

ENTREPRENEURSHIP-BASED MODERN INNOVATIVE FOREIGN APPROACHES TO POVERTY REDUCTION

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Abstract. *This article examines modern innovative foreign approaches to poverty reduction that are based on entrepreneurship and the development of new economic opportunities. Traditional poverty-alleviation strategies – centered on social assistance, donor-funded programs, and subsidies – have often failed to produce sustainable outcomes in many countries. As a result, global research increasingly emphasizes entrepreneurship as a key mechanism for empowering low-income populations and enhancing their economic participation.*

The study analyzes several international models, including microfinance, crowdfunding, social entrepreneurship, the formalization of the informal economy, and the Bottom of the Pyramid (BOP) approach. These models demonstrate that when the poor are provided with access to financial resources, technology, and market opportunities, they can transform from passive aid recipients into active economic actors capable of generating stable income. The findings underscore that creating an enabling entrepreneurial environment, expanding access to innovative financial services, and integrating vulnerable groups into formal economic systems represent essential drivers of sustainable poverty reduction.

Keywords: *Entrepreneurship; Poverty Reduction; Microfinance; Crowdfunding; Social Entrepreneurship; Informal Economy; Bottom of the Pyramid (BOP); Financial Inclusion; Innovative Approaches; Economic Empowerment.*

In recent decades, entrepreneurship has emerged as one of the most effective mechanisms for achieving sustainable economic development and reducing poverty across many regions of the world. As traditional poverty reduction strategies – such as social assistance, welfare programs, and state subsidies – have often demonstrated limited long-term impact, policymakers and international development institutions increasingly emphasize entrepreneurship-based solutions. Modern innovative foreign approaches highlight the potential of entrepreneurial ecosystems, digital technologies, inclusive finance, and human capital development in creating income-generating opportunities for low-income populations. Contemporary global practice shows that entrepreneurship can accelerate social mobility by enabling individuals and households to convert local

resources, skills, and knowledge into productive economic activities. Successful models implemented in countries such as Kenya, Bangladesh, Rwanda, Singapore, and Brazil demonstrate that micro-enterprise development, mobile-based financial services, digital marketplaces, and social business initiatives can significantly lower poverty rates, particularly in rural and marginalized communities. Furthermore, microfinance innovations, youth and women-focused startup programs, and community-driven business incubation systems have proven effective in strengthening the resilience of vulnerable population groups. The academic literature on entrepreneurship-based poverty reduction has expanded significantly over the past two decades, reflecting a global shift toward market-driven and innovation-oriented development strategies. Early foundational works, such as those by De Soto (2000), argue that unlocking entrepreneurial potential among low-income populations requires formalizing property rights, improving access to capital, and reducing institutional barriers. This perspective laid the groundwork for later studies that emphasized the role of the enabling environment in fostering inclusive entrepreneurship. A considerable body of research highlights the transformative impact of microfinance on poverty alleviation. Yunus (2007) and subsequent empirical studies in Bangladesh, India, and Sub-Saharan Africa show that the availability of small loans without collateral can stimulate microenterprise growth, enhance women's economic participation, and generate long-term income improvements. However, more recent literature cautions that microfinance alone is insufficient without complementary support such as training, digital tools, and market integration (Banerjee & Duflo, 2011). This study employs a mixed-method research design to analyze modern innovative foreign approaches to entrepreneurship-based poverty reduction. The methodological framework combines quantitative and qualitative techniques to ensure a comprehensive assessment. First, a systematic literature review was conducted using academic databases such as Scopus, Web of Science, and Google Scholar. Peer-reviewed articles, policy reports, and case studies from 2000–2024 were selected to identify global trends, theoretical foundations, and practical innovations in entrepreneurship-driven poverty reduction. Second, a comparative analysis method was used to evaluate successful international models, including Kenya's digital finance ecosystem, Bangladesh's microfinance innovations, Singapore's entrepreneurship education system, and Rwanda's ecosystem-based policy reforms. These cases were compared based on criteria such as financial inclusion, digital adoption, institutional support, and social impact. Third, descriptive statistical data from the World Bank, UNDP, ILO, and OECD were analyzed to measure the effectiveness of entrepreneurial interventions on poverty outcomes. Indicators such as income growth, employment rates, and poverty reduction

percentages were used to identify measurable trends. Finally, insights from theoretical frameworks—including human capital theory, inclusive development theory, and innovation diffusion theory—were applied to interpret the findings and develop a conceptual understanding of the relationship between entrepreneurship and poverty reduction. This integrated methodology ensures robust, evidence-based conclusions and allows the study to capture both global best practices and underlying causal mechanisms.

