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# CONTENTS

FINANCING OF SMALL BUSINESSES THROUGH INVESTMENT LOANS BY COMMERCIAL BANKS.....	15
<b>Yangiboyev F.B.</b>	
INTEGRATION OF THE TRANSPORT SECTOR INTO THE GREEN ECONOMY AND IMPACT ON SUSTAINABLE DEVELOPMENT: ECOLOGICAL TRANSFORMATION AND INNOVATIVE SOLUTIONS .....	20
<b>Narziyev Umidjon Bakhrillayevich</b>	
FOREIGN EXPERIENCE IN INCREASING THE INVESTMENT ACTIVITY OF JOINT-STOCK COMPANIES .....	24
<b>Begamov. S.X.</b>	
AN ENHANCED FINANCING MODEL FOR STARTUP PROJECTS IN HIGHER EDUCATION INSTITUTIONS OF UZBEKISTAN .....	27
<b>Kasimova Nargiza Sabitdjanovna</b>	
STRATEGIES FOR ENHANCING INVESTMENT POTENTIAL.....	32
<b>Tillayeva Barno Ramizitdinovna</b>	
THE IMPORTANCE OF USING ARTIFICIAL INTELLIGENCE IN HOTEL MANAGEMENT.....	36
<b>Husenova Madina Farkhodovna</b>	
MARKETPLACES AND ECONOMIC SECURITY IN UZBEKISTAN: RISKS AND REGULATION .....	42
<b>Umarkhodjayeva Zaynabkhon Nodirkhonovna</b>	
TECHNOLOGICAL STRENGTH AND PROPERTIES OF METAL OF AUSTENITIC JOINTS DURING WELDING WITH VARIOUS FLUXES.....	47
<b>Khudoykulov Nurilla Zikirillaevich, Khudoyorov Sardor Sadullaevich</b>	
MODERN SYSTEMS OF PRODUCT COST CALCULATION: METHODOLOGICAL FOUNDATIONS AND DIRECTIONS OF PRACTICAL TRANSFORMATION .....	51
<b>Abdumalik Abdiraximovich Tulyaganov</b>	
SUPPORTING ECONOMIC EXPANSION AND MAXIMIZING PRODUCTION EFFICIENCY WITHIN A MARKET ECONOMY.....	56
<b>Aytmuratov Qutlimurat Jalgasovich</b>	
SUCCESS FACTORS OF DIFFERENTIATION STRATEGY IN A MARKET ECONOMY.....	62
<b>Sodiqov Miraxror Abbos ugli</b>	
THE “MISSING MIDDLE” PROBLEM IN SOCIAL PROTECTION SYSTEMS AND MECHANISMS FOR ADDRESSING IT .....	67
<b>Farrukh Juraqulovich Bafoev</b>	
IMPROVING POPULATION INVESTMENT ACTIVITY THROUGH THE DEVELOPMENT OF BANK BROKERAGE SERVICES AND FINANCIAL LITERACY IN FORMING A SECURITIES PORTFOLIO IN THE KHOREZM REGION .....	72
<b>Bakhtiyorov Khudaybergan Hamdam ugli</b>	
DEVELOPMENT OF THE SERVICE SECTOR AND ITS IMPACT ON POVERTY REDUCTION.....	79
<b>Dauletmuratov Adilbay Mirzabaevich</b>	

# DEVELOPMENT OF THE SERVICE SECTOR AND ITS IMPACT ON POVERTY REDUCTION



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**Abstract:** This article analyzes the role of the service sector in economic development and its impact on poverty reduction. In the course of the research, the service sector is considered one of the key factors contributing to economic growth, employment generation, and the increase in household incomes. Using statistical analysis, comparative methods, and economic analysis, the study substantiates that the development of the service sector plays a significant role in reducing poverty levels. The research findings show that the expansion of the service sector creates new employment opportunities, supports the development of small businesses, and contributes to the growth of population incomes.

