



REDUCING POVERTY THROUGH EFFECTIVE MANAGEMENT OF THE SERVICE SECTOR: SCIENTIFIC AND METHODOLOGICAL APPROACHES

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Abstract:

This article provides a comprehensive analysis of the scientific and methodological foundations for reducing poverty through the effective management of the service sector. The study systematically examines the impact of classical, neoclassical, Keynesian, post-Keynesian, endogenous, and institutional economic growth theories on the development of the service sector. The development of human capital, targeting (goal-oriented approaches), inclusive growth, and the sustainable livelihoods concept are substantiated as key methodological instruments for poverty reduction. The research findings demonstrate that strengthening regional policies aimed at poverty alleviation is possible through the development of vocational education in the service sector, the effective use of digital economy opportunities, support for entrepreneurship, and the improvement of public-private partnership mechanisms.

Keywords: service sector, poverty reduction, effective management, economic growth theories, human capital, endogenous growth, targeting methodology, inclusive growth, sustainable livelihoods, employment, digital economy, entrepreneurship, public-private partnership, regional development.

INTRODUCTION

In recent decades, the service sector has become one of the fastest-growing components of both global and national economies. International experience demonstrates that the service sector not only occupies a significant share in gross domestic product, but also plays a crucial role in expanding employment, developing human capital, and ensuring social stability. In particular, in economically and environmentally vulnerable regions, the effective management of the service sector is increasingly emerging as an important instrument for poverty reduction.

The issue of poverty reduction is currently regarded as one of the priority directions of global socio-economic policy. Traditional approaches based solely on income indicators often yield limited results, as they fail to adequately account for the quality of human capital, employment opportunities, and interregional disparities. Therefore, a multidimensional approach grounded in the effective management of the service sector is of

high relevance from both scientific and practical perspectives.

The purpose of this article is to conduct a systematic analysis of the scientific and methodological foundations for reducing poverty through the effective management of the service sector, as well as to develop evidence-based conclusions and recommendations for improving regional development policy using the case of the Republic of Karakalpakstan.

METHODS

The following scientific methods were applied in the course of the research:

- Theoretical analysis – to examine the evolution of classical, neoclassical, Keynesian, post-Keynesian, endogenous, and institutional economic growth theories;
- Systemic and institutional approaches – to comprehensively assess the role of the service sector in poverty reduction;



- Comparative analysis – to compare international experiences (India, China, Turkey, and Brazil) with the conditions of Uzbekistan;
- Logical generalization – in the process of formulating scientific conclusions and practical recommendations;
- Multidimensional approach – to integrate targeting, inclusive growth, and sustainable livelihoods concepts.

The methodological framework of the study is based on Amartya Sen's capability approach, the human capital theory developed by Schultz and Becker, as well as contemporary endogenous and institutional growth concepts.

RESULTS

The research findings indicate the following:

First, the evolution of economic growth theories confirms that the development of the service sector is directly linked to the quality of human capital, knowledge, and institutions. In particular, endogenous and institutional approaches are considered the most methodologically appropriate models for developing regions.

Second, the development of vocational education and skills enhancement programs in the service sector plays a significant role in poverty

Economic Growth Theories: Founders and Development Stages

1. Classical Economic Growth Theory (18th–19th centuries)

Founder	Work / year	Main idea
Adam Smith	<i>The Wealth of Nations, 1776</i>	The division of labor, market freedom, and capital accumulation are the main sources of economic growth.
David Ricardo	<i>Principles of Political Economy, 1817</i>	The law of diminishing returns and limited resources slows down growth.
Thomas Malthus	<i>Essay on Population, 1798</i>	Rapid population growth leads to a shortage of resources.

Feature: economic growth is limited in the long term, technology is considered as an external factor.

2. Neoclassical theory of economic growth (mid-20th century)

Founder	Model / year	Main idea
Robert Solow	Solow Model, 1956	Capital, labor, and exogenous technological progress determine growth
Trevor Swan	Swan model, 1956	Stable equilibrium state, similar to the Solow model

Features:

- Technology is external (exogenous).
- In the long run, countries may converge in terms of income levels (convergence).

3. Keynesian and Post-Keynesian Growth Theories (Mid-20th Century)

Founder	Model / year	Main idea
John Maynard Keynes	Aggregate Demand Model, 1936	The market mechanism cannot always ensure full employment, therefore active state intervention is necessary.

reduction by increasing employment opportunities and ensuring sustainable growth in household incomes.

