

## INCOME INEQUALITY AND POVERTY REDUCTION IN UZBEKISTAN: ACHIEVEMENTS AND CHALLENGES

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### Abstract

This article examines the dual challenges of income inequality and poverty reduction in Uzbekistan, focusing on the period from 2021 to 2023. Despite significant strides in decreasing the poverty rate from 17% to 11%, an accompanying rise in income inequality, as evidenced by the increase in the Gini Coefficient from 0.31 to 0.35, has somewhat dampened these achievements. This analysis highlights the disproportionate growth in incomes favoring the wealthier segments of the population and assesses the impact of various governmental strategies aimed at mitigating poverty. The study suggests that targeted interventions, particularly in rural areas and among poorer households, could enhance the effectiveness of poverty reduction efforts and promote more equitable income distribution.

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### Introduction

Income inequality and poverty remain some of the most challenging and persistent issues in developing nations. These conditions are not just markers of economic disparity but are also indicators of a society's overall health and functionality. In developing countries, where economic structures are often fragile and political systems can be unstable, the consequences of uneven wealth distribution are particularly severe, impacting millions of lives.

The importance of addressing income inequality and poverty extends beyond moral and ethical concerns; it encompasses critical economic and social implications. Economically, high levels of inequality can lead to reduced economic growth, as lower income individuals have less spending power to contribute to their economies. Socially, these disparities often result in higher crime rates, poor health outcomes, and diminished educational opportunities, perpetuating a cycle of poverty that is difficult to break.

Furthermore, the global dimension of these issues adds layers of complexity. Globalization and international trade can sometimes exacerbate income disparities, as economic benefits tend to accumulate disproportionately to those already in advantageous positions. Similarly, international aid, while crucial, sometimes fails to reach those most in need due to corruption or mismanagement.

### Literature review

Thomas Piketty's "Capital in the Twenty-First Century" (2014) provides a comprehensive historical analysis of wealth and income inequality in Europe and the United States, offering insights that are also

applicable to developing economies. Piketty argues that when the rate of return on capital exceeds the rate of economic growth, inequality inevitably increases, suggesting that without appropriate regulatory policies, wealth concentration will continue to deepen, potentially translating into higher poverty levels in less developed economies.

Joseph Stiglitz's "The Price of Inequality" (2012) explores how market forces and economic political processes have led to significant economic disparities that, according to Stiglitz, undermine the very principles of democracy and economic productivity. His analysis is crucial for understanding how economic policy failures and the lack of economic safeguards contribute to poverty and inequality in developing countries.

The World Bank's World Development Report (2020) offers a yearly analysis focusing on different aspects of economic development. The 2020 report, which discusses the future of work, provides relevant data on how technological changes disproportionately affect lower-income individuals in developing countries, potentially increasing income inequality.

"Inequality and Economic Growth in Developing Countries: The Role of Initial Income" by Robert Barro (1999) in the *Journal of Economic Growth*, presents an empirical framework suggesting that higher levels of inequality adversely affect economic growth in poor countries, but not in wealthy ones. Barro's work is foundational for understanding the dual role of inequality as both a consequence and a cause of slow economic development in less developed regions.

