

# The impact of financial mechanisms on increasing the efficiency of small businesses and private entrepreneurship

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## Abstract

**Purpose:** This study investigates the impact of financial mechanisms on improving the efficiency of small businesses and private entrepreneurship, focusing on their role in economic development in Uzbekistan, particularly in the Samarkand region.

**Methodology:** A mixed-methods approach was employed, integrating quantitative analysis of official statistics with historical-comparative and financial performance evaluations. Data were collected from national and regional reports, and descriptive statistics were used to assess trends in gross regional product contributions and business activity levels.

**Results:** The findings demonstrate that small businesses consistently contribute more than 70% to the gross regional product and play a vital role in employment and industrial output. However, persistent challenges in financial accessibility, regulatory implementation, and innovation hinder full potential. The study recommends enhancing financial infrastructure, expanding credit options, and improving entrepreneurial education to support long-term sectoral growth.

**Keywords:** *Investments, Region, Small and family-run hotels, State support*

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## 1. Introduction

In the context of a rapidly evolving global economy, small business and private entrepreneurship have emerged as critical pillars of economic development, particularly within transitional and developing economies. Uzbekistan, striving to enhance its economic dynamism, has increasingly emphasized the role of small business as a driver of innovation, employment, and gross regional product (GRP) growth. Practical experience and international evidence consistently affirm that the vitality of small business and private entrepreneurship directly influences economic diversification, employment generation, and the quality of life.

Over recent years, Uzbekistan has implemented various reforms to strengthen the infrastructure supporting small enterprises, aligning with global standards and the country's ambitious Development Strategy for 2022–2026. The strategy targets a substantial increase in the private sector's share in GDP and exports, reflecting the pivotal role of entrepreneurship in the nation's socio-economic transformation. However, while the expansion of small business has demonstrated resilience, particularly in regions like Samarkand, persistent challenges—ranging from financial constraints to institutional inefficiencies—continue to affect its full potential.

This study explores the financial mechanisms influencing the efficiency of small businesses and private entrepreneurship, with a focus on the Samarkand region as a representative case. By analyzing trends in GRP contributions, employment patterns, and the operational environment of small enterprises, the research seeks to identify both progress and barriers. The overarching aim is to provide actionable insights and recommendations to enhance the financial and structural conditions necessary for sustainable entrepreneurial growth, thereby supporting broader economic and social objectives in Uzbekistan.

## **2. Research Methodology**

This study adopts a mixed-methods approach, combining quantitative analysis of economic indicators with qualitative evaluation of financial mechanisms to assess the impact of small business and private entrepreneurship on regional economic development, particularly in the Samarkand region. The research design integrates historical data review, statistical analysis, and case study techniques to provide a comprehensive understanding of the topic.

### **2.1 Data Collection**

Primary data were gathered from official reports issued by Uzbekistan's State Statistics Committee and regional economic offices, focusing on key metrics such as the gross regional product (GRP), employment rates, and the contribution of small businesses to various economic sectors between 2010 and 2024. Supplementary qualitative data were obtained from policy documents, national development strategies, and institutional records detailing financial support structures for small businesses.

### **2.2 Analytical Framework**

The research applies a historical-comparative analysis to trace the development trends of small business activity over time. Descriptive statistical methods are used to identify patterns and fluctuations in the contribution of small enterprises to GRP, industry, and construction sectors. Additionally, a financial performance analysis was conducted to examine the effectiveness of credit systems, investment flows, and fiscal incentives in promoting small business growth.

### **2.3 Case Study Approach**

The Samarkand region was selected as the focal point for the study due to its representative economic dynamics and well-documented entrepreneurial activities. A detailed case study of this region allowed for in-depth assessment of both the successes and constraints faced by small businesses within the specific socio-economic context of Uzbekistan.

### **2.4 Limitations**

The study is limited by the availability of up-to-date financial data and the reliance on official statistics, which may not fully capture informal sector activities. Moreover, while the research provides regional insights, its findings may require cautious generalization when applied to other regions with differing economic structures.

By integrating these methods, the study seeks to offer a nuanced evaluation of the financial mechanisms that influence the efficiency and sustainability of small businesses and private entrepreneurship in Uzbekistan, with a view toward informing policy and practical interventions.

