex financial and tax procedures. This approach allows for practical advice and assistance from experts. Lastly, financial institutions can create specialised financial instruments for farmers to help them legalise their income and optimise their tax liabilities. Training loans or other financial products targeted at farmers would help support them in adapting to new financial realities and legal requirements. Thus, the involvement of the private sector in educational programmes for farmers can significantly improve their financial literacy and contribute to the legalisation of income and the development of the agricultural sector as a whole.

The introduction of electronic record-keeping systems is an important step in fighting the shadow economy and increasing transparency in the agricultural sector. Expansion of the functionality of existing farm registration platforms, including the introduction of automatic tax liability calculators and integration with accounting systems, will significantly reduce the possibility of errors in filling out tax returns. This will not only ease the tax payment process but also improve accessibility and convenience for farmers, especially those with limited accounting experience. The use of technology, such as blockchain, can further enhance this process by providing a high level of transparency and trust in agricultural financial transactions. Blockchain allows for the creation of an immutable and open record of all financial transactions, making it difficult to manipulate data or evade taxation (Vazov *et al.*, 2022). Each transaction processed through such a system is recorded in blocks that cannot be changed or deleted without the consensus of all participants. This significantly reduces the risk of corrupt practices, as all data is available for inspection by tax authorities and other regulatory authorities.

Automation of accounting and tax processes on such platforms reduces the administrative burden on farmers. By automatically calculating tax liabilities and generating the necessary reports, farmers can focus on running their businesses rather than on routine administrative tasks. This also reduces human error and misunderstandings with the tax authorities, which can prevent fines and penalties. As a result, the tax payment process becomes more efficient, which in turn increases tax revenues to the budget. Therefore, technologies such as blockchain, as well as automated systems for accounting and tax payments, can significantly increase transparency and trust in the agricultural sector. They reduce the administrative burden on farmers, reduce the likelihood of corruption schemes and increase the efficiency of tax collection, which is an important step in the fight against the shadow economy.

The creation of a reward system for farmers who comply with tax regulations can be a powerful incentive to legalise income and increase transparency in agriculture. The idea of introducing tax rebates for those who voluntarily declare their income has already shown positive results in some countries. Such a system encourages farmers to be more open, reduces costs, and at the same time helps to bring them into the formal economy. In addition, these measures can help create a more equitable environment for all market participants by encouraging fair competition. Involving the community in monitoring compliance with tax regulations is also an important step in ensuring transparency and increasing trust in the system (Shimchenko & Berezanska, 2023). Establishing community councils that monitor farmers' activities allows for effective monitoring and assessment of compliance with tax requirements. Importantly, these councils should cooperate with the

tax authorities to ensure a constant exchange of information and feedback. Such radical measures can create mechanisms for detecting and responding promptly to violations, which will help to avoid serious offences and abuses at a later stage.

Public councils are also central in ensuring transparency in the use of public funds. They can oversee how tax revenues are spent and check the effectiveness of government programmes and initiatives in agriculture. Moreover, creating channels for registering complaints from farmers will allow controlling bodies to respond to problems promptly and ensure faster resolution of conflict situations. This will not only help to promote compliance with tax regulations but also ensure constructive interaction between the state, business and the public. Deep involvement of the public and independent supervisory bodies in the process of monitoring tax regulations can significantly improve the transparency of the agricultural sector, reduce the level of abuse and corruption schemes, and contribute to more efficient use of resources collected through taxes.

Reforming the existing taxation mechanisms in the agricultural sector is another important step towards improving the situation. The tax system should be adapted to the specifics of agricultural production, in particular, consideration should be given to reducing tax rates for key agricultural products. The introduction of tax holidays for new farms could also be a good incentive for the development of the agricultural sector. These changes will help to increase farmers' incomes and increase the overall level of investment in agriculture. Changes in tax administration are also an integral part of the reform. Government agencies should introduce new technologies to improve tax administration processes. The introduction of electronic platforms for filing tax returns will make life easier for farmers and reduce corruption risks in the tax authorities. The up-to-date data and statistics provided by these systems will also help the state to plan its budget and manage resources more effectively.