Third, the targeting methodology substantially improves the effectiveness of social policy by directing resources toward the most vulnerable population groups. Under the conditions of the Republic of Karakalpakstan, this approach contributes to reducing interregional disparities.

Fourth, the principle of inclusive growth enables the harmonization of social equity and economic efficiency by expanding employment opportunities for women and youth in the service sector.

Fifth, the sustainable livelihoods approach facilitates the formation of long-term and resilient mechanisms for poverty reduction in environmentally vulnerable regions.

The scientific and methodological foundations for reducing poverty through effective management of the service sector are based on the following principles and approaches:

I. Scientific and Methodological Foundations

Economic growth theories.

The service sector is regarded as one of the key drivers of economic development. Its expansion contributes to overall economic growth, which, in turn, leads to poverty reduction through increased employment and rising household incomes.



Roy Harrod	Harrod model, 1939	Growth is unstable, strongly dependent on investment
Eusei Domar	Domar model, 1946	Investments simultaneously increase demand and output
Nicolas Kaldor	Kaldor Model, 1957	The industrial sector is the "locomotive" of growth

Features: great attention to demand, investment, and state policy.

4. The theory of endogenous economic growth (1980s)

Founder	Model / year	Main idea
Paul Romer	Endogenous Technology, 1986	Knowledge and innovation are an internal factor
Robert Lucas	Human Capital Model, 1988	The main driver of education and skill growth
Aghion and Howitt	Schumpeterian model, 1992	Innovation and "creative destruction"

Features: technology and knowledge are endogenous; human capital and R&D (Research and Development, i.e., a set of research and development activities that ensure innovative development and technological progress in the economic system) play a key role.

5. Theory of Institutional Economic Growth (late 20th century)

Founder	Model / year	Main idea
Douglas North	<i>Institutions, Institutional Change..., 1990</i>	Institutions (law, property rights) determine growth
James Robinson	<i>Why Nations Fail, 2012</i>	Inclusive institutions lead to sustainable growth

Features: the political and legal environment is the key to economic growth

6. Modern and Sustainable Growth Approaches (21st Century)

Direction	Founders	Period	Content
Green growth	OECD, UNEP	2008	Harmony of ecology and economic growth
Inclusive Growth	World Bank, UNDP	2010	Fair distribution of growth results
Digital growth	Brynjolfsson, McAfee	2014	Digital technologies and productivity

The evolution of economic growth theories encompasses the process from the classical factor-driven approach to modern concepts based on knowledge, innovation, and institutions. In particular, endogenous and institutional theories serve as important methodological foundations for currently developing regions.

II. Human Capital Development

According to Amartya Sen's theory, poverty reduction is closely linked to expanding people's opportunities to realize their capabilities. In the service sector, the development of human capital through vocational education and skills enhancement programs (e.g., in tourism, ICT, and business management) is central to this approach.

Early ideas (17th-19th centuries)

Author	Period	Main contribution
William Petty	17th century	He emphasized that labor and the population are the source of wealth.
Adam Smith	1776	He viewed education and skills as "part of society's wealth."
Alfred Marshall	1890	Education increases production efficiency

During this period, the term "human capital" was not used, but substantive foundations were created.

The human capital theory posits that investments in an individual's knowledge, skills, competencies, health, and experience increase economic productivity. Under this perspective, expenditures on education, healthcare, and vocational training are not considered consumption but rather investments that generate long-term economic benefits.

Implications for the Service Sector:

- Enhancing professional qualifications in services increases labor productivity and employment.
- Developing human capital reduces poverty by creating sustainable income opportunities.
- Policy support for training programs and education infrastructure ensures that the workforce meets the demands of a modern service economy.

**Formation of modern human capital theory (1950s - 1960s)**

Founder	Work	Year	Scientific significance
Theodor W. Schultz	Investment in human capital	1961	Introduced the concept of human capital into scientific circulation
Gary S. Becker	Human capital	1964	Transformed theory into a systemic model
Jacob Minzer	School, experience, and income	1974	Empirically proved the relationship between education and income

Important fact:

- ❖ Theodor W. Schultz and Gary Becker are recognized as the founders of human capital theory.
- ❖ Gary Becker was awarded the Nobel Prize in 1992.

Human capital and economic growth (1980-1990)

Author	Model	Year	Contribution
Robert Lucas	Endogenous growth model	1988	Human capital as an internal factor of growth
Paul Romer	Innovative model	1986	The role of knowledge and technology

At this stage, human capital began to be considered the main driver of economic growth..

