

ANALYSIS OF THE ACTIVITIES OF SMALL BUSINESS ENTITIES IN REDUCING POVERTY

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Abstract - One of the most pressing socioeconomic issues facing both developing and transitioning countries is the eradication of poverty. Small business organizations have gained more recognition in recent decades as a key force behind inclusive growth, job creation, and income diversity. The function and operations of small business organizations in alleviating poverty are examined in this article, along with their contributions to social mobility, job creation, entrepreneurial growth, and regional economic stability. The study highlights institutional support mechanisms, financial accessibility, and regulatory reforms as critical elements that affect small businesses' efficacy in reducing poverty. It does this by drawing on both national development strategies and international experience. The findings suggest that sustainable poverty reduction requires not only quantitative growth in the number of small enterprises but also qualitative improvements in productivity, innovation, and integration into value chains.

Key words: poverty reduction, small business entities, entrepreneurship, employment, inclusive growth, socio-economic development, state support, SMEs

INTRODUCTION

Poverty remains a multifaceted and intricate issue that impacts millions globally. The World Bank defines poverty as not merely the absence of financial resources but also as restricted access to essential services like education, healthcare, and economic opportunities[1]. In this regard, fostering the growth of small business entities has become recognized as a highly effective means of boosting economic activity and elevating living conditions.

International bodies, including the United Nations and the Organisation for Economic Co-operation and Development, stress the significant contribution of small and medium-sized enterprises (SMEs), viewing entrepreneurship as fundamental to sustainable development and the fight against poverty [2]. Notably, Goal 8 within the United Nations Sustainable Development Agenda prioritizes the encouragement of sustained, inclusive, and environmentally conscious economic progress, alongside ensuring full, productive employment and decent work for everyone[3].

Small business entities are vital for job creation, particularly in rural and less economically developed regions. They aid in redistributing income by offering employment to groups such as unskilled workers, young people, and women, thus promoting greater social inclusion and decreased inequality. Additionally, these businesses bolster local production, strengthen domestic markets, and foster innovation

and competition[4].

In transitional economies like Uzbekistan, promoting small business development is now a strategic focus within socio-economic reforms. Policy measures that improve the business environment, streamline registration processes, offer tax breaks, and increase access to financing have all contributed to enhancing the importance of small enterprises within the country's overall development. Consequently, these businesses contribute substantially to national employment and GDP[5]. Nonetheless, the capacity of small businesses to mitigate poverty is influenced by various factors, including the extent of institutional backing, access to financing, the state of infrastructure, human capital development, and integration into markets. Accordingly, an in-depth evaluation of their operations is vital to uncover both the obstacles they face and possibilities for strengthening their role in poverty alleviation. This research intends to analyze how small business entities affect poverty reduction, evaluate their socio-economic benefits, and suggest improvements to policy measures in this field.

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LITERATURE REVIEW

The relationship between small business activity and poverty reduction has been the subject of extensive academic inquiry. Early seminal work in development economics highlighted the broader social functions of economic participation and market inclusion. Sen’s theory of capabilities contends that poverty is fundamentally about unfreedom and deprivation of real opportunities, not merely low income, highlighting a multidimensional perspective on poverty that motivates the study of entrepreneurial engagement as a pathway to expand individual capabilities and economic agency [6].

Microfinance and grassroots entrepreneurship have been widely studied as tools for poverty alleviation. Yunus’s research on microcredit institutions emphasizes that financial access for small entrepreneurs not only stimulates business creation but also plays an essential role in income smoothing and social empowerment among the poorest segments of society [7]. This theorization laid groundwork for later empirical investigations into small enterprise finance as a poverty reduction mechanism.

International labour and development agencies have significantly contributed to the literature, stressing that small and medium-sized enterprises (SMEs) are key drivers of decent employment creation. The International Labour Organization outlines that SMEs absorb a disproportionate share of labor in developing economies, helping to channel underemployed workers into productive roles and improve household welfare [8]. Cross-country empirical evidence supports the positive correlation between SME activity and economic development metrics. Ayyagari, Beck, and Demirgüç-Kunt demonstrate through robust econometric analysis that increases in SME density are systematically associated with higher rates of employment and lower poverty headcount ratios, even when controlling for other macroeconomic variables [9]. Similarly, Beck, Demirgüç-Kunt, and Levine present findings that firms operating in environments with better SME support conditions contribute more effectively to long-term economic growth and poverty reduction, suggesting that institutional quality mediates the impact of small businesses on social outcomes [5].

Regional development studies have also emphasized context-specific dynamics. The Asian Development Bank’s Asia SME Finance Monitor series documents that small business sectors in Asian economies have grown markedly when supported by targeted credit facilities, digital finance adoption, and capacity-building programs, leading to measurable improvements in income distribution within participating communities [11]. These findings highlight the role of complementary financial infrastructure in enabling SMEs to serve as poverty reduction agents effectively.

