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The Role of Small Business in the Formation of Household Incomes and Regional Disparities in Poverty

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Abstract: In a modern market economy, small businesses and private entrepreneurship serve as vital catalysts for boosting household incomes and Alleviating poverty. This study investigates the strategic role of small business entities in driving economic expansion, generating sustainable employment, and mitigating regional economic imbalances within Uzbekistan during the 2020–2025 period. Utilizing data from the National Statistics Committee and institutional theories from the World Bank, OECD, and the Asian Development Bank, this paper analyzes regional variations in Gross Regional Product (GRP), retail trade turnover, and industrial contribution. The findings reveal that while small businesses accounted for 52.2% of the national GDP in 2025, their economic impact is highly stratified by region. In predominantly agrarian or labor-abundant areas such as Surkhandarya and Namangan, small businesses comprise over 73% of the local GRP, acting as the primary driver of household income generation. Conversely, industrial hubs like the Navoi region exhibit a lower small-business dependency (21.1%) due to the dominance of large-scale state enterprises.

Keywords: Small Business, Household Income, Regional Disparities, Poverty Alleviation, Gross Regional Product (GRP), Uzbekistan, Inclusive Growth, Entrepreneurial Ecosystem, Retail Trade, Employment Generation.

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1. Introduction

In a market economy, fostering small businesses and private entrepreneurship is vital for boosting household incomes and alleviating poverty. Small enterprises are crucial for driving economic expansion, generating new job opportunities, maintaining employment, and efficiently leveraging regional economic capabilities. As a result, Uzbekistan has recently been enacting comprehensive reforms focused on aiding small enterprises, enhancing the business climate, and increasing family incomes.

Studies performed by World Bank specialists emphasize the establishment of reliable income streams for the population as a key element in decreasing poverty. Researchers observe that economic growth by itself is not enough to diminish poverty; the advantages of this growth must extend to wide portions of the population. From this viewpoint, small business is seen as an essential entity that promotes inclusive economic development by involving the community in economic participation.

Experts from the Organisation for Economic Co-operation and Development (OECD) have found that small and medium-sized enterprises (SMEs) play a crucial role

in fostering innovation, generating jobs, and promoting regional economic growth. They contend that small enterprises are vital in creating household earnings and decreasing economic disparity, especially in emerging countries. Thus, enhancing the entrepreneurial landscape and broadening financial access must be a focus of state economic policy.

Research conducted by Acs, Szerb, and Autio has examined the influence of entrepreneurship on regional growth utilizing the Global Entrepreneurship Index. The authors find that areas with significant entrepreneurial activity have elevated household incomes, decreased unemployment rates, and a lower likelihood of poverty. Specifically, the growth of creative entrepreneurship boosts the enduring economic competitiveness of areas. Based on the entrepreneurial ecosystem theory by Stam and Van de Ven, the prosperity of small enterprises relies not solely on financial assets but also on the institutional context, human resources, innovation infrastructure, and the cultivation of business networks. The authors indicate that household earnings increase quickly in areas where these elements are efficiently combined.

2. Literature Review

Despite initial efforts by scholars in ancient times to characterize poverty as an economic category, the idea acquired its scientific structure with the evolution of classical political economy. In his work "An Inquiry into the Nature and Causes of the Wealth of Nations", Adam Smith significantly characterized poverty not just as a deficiency of essential goods for survival, but also as the lack of things that, per a nation's social norms, "it would be disgraceful for even the lowest class of individuals to lack." This traditional definition established the foundation for comprehending poverty not only regarding basic physiological needs but also as a cultural and social issue[3].

Unlike Adam Smith, David Ricardo tackled the problem of poverty with a more systematic viewpoint, associating it with demographic trends and the scarce nature of resources. Examining England's Poor Laws, Ricardo contended that state aid worsened the situation by promoting population increase among the impoverished and disrupting labor market functions. His method relied on the "iron law of wages," which posits that a worker's earnings instinctively gravitate towards the lowest amount necessary for basic survival. Ricardo believes that any artificial rise in income via subsidies causes population growth, which eventually pushes wages back down to the subsidized rate, resulting in an increase in the number of impoverished individuals[4].