Finally, ensuring transparency and accountability in the use of tax revenues is critical for the credibility of government institutions. The public should have access to information on how public funds, which come from taxes on the agricultural sector, are spent. Regular reports on the use of budgetary funds can increase trust in the system and motivate farmers to legalise their activities, as they will be confident that their contributions are going to the development of their industry. Thus, the comprehensive implementation of these recommendations will help reduce the shadow economy and increase the efficiency of taxation in the agricultural sector of Azerbaijan. A systematic approach involving the active participation of all stakeholders – government agencies, farmers and the community – will create a transparent and efficient tax system that meets the needs of the modern agricultural sector.

DISCUSSION

The results of the study indicate a significant level of informal employment in the agricultural sector of Azerbaijan, which accounts for approximately 40% of total employment in the sector. This indicator underlines that a significant part of economic activity remains outside the scope of official accounting and control, which has a negative impact on the state budget, social stability and competitiveness. At the same time, such phenomena are typical not only for Azerbaijan but also for many developing countries.

Comparison of the results with the study by Y. Wang *et al.* (2024) indicates that the shadow economy is often accompanied by environmental challenges in developing countries. The authors argue that poor governance and weak institutional frameworks worsen the impact of the informal sector on ecosystems. The results confirm this thesis, as informal employment in the agricultural sector of Azerbaijan limits the possibility of implementing environmentally sustainable practices. On the other hand, E. Atar and Ş. Kirboz (2024) demonstrated that structural reforms in local governance can reduce the size of the shadow economy, including the agricultural sector. This correlates with the findings of the study on the need to reform the tax system and implement measures to formalise employment.

It is also necessary to address the international experience of reforms in the field of local governance, such as in the study by M. Strokan (2024) on the transformation of post-Soviet states. V. Boshnakov and V. Goev (2024) analysed the impact of corruption and tax pressure on the shadow economy in Bulgaria. The authors concluded that high levels of corruption and tax abuse are the main factors contributing to the preservation of the informal sector. The findings also identify corruption as one of the key problems that hinders the effectiveness of the fight against the shadow economy in Azerbaijan. However, in contrast to the findings of A. Al Qudah (2024), emphasised the importance of educational campaigns to raise tax awareness in the context of Middle Eastern countries, this study found that even with such programmes, the lack of financial incentives for farmers to support their legalisation remains a key obstacle. D. Enste (2024) noted that even in industrialised countries the shadow economy can be significant due to tax pressure and complexity of legislation, which encourages entrepreneurs to evade taxes, which was also highlighted in this study. An important aspect is the relationship between tax reforms and government efficiency. According to S. Wijaya and I. Dewi (2024), governance effectiveness significantly moderates the impact of the shadow economy on tax revenues. This paper confirms this conclusion, as the introduction of electronic platforms for farmers' registration and tax administration in Azerbaijan has contributed to an increase in revenues.

The results also confirm the findings of S. Gnanon (2023), which states that the shadow economy weakens the effectiveness of tax reforms in developing countries, creating a vicious circle of low revenues and limited opportunities to finance public services. At the same time, A. Polese *et al.* (2023) draw attention to the specifics of post-Soviet countries, where cultural and historical features have a significant impact on the formation of the informal sector. This aspect also requires further research in the context of Azerbaijan. Given the impact of the shadow economy on competitiveness, as emphasised by A. Naghizadeh *et al.* (2023), future research should focus on a detailed analysis of financial incentives that could contribute to the formalisation of economic activity.

Several results of the study differ from the conclusions of T. Lichard *et al.* (2021) who emphasised the role of households as a source of data for estimating the shadow economy. In this study, the focus is on the formalisation of business units, while the household aspect was not considered in detail. The results of the study are also in line with the findings of D. Němec *et al.* (2021), who argued that corruption significantly worsens the state of the fight against the shadow economy. In the context of Azerbaijan, corruption in the tax authorities remains a key obstacle to the effective administration of reforms. It is also worth considering an interdisciplinary approach, integrating economic analysis methods with sociological research, as recommended by N. Canh and S. Thanh (2020). Comparison of the research results with international studies indicates the need to adapt the successful practices of other countries to the specifics of Azerbaijan. A systematic approach to reforming the tax system, including fighting corruption and simplifying registration procedures, can significantly reduce the size of the shadow economy and increase the competitiveness of the agricultural sector.

