



## THE ROLE OF SMALL BUSINESS IN SOCIO-ECONOMIC REFORMS AS A FACTOR IN INCREASING THE WELFARE OF CITIZENS

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### Abstract

This article highlights the essential challenges and obstacles the country encounters in enhancing the living standards of its citizens. The article examines high levels of poverty, the necessity to reform social and economic sectors, plus deficiencies in education and healthcare systems. It analyzes poverty data, provides illustrations from certain regions, and derives conclusions regarding the regional specifics of poverty. The author concentrates on actions that might be undertaken to address these issues, including investments in education and healthcare, backing small and medium-sized enterprises, enhancing financial literacy, and engaging citizens in the creation and execution of social programs. The importance of an incorporated approach and sustainable development is stressed, alongside considerations for enhancements, like developing inclusive business models and stimulating structural reforms.

**Keywords:** Social and economic sector, educational and health systems, promotion, social programs.

**Opening Remarks.** Uzbekistan faces various challenges that hinder the well-being of its population, including significant poverty rates and economic disparities. Addressing these issues requires a comprehensive reform strategy that strengthens social and economic sectors while improving access to education and healthcare. Among the critical drivers of development, small and medium-sized enterprises (SMEs) play a pivotal role in shaping economic resilience and fostering inclusive growth.

The urgency of addressing these concerns was highlighted in 2019 by the President of the Republic, who underscored the widespread nature of poverty in the country. To overcome these socioeconomic barriers, the government must emphasize the empowerment of SMEs as a catalyst for economic advancement. Supporting small businesses through investment incentives, financial accessibility, and simplified regulatory procedures can drive employment, innovation, and regional development.





A multifaceted approach is necessary, integrating strategic investments in education and healthcare alongside direct support for SMEs. Promoting entrepreneurship, enhancing digitalization, and increasing export opportunities for local businesses will strengthen Uzbekistan's ability to achieve sustainable growth. Additionally, fostering financial literacy among citizens will enable better resource allocation and stimulate business development across various sectors.

Sustained efforts toward environmental sustainability, infrastructure improvements, and technological advancements will further enable small businesses to thrive. By leveraging their agility and adaptability, SMEs have the potential to bridge economic disparities, enhance employment rates, and elevate the standard of living.

Successfully addressing these challenges demands an integrated strategy that not only tackles economic difficulties but also prioritizes social well-being. By placing small businesses at the core of development initiatives, Uzbekistan can build a more inclusive and resilient economy, ensuring long-term prosperity for its citizens.

A video conference convened on February 27, 2020, focused on poverty reduction strategies. President Shavkat Mirziyoyev stated that between 12-15 percent, translating to 4-5 million citizens, were living in poverty. This equated to a daily income of less than 10-13 thousand soums. Furthermore, disparities were evident: access to personal computers for impoverished families was 12 times lower than the national average, cars 11 times lower, air conditioners 8 times lower, vacuum cleaners 4 times lower, washing machines 4 times lower, refrigerators 2 times lower, televisions 1.5 times lower, and mobile phones 1.5 times lower. The impoverished segments of society are not only excluded from the nation's rapid economic advancement, but also face limitations in their ability to contribute to society's progress due to restricted access to crucial markets. The state currently offers free secondary education, ensures a basic package of healthcare services, which encompasses primary care, emergency services, treatment for "socially significant and dangerous" conditions, specialized care for government-identified vulnerable groups, and benefits for low-income households.[1]

**Defining Poverty:** The concept of "poverty" lacks a single, universally accepted definition. Some view it as the inability to access fundamental human needs, while others define it as a lack of choice or living on less than \$1.90 per day (World Bank). Another perspective emphasizes the interconnected barriers within society, education, and health that undermine an individual's involvement in socio-economic life (UNDP). Evaluating poverty effectively demands a specific skill set and a well-defined methodology.





