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IMPROVING THE FINANCIAL MECHANISM FOR POVERTY REDUCTION AND SOCIAL PROTECTION OF THE POPULATION

Khamdamov Shavkat Komilovich
PhD, Professor at TSUE
Tashkent State University of Economics

Abstract
This article analyzes issues of improving financing mechanisms for poverty reduction and social protection, specifically examining modern poverty measurement systems, international experiences in poverty reduction, and existing financing mechanisms in detail. The article provides practical recommendations for reforming the social protection system and improving financing.

Keywords: Poverty, social protection, financing mechanism, social transfers, targeted social assistance, priority directions.

Introduction

Poverty reduction is one of the priority goals of every state, and it is possible to improve the living standards of the population through the implementation of effective social protection mechanisms. However, limited financial resources are one of the main problems in this process. According to the World Bank, more than 700 million people in the world in 2024 are living on less than $2.15 per day [1]. This represents approximately 9 percent of the world's population. Therefore, the effective use of state budget, private sector participation financing methods, international grants and loans, and innovative financial instruments are among the urgent issues.

Main part

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For effectively reducing poverty, it is important to identify and analyze it through accurate and reliable measurements. Currently, there are a number of scientific and practical approaches to measuring poverty, each covering certain aspects. For example, the concept of *absolute poverty* refers to a person's lack of sufficient money or resources to meet the minimum needs for life. This approach is usually measured by a designated poverty line. The international threshold adopted by the World Bank since 2022 is $2.15 per day (World Bank, 2023). Any person or family living below this threshold is considered absolutely poor. *Relative poverty* is determined in relation to the overall income distribution within a particular society. This approach takes the average or median income of the population as a basis, and those earning less than 50-60% of it are considered relatively poor (OECD, 2022). The *Multidimensional Poverty Index (MPI)* assesses poverty not only from a financial perspective but also in terms of a person's various needs such as education, healthcare, housing, drinking water, and electricity supply. This index, developed by the United Nations Development Programme (UNDP) and the Oxford Poverty and Human Development Centre, is calculated based on 10 indicators (UNDP, 2023). The *welfare gap* measure is an important indicator showing how far the poor segment of the population is from the poverty line. This indicator is determined by measuring the difference between the average income among the poor and the poverty line. This allows for assessing not only the number of poor people but also the depth of poverty (UNDP, 2023).

Different countries apply different strategies to reduce poverty. For example, China has achieved tremendous success in reducing poverty over the past 40 years. From 1981 to 2021, the number of people in absolute poverty decreased from 770 million to 0 [2]. China's poverty reduction policy encompasses several interrelated and complementary directions. These strategies have not only led to rapid economic growth in the country but have also served to ensure social stability. China introduced elements of private property in agriculture. Land use rights were given to farmers for a long period, which increased their confidence and dramatically increased productivity. These reforms created a source of income for the poor population and constituted the initial stage of poverty reduction. Simultaneously with agricultural reforms, the state identified the development of the manufacturing sector as a priority

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task. That is, through industrialization and urbanization processes, the aim was to attract rural population to cities, provide them with jobs, and create new opportunities for migrants. As a result of urbanization, the labor market expanded, wages increased, and this had a positive impact on the overall standard of living of the population. In order to effectively implement industrialization and include poor regions in economic circulation, the state carried out large-scale infrastructure projects. Through the construction of roads, electricity supply, internet, and railways, remote and poor regions were connected to central markets. This, in turn, improved the business environment in these regions and served to attract investments. Starting from 2013, China introduced the "Targeted Poverty Alleviation" program. In this program, poor families were registered, and individual development plans were developed for each family. Also, great attention was paid to adapting them to the labor market, teaching them professions, and providing them with housing, healthcare, and educational services. These mechanisms were aimed at ensuring not only economic growth but also social equality.

Scandinavian countries such as Sweden, Norway, Denmark, and Finland are among the most stable and prosperous societies in the world with their comprehensive social protection systems. In these countries, social equality, quality of life, and citizen welfare are priorities of state policy. The Scandinavian model is based on the concept of a "welfare state", aiming to cover all citizens with social security. This system is financed through high-income and progressive tax rates. For example, income tax can range from 30-60%, but citizens approach taxes with confidence because in return they receive high-quality public services. In Scandinavian countries, education and healthcare services are provided free of charge to all citizens. Such a policy not only ensures social equality but also serves to develop the human capital of citizens. This increases efficiency in the labor market and stimulates economic growth. Also, in these countries, active policies in the labor market keep unemployment rates low. The state ensures employment through retraining courses, career guidance, unemployment benefits, and creating new jobs. This is an important factor in maintaining economic activity and guaranteeing social security. Due to the above measures, the relative poverty rate in Scandinavian countries is very low - around 5-7%. This indicator is among the best results among OECD countries. It strengthens equality and social justice in society, reducing the risk of discontent and violence in the social structure.