**Key words:** service sector, poverty reduction, economic development, employment, household income, small business.

## INTRODUCTION

Poverty reduction has become one of the priority directions of economic policy in many countries around the world. Poverty remains an important socio-economic challenge that influences sustainable economic development; therefore, the formation of effective economic mechanisms aimed at reducing poverty is of particular significance.

In the modern economy, the service sector has emerged as one of the most important components of economic growth. The experience of developed countries demonstrates that the expansion of the service sector plays a significant role in creating new employment opportunities, increasing household incomes, and supporting overall economic stability. In particular, the development of this sector contributes to higher employment through the promotion of small businesses and private entrepreneurship.

In the Republic of Uzbekistan, special attention has been given in recent years to the development of the service sector. These efforts contribute to the diversification of the national economy, stimulate regional development, and support initiatives aimed at reducing poverty.

The aim of this study is to provide a scientific analysis of the impact of service sector development on poverty reduction.

## LITERATURE REVIEW

The economic role of the service sector has been widely examined in the works of numerous economists. In particular, T. Schultz and G. Becker, the founders of human capital theory, interpreted the development of the service sector as a process closely associated with knowledge, skills, and the accumulation of human capital. According to their approach, the expansion of the service sector increases the demand for highly skilled labor, which contributes to higher productivity and growth in household incomes.

Furthermore, studies conducted by the World Bank and the United Nations Development Programme (UNDP) identify the service sector as one of the fastest-growing segments of the modern economy. Their analyses demonstrate that the development of the service sector contributes significantly to poverty reduction by creating new employment opportunities, expanding small business activities, and increasing economic opportunities for the population.

In addition, the ideas of Adam Smith provide an important theoretical basis for understanding structural changes in the economy. Modern interpretations of his work highlight that improvements in productivity, the division of labor, and the adoption of new technologies positively influence the efficiency of economic sectors, including services. In contemporary conditions, the integration of digital technologies and information and communication technologies enhances service efficiency and creates new economic opportunities.

Some researchers also explain the growing importance of the service sector through the concept of structural transformation in economic development. According to this perspective, as economies progress to more advanced stages of development, economic activity gradually shifts from production-oriented sectors toward service-oriented sectors. Consequently, the service sector becomes one of the main drivers of economic growth and socio-economic development.

Therefore, the development of the service sector is widely regarded not only as a mechanism for economic growth but also as an important factor contributing to poverty reduction, employment generation, and the improvement of living standards.

## RESEARCH METHODOLOGY

This study employs a range of scientific methods to examine the impact of the service sector on poverty reduction. The following approaches were applied during the research process:

- Analysis and synthesis method – used to examine the economic significance and structural characteristics of the service sector.
- Statistical analysis method – applied to identify the relationship between service sector development indicators and household income levels.
- Comparative method – used to compare the level of service sector development across different regions and time periods.
- Economic analysis method – employed to evaluate the influence of service sector development on poverty reduction.

The study utilizes national statistical data and various economic indicators to ensure comprehensive, objective, and reliable research results.

## ANALYSIS AND RESULTS

Within the framework of the comprehensive socio-economic reforms being implemented in New Uzbekistan, special attention is given to the development of the service sector as an important instrument for increasing employment and expanding income sources for the population. In recent years, consistent measures have been implemented to increase the share of the service sector in the national economy, create new employment opportunities, and stimulate entrepreneurial activity. These initiatives contribute not only to the sustainable development of the national economy but also to the improvement of citizens' living standards.

In addition, the country's long-term economic development strategy identifies the expansion of the service sector and the strengthening of employment as priority objectives. Achieving these goals is primarily aimed at expanding sustainable income sources, ensuring higher labor earnings, increasing employment levels, and improving the overall welfare, living standards, and quality of life of the population.