During the mid-20th century, shaped by the Great Depression and J.M. Keynes' theories, scientific inquiry concentrated mainly on unemployment and inadequate aggregate demand—macroeconomic factors contributing to poverty. The J.M. Keynes framework considered poverty to stem from inherent market failures that necessitate proactive government intervention via fiscal and social policy actions[5]. In this era in the United States, M. Orshansky created an official method for assessing poverty by tripling the expense of a basic food basket (originating from contemporary household spending habits); this reinforced the prevalence of the monetary perspective (rooted in income or consumption) for many years ahead[6].

Contemporary economic theory includes absolute methods, relative methods, subjective evaluations, and set apart from these multifaceted (integral) methods for defining poverty, each possessing unique advantages and drawbacks regarding public policy.

Absolute poverty is defined by a person's or family's failure to satisfy the fundamental requirements necessary for survival. Globally, the primary instrument for assessing this kind of poverty is the international poverty line set by the World Bank. It relies on purchasing power parity (PPP) and is updated regularly to account for

fluctuations in global prices. Significantly, the global poverty threshold was increased in 2025 and is currently stated in 2021 PPP terms.

Table 1. World Bank poverty lines by country income group, daily income per capita, in US dollars (PPP)[7]

Group of countries	Poverty line value	
	By 2025, in the 2017 PPP	From 2025, in the 2021 XQP
Low-income countries	2.15	3.00
Lower-middle-income countries	3.65	4.20
Upper-middle-income countries	6.85	8.30

Defining poverty through an absolute framework necessitates that the government endorses a scientifically validated "minimum consumption basket"—which reflects essential normative consumption standards—and sets a particular poverty threshold within the economy based on the value of this basket. The poverty line is defined by the daily income needed to meet basic consumption costs; those earning below this level are definitively categorized as poor.

Although the absolute method of defining poverty offers benefits because of its straightforwardness in measurement and interpretation, it has limitations arising from its unchanging nature and its neglect of people's social requirements. For example, as A. Sen observed, earning \$2 may ensure basic survival but does not promise the capacity to engage meaningfully in society or obtain quality education and healthcare. Nonetheless, for developing nations such as Uzbekistan, which is in the initial phases of reform assessing absolute poverty continues to be essential for tracking the basic living standards of the most at-risk groups in the population.

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 [8]. 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 [9].

3. Material and Methods

This study uses a descriptive-analytical and comparative methodology to assess the role of small business in the formation of household incomes and regional disparities in poverty in Uzbekistan. The research is based on secondary statistical and analytical data obtained from the National Statistics Committee of the Republic of Uzbekistan, as well as reports of the World Bank, OECD, UNDP, and the Asian Development Bank. The empirical base of the article includes regional indicators for 2020–2025, such as the share of small business in gross regional product, employment in the small business sector, retail trade turnover, industrial output, and the structure of household income [1].

The study applies several interrelated methods. First, theoretical analysis was used to examine scientific approaches to poverty, household income, and entrepreneurship development based on classical and modern economic literature. Second, descriptive statistical analysis was applied to identify the dynamics of small business development and its contribution to employment and income generation in the regions of Uzbekistan. Third, comparative regional analysis was used to evaluate differences between regions in terms of entrepreneurial activity, employment, and trade turnover. In addition, a grouping method was employed to classify regions according to their small business potential and income-generation opportunities [2]. The findings were interpreted through a systemic approach, which considers small business as an important mechanism for employment growth, income diversification, and poverty reduction

4. Results and Discussion

Small businesses and private entrepreneurship are essential for enhancing economic activity, creating jobs, and increasing income options throughout Uzbekistan's regions. Small businesses are becoming a crucial path for job creation, especially in areas with plentiful labor resources. Data from the National Statistics Committee indicates that small business entities represented 52.2 percent of the country's GDP in 2025. Although this figure was 56.7 percent in 2020—representing a decrease of 4.5 percentage points over the 2020–2025 period—small businesses continue to be a sector that produces over half of the economy[10].

The proportion of small businesses in the Gross Regional Product (GRP) differs considerably among regions. In 2025, the top statistics were noted in the Surkhandarya region (76.4%), Namangan region (73.6%), Fergana region (73.0%), Khorezm region (71.6%), Jizzakh region (71.2%), and Bukhara region (71.0%). In these areas, small businesses act as a key foundation of the local economy. In comparison, the proportion of small businesses in the Gross Regional Product (GRP) of the Navoi region was 21.1 percent, which is due to the considerable influence of large industrial companies on the region's economy.