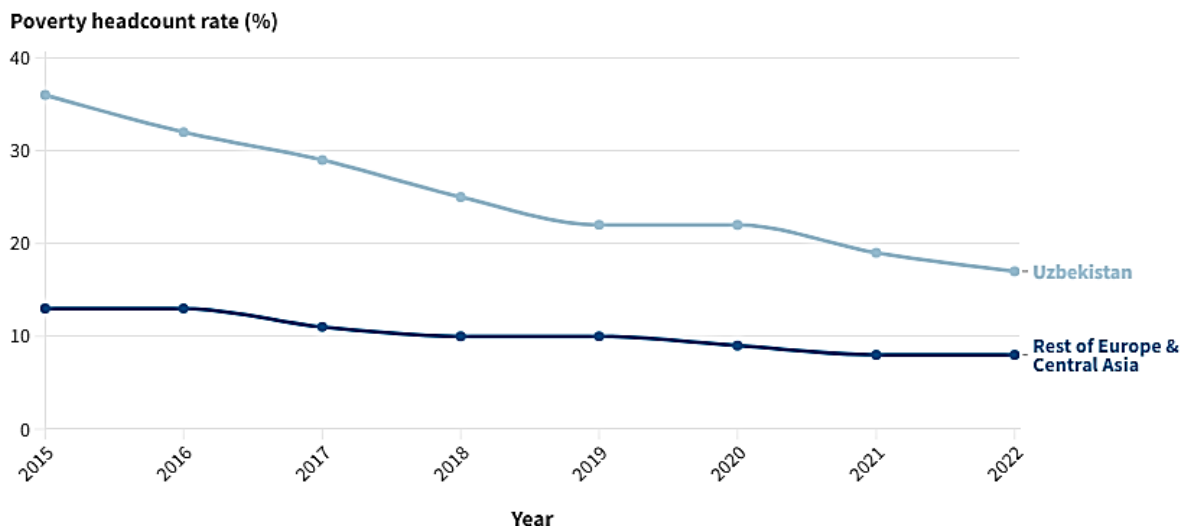
"Globalization and the Gender Earnings Gap: Evidence from Sri Lanka and Cambodia 1992–2015" by Eric Edmonds and Nina Pavcnik (2019), published in the *Journal of Development Economics*, investigates how global economic integration impacts income inequality through the lens of gender disparities in developing economies. Their findings indicate that while globalization can lead to overall economic improvements, not all segments of the population benefit equally, thereby exacerbating income inequalities.

"Poverty and Inequality in Sub-Saharan Africa: Literature Survey and Empirical Assessment" by Ann Harrison (2005) in the *Annals of Economics and Finance*, reviews literature and data specific to Sub-Saharan Africa, demonstrating how regional factors like historical colonization, resource allocation, and governmental stability play crucial roles in shaping income distributions and poverty rates.

### **Analysis and Results**

Uzbekistan presents a compelling case in the context of developing countries battling income inequality and poverty. As a lower-middle income economy, Uzbekistan has demonstrated notable progress by reducing its poverty rate significantly. According to the latest data, the share of the population living below the poverty line has decreased to 5 percent by 2022, using the lower-middle income poverty line of \$3.65 per person per day in 2017 Purchasing Power Parity (PPP) terms. This achievement is particularly remarkable given the economic challenges faced by many developing countries.

Uzbekistan's approach to economic reforms, particularly in the past decade, has been robust and multifaceted. The government has implemented a series of policy measures aimed at improving economic governance, enhancing transparency, and fostering a more dynamic business environment. These reforms have likely contributed to a more equitable distribution of income and a reduction in poverty levels. By improving regulatory frameworks and investing in infrastructure, Uzbekistan has been able to attract foreign investment and stimulate domestic entrepreneurship, which are critical for job creation and income stability.



**Figure 1. Uzbekistan's Poverty Reduction: Halving Poverty Rates According to International Standards Since 2015**

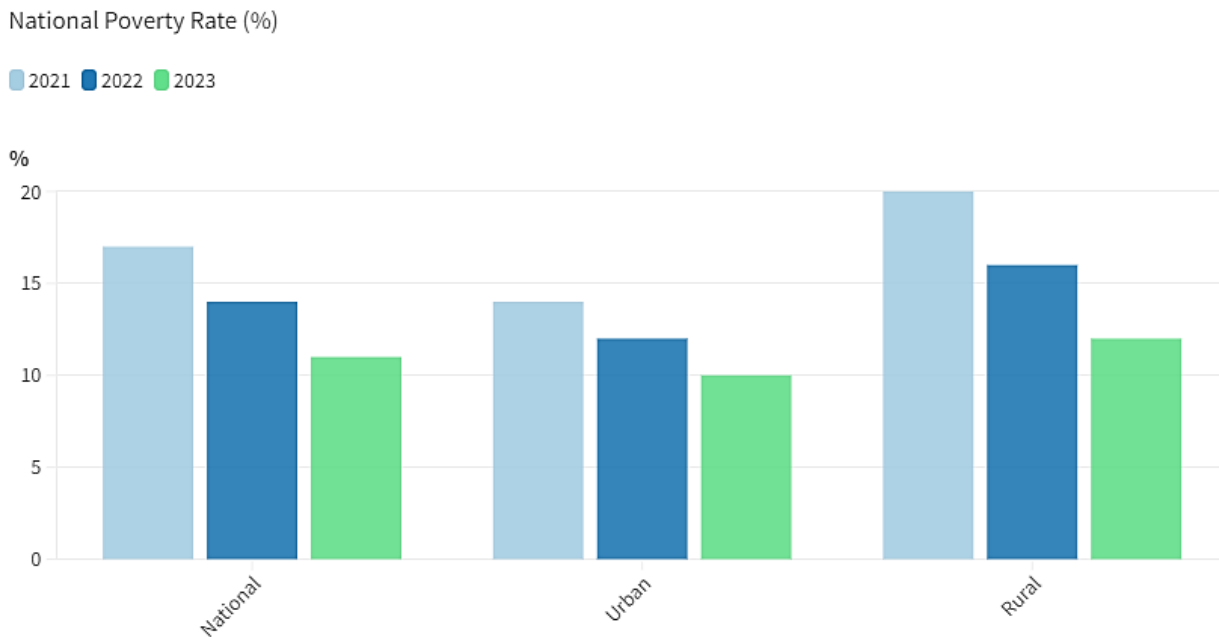
*Source: Poverty & Inequity Platform, World Bank (2024)*