How is poverty gauged? Two metrics are employed to assess an individual's well-being at a specific point: per capita income and per capita consumer spending. In practice, the latter is generally preferred. This stems from income's greater volatility than consumption. Furthermore, certain income sources can be difficult to ascertain, and the potential for providing inaccurate income data is higher. However, using consumption data as a welfare measure requires adjustments. These account for temporal price fluctuations, international price differentials, in-home consumption (inclusive of food), and the value of public services a household utilizes (e.g., free healthcare, school lunches, and public education).

Determining who qualifies as poor requires a poverty threshold, often termed a "poverty line," based on consumption or income data. Establishing this is challenging due to a lack of universally agreed-upon definitions of poverty or suitable thresholds. Common definitions for these poverty lines include:

**Nutrition-Based Poverty Lines:** Poverty manifests in various forms, including hunger. Here, welfare is measured via daily per capita calorie intake, compared to the minimum energy requirement. The Food and Agriculture Organization of the United Nations defines a minimum of 1,800 kilocalories daily, on average, with requirements adjusted based on a person's age, sex, and activity level. Other nutritional deficiencies, such as protein or micronutrient deficiencies, known as "hidden hunger," can also be measured, providing additional means to establish the poverty lines.

**International Poverty Line:** The World Bank utilizes this line for international comparisons. Initially, it was set at \$1 per day, in purchasing power parity, for extreme poverty, and \$2 per day for poverty. Recently, these figures were raised to \$1.25 and \$2.50 daily respectively. This threshold primarily serves the 15 poorest nations. Further delineations exist: \$3.20 daily for low-income nations and \$5.50 daily for upper-middle-income countries.

**Relative Poverty Line:** Poverty has both absolute and relative aspects. Individuals may perceive themselves as poor when their consumption is measured against others' living standards. This aligns with the concept of relative deprivation—individuals gauge their income or spending in comparison to the average in their locale. This poverty line can also represent the cost of social inclusion—the expenditure level necessary to participate with dignity in routine social and economic activities. European practices use the income (consumption) level where 25% of the population lives below the defined threshold.

**Subjective Poverty Line:** Poverty can also be understood subjectively. This method surveys households, asking, "What expenditure do you deem minimally necessary?" This response is then compared with their actual spending. The proportion whose





actual spending falls below this subjective minimum establishes the poverty line. However, the results are susceptible to the question's phrasing, as with any subjective evaluation.

Over the last few years, the development of expansive, publicly accessible databases has substantially aided research into the intricacies of poverty. This valuable data facilitates both the detailed examination of poverty's characteristics and the rigorous testing of diverse theories concerning its underlying causes, alongside the evaluation of programs and policy changes. An illustrative instance involves contrasting the features of impoverished individuals or families with those who are not; this approach allows for a thorough qualitative assessment of poverty and defines the specific criteria for implementing targeted support initiatives.

The Russian experience, for instance, demonstrates that several factors can heighten a household's risk of falling into poverty. These include the presence of children under 16, family members experiencing unemployment, residence in rural locales, inconsistent income streams, a significant reliance on the informal sector, and the region's weak economic performance (measured by low per capita GRP and sluggish growth).

Therefore, constructing a detailed depiction of poverty in Uzbekistan can be effectively achieved through the formation of a distinct profile of low-income households. This profile is crucial, as it subsequently directs the core strategies and recommendations designed to address and alleviate poverty across the nation.

Studies in this area suggest that a typical low-income family in Uzbekistan comprises an average of seven individuals. The head of the household typically exceeds 50 years of age and generally lacks higher education. In about 11% of these households, the head is unemployed, while 93% lack higher education and only a quarter have specialized secondary education. Nearly half (43%) of low-income households are without permanent employment, and 11% are classified as unemployed. Further, 93% are not connected to central heating systems, 96% lack access to central sewerage, and approximately 66% are without central water supply.

Similar research, conducted by the Institute for Forecasting and Macroeconomic Research with support from the UN Development Program, points to the following profile: low-income households in Uzbekistan frequently consist of large families with three or more children. They are often characterized by a low educational attainment among their members, a rural residential location, and the absence of a migrant family member working abroad to provide support.