Table 2. Key indicators of small business development by region

Region	Share of small business in GRP, 2025 (%)	Number of employed, 2024 (thousand people)	Retail trade volume, 2025 (billion soums)	Share in industry, 2025 (%)
Republic of Karakalpakstan	65,5	563,9	16 160,1	41,3
Andijan Region	70,1	1 094,4	30 380,7	38,0
Bukhara Region	71,0	601,5	23 935,8	42,9
Jizzakh Region	71,2	434,9	12 386,3	26,2
Kashkadarya Region	69,2	1 020,1	29 327,3	41,2
Navoi Region	21,1	226,1	16 420,8	9,5
Namangan Region	73,6	949,5	26 901,7	55,3
Samarkand Region	69,5	1 236,1	37 146,6	49,6
Surkhandarya Region	76,4	792,3	28 398,8	65,3
Syrdarya Region	69,5	258,3	6 899,7	52,5
Tashkent Region	55,0	889,5	39 726,9	31,8
Fergana Region	73,0	1 258,3	36 338,1	59,1

Khorezm Region	71,6	621,0	18 034,9	26,6
Tashkent City	51,7	682,8	78 445,5	41,1
Republic of Uzbekistan	52,2	10 628,7	400 503,2	34,9

The Fergana Region ranks first for the number of individuals working in small businesses, totaling 1,258.3 thousand people. Next is Samarkand Region (1,236.1 thousand), then Andijan Region (1,094.4 thousand), and Kashkadarya Region (1,020.1 thousand). Dense populations, a large workforce, and the growth of services, commerce, craftsmanship, and family businesses in these areas lead to elevated rates of employment in small enterprises.

From 2020 to 2024, employment in small businesses throughout the republic grew from 9,865.7 thousand to 10,628.7 thousand resulting in an increase of 763.0 thousand. The most significant rises were noted in Fergana Region (122.0 thousand), Kashkadarya Region (106.0 thousand), Andijan Region (104.5 thousand), and Samarkand Region (77.8 thousand). Consequently, small enterprises act as a main source of income creation, especially in highly populated areas.

Tashkent City holds the clear top position regarding the volume of retail trade turnover. In 2025, small business entities in the city of Tashkent generated a retail trade turnover of 78,445.5 billion soums. This number reached 39,726.9 billion soums in Tashkent region, 37,146.6 billion soums in Samarkand region, 36,338.1 billion soums in Fergana region, and 30,380.7 billion soums in Andijan region. Elements like the buying power of the population, market infrastructure, and the growth of service industries in these areas lead to the significant level of retail commerce.

From 2020 to 2025, the retail trade revenue of small enterprises throughout the republic increased from 164,106.1 billion soums to 400,503.2 billion soums. In this timeframe, the most significant growth rates were noted in the Samarkand region, the Republic of Karakalpakstan, Tashkent city, and the regions of Navoi, Khorezm, and Fergana.

The volume of retail trade rose from 13,482.3 billion soums to 37,146.6 billion soums in the Samarkand region, while in Tashkent city it grew from 31,298.4 billion soums to 78,445.5 billion soums.

In 2025, the Surkhandarya region had the highest share of small businesses in industrial production, reaching 65.3 percent. This metric was recorded at 59.1 percent in the Fergana region, 55.3 percent in the Namangan region, 52.5 percent in the Syrdarya region, and 49.6 percent in the Samarkand region. This shows that a large segment of the industrial sector in these areas is powered by small businesses, family-operated production, and local entrepreneurial organizations.

In general, an examination throughout all areas affirms the crucial importance of small businesses in Uzbekistan's economy. Nonetheless, development levels differ by region. Although small enterprises represent a significant portion of the Gross Regional Product (GRP) in the Surkhandarya, Namangan, Fergana, Khorezm, Jizzakh, and Bukhara regions, and trade levels are substantial in Tashkent city and the Tashkent region, the proportion of small businesses is reduced in the Navoi region because of the prevalence of large-scale industry. Regional poverty rates are closely associated with family earnings, job prospects, the commercial landscape, and production capabilities. Poverty ought to be evaluated not just as an absence of financial income, but also regarding stable employment, dependable income sources, and chances for economic involvement. In this context, the extent of small business growth in an area is a crucial element in understanding differences in poverty.