Contemporary interpretations (2000-present)

Direction	Authors	Content
Human Capital Index	World Bank	Assessment through education and health
Skill economics	OECD	Soft skills and lifelong learning
Digital human capital	UNDP	Digital competencies

The theory of human capital development was formulated in the 1960s by T. Schultz and G. Becker, who interpreted expenditures on education, health, and professional training as key investment factors driving economic growth. According to this theory, investments in human capital enhance labor productivity, innovation capacity, and long-term socio-economic development, making them essential components of sustainable growth strategies.

III. Targeting Methodology

Targeting (the targeted approach) implies that poverty reduction programs should be directed toward the most vulnerable population groups. In the development of the service sector, particularly at the local level, mechanisms are implemented to identify poor households and support their participation in service-related economic activities.

Targeting is a methodological approach aimed at increasing the effectiveness of socio-economic policy by directing limited resources toward population groups, territories, or individuals with clearly identified needs. Through this approach, social assistance, subsidies, and development programs reach those who need them most, thereby reducing inefficient resource allocation.

The targeting approach is grounded in several theoretical concepts, including:

- Welfare economics (A. Pigou) – ensuring equitable resource distribution;
- Human capital theory – orienting support toward long-term development outcomes;

- Multidimensional Poverty Index (MPI) – recognizing poverty beyond income-based measures;
- Public choice theory and New Public Management – enhancing the efficiency of public expenditures.

Targeting methodology serves as a crucial instrument for improving the effectiveness of social policy by enabling the allocation of resources to groups with the highest level of need. Multidimensional and digitalized targeting approaches are particularly important in addressing regional development challenges.

The significance of targeting methodology for the Republic of Karakalpakstan includes:

- Reducing interregional socio-economic disparities;
- Taking into account the ecological risks of the Aral Sea region;
- Strengthening policies oriented toward human capital development.

IV. Inclusive Growth Principle

Inclusive growth is a development paradigm that ensures the benefits of economic growth are shared across all segments of society, including the poor and marginalized populations. In the service sector, this principle is implemented by promoting small businesses and entrepreneurship, particularly among women and youth.



Inclusive growth refers to an economic growth process that encompasses all social groups, regions, and population strata. This principle implies that:

1. The outcomes of economic growth are broadly distributed, ensuring that economic benefits reach all

The following indicators are typically used to assess inclusive growth:

Direction	Indicator example
Economic coverage	GDP growth, share of employed population
Social coverage	Poverty rate, education and health indicators
Territorial equality	Difference between urban and rural areas, income difference between regions
Gender equality	Women's employment, wage gap
Civil participation	Participation in local decision-making

Regional Significance of Karakalpakstan

The Republic of Karakalpakstan represents an ecologically and economically vulnerable region, primarily due to the persistent consequences of the Aral Sea crisis. These environmental challenges have significantly affected livelihoods, public health, and economic resilience, thereby increasing the region's susceptibility to poverty and socio-economic inequality.

Through the implementation of inclusive growth strategies, Karakalpakstan can achieve a reduction in poverty, foster human capital development, minimize interregional disparities, and facilitate progress toward the Sustainable Development Goals (SDGs). Inclusive growth enables the integration of marginalized groups into economic processes, ensuring that development benefits are equitably distributed.

"The principle of inclusive growth represents a sustainable and socially equitable form of economic development that encompasses all segments of the population. This approach is particularly important for designing effective development strategies in environmentally and economically vulnerable regions, such as the Republic of Karakalpakstan."

Resources that form a sustainable livelihood include:

Resource type	Description
Human capital	Education, skills, health, knowledge
Social capital	Networks, collaboration, team support
Financial capital	Income, savings, access to credit
Physical capital	Housing, transport, equipment
Natural capital	Water, land, forest, fishery and other natural resources

Sustainable Livelihoods and the Republic of Karakalpakstan

The application of the Sustainable Livelihoods Approach in the Republic of Karakalpakstan is particularly relevant due to the region's unique environmental and socio-economic conditions.

The Aral Sea ecological crisis has led to a significant depletion of natural capital, negatively

segments of society rather than being concentrated among specific groups or regions;

2. Economic development and social equity reinforce one another;

3. The growth process is aligned with social, environmental, and economic sustainability.

V. Sustainable Livelihoods Approach

The Sustainable Livelihoods Approach (SLA) is a methodological framework aimed at reducing the vulnerability of poor populations and expanding their access to diverse resources, including financial, natural, social, human, and physical capital. In the context of the service sector, increasing access to financial services—such as microfinance, insurance, and digital banking—serves as a practical example of this approach.