Recent human development perspectives extend the discussion beyond income measures alone. According to the United Nations Development Programme, poverty reduction strategies that integrate human capital development, gender equity, and regional inclusion see stronger outcomes when micro and small enterprises are embedded within broader social policy frameworks [10]. This view aligns with studies indicating that entrepreneurial activity enhances social mobility by increasing access to education, skill development, and formal market participation [12]. Despite extensive evidence of positive impacts, scholars caution against assuming universal effectiveness of SME-led poverty reduction. Research shows that without enabling environments—such as legal simplification, infrastructure investment, and market access—small enterprises may remain subsistence-level or informal, limiting their potential to contribute to structural poverty decline [1; 3].

In the context of transition economies, literature highlights that regulatory reforms aimed at reducing bureaucratic barriers and expanding credit access have been instrumental in strengthening SMEs’ capacity to generate employment and reduce regional poverty disparities [2; 8]. However, gaps remain in empirical literature regarding longitudinal impacts of small business development programs and their sustainability beyond initial stages of entrepreneurship.

METHODOLOGY

Using all these methods together makes the study fair, detailed, and trustworthy. Relying on well-known sources and data from different countries makes the conclusions about how small businesses help reduce poverty more reliable. Then, it uses numbers and data from worldwide and national sources. It checks things like how much small businesses contribute to the economy, how many people they employ, and how many people are living in poverty. This helps see if there is a link between small business activities and fewer people living in poverty. The study also looks inside small businesses to see what makes them successful. It checks if they can get loans, how productive they are, if they come up with new ideas, and how they connect with other businesses. It follows ideas that say clear rules and property rights are important for helping people escape poverty. Finally, it looks at what governments do to help small businesses, such as laws, taxes, and loans. It checks if these policies follow international advice and recommendations. This study uses a mix of different ways to understand how small businesses help reduce poverty. It looks at both numbers and stories to get a full picture. First, it examines how small businesses fit into the bigger community and economy. It looks at how entrepreneurs, jobs, government rules, and poverty all affect each other. The ideas behind this are based on understanding different ways people experience poverty and how the world is working toward better development, as suggested by global organizations like the United Nations. Next, the study compares what other countries have done with small businesses to fight poverty. It looks at reports from groups like the OECD and research from different countries to find what works best and which signs show success.

RESULTS AND ANALYSIS

This part talks about how small businesses help fight poverty by giving people jobs and making money for the country. It looks at studies from around the world and numbers from different countries, including pictures and charts to help explain. In neighboring Kazakhstan, small businesses made up about 39 to 40 percent of the country’s total income, and they employ many workers too. Their economy is growing, but they still don’t have as many small businesses as some richer countries. Small and medium-sized businesses (called SMEs) are very important for countries because they help create jobs and produce things that make the country richer. Globally, these small businesses provide about 60 to 70 out of every 100 jobs and make up about half of the country's total income or wealth, especially in countries that are still growing. This shows that small businesses are very important for helping more people earn money and improve their lives. In Uzbekistan, recent numbers show that small businesses made up over half (52%) of the country’s total income in 2025. This means small businesses play a big role in the country’s economy and help create jobs, which can help reduce poverty since more people have opportunities to earn money.

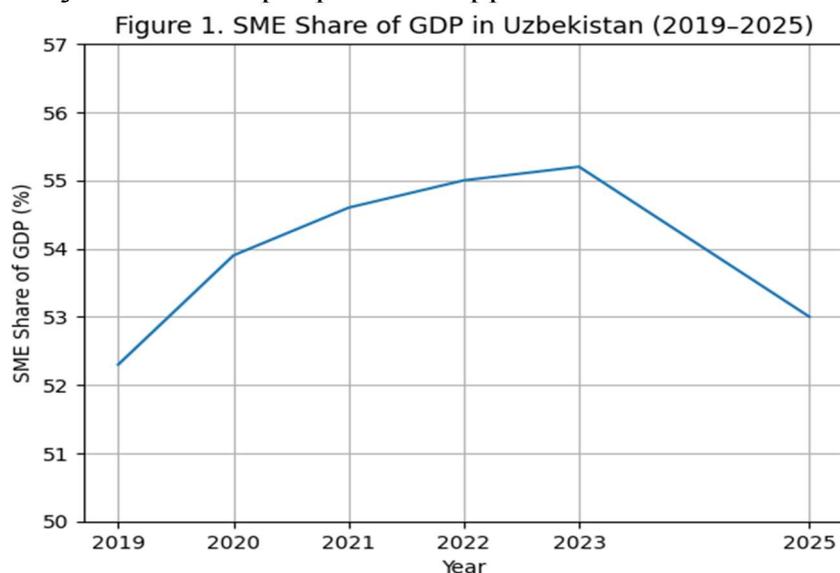


Figure 1 illustrates the share of small and medium-sized enterprises (SMEs) in Uzbekistan’s GDP during 2019–2025. The results show an increasing trend from 2019 to 2023, where the SME share rose from approximately 52.3% to 55.2%. This indicates a gradual strengthening of the SME sector in the national economy. However, a decline is observed in 2025, when the share decreased to around 53.0%, suggesting possible structural or macroeconomic challenges affecting SME performance[13].