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In our country, a number of strategic measures are being implemented in recent years to reduce poverty. In 2020, poverty reduction was declared one of the priorities of state policy, and the "Temir daftar" system was introduced [3]. It is a practical and interactive mechanism for identifying the population in need of social protection and providing them with targeted assistance. The "Temir daftar" is maintained in each district and city in cooperation with mahalla activists, sector leaders, and social services who work with the population. Through this, needy families are identified, and their formal and informal incomes, living conditions, unemployment status, and social problems are taken into account. This system increases its effectiveness because assistance is based on real need. The situation of each family is studied in detail by local commissions. In this process, indicators such as employment, education and health-related problems, number of children, disability status are analyzed. Through this, assistance is organized not generally but according to the individual needs of each family. The "Temir daftar" is not just a means of providing material assistance, but a social elevator aimed at bringing each family to economic activity. Measures such as supporting entrepreneurship, providing microcredits, retraining, and adapting to the labor market are planned for families. Thus, social assistance is viewed not as permanent, but as a means of transitioning to a stable life.
In recent years, the poverty rate in Uzbekistan has decreased significantly. In 2021, the poverty rate was 17%[1], in 2022 this indicator fell to 14%[2], in 2023 it decreased further to 11%[3], and in 2024 it decreased by 2.1 percentage points compared to the previous year, reaching 8.9%[4]. During this period, the Government of Uzbekistan implemented a number of measures to reduce poverty, including focusing on increasing the income of the population through employment, supporting entrepreneurship, and effective use of land resources.

Effective financing of the social protection system is one of the important factors in reducing poverty, and financing from budget funds is the main source of the social protection system. In this case, state budget funds formed from taxes and other mandatory payments are directed to social protection programs.

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[1] https://daryo.uz/en/2024/05/13/uzbekistans-poverty-rate?utm_source
[2] chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://ophi.org.uk/sites/default/files/2024-03/CERR_UNDP_Uzbekistan_MPI_2023.pdf?utm_source
[3] https://daryo.uz/en/2024/05/13/uzbekistans-poverty-rate?utm_source
[4] https://review.uz/en/post/analiz-urovnya-bednosti-i-doxodov-naseleniya-v-uzbekistane-po-itogam-2024-goda-infografika?utm_source

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Social insurance funds are formed from the payments of workers and employers and serve to finance pension provision, health insurance, and unemployment benefits.
International financial institutions such as the World Bank, International Monetary Fund, and Asian Development Bank allocate loans and grants for poverty reduction and development of social protection systems [4].
The public-private partnership mechanism is one of the innovative methods of financing the social protection system. Through this mechanism, private sector resources are attracted to develop social infrastructure and provide social services [5].
Crowdfunding and financing through charity funds are especially effective in implementing small-scale social projects [6].

Table 1 Social protection mechanisms in Uzbekistan[5]

Type of social protection	Users	Source of financing	Implementation mechanism
Material assistance to low-income families	Families with income below minimum consumption expenditure	State budget	Through mahalla committees
Allowances for families with children	Families with children up to 2 years and up to 14 years	State budget	Through Pension Fund
Social pensions	Persons without work experience	State budget	Through Pension Fund
Unemployment benefit	Officially registered unemployed	Employment Assistance Fund	Through employment centers
"Temir daftar" program	Families in difficult social situations	State budget, local budgets	Through mahallas and district hokimiyats

Improving the mechanisms for financing poverty reduction and social protection of the population is one of the priority tasks in Uzbekistan. In this regard, it is expedient to implement reforms in the following areas:

1. Strengthening the targeted social protection system. To direct social assistance to the most needy segments, it is necessary to improve the "Unified Register" system, develop the methodology for identifying poor families, and ensure transparency by digitizing social assistance processes.

[5] Compiled by the authora

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2. Increasing the effectiveness of social protection expenditures. It is possible to ensure the effective use of allocated funds through establishing regular monitoring and evaluation of social programs, developing performance indicators, and implementing a "social audit" system based on international experience.

3. Diversifying funding sources. It is necessary to expand the sources of financing for the social protection system by expanding public-private partnership mechanisms, introducing innovative financial instruments such as social bonds, and strengthening cooperation with international financial institutions.

4. Improving the poverty exit strategy. It is important to expand vocational training programs, improve the microcredit system, and develop entrepreneurship support programs in order to provide poor families with sustainable sources of income.

The effective implementation of these measures will serve to reduce poverty and improve the living standards of the population in Uzbekistan.

Conclusion

Improving mechanisms for financing poverty reduction and social protection of the population is a multifaceted and systemic process that does not have a one-sided solution. In solving such a complex problem, the coordinated action of state bodies, the private sector, civil society institutions, and international partner organizations is of decisive importance.

Based on the results of the analysis conducted, the following practical recommendations are put forward. First, it is important to implement a multidimensional poverty index (MPI) and use modern digital technologies for accurate assessment of poverty levels. This methodology allows for assessing the living standards of the population not only through income, but also through factors such as education, healthcare, and access to infrastructure.

Second, it is necessary to transition to innovative approaches in financing the social protection system. In particular, it is possible to establish the practice of issuing social bonds and implementing at least 50 socially significant projects based on public-private partnership. This not only diversifies funding sources but also reduces the burden on the state budget.

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Third, in order to radically improve the targeted social assistance system, it is necessary to fully digitize the "Unified Social Register" and automate the distribution of social assistance. This mechanism serves to ensure transparency and fairness, and to deliver aid quickly and effectively to those who are truly in need.

Fourth, to ensure exit from poverty, it is necessary to stimulate the active participation of the population in the labor market. In this regard, the main task is to expand vocational training programs, especially for youth and women, and to develop small businesses through improving microfinance services.

The implementation of these proposals will serve to further reduce poverty in the country, strengthen social protection, and ensure sustainable living standards for citizens. On this basis, an opportunity will be created to achieve social stability and inclusive economic growth.

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