These processes also require the application of innovative approaches to economic development. In particular, it is important to expand self-employment mechanisms, systematically develop service industries, and create mass service activities that meet the growing needs of the population. At the same time, conducting comprehensive scientific research on poverty reduction through the expansion of employment in the service sector remains an important research direction.

In Uzbekistan, reducing poverty and improving the economic well-being of the population have become important priorities of state policy. The importance of adopting a systematic approach and implementing clear measures in this area was emphasized by the President of the Republic of Uzbekistan, Shavkat Mirziyoyev, in his Address to the Oliy Majlis on 2020-year-January-24. The address highlighted the need to determine poverty levels in the country, develop effective mechanisms for poverty reduction, and actively introduce advanced international practices.

Furthermore, the address emphasized the development of clear criteria and methodological approaches for measuring poverty, as well as the implementation of effective economic and institutional instruments

aimed at reducing poverty. These measures are intended to strengthen the social protection system, increase employment opportunities, and expand household income sources, thereby contributing to the gradual reduction of poverty levels across the country (Table 1).

Table 1. Poverty Rates in the Republic of Uzbekistan, 2021–2025 (%)

Region	Years				
	2021	2022	2023	2024	2025
Republic of Uzbekistan	17.0	14.1	11.0	8.9	5.8
Republic of Karakalpakstan	20.8	19.9	13.6	10.8	6.6
Andijan Region	19.3	17.4	11.9	9.5	6.1
Bukhara Region	14.5	11.9	11.8	8.7	6.0
Jizzakh Region	21.1	16.1	14.2	11.8	5.8
Kashkadarya Region	17.9	12.7	11.5	9.6	6.5
Navoi Region	4.7	9.2	7.6	5.7	4.2
Namangan Region	14.1	12.8	10.4	7.6	5.5
Samarkand Region	18.2	14.0	10.5	7.5	6.1
Surkhandarya Region	13.3	13.7	10.6	9.3	6.1
Sirdarya Region	30.5	19.5	13.8	11.3	6.2
Tashkent Region	22.7	14.5	10.2	8.0	5.3
Fergana Region	3.9	11.6	10.1	8.6	5.7
Khorezm Region	19.9	19.1	14.1	11.9	6.7
Tashkent City	8.1	8.5	7.9	7.3	3.5

Source: Compiled by the author based on data from the National Statistics Committee of the Republic of Uzbekistan.

According to data from the State Statistics Committee of the Republic of Uzbekistan and the World Bank, by the end of the 2025-year, the poverty rate in the country decreased by 3.1 percentage points and reached 5.8%. During the year, approximately 302,000 low-income households improved their economic conditions and moved above the poverty threshold.

A reduction in poverty levels was observed across all regions of the country. The most significant decreases were recorded in Jizzakh Region (from 11.8% to 5.8%), Khorezm Region (from 11.9% to 6.7%), Sirdarya Region (from 11.3% to 6.2%), the Republic of Karakalpakstan (from 10.8% to 6.6%), and Tashkent City (from 7.3% to 3.5%). In urban areas, the poverty rate declined to 5.2% (from 8.6% in 2024-year), while in rural areas it decreased to 6.4% (from 9.2%).

According to the country's long-term socio-economic development strategy, nearly 10 million new jobs with decent working conditions are expected to be created by the 2030-year, alongside a gradual reduction in poverty levels. In this context, the poverty rate is projected to decrease from 5.8% in the 2025-year to 4.5% in the 2026-year, 3.5% in the 2027-year, 2.5% in the 2028-year, and 1% in the 2029-year, with the objective of eliminating absolute poverty by the 2030-year based on the minimum consumption expenditure criteria.

The analysis indicates that the development of the service sector represents one of the key factors contributing to poverty reduction.

First, the service sector possesses substantial potential for generating new employment opportunities. As a highly labor-intensive sector, it significantly contributes to increasing overall employment levels.

Second, the service sector creates favorable conditions for the development of small businesses and private entrepreneurship, which in turn enhances household incomes and expands economic opportunities for the population.