Structural and Contextual Dynamics. The impact of small business entities on poverty reduction is shaped by structural economic conditions and policy environments. For example:

In Uzbekistan, despite a high economic contribution, the number of active SMEs has fluctuated, highlighting the need for supportive policies that ensure sustainability and resilience of enterprises [12].

Global evidence suggests that while SMEs contribute significantly to employment and GDP, their direct causal effect on poverty levels is sometimes

inconclusive, especially when controlling for broader macroeconomic factors [turn0search0]. This underscores that SME development must be accompanied by coherent economic reforms and targeted poverty-reduction strategies.

Synthesis of Findings. From both global and regional perspectives, the following key insights emerge:

SMEs are vital engines of inclusive economic activity, contributing significantly to GDP and employment — critical drivers for poverty alleviation through income creation and labor absorption.

Empirical data from national contexts (Uzbekistan, Kazakhstan, Bangladesh) indicate that strong SME sectors are associated with observable improvements in household income and employment opportunities.

Effectiveness varies across contexts, with institutional support, access to finance, and regulatory frameworks influencing the scale and sustainability of SME impacts on poverty.

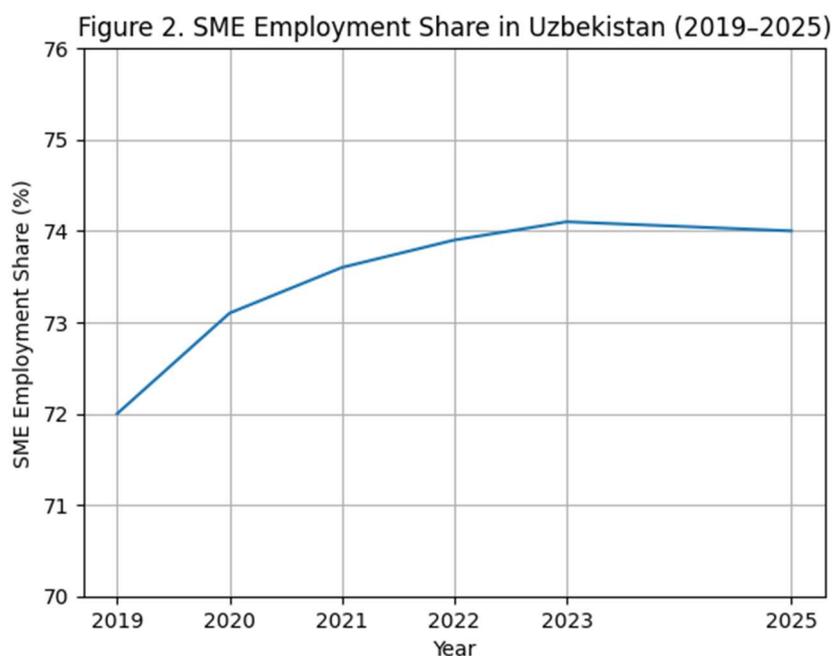


Figure 2 presents the dynamics of the share of employment in small and medium-sized enterprises (SMEs) in Uzbekistan during 2019–2025. The results indicate a steady increase in the SME employment share from 72.0% in 2019 to approximately 74.1% in 2023. This upward trend reflects the growing importance of SMEs as a key source of job creation in the national labor market. After reaching its peak in 2023, the indicator shows a slight decline to around 74.0% in 2025, suggesting a stabilization or marginal adjustment in SME labor absorption capacity[14].

The observed increase in SME employment share over the period 2019–2023 may be attributed to structural economic reforms, expansion of private entrepreneurship, and government initiatives aimed at supporting small businesses and self-employment. SMEs have traditionally played a crucial role in absorbing labor, particularly in developing and transition economies, where they contribute significantly to reducing unemployment and informal labor[15].

CONCLUSION

This paper looks at whether problems like money issues, laws, and dishonesty (corruption) really make it harder for businesses to grow. The researchers used special surveys that asked many companies about the problems they face. They wanted to see if these problems actually slow down how quickly companies get bigger. The surveys included different types of companies—from small to medium-sized—in 54 countries around the world. They also wanted to find out if these problems are worse for certain companies, especially depending on how advanced the country's money and law systems are. One new thing they looked at was how much corruption (dishonest behavior by people in charge) in a country affects businesses. The study found that small companies are the most affected by these problems. When the country's money and legal systems are not very developed, and when there's a lot of corruption, all companies, especially small ones, have a harder time growing. But even small improvements in these systems and reducing corruption can help small and medium-sized companies grow more easily, especially in countries where these issues are worse.

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