Furthermore, the experience of low income exhibits clear regional variations. Eight specific regions exhibit the highest incidence of poverty. These areas include the





Republic of Karakalpakstan, as well as Jizzakh, Kashkadarya, Navoi, Namangan, Surkhandarya, Syrdarya, and Khorezm regions. These findings coincide with the World Bank's 2014 Inclusive Diagnostic of the Economy of Uzbekistan. The report highlighted, in particular, that the poorest households tend to be larger, owing to a higher number of children, and are associated with a reduced count of employed adults. Although there is little difference in workforce status between wealth brackets among men, the rate of labor force participation is substantially lower among the poorest women, even with one-third of the lowest income households being headed by women. Therefore, gender, higher education attainment, and employment sector (with industrial jobs offering the highest salaries) emerge as the three critical determinants influencing income discrepancies.

These findings further emphasize the significance of quality education, levels of employment quality, housing access, and fundamental utilities across most regions in combating poverty within the nation.

The following strategies represent key recommendations for mitigating poverty, including a blend of macroeconomic policy and focused micro-level interventions. Recommendations need to directly address the characteristics of low-income households, the specific obstacles they face, development priorities, as well as how macro and micro policies can assist.

Specific recommendations involve the following:

- Foster the development of inclusive business models.
- Implement structural reforms to encourage affordable employment, a progressive taxation system, social spending enhancements, and a minimum wage policy.
- Prioritize the growth of both labor-intensive sectors, like agriculture, food production, and light industry, as well as high-tech, knowledge-intensive industries, encompassing the manufacturing of computers, office equipment, certain types of industrial electrical equipment, and electrical products.
- Encourage the expansion of small businesses within the service sector, specifically catering to agricultural entrepreneurs. This involves services related to procurement, product storage, agricultural machinery upkeep, compound feed and meal distribution, provision of fertilizers and plant protection, and veterinary care.
- Enhance the non-farm rural sector.
- Establish a system for delivering educational and medical services via mobile technology.

Developing inclusive business models demands the creation and execution of business strategies specifically designed to promote the participation and inclusion of all societal segments, particularly those historically marginalized within economic





activity. It entails effective engagement and collaboration with individuals from diverse social, economic, and cultural backgrounds.

### 1-Table Key pillars of inclusive business frameworks

No	PRINCIPLES	ESSENCE
1.	Social integration	Actively involving individuals from marginalized demographics, encompassing women, younger generations, those with impairments, and the elderly, in both strategic decision-making processes and active engagement in economic pursuits.
2.	Economic incorporation:	Guaranteeing equitable access to financial instruments and economic resources for all population segments, extending to small and medium-sized enterprises, cooperative entities, and independent entrepreneurs.
3.	Educational assimilation	Offering education and vocational training prospects to all interested participants, fostering skill enhancement and elevating competitiveness within the labor market.
4.	Gender equity	Cultivating circumstances that facilitate equal participation between men and women in business operations and the wider economy, while simultaneously eradicating gender-related prejudices and limitations.

Illustrative inclusive business model examples:

- Social enterprises: Firms dedicated to addressing societal challenges through business endeavors, such as establishing employment pathways for people with disabilities.
- Microfinance initiatives: Extending modest loans and financial offerings to lower-income individuals, typically lacking access to conventional banking services.
- Cooperative ventures: Organizations structured around collective ownership and management, enabling the sharing of profits and benefits among all involved members.

To synthesize the preceding information, it's noticeable that poverty within Uzbekistan exhibits notable regional nuances. The most pronounced poverty levels are registered in eight respective regions: the Republic of Karakalpakstan, Jizzakh, Kashkadarya, Navoi, Namangan, Surkhandarya, Syrdarya, and Khorezm. These observations mirror the World Bank's findings, emphasizing that less prosperous households often have higher numbers of children alongside fewer working-age adults. The employment rates amongst the poorest women are notably lower, also highlighting existing gender inequalities.