Third, the development of the service sector has a positive impact on other sectors of the economy. In particular, services related to transport, tourism, trade, and information technologies contribute to improving production efficiency and strengthening economic linkages between sectors.

Overall, the results of the study demonstrate that the expansion of the service sector plays a crucial role in reducing poverty, increasing household incomes, and supporting sustainable economic development.

The development of the service sector leads to important structural changes in regional economies. In the Republic of Karakalpakstan, particular attention is given to expanding the service sector as a key mechanism for achieving structural diversification of the regional economy. Increasing the share of services alongside

agriculture and industry contributes to enhancing employment opportunities and expanding sources of income for the population.

From this perspective, the development of sectors such as trade, transport, tourism, education, healthcare, and information and communication services plays a significant role in stimulating regional economic growth.

In the Republic of Karakalpakstan, the expansion of the service sector is closely associated with the development of small businesses and private entrepreneurship. Newly established enterprises in this sector encourage the active participation of different population groups in economic activities, create additional employment opportunities, and increase household incomes. In particular, the development of trade and household services, transport services, and tourism infrastructure has generated new employment opportunities in the region.

Furthermore, the integration of digital technologies into the service sector plays an increasingly important role in economic development. The expansion of e-commerce, online services, digital payment systems, and IT services creates new forms of economic activity and promotes innovation in the regional economy. These developments contribute to the modernization of the economic structure and provide additional sources of income for the population.

Thus, the development of the service sector in the Republic of Karakalpakstan is considered an important component of poverty reduction policy. The creation of new jobs in the service sector, the expansion of small business entities, and the encouragement of entrepreneurial initiatives contribute to higher employment and broader income opportunities. As a result, favorable conditions are formed for strengthening socio-economic stability and improving the standard of living in the region.

In this context, further expansion of the service sector in the Republic of Karakalpakstan, the introduction of innovative service activities, and the support of small businesses and private entrepreneurship are of great importance for expanding opportunities to reduce poverty and ensure sustainable regional development.

## CONCLUSION AND RECOMMENDATIONS

The results of this study indicate that the service sector represents one of the key components of the modern economy, and its development plays an important role in ensuring employment, expanding income sources, and reducing poverty. The service sector is particularly labor-intensive and has the capacity to generate new employment opportunities with relatively low capital requirements. In this regard, the development of the service sector serves as an important factor in strengthening socio-economic stability.

The analyses conducted for the Republic of Karakalpakstan confirm that the expansion of the service sector has a positive impact on sustainable regional economic growth. In particular, the development of trade, transport, tourism, household services, and information and communication services contributes to job creation, supports the growth of small businesses and private entrepreneurship, and increases household incomes. These developments, in turn, contribute to reducing poverty levels and improving the overall standard of living.

To fully utilize the potential of the service sector, it is important to implement systematic measures aimed at its further development. Based on the research findings, the following recommendations are proposed:

**Enhance regional programs for service sector development:** Strengthen and expand initiatives aimed at increasing the share of the service sector in the regional economy of the Republic of Karakalpakstan.

**Provide financial support for small businesses and private entrepreneurs:** Facilitate access to preferential loans, investment opportunities, and other financial incentives for enterprises operating in the service sector.

**Develop infrastructure for key services:** Promote the development of tourism, logistics, trade, and household service infrastructure to stimulate economic activity and create new employment opportunities.

**Integrate digital technologies into service activities:** Expand the use of e-commerce, online services, and digital platforms to improve efficiency and increase economic activity within the service sector.

**Promote inclusive entrepreneurship:** Encourage the active participation of youth and women in service sector entrepreneurship and strengthen their professional skills through targeted training and educational programs.

In conclusion, the development of the service sector represents a crucial factor for poverty reduction, employment growth, and regional economic development in the Republic of Karakalpakstan. Therefore, it is important to continue implementing consistent economic policies that support the sustainable growth and modernization of this sector.

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