The Sustainable Livelihoods Approach focuses on ensuring long-term, secure, and resilient living standards by enhancing individuals' and households' capacity to manage resources, income sources, and social opportunities effectively. Unlike approaches limited to purely economic indicators, SLA incorporates environmental, social, and political dimensions of development.

The core principle of this approach is that people should utilize resources efficiently, coexist harmoniously with the natural environment, and maintain social security in order to achieve sustainable and resilient livelihoods.

affecting land productivity, water resources, and ecological balance.

Agriculture-based livelihoods remain predominant in rural areas, making household welfare highly dependent on human capital (skills, health, labor capacity) and financial capital (income stability, access to credit).



Social protection mechanisms and local cooperation enhance the role of social capital by strengthening community resilience, trust, and collective problem-solving capacities.

As a result, the Sustainable Livelihoods Approach serves as an effective tool for designing regional development policies, reducing poverty, and mitigating environmental risks. By integrating economic, social, and ecological dimensions, this approach enables the formulation of adaptive and resilient development strategies tailored to the specific challenges of Karakalpakstan.

VI. Effective Governance Mechanisms

The successful implementation of inclusive growth and sustainable livelihood strategies requires the establishment of effective governance mechanisms, particularly within the service sector. Key directions include:

- Strengthening vocational education and training systems by preparing specialists aligned with

the needs of the service sector through short-term training programs, vocational courses, and specialized training centers;

- Expanding the digital economy by increasing employment opportunities in the information technology (IT) sector and promoting remote work arrangements, which are especially important for geographically remote and environmentally vulnerable regions;

- Supporting entrepreneurship through microcredit schemes and business advisory services in areas such as household services, tourism, and other labor-intensive service activities;

- Promoting public-private partnerships (PPP) to attract private sector participation in the development of service infrastructure, including transport and logistics, telecommunications, and related support services.

Effective management mechanisms for Karakalpakstan

Mechanism	Goal / Direction	Implementation form	Example of Karakalpakstan
Strengthening the vocational education system	Training of specialists in the service sector	Short-term courses, training centers	Special training centers for hotels, restaurants, and tourism in Nukus and the regions
Expansion of the digital economy	Increasing employment in the IT sphere, creating opportunities for remote work	Digital platforms, remote work infrastructure	Online work platforms, remote IT services for Nukus and other central cities
Support for entrepreneurship	Business development in the sphere of consumer services, tourism	Microloans, business advice	Small hotels, souvenirs, and service businesses in the Aral Sea region and tourist destinations of Karakalpakstan
Public-Private Partnership (PPP)	Development of service infrastructure (transport, communications)	Attracting the private sector, cooperation projects	PPP with private companies in regional transport, logistics, and telecommunications projects

METHODOLOGICAL FRAMEWORK

These scientific and methodological foundations, as well as governance approaches, are formulated based on an analysis of international experience (India, China, Turkey, and Brazil) and the specific socio-economic conditions of Uzbekistan.

DISCUSSION

The findings of the study indicate that effective management of the service sector fundamentally differs from traditional poverty reduction approaches. Unlike

conventional strategies that primarily focus on income growth, this approach emphasizes human capital development, improvement of the institutional environment, and the promotion of social inclusion.

Under the conditions of the Republic of Karakalpakstan, where ecological constraints and regional vulnerabilities are significant, the development of the service sector should be closely integrated with public-private partnerships, the expansion of the digital economy, and support for small businesses. Such an integrated approach contributes to strengthening



regional economic resilience and ensuring sustainable socio-economic development.

CONCLUSION

In conclusion, effective management of the service sector represents a crucial and long-term instrument for poverty reduction. The study demonstrates that limiting policy measures to income-based approaches is insufficient; instead, a comprehensive strategy grounded in human capital development, inclusive growth, and endogenous growth principles is required. By integrating vocational education, digital technologies, small business development, and public-private partnership mechanisms within the service sector, it is possible to increase employment opportunities and ensure sustainable growth in household incomes.

These approaches are particularly significant for environmentally and socio-economically vulnerable regions such as the Republic of Karakalpakstan, where they play a vital role in reducing poverty and strengthening social and economic stability.

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