According to the World Bank (2024), as Uzbekistan aims to elevate its status to an upper-middle-income country by 2030, the upper-middle-income (UMIC) poverty line—defined as \$6.85 per person per day in 2017 Purchasing Power Parity (PPP)—becomes an increasingly pertinent benchmark for evaluating the country's advances in poverty reduction. This shift in benchmarks aligns with Uzbekistan's economic aspirations and offers a more precise measure of progress. The latest data unveils a narrative of consistent and significant poverty reduction achievements (see Figure 1).

The analysis reveals that the poverty rate in Uzbekistan, measured against the UMIC poverty line, has dramatically decreased from 36 percent in 2015 to 17 percent in 2022. This reduction not only outpaces the average trend observed in the rest of Europe and Central Asia—which experienced a decline in poverty from 13 percent to 8 percent over the same period—but also highlights Uzbekistan's exceptional performance in poverty alleviation efforts during these years. This rapid decline underscores the effectiveness of Uzbekistan's economic policies and targeted poverty reduction strategies, reflecting a commendable stride towards achieving its ambitious 2030 economic goals.

To fully grasp the factors driving poverty reduction in Uzbekistan, it is essential to consider the national poverty line. This metric, tailored to the specific economic and social context of Uzbekistan, offers a more precise measure of welfare and allows for a deeper analysis of the forces behind poverty reduction.

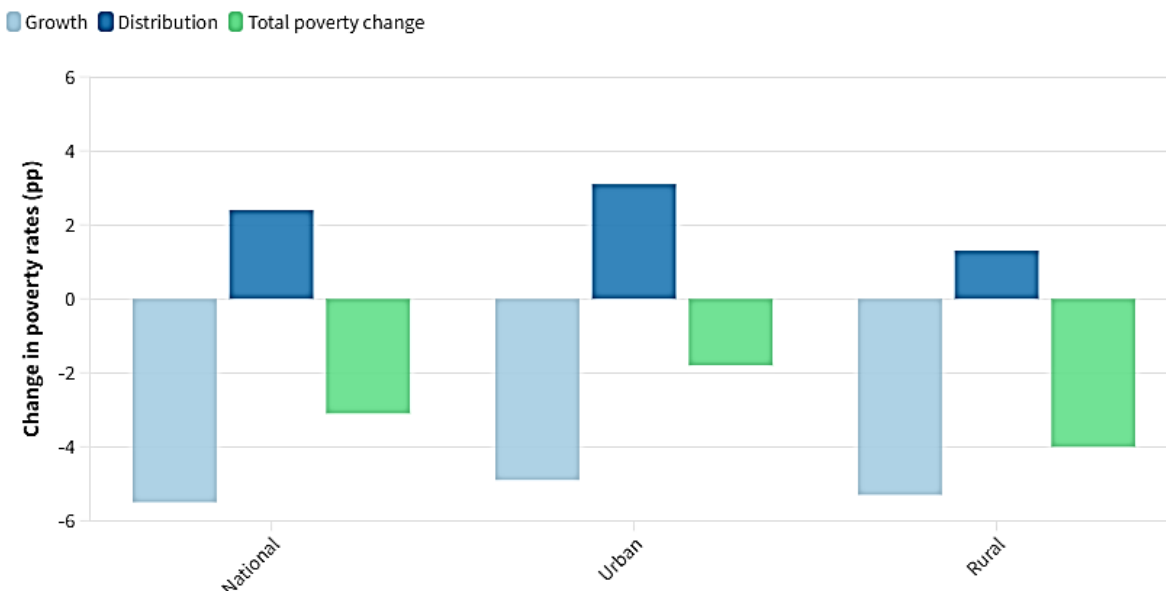
Since its establishment in 2021, the national poverty line has shown a significant decrease in poverty levels, dropping from 17% to 11% by 2023. This decline has been more pronounced in rural areas, where poverty fell by 8 percentage points, compared to a 4 percentage point reduction in urban areas (see Figure 2). This substantial decrease translates into approximately 1.6 million people rising above the poverty threshold.