Key factors determining income disparities encompass gender, educational attainment, and the specific employment sector. These findings underscore the pivotal



role of educational quality and level, the character of employment, and the availability of housing and essential public services in the fight against poverty.

Recommendations for poverty mitigation incorporate both overarching macroeconomic and focused microeconomic interventions. In particular, proposed strategies involve the advancement of inclusive business models, the promotion of structural reforms focused on creating accessible employment avenues alongside progressive taxation policies. Furthermore, the recommendations involve cultivating labor-intensive and high-tech sectors within the economy, supporting small businesses active within the service industry, uplifting the non-agricultural rural sector, and constructing a mobile phone-based system for delivering educational and healthcare services.

Crafting inclusive business strategies signifies designing and executing business tactics centered on the comprehensive involvement and engagement of all sectors of society, with a particular emphasis on those historically marginalized from economic endeavors. This embodies proactive engagement and collaboration with individuals from diverse social, economic, and cultural backgrounds.

Essential components of inclusive business frameworks encompass:

1. **Social Integration:** Incorporating individuals from at-risk demographics, like women, youth, individuals with physical limitations, and older adults, within the decision-making process and active participation in economic activities.
2. **Financial Integration:** Ensuring comprehensive access to financial instruments and economic assets for all populations, including small and medium-sized business ventures, cooperatives, and solo entrepreneurs.
3. **Educational Integration:** Providing educational and training pathways to all individuals interested, thereby promoting the advancement of competencies and enhanced competitiveness within the employment landscape.
4. **Gender Equilibrium:** Establishing circumstances that facilitate equal contribution from both genders in the business environment and economy, thereby dissolving ingrained gender biases and impediments.

Illustrations of inclusive business paradigms include:

- **Social Ventures:** Companies established with the objective of resolving societal challenges via business means, exemplified by providing employment for persons with disabilities.
- **Microfinance:** Offering modest loans and financial assistance to lower-income populations who are often excluded from conventional banking facilities.



- Cooperatives: Organizations wherein members collectively own and control a business, allowing for the equitable distribution of profits and rewards among all participants.

In synthesizing the information presented, it becomes apparent that the prevalence of poverty within Uzbekistan demonstrates distinct geographical variations. The highest degrees of poverty are observed in eight regions: the Republic of Karakalpakstan, alongside Jizzakh, Kashkadarya, Navoi, Namangan, Surkhandarya, Syrdarya, and Khorezm regions. These results align with the observations of the World Bank, highlighting the fact that less affluent households typically have a greater number of children and fewer adults actively engaged in the workforce. A notably diminished labor force involvement is observed among the most deprived women, highlighting existing gender inequalities.

Key influencers affecting income disparities comprise gender, the presence of advanced educational qualifications, and the specific industry of employment. These conclusions accentuate the critical importance of the standard and degree of education, the nature of employment opportunities, and access to housing and fundamental public utilities in the pursuit of effective poverty reduction strategies.

Strategies to tackle poverty encompass both broad economic policies and those focused on specific segments. These strategies suggest the implementation of inclusive business approaches, fostering structural adjustments designed to provide accessible employment and promote a progressive tax system. Further recommendations involve nurturing labor-intensive and advanced technology sectors, giving assistance to small enterprises within the service industry, enhancing the non-agricultural rural sector, and establishing a mobile-phone based delivery system for educational and healthcare resources.

The establishment of inclusive business frameworks represents a crucial move toward long-term, equitable economic progress that benefits all people. These models work to decrease disparities and foster a more just society, optimizing the contributions of every individual. Therefore, comprehensive actions and the adoption of inclusive business practices are central to both alleviating poverty and enhancing the standard of living for the Uzbek population. Such models foster sustainable economic development, diminish inequalities, create a fair society, and lay the groundwork for progress and advancement. In short, creating inclusive business models constitutes a critical step in fostering sustained and inclusive economic expansion that benefits all portions of society.





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