CONCLUSIONS

The study conducted a comprehensive analysis of measures to combat the shadow economy and taxation of hidden incomes in the agricultural sector of the Republic of Azerbaijan. The main objective of this study was to identify the factors that contribute to the existence of the shadow economy in the agricultural sector, as well as to assess the effectiveness of the measures already implemented to reduce its scale. The main findings indicate that about 40% of agricultural workers are employed in the informal sector, resulting in tax revenue losses of more than 1 billion USD per year. This figure undermines the financial stability of the state and creates an uneven playing field for businesses, where legal enterprises are forced to compete with informal ones.

The study revealed several qualitative indicators that confirm the existence of systemic problems in tax policy. A low level of awareness among entrepreneurs about the benefits of legal employment and the

existing tax system, as well as the lack of financial resources for small and medium-sized agricultural enterprises. As a result, most entrepreneurs believe that running a business in the shadows is less risky and more profitable. The analysis identified strengths, such as government support in the form of subsidies and training programmes, and the gradual introduction of digital technologies in tax administration. However, high levels of corruption, complexity of administrative procedures, lack of awareness among farmers of the benefits of formal economic activity, and limited access to financial resources remain significant challenges. This creates barriers to the legalisation of business activities in agriculture.

Recommended measures to overcome these challenges include simplification of farm registration procedures, which would reduce time and financial costs for small entrepreneurs. Expanding educational programmes would help to increase tax awareness and financial planning skills among farmers. Increasing government subsidies will help support entrepreneurs who are ready to legalise their activities by meeting their needs for machinery, seeds and fertilisers. The digitalisation of tax administration will minimise corruption risks and increase the transparency of economic processes. The development of tax incentives, such as tax holidays or discounts for small businesses, will be an important tool to attract farmers to the legal sector. An important aspect is to address international experience that demonstrates the effectiveness of combining

digitalisation, educational measures and financial incentives in the fight against the shadow economy. However, the implementation of the proposed measures requires overcoming key challenges, such as high levels of corruption and imperfect institutional systems.

Limitations of this study include the reliance on available statistics that may not fully reflect the true extent of the shadow economy and the lack of analysis of some regional and social factors. Further research should conduct an in-depth analysis of the impact of regional differences, environmental challenges, and socio-cultural aspects, as well as on the long-term effects of the proposed reforms. In the future, it is worth analysing opportunities to improve the results obtained. One area for future research could be to study international experience in combating the shadow economy, particularly in countries with similar economic conditions. It is also necessary to analyse the impact of the shadow economy on the socio-economic development of rural areas to develop a comprehensive policy that would not only reduce shadow activities but also improve the living conditions of the population. This will help to create a more sustainable agricultural sector capable of developing and adapting to current economic challenges.

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CONFLICT OF INTEREST

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Комплексний аналіз протидії тіньовій економіці та оподаткування прихованих доходів в аграрному секторі Азербайджанської Республіки

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Анотація. Метою дослідження було виявлення основних причин тіньової економіки в аграрному секторі Азербайджану, зокрема факторів, що сприяють неформальній зайнятості, та оцінка ефективності заходів, спрямованих на її скорочення. У дослідженні проведено комплексний аналіз заходів протидії тіньовій економіці та оподаткування прихованих доходів в аграрному секторі Азербайджанської Республіки. Методологія дослідження ґрунтувалася на аналізі статистичних даних, зокрема, звітів Міжнародного валютного фонду, Світового банку та Державного статистичного комітету Азербайджану, а також на порівняльному аналізі з даними сусідніх країн: Грузії, Вірменії, Туреччини, Узбекистану. Основні результати дослідження свідчили, що близько 40 % працівників сільського господарства зайняті в неформальному секторі, що призводить до втрат податкових надходжень у розмірі понад 1 млрд. доларів США на рік, що суттєво підриває фінансову стабільність держави. Дослідження також визначило, що чинна податкова політика не стимулює формалізацію зайнятості, а відсутність доступу до фінансування обмежує можливості для розвитку легального бізнесу. Отримані результати свідчать про необхідність комплексного реформування податкової системи, включаючи спрощення процедур оподаткування, покращення податкового контролю та створення стимулів для переходу тіньових працівників до легального сектору. Реалізація цих заходів може суттєво покращити економічну ситуацію в сільському господарстві, забезпечити справедливі умови для всіх учасників ринку та гарантувати соціальні права працівників, що сприятиме стабільності та розвитку аграрного сектору

Ключові слова: сільське господарство; агробізнес; фінанси; корупція; антикорупційні механізми