**Figure 2. Uzbekistan's Progress Towards Halving Poverty According to National Standards by 2026**

Source: *Poverty & Inequity Platform, World Bank (2024)*

Such a notable improvement suggests that the government is on track to meet its ambitious goal of halving poverty from 2021 to 2026. The varied impact between rural and urban settings highlights the importance of localized strategies and indicates that targeted interventions in rural areas—possibly in agricultural development, infrastructure improvement, and access to markets—have been particularly effective. This differentiated approach ensures that policies are finely tuned to the unique challenges and opportunities in each region, thereby maximizing their impact on reducing poverty.



**Figure 3. Impact of Increasing Inequality on Slowing Poverty Reduction Rates in Recent Years**

Source: *Poverty & Inequity Platform, World Bank (2024)*

Household income growth has been the primary catalyst for reducing poverty. A significant 60 percent of the progress achieved in poverty reduction can be attributed to increased wage income. Following

this, the modernization and expansion of government social benefit programs have also played a crucial role, with enhancements in pension schemes making the most substantial positive impact among the various social benefits received by households.

While there is much to celebrate in terms of poverty reduction, a cautionary note is warranted due to rising inequality, which has tempered the pace of these achievements. The distribution of income growth has been disproportionately in favor of the wealthier segments of the population.

For instance, during the latest period from 2022 to 2023, the income of the poorest 10 percent of the population grew by 6 percent. In stark contrast, the income for the richest 10 percent surged by over 30 percent. Correspondingly, the Gini Coefficient, which measures income inequality, escalated from 0.31 in 2022 to 0.35 in 2023. Without this widening gap, the decline in poverty could have been more substantial, at 5.5 percentage points, rather than the actual decline of 3.1 percentage points observed during this period (refer to Figure 3).

To sustain and possibly accelerate Uzbekistan's rapid pace of poverty reduction, the government will need to invest additional efforts to enhance the productive capacity of poor households. The current data highlight several disadvantages faced by poorer households: they are less likely to be employed, generally have lower education levels, and tend to have more dependents. Addressing these gaps and leveling the playing field will be crucial for mitigating the rise in inequality and further diminishing poverty in Uzbekistan.

### Recommendations

To further reduce poverty and address the growing concern of income inequality in Uzbekistan, the following strategic actions are recommended:

1. **Enhanced Targeting of Social Programs:** Improve the efficiency and targeting of social benefit programs to ensure they more effectively reach and impact the poorest segments of the population. Special emphasis should be placed on enhancing pension systems and expanding eligibility for these benefits.
2. **Education and Skill Development:** Invest significantly in education and vocational training to boost the employability and income potential of the lower-income groups. Tailored programs that focus on the most in-demand skills in the labor market can help bridge the gap between poorer households and more affluent ones.
3. **Employment Creation:** Foster job creation, especially in rural areas and sectors where the poor are predominantly employed, such as agriculture and small-scale manufacturing. Support for entrepreneurship and small businesses through microfinance and business development services can also stimulate economic growth at the community level.
4. **Strengthening Labor Rights:** Ensure that labor laws are strictly enforced, including minimum wage regulations, to protect workers from exploitation and ensure fair compensation. This is particularly important in sectors that employ a large number of poor workers.

### Conclusion

Uzbekistan has made commendable strides in reducing poverty, but the rising tide of income inequality threatens to undermine these gains. The recommendations provided aim to enhance the capacity of poor households to participate more fully in the economy and gain from its growth. By implementing targeted policies that address both the symptoms and the root causes of inequality and poverty, Uzbekistan can continue to make significant progress towards its goal of reducing poverty by half between 2021 and 2026. Balancing economic growth with fair income distribution will be crucial for sustaining the nation's developmental momentum and ensuring that all citizens can share in the benefits of economic progress.

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