

## FINANCIAL MECHANISMS FOR SUPPORTING SMALL BUSINESS AND PRIVATE ENTREPRENEURSHIP

Alikulov Khazrat Amirkulovich

Independent Researcher Tashkent State University of Economics

Email: Alikulov1991@gmail.com

### Abstract

This article analyzes the role and importance of modern financial mechanisms in supporting small businesses and private entrepreneurship. The study shows the advantages of modern approaches such as digital finance, fintech services, crowdfunding, venture capital, Islamic finance, green finance, and international financial institutions. It is also substantiated that these financial mechanisms create favorable conditions for small businesses, expand opportunities for attracting investments, and serve the sustainable development of the economy. At the end of the article, conclusions and practical proposals for improving the system of support for small businesses are presented.

**Keywords:** Small business, private entrepreneurship, modern financial mechanisms, digital finance, crowdfunding, venture capital, Islamic finance, green finance, investment, international financial institutions, sustainable development.

### Introduction

In the modern world, one of the main driving forces of economic development is small business and private entrepreneurship. This sector not only ensures economic growth but also plays an important role in social stability, the development of innovations, and the creation of jobs. However, the successful development of small business and private entrepreneurship largely depends on the availability of effective financial mechanisms and the possibilities of their use. The lack of financial resources, difficult conditions for obtaining loans, high interest rates, and the burden of guarantee requirements are among the main obstacles to the development of small businesses. Therefore, improving financial mechanisms and delivering them to entrepreneurs remains one of the priorities of modern economic policy.

In developed countries of the world, the share and importance of small business in the economy is increasing. This sector not only creates more jobs than large enterprises, but also plays a decisive role in ensuring the flexibility and stability of the economy. Small businesses can adapt faster to market demands, meet local needs, and directly contribute to regional development. Also, small business is the main source of innovation, leading to the emergence of new technologies, products, and services. But to achieve all these positive

results, it is necessary to provide appropriate financial support to small business owners, as they are often forced to operate with limited financial resources.

The weak development of financial mechanisms is one of the biggest problems in the development of small businesses. Traditional banking systems often impose conditions that do not meet the needs of small businesses and prefer to finance large loans. This situation excludes small businesses from the formal financial system and forces them to use informal financial sources. Requiring guarantees, gathering complex documents, and issuing long-term loans create additional obstacles for small businesses. As a result, many promising projects will not be implemented due to a lack of financial resources or will not be able to fully realize their potential.

The development of digital technologies is revolutionizing the financial services sector, opening up new opportunities for small businesses. Fintech companies, digital credit platforms, mobile payment systems, and online financial services provide small businesses with fast, convenient, and flexible financial solutions that traditional banks cannot offer. These technologies simplify the lending process, reduce costs, and provide financial services even in geographically limited areas. Also, new methods for assessing the creditworthiness of small businesses are emerging through artificial intelligence and big data analysis, which will expand the possibilities of unsecured lending.

The role of state policy in the formation of financial mechanisms to support small businesses is invaluable. Governments can encourage small businesses through various means - tax incentives, guarantee funds, preferential loans, grant programs. Central banks can create conditions that facilitate the financing of small businesses through credit policy. Through public-private partnership mechanisms, it is possible to encourage financial institutions to work with small businesses. It is also possible to attract investors to invest in small businesses by regulating financial markets and reducing risks.

The specifics of small business require a special approach to its financing. Small businesses often have limited financial information, their financial statements may not be standardized, and their credit history may be limited. In this case, traditional credit valuation methods become ineffective. Therefore, alternative evaluation criteria - business activity analysis, cash flow analysis, market position, etc. - are of great importance. Also, the financial needs of small businesses are variable and change depending on seasonal factors, market conditions, and growth stages.

The concept of financial inclusion is closely related to the development of small businesses. Equal access to financial services for all social strata and economic entities is one of the fundamental requirements of the modern economy. Small businesses, especially women entrepreneurs, youth, and those operating in rural areas, face various obstacles in accessing financial services. Special financial mechanisms, targeted programs, and support measures are needed to overcome these barriers. Increasing financial literacy, expanding digital financial services, and eliminating cultural barriers are important conditions for the development of small businesses.

In the context of globalization, the competitiveness of small businesses and opportunities for entering the international market depend on the quality and effectiveness of financial support. Modern small businesses must operate not only in the local but also in the international market, which requires additional financial resources and risk management mechanisms. Issues such as export financing, currency risk management, and integration with international payment systems pose new challenges for small businesses. At the same time, the development of the digital economy and e-commerce provides small businesses with relatively inexpensive and effective ways to enter the global market. In these conditions, the modernization of financial mechanisms and their adaptation to international standards remains an important factor in the development of small business.

