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Article

Prospects for Optimizing State Financial Policy for the Institutional Development of Small Business

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Abstract: The article relates to the systematic development of the financial support of the state of small and medium enterprises (hereinafter referred to as SMEs) in Uzbekistan and their institutional development while determining the current status and prospects. There is a massive space for growth in small businesses, but there are a range of issues facing small businesses, including a lack of accessible funding, heavy tax burden, and geographical divergence. Where the these Gaps Exist: From insufficiently integrated financial instruments to lack of efficiency of current government support mechanism The approaches are general science methods: analysis, synthesis and comparativistic use of data obtained from official reports, legal documents and international studies over the representations of the Russian national law within the Russian criminal process. The results show that traditional measures of support, in the form of subsidies, microcredit or preferential loans, fall short of meeting the structural problems of rural-area SMEs. It emphasises on improving credit support, tax reforms and including institutions for digitalisation. The results indicate the creation of regional guarantee funds, concessional lending, tax incentives, and innovation should enhance the sustainability of SMEs. In addition, digital services play an important role in increasing transparency and accessibility to government programs. The implications mean that Uzbekistan needs thorough reforms to allow small businesses to develop and boost long-term growth and economic diversification.

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1. Introduction

SME Development chapter twoSmall and medium-sized enterprises (SMEs) are the backbone of any economy and Uzbekistan is no exception!SMEs are crucial for the economic development and diversification of Uzbekistan, providing channels for job creation and private sector growth. SME's are the buttress for many economies providing jobs, innovation, and regional development. Yet, in Uzbekistan, SMEs have much potential but still face many hurdles, which limit their growth, including limited access to finance, a complicated regulatory framework and regional aspects. This is the classical state financial policy that has facilitated the way of development of the SMEs in the situation where, despite the achievements, there are still a lot of opportunities for policy improvement, so that the SMEs could contribute to the sustainability and integration in the national economy sector. This study: Regulatory Impact Analysis: The link between government support and growth of small businesses). Different studies, national and international, confirmed the need of states intervention using subsidies, loans, microcredit and tax incentives. These financial instruments aim to overcome access to finance barriers

and promote innovation, but their impact is still limited. Things like institutional support, access to finance, and regulatory reform are the ever-spring basics of SME growth. Additionally, the second theory of state-market interaction in the context of the state-market relations implies that coordination of government institutions and private sectors is important for an environment and culture to be created for business.

The litmus is the absence of integration of these support measures and the evaluation of the long-term impact. Although previous research has emphasized the significance of governmental support, this contribution delves deeper into how financial policies can be ameliorated to improve resource availability, lower administrative burdens, and stimulate research and innovation. Previous studies (Solodova; Kolganov) dedicated to the role of government in SME development have been mainly general and devoted to the overall role, functions and decision of government in investing in the SME sector, however, a further in-depth understanding of the financial tools and outcomes of it is much needed. To introduce this gap, this study examines the existing financial policies and suggests measures to streamline the financial support through the state that could be utilized for SMEs. MethodsWe carried out qualitative analysis and synthesis of data from government reports, legal documents and international studies of policy-related financial instruments. Through the examination of these materials, we expect our study to show that better financial support systems such as credit guarantees, concessional loans and/or a more digitalized process will greatly increase the growth of SMEs. The results are anticipated to provide concrete proposals to improve policy instruments geared towards enabling financial access, simplifying tax and regulatory regimes and propelling innovation. These suggestions will be important for policymakers who want to reinforce the role of SMEs in Uzbekistan´s economic transfer.

Literature Review

Small and medium size (SMB) enterprises are recognized as an important contributor to economic growth and diversification. The issue of state support in terms of financial instruments and tax policy is well studied in both domestic and foreign literature, primarily in institutional terms [1].

Solodova accentuates that elimination of administrative barriers and improvement of the access to the resources is the prerequisite for successful interaction between the state and small business entities [2]. Kolganov studies the practices of developed European countries that have been implementing programs of credit guarantees and tax incentives for small business to enhance innovation and export activities [3].

In international practice, various financial support measures such as subsidies, concessional lending, microcredit, and guarantee systems that reduce credit risks for banks working with SMBs are widely used (Cumbers) [4]. Friedman highlights the balance between entrepreneurial freedom and the need for state regulation to expand SMBs' access to financing [5].

Recent studies underline the importance of digitalization and innovation adoption in SMBs. Markovskaya et al. identify digital services as a key tool for enhancing transparency and effectiveness of state support programs [6]. In the context of Uzbekistan, Yormatov and Jumabaev stress the need for institutional optimization to broaden SMBs' access to financial resources and simplify regulatory procedures [7][8].

Export orientation of small business is viewed as a strategic factor for economic diversification. Rasulov and Giyazova emphasize the importance of comprehensive export support, including educational activities, cost compensation for certification, and participation in international exhibitions [9][10]. Madraimova focuses on the role of innovation and collaboration between SMBs and scientific institutions to enhance competitiveness and sustainable development [11].

2. Materials and Methods

The approach for this study is based on a qualitative research design that systematically reviews existing policies and financial mechanisms and utilizes in