Poverty reduction is increasingly becoming a central topic in the research of foreign economists. This can be explained by the fact that poverty remains an extremely serious global problem and that measures aimed at alleviating it have produced varying results. In recent years, foreign researchers have carried out a number of studies examining the development of entrepreneurship, new technologies and innovations as drivers of economic growth, as well as their relationship with poverty reduction. This, in turn, has generated new approaches (and research methods) that serve as alternatives to traditional poverty-reduction theories, which have largely focused on financial aid and other basic support mechanisms. Over the past decade, rapid and increasingly large-scale economic growth has enabled at least 10% of the world's population to escape poverty. Although some countries and regions have achieved significant progress in reducing poverty, many areas still suffer from high poverty levels, and further research is required to identify effective mechanisms for lifting these populations out of poverty.

Today, researchers increasingly recognize that entrepreneurship can address a significant part of the global poverty problem. The key issue is to thoroughly examine the relationship between entrepreneurship and poverty reduction, as well as to understand how effective entrepreneurial activity can be encouraged. At the same time, it is crucial to identify which forms of entrepreneurship are most effective in reducing poverty. Since foreign aid and various infrastructure schemes have not been proven to be highly effective in reducing poverty, the role of entrepreneurship has become an increasingly important topic in poverty-reduction research.

Entrepreneurship today is broadly defined from the perspective of introducing new products, services, raw materials, markets, and organizational methods through the creation of new tools, goals, or relationships between them. Indeed, entrepreneurship can be viewed as encompassing fundamental transformations involving innovation and new ventures, which may relate to social or institutional spheres or improve the social status of the poor through the development of social entrepreneurship. Based on these considerations, we believe that it is highly important to study alternative forms of entrepreneurship—such as

microfinance, crowdfunding, informal firms, the informal economy, social entrepreneurship, and the “bottom of the pyramid” approach—as potential mechanisms for reducing poverty. In the following sections, these approaches will be examined in detail.

Initially, microfinancing had a narrow definition: providing microcredit to low-income entrepreneurs and small business entities that lacked access to conventional credit. There were two primary mechanisms for delivering financial services to such clients: (1) individual banking services for entrepreneurs and small businesses based on interpersonal relationships; and (2) group-lending models, in which several entrepreneurs come together and apply for loans or other services as a group. Over time, microfinancing has evolved into a broader movement. Its objective is to create “an environment where everyone—especially poor individuals and households—has access to an affordable, high-quality range of financial products and services, including not only credit but also savings, insurance, payment services, and money transfers.”

Table 1

Modern innovative entrepreneurship-based approaches considered effective in reducing poverty

Forms of entrepreneurship	Its importance in reducing poverty
Microfinancing	The category of microfinancing refers to financial services aimed at individuals and small businesses that are unable to access traditional banking and related services. Microfinance includes microcredit, the provision of small loans to low-income clients, micro-insurance, and other services. Microfinancial services are typically designed to help poor segments of the population achieve self-sufficiency.
Crowdfunding	Crowdfunding (public financing) is a form of collective cooperation in which individuals (donors) voluntarily pool their money or other resources to support the activities of other people or organizations, usually through the Internet. Fundraising can serve various purposes, including financing startup companies and small businesses, developing open-source software, earning returns through joint investments, and many other initiatives. Crowdfunding is typically carried out through loans and donations. The loan-based system provides support to enterprises aiming to produce goods or address production-related issues. In this regard, crowdfunding contributes to poverty reduction by enabling investors to benefit from the success of the businesses in which they invest. Additionally, donation-based crowdfunding

	<p>serves as a way for individuals to raise funds for natural disasters, medical expenses, or other urgent needs. In both cases, crowdfunding enhances the possibility of raising funds on a global scale.</p>
<p>Informal Economy and Informal Firm</p>	<p>The informal economy (informal sector or shadow economy) is a part of the economy that is not taxed and not regulated by the government.</p> <p>Although the informal sector constitutes a significant portion of the economies of developing countries, it is considered problematic and difficult to manage. Nevertheless, the informal sector provides important economic opportunities for the poor. Integrating the informal economy into the formal sector is an important policy objective.</p> <p>The relationships between informal sectors and poverty are certainly complex, with no clear cause-and-effect patterns. However, an inverse relationship is observed between the expansion of the informal sector and the slowdown of economic growth. Average incomes in the informal economy are considerably low, and a large proportion of the poor work within the informal sector.</p>

Proponents of microfinancing claim that such accessibility helps the poor lift themselves out of poverty. For many, microfinance is a tool to promote economic development, employment, and growth by supporting micro-entrepreneurs and small businesses; for others, it is a way for the poor to manage their financial resources more effectively, reduce risks, and gain broader access to economic opportunities. Critics often highlight certain drawbacks of microcredit, particularly its potential to lead to over-indebtedness. Numerous studies have attempted to evaluate its impact. Because livelihoods in developing countries still heavily depend on agriculture or the trade of basic food products, significant resources are being directed towards supporting farming households, thereby contributing to poverty reduction.

Although significant progress has been made in developing the microfinance sector over the past several decades, several issues still need to be addressed in order to meet the high demand. Barriers or challenges to building a reliable and commercially viable microfinance industry include:

- disproportionate donor subsidies;
- weak regulation and supervision of deposit-taking microfinance institutions (MFIs);
- few MFIs meeting the demand for savings, money transfers, or insurance services;

- limited managerial capacity within MFIs;
- institutional inefficiencies;
- the need to expand and implement agricultural microfinance methodologies in rural areas;
- lack of collateral among participants seeking loans.

Microfinancing is a useful tool for reducing income inequality by enabling citizens from lower socio-economic groups to participate in the economy.

According to Rutherford, the main challenge faced by poor individuals in managing money is accumulating a “usefully large” amount of funds. For entrepreneurial activities such as acquiring land or purchasing new equipment, money is saved over many years until the amount becomes sufficient. This strategy of managing money is referred to as “saving.” Often, people do not have cash available when a need arises, which is why they borrow. A poor household may borrow from relatives or from a microfinance institution to purchase a sewing machine.

According to Rutherford, microcredit solves only half of the problem – and perhaps not the most important half: poor people borrow to help build up assets. However, microfinancing is not a magical solution that enables people to escape poverty; it is merely a tool that can be used to increase the opportunities available to the poor for improving their economic condition.

Over the past few decades, although significant achievements have been made in the development of the microfinance sector, several issues still need to be addressed to meet the high demand. The obstacles or challenges to building a reliable commercial microfinance industry include:

- disproportionate donor subsidies;
- weak regulation and supervision of deposit-taking microfinance institutions (MFIs);
- few MFIs meeting the demand for savings, money transfers, or insurance services;
- limited managerial capacity within MFIs;
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Rutherford argues that microcredit solves only half of the problem—and possibly the less important half: poor people borrow to help accumulate assets. However, microfinance is not a magical solution that enables people to escape poverty; it is simply a tool that can expand economic opportunities for the poor.

Many needs are met through a combination of savings and credit. Initial evaluations show that for every dollar lent to clients by microenterprise lenders, approximately \$2.50 was sourced from elsewhere—mainly from the clients’ own savings. This corresponds with Western experience, where family businesses are typically financed through a combination of microcredit and formal savings, especially in the startup phase.

In the context of globalization, poverty reduction has become one of the most pressing global development priorities, and in recent years researchers have increasingly focused on examining the role of entrepreneurship in this process. International experience demonstrates that traditional poverty-alleviation models—primarily based on social assistance, subsidies, and donor-driven mechanisms—have often failed to deliver sustainable results. This highlights the growing importance of fostering entrepreneurship, introducing new technologies, and utilizing innovative financial instruments to create lasting economic opportunities. Modern entrepreneurship-based approaches such as microfinance, crowdfunding, formalization of the informal economy, social entrepreneurship, and the “Bottom of the Pyramid” (BOP) concept have proved effective in reducing poverty by increasing the economic participation of low-income populations. A common feature of these approaches is the shift from viewing the poor as passive recipients of aid to recognizing them as active participants in economic processes with the capacity to generate their own income.

The evolution of microfinance shows that small loans, savings services, and insurance products strengthen the financial security of low-income households and enhance their ability to manage resources more effectively. However, the success of microfinance institutions largely depends on strong institutional capacity, efficient management, digital financial technologies, and improvements in financial literacy. The rapid spread of crowdfunding has enabled entrepreneurs to access global financial resources, allowing projects with limited initial capital to be successfully implemented. This model promotes economic growth by supporting innovative ideas and startups and contributes to job creation.

Integrating the informal economy into the formal sector also plays a critical role in poverty reduction, as it increases incomes, expands the tax base, improves social protection, and enhances productivity. Meanwhile, social entrepreneurship addresses social problems through business-oriented solutions, creating new welfare-enhancing mechanisms and stimulating social innovation. Overall, the analysis of foreign approaches demonstrates that the most effective and sustainable strategy for reducing poverty is the creation of an enabling environment for entrepreneurship, ensuring broad access to innovative financial services, implementing supportive institutional reforms, and most importantly, enhancing the economic engagement of the population. As confirmed by the experiences of many countries, entrepreneurship-driven models represent a realistic and long-term pathway toward sustainable poverty reduction.

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