## **3. Results and discussions**

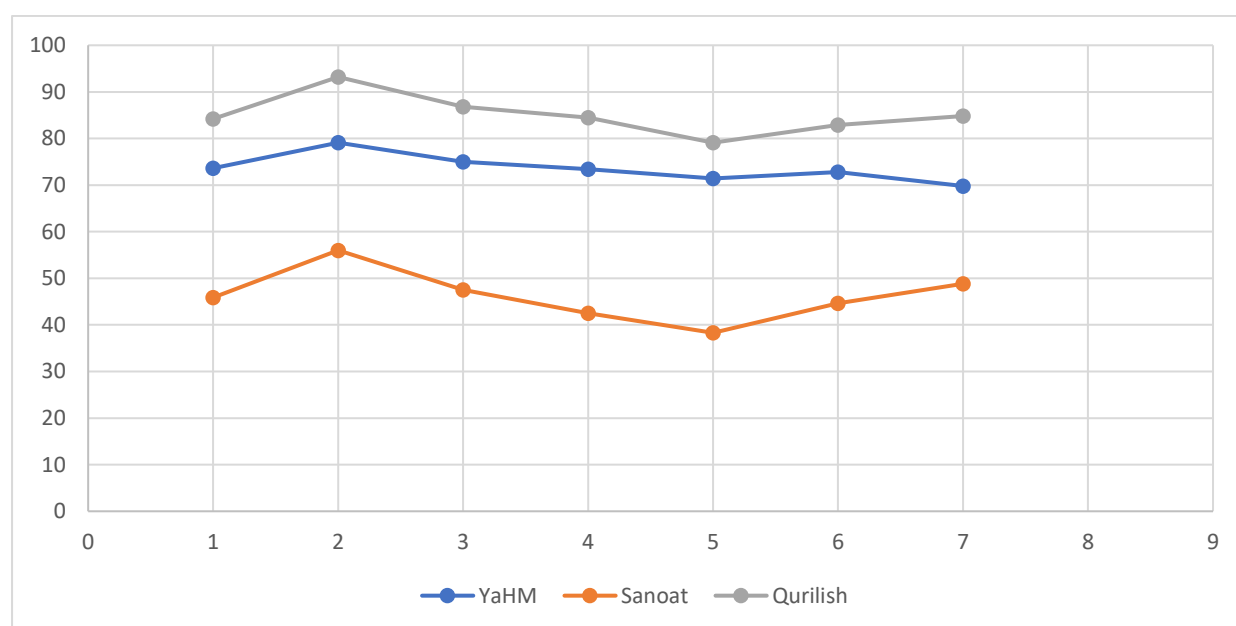
The pace of development of small business and private entrepreneurship can be assessed using the example of small business activity. For example, at the beginning of 2022, according to the State Statistics Committee, 789.7 thousand small business entities were registered in the republic, which is 46.5 percent more than in 2020. 91.8 percent of registered small business entities, including 22.9 percent of legal entities, were active. The number of operating individual entrepreneurs and farms increased by 9.5 percent over the same period. At the same time, the total number of operating entities with the smallest number of residents (less than 6 people) accounted for 76.3 percent. Legal entities with a

population of 31 to 40 people make up a significant part of operating small business entities. (2.7%), from 41 to 50 people. (5.4%).

Table 1. Share of small business and private entrepreneurship in Samarkand region  
(in percent of total volume)

№	Years	YaHM	Industry	Construction
1	2010	73,6	45,9	84,2
2	2015	79,1	56,0	93,2
3	2020	75,0	47,5	86,8
4	2021	73,4	42,5	84,5
5	2022	71,4	38,3	79,1
6	2023	72,8	44,6	82,9
7	2024-yil (January-June)	69,8	48,8	84,8

We can see that the share of small business and private entrepreneurship in industry in Samarkand region increased from 45.9 percent in 2010 to 56.0 percent in 2015. We can see that in 2020, even during the pandemic, it remained at 47.5 percent. However, in 2023, this figure was 44.6 percent, which can be attributed to various factors, in particular socio-economic factors. In the construction sector, it was 84.2 percent in 2010, and this figure was 86.8 percent in 2020 even during the pandemic. In recent years, the share of small business and private entrepreneurship in all sectors in Samarkand region has remained stable, not increasing, mainly due to the fact that enterprises operating in this sector have switched to paying state taxes. This stability condition can also be seen in Figure 1.



The movement of labor demand and supply is determined by a combination of opposing influences on the interests and motivations of small and medium-sized businesses and can be divided into two groups: factors caused by the crisis of socio-economic systems. factors of the formation and structural restructuring of society and a multi-system economy.

At the same time, since 2020, the criteria for the development of a small enterprise have changed in a positive direction: now the status of a small business is automatically determined by the tax authorities on the basis of a declaration. According to statistics, the maximum income for individuals with a simplified taxation system is 1 billion soums.

The service market is the sphere of exchange of services that are the result of the labor of enterprises. The historical condition for the emergence of the service market was the development of commodity-money relations. The service market appeared in addition to the already existing goods market, while for a long time these two types of markets were not distinguished.

Based on the above, it is necessary to create new and effective mechanisms for supporting small and medium-sized businesses, which can serve as the basis for developing a theory and methodology for infrastructural provision of small businesses; developing strategies for the development of small and medium-sized businesses, their practical implementation will allow creating a mechanism for economic development, which in turn will allow forming a sustainable development of the service sector at various levels. its provision.

As the President of the Republic of Uzbekistan Sh.M.Mirziyoyev noted, the role of small businesses in solving the problems of employment and poverty should be significant. Therefore, supporting the development of small businesses is necessary not only to modernize the economy, give it greater flexibility, but also to alleviate the burden of employment problems by creating new jobs through supporting entrepreneurship, which has significant potential to expand demand for labor.

#### 4. Conclusion

Summary and analysis of the implementation of the long-term development of the economy of Uzbekistan, the Strategy for Innovative Development, the Economic Program, the Agricultural Development Program, the Program for the Development of the Territories of the Republic of Uzbekistan, the Program for the Development of the Territory of the Republic of Karakalpakstan, the Program for the Development of the Economy of the Republic of Uzbekistan; Aral Sea and a number of other programs, measures to support small businesses, we predicted, in 2021-2025. About 618 thousand jobs will be created in all areas of economic activity. More than 20 percent of jobs will be created in small business, more than 20 percent in the manufacturing sector, tourism and infrastructure. The following generalized proposals and recommendations have been developed on financing and improving investment projects of small businesses and private entrepreneurs through bank loans:

1. investment projects - according to the principle of repayment of lending practice, for each loan, the type of loan, the payback period of the project, the sector of the economy to which the loan is provided, and to monitor the loan and provide advisory services to the client;
2. increase the volume of banks' own assets in order to modernize the main sectors of the country, in particular, expand the scope of using the project financing method in financing investment projects by banks;
3. we consider it necessary to improve the investment policy of commercial banks, including increasing the share of investment assets in the asset structure, optimizing the structure of the investment portfolio, increasing the level of diversification of bank assets by selling non-performing assets, and strengthening the organizational structure of investment departments.

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