### **Literature Review**

In the process of analyzing the literature on the topic, scientific research on financial mechanisms for supporting small business and private entrepreneurship was conducted by a number of leading economists and specialists of the world. Among them, U.Gafurov and others in their research, an important role is played by improving the financing of small businesses through digital economic forms (online applications, electronic interaction with banks and financial institutions); a combination of state subsidies, preferential bank loans, and microfinance services[1].

N.E.Ernazarov & Y.S.Kodirov argued that the effectiveness of small businesses can be increased through financial mechanisms - expanding credit opportunities, strengthening financial infrastructure, and improving entrepreneurial education; however, the limited financial resources and market conditions do not meet the requirements[2].

A.Karimov and others, in their research, consider the improvement of the regulatory framework, the strengthening of cooperation between credit institutions and the private sector, and the expansion of support mechanisms through microfinance instruments and public-bank cooperation to be key factors in supporting small businesses[3].

S.Zemtsov noted that tax incentives at the regional level, a preferential tax regime, and simplified taxation mechanisms positively influence the formation and development of small businesses; the importance of special economic zones and regional support systems is emphasized[4].

S.Lidia Leontieva, Andrey B.Ilyin, Yulia S.Sizova in their research emphasize that small and medium-sized businesses require support at different stages of development through various institutions (for example, grants, concessional loans, business incubators, consultations); the conditions of institutions and the external environment - legal, financial, educational - determine the effectiveness of support[5].

N.Kuznetsova et al. in their research note that in improving the financial environment for small businesses, lending conditions, risk reduction, prudence of banks towards small entities, and a stable government policy are important; tax and bureaucratic barriers restrict the development of small businesses[6].

---

### Research Methodology

In supporting small business and private entrepreneurship, such methods of economic research as analysis of research conducted by world scientists on financial mechanisms, collection of all data on the topic, comparison, and logical thinking were used.

### Analysis and discussion of the results

In the process of large-scale economic reforms being carried out in our country, strengthening the institution of private property, and developing market mechanisms, the role of financial mechanisms supporting small businesses is invaluable. However, the existing financial system still does not fully meet the needs of small entrepreneurs, and serious institutional changes are needed in this area. Therefore, the search for ways to improve financial mechanisms and the development of scientifically based proposals is an integral part of the country's economic development strategy.

The rapid changes taking place in global financial markets and the widespread adoption of digital technologies require fundamental changes in the methods of financing small businesses. The traditional banking lending system does not meet the modern needs of small entrepreneurs, and new financial instruments, including fintech solutions, peer-to-peer lending platforms, crowdfunding mechanisms, are emerging as alternative financial sources for small businesses. These changes not only change the methods of providing financial services, but also revolutionize the processes of assessing credit risks, providing guarantees, and financial management. Therefore, there is a need to take into account modern trends and update the scientific and theoretical foundations when studying financial mechanisms that support small businesses.

Small business is an important tool in achieving the United Nations Sustainable Development Goals, in particular, such goals as poverty eradication, decent work and economic growth, and ensuring gender equality. However, to achieve these goals, it is necessary to ensure free access to financial services for small entrepreneurs, especially women, youth, and low-income groups. This requires a review of traditional financial mechanisms and the development of socially responsible financial solutions.

The effectiveness of financial mechanisms depends on the level of development of the country's economy, the development of the financial system, and cultural and social factors. Therefore, the direct application of foreign experience is not always advisable, and studies taking into account local conditions are necessary. In the context of Uzbekistan, a comprehensive analysis of financial mechanisms supporting small businesses, identifying their advantages and disadvantages, and developing ways to improve them are of great importance for the scientific substantiation of the country's economic development strategy. Studying this topic not only enriches theoretical knowledge but also contributes to the development of practical policy recommendations.

**Table 1 Financial mechanisms for supporting small business and private entrepreneurship [5, 6]**

Direction	Financial mechanism	Content	Practical result
State financial support	Subsidies and grants	Financing of small business projects from the State budget	Helps start and expand entrepreneurship
Preferential lending	Preferential loans through commercial banks	Provision of loans at low interest rates or without collateral	The possibility of financing investment projects will increase.
Credit guarantees	Guarantee funds	State guarantee for bank loans	Barriers to obtaining a loan will be reduced
Tax benefits	Reduction or deferral of tax rates	Tax benefits for newly created enterprises	Reduces financial burden, stimulates entrepreneurship
Leasing mechanisms	Leasing of equipment	Long-term lease of equipment	Production opportunities of small enterprises will expand.
Investment funds	Innovation and venture funds	Investing in new and technologies startups	Ensures innovative development
Financial market instruments	Securities, bonds	Capital attraction of business entities	Additional sources of funding will be formed.
International financial institutions	Grants and loans of the World Bank, the European Bank for Reconstruction and Development, the Asian Development Bank	Financing of entrepreneurship development programs	Long-term resource mobilization

State financial mechanisms play a crucial role in supporting small businesses and private entrepreneurship. In particular, the necessary conditions are being created for entrepreneurs through subsidies and grants, preferential loans, and guarantee funds. Such measures increase the financial stability of small businesses, contribute to the creation of new jobs, and create a competitive environment in the economy. At the same time, these opportunities created by the state play an important role in solving the problem of the shortage of start-up capital for entrepreneurs.

Tax benefits and financial preferences are one of the main factors stimulating small businesses. Reducing the tax burden on newly created enterprises will allow them to quickly establish and stabilize their activities. This contributes to the formation of an economically active entrepreneurial environment, an increase in the share of small business in the gross domestic product, and the long-term operation of business entities. In this regard, tax policy not only ensures the stability of the state budget, but is also one of the most effective mechanisms for the development of the small business segment of the economy.

Such mechanisms as leasing, investment funds, and venture funds provide modern financial resources for small businesses. The possibility of acquiring equipment on the

basis of leasing serves to expand production volumes, while innovation and venture funds support the formation of an innovative economy by financing startup projects. Such mechanisms play an important role in the introduction of new technologies, the production of products with high added value, and increasing competitiveness.

Grants and loans from international financial institutions provide great opportunities as an additional source for the development of small businesses. Funds provided by such financial institutions as the World Bank, the European Bank for Reconstruction and Development, and the Asian Development Bank are a source of long-term resources for small businesses. Thanks to these funds, new investment projects will be implemented, export opportunities will expand, and the global integration of the economy will accelerate. In this regard, international financial cooperation plays a special role in the sustainable development of small business and private entrepreneurship.

**Table 2 Modern financial mechanisms for supporting small business and private entrepreneurship[5, 6]**

Direction	Financial mechanism	Content	Practical result
Digital finance	Fintech services (mobile banking, online lending)	Fast credit and payment systems through digital platforms	Access to financial services in entrepreneurial activity will be simplified.
Crowdfunding	Collective fundraising platforms	Public financing of small business projects via the Internet	Support for innovative ideas, expansion of the range of investors
Business Incubator and Accelerator Funds	Financing and support of startups	Investment and consulting services for innovative projects	Acceleration of technological development of small business
Venture capital	Investing in innovative and high-risk projects	Financing of startups through venture funds	Serves the formation of an innovative economy
Islamic finance	Instruments such as murabaha, musharaka, and ijara	Interest-free and partnership financing	Increases financial inclusion, satisfies religious requirements
Guarantee and insurance mechanisms	Credit insurance, investment guarantees	Reduction of risks of business entities	Ensuring financial stability
Green Finance	Green bonds, environmental grants	Financing of projects aimed at environmental sustainability	Sustainable Development and Green Economy Support
International joint funds	Investment funds based on public-private partnerships	Attraction of capital in cooperation with foreign investors	Encouraging small businesses to enter the global market



The modern financial mechanisms presented in the table above play an important role in supporting small business and private entrepreneurship. Because innovative approaches such as digital financial instruments, crowdfunding, and venture capital open up new financial sources for entrepreneurs, while Islamic finance and guarantee-insurance mechanisms strengthen their financial stability. At the same time, green finance and international joint funds contribute not only to increasing economic efficiency, but also to sustainable development and global integration. Consequently, the conclusions developed on the basis of the mechanisms presented in the table reflect the system of comprehensive financial support necessary for the successful functioning of small businesses in modern conditions.

Firstly, among modern financial mechanisms, the importance of digital financial instruments is increasing. Technologies such as fintech services, mobile banking, and online lending allow small businesses and private entrepreneurs to access fast, secure, and convenient financial services. This will save entrepreneurs' time and resources, simplify documentation processes, and increase financial inclusion. Digital technologies are becoming an important tool of support for small businesses, especially in regions with insufficient access to financial services.

Secondly, opportunities for attracting investments through crowdfunding, venture capital, and business incubators accelerate the innovative development of small businesses. Collective fundraising platforms not only expand the financial resource, but also ensure the marketing of projects. In addition, business incubator and accelerator funds provide financial support to small businesses, as well as consulting, marketing, and technological support. This contributes to the rapid entry of new ideas into the market, improving the knowledge and skills of entrepreneurs.

Thirdly, Islamic finance and guarantee-insurance mechanisms play an important role in reducing risks and ensuring the financial stability of business entities. Interest-free mechanisms of Islamic financing serve as an alternative financial solution for entrepreneurs who observe religious requirements. At the same time, credit insurance and investment guarantees protect small businesses from risks. This, in turn, will increase the investment activity of entrepreneurs and ensure long-term financial stability.

Fourthly, green finance instruments and international joint funds being introduced based on the "green economy" concept are opening up new opportunities to support small businesses. Green bonds and environmental grants finance projects that contribute to sustainable development, which stimulates the production of environmentally friendly products. At the same time, international joint funds and financial mechanisms based on public-private partnerships ensure the entry of small businesses into the global market and serve as an important tool for attracting foreign investment. As a result, the economic efficiency and competitiveness of small businesses are increasing.

---

### Summary and Suggestions

The analysis considered above shows that the introduction of modern financial mechanisms to support small businesses and private entrepreneurship is a decisive factor in the sustainable development of the economy, the creation of new jobs, and the implementation of innovative projects. Such mechanisms as digital finance, crowdfunding, venture capital, Islamic finance, and green finance create broad opportunities for small businesses. In this regard, it is necessary to more effectively apply existing mechanisms, adapt them to national conditions, and improve their legal framework. From this point of view, it is advisable to put forward the following proposals:

Firstly, modern financial mechanisms play a decisive role in the sustainable development of small business and private entrepreneurship. Such tools as digital finance, fintech services, online lending, and mobile banking allow entrepreneurs to quickly and conveniently access financial services. At the same time, crowdfunding platforms and venture capital funds play an important role in supporting innovative ideas, financing new business projects, and promoting small businesses to the international arena. As a proposal, it is necessary to expand fintech services in our country, develop local crowdfunding platforms, and regulate them legally.

Secondly, Islamic financial instruments and insurance and guarantee mechanisms serve to protect small businesses from financial risks and ensure their stable operation. Interest-free financing mechanisms such as murabaha, musharaka, and ijara create favorable conditions for entrepreneurs who comply with religious requirements. At the same time, credit insurance and state guarantees expand the access of small businesses to financial resources. As a proposal, it is advisable to develop Islamic financial institutions in the country, develop special insurance packages for small businesses, and further expand the activities of guarantee funds.

Thirdly, the introduction of green finance instruments within the framework of the "green economy" concept allows for the development of small businesses based on environmental sustainability. Green bonds and environmental grants support projects that contribute to environmentally friendly production, the introduction of energy-saving technologies, and sustainable development. As a proposal, it is necessary to widely involve small businesses in the implementation of "green projects," allocate environmental grants to them, and launch joint financial programs in cooperation with international donor organizations.

Fourthly, the effective use of the capabilities of international financial institutions and joint funds will accelerate the integration of small businesses into the global market. Loans and grants provided by the World Bank, the Asian Development Bank, and other financial institutions serve as a long-term and affordable source of financial resources for small businesses. This will increase export potential, create new jobs, and strengthen the competitiveness of the economy. As a proposal, it is recommended to widely involve small businesses in international financial programs, form joint investment funds based on public-private partnerships, and introduce a system of special financial incentives for



exporting enterprises.

### References:

1. Ubaydullo Gafurov, Abatbay Otebaevich Juzbaev, and Nodir Gafurovich Akbarov. 2023. Improving the mechanism for financing activities of small businesses in digital economy: in case of the Republic of Karakalpakstan. In Proceedings of the 6th International Conference on Future Networks & Distributed Systems (ICFNDS '22). Association for Computing Machinery, New York, NY, USA, 223–230. <https://doi.org/10.1145/3584202.3584235>
2. E.Ernazarov & Ugli, Kodirov. (2025). impact of financial mechanisms on increasing the efficiency of small businesses and private entrepreneurship. Journal of Sustainable Tourism and Entrepreneurship. 6. 10.35912/joste.v6i3.2931.
3. A.Karimov and N.Bustanova, (2025). Mechanisms of financial support for small businesses and their effectiveness. International Journal of Artificial Intelligence, 1(2), 779–783. Retrieved from <https://inlibrary.uz/index.php/ijai/article/view/74376>
4. S.Zemtsov, Y.Tsareva, V.A.Barinova, M.Belitski, ORCID: <https://orcid.org/0000-0002-9895-0105> and Krasnoselskikh, A. N. (2022) Small business in Russia: institutions, market potential, taxes and digitalization. Post-Communist Economies, 34 (8). pp. 1029-1053. ISSN 1463-1377 doi: 10.1080/14631377.2022.2108244 Available at <https://centaur.reading.ac.uk/108525/>
5. Lidia S. LEONTIEVA 1; Andrey B. ILIN 2; Yuliya S. SIZOVA Institutional support of small and medium-sized businesses at various stages of development: Evidence from Russia Revista ESPACIOS. ISSN 0798 1015 Vol. 39 (Number 24) Year 2018
6. Nina Kuznetsova, Antonina Ilyina, Maxim Mironov, Antonina Korolkova, and Tatiana Marinchenko Small business environment and development problems in the Russian Federation E3S Web of Conferences 244, 10043 (2021) EMMFT-2020 EMMFT-2020 <https://doi.org/10.1051/e3sconf/202124410043>.