Regional poverty rates are closely associated with household earnings, job prospects, the business climate, and production capability. Poverty must be evaluated

not just as insufficient financial income, but also regarding access to stable employment, dependable income streams, and opportunities for economic engagement. In this context, the extent of small business growth in an area is a critical element in understanding differences in poverty rates.

In 2020, income from production activities represented 74.9 percent of total household income, but this percentage decreased to 67.1 percent by 2025[11]. This decrease can be ascribed to the growing proportion of transfers, pensions, social payments, and additional income sources. Nonetheless, revenue from production activities remains the main element of overall household income. Thus, revenue from small enterprises, jobs, and entrepreneurship remains a crucial means for alleviating poverty.

The effect of small businesses on household income extends beyond just employment; this sector also affects income creation by broadening retail trade and service sectors. Elevated retail trade volumes suggest strong consumer demand, a well-developed entrepreneurial ecosystem, and engaged economic involvement from the populace. In this context, Tashkent city along with the Tashkent, Samarkand, Fergana, and Andijan regions are notable for their significant economic activity.

The proportion of small enterprises in the Gross Regional Product (GRP) is another important measure for evaluating regional income production. Small businesses represent 76.4% of the GRP in Surkhondaryo, 73.6% in Namangan, 73.0% in Fergana, 71.6% in Khorezm, 71.2% in Jizzakh, and 71.0% in Bukhara. In these regions, small enterprises act as a crucial element of the local economy, directly affecting the generation of household income.

Yet, a significant proportion of small enterprises in the GRP does not always correspond to the highest household income levels. For example, although the proportion of small enterprises is quite substantial in the Surkhondaryo or Namangan areas, household earnings in Tashkent city or the Navoi region may be influenced by different economic factors like large-scale industries, services, and high value-added sectors. Consequently, a regional analysis necessitates a thorough evaluation that takes into account not just one indicator, but a mix of elements: the proportion of small businesses, job levels, trade volume, and industrial involvement.

A method of regional grouping enables a more accurate evaluation of how small businesses impact the development of household incomes. Essential factors for this classification consist of the proportion of small enterprises in the Gross Regional Product (GRP), the employment figures in the small business sector, the volume of retail trade, and the sector's contribution to industry.

Table 3. Grouping of regions by opportunities for small business and income generation

Group	Regions	Key characteristic
High-potential regions	Fergana, Samarkand, Andijan, Kashkadarya, Namangan, Surkhondaryo	High employment in small business, significant share of GRP, substantial income-generating potential
Medium-potential regions	Bukhara, Khorezm, Republic of Karakalpakstan, Jizzakh, Syrdarya, Tashkent region	High or moderate share of small business, but employment and trade potential vary across regions
Regions with a special economic structure	Tashkent City, Navoi region	Lower relative share of small business; however, income is generated through trade, services, or large-scale industry

In recent years, research on Central Asian countries has also highlighted the significant role of small business in the formation of household income. In particular, studies conducted by Asian Development Bank experts have identified the development of small business as a key factor in economic diversification, employment generation, and the reduction of regional inequality[12],[13].

The International Monetary Fund emphasizes that supporting businesses led by women and youth is crucial for building an inclusive society. Women entrepreneurs tend to reinvest a significant portion of their earnings into their families' health and education, thereby laying a long-term foundation to break the cycle of intergenerational poverty[14],[15].

5. Conclusion

In general, the relationship between small business and household income manifests in several ways. First, small businesses boost labor income by creating new jobs. Second, entrepreneurial activity enables the population to establish independent sources of income. Third, small businesses expand regional economic activity through retail trade, services, and production. Fourth, the risk of poverty decreases in regions with developed small business sectors, as the population gains broader access to income-generating opportunities.

Thus, economic-statistical analysis clearly demonstrates the role of small business in shaping household income across different regions. While small businesses directly impact public welfare through labor income in regions with high employment, they generate income via the consumer market and high value-added activities in regions where trade and services are well-developed. Consequently, supporting small businesses, expanding access to financial resources, and fostering family entrepreneurship and the service sector constitute key strategies for increasing household income within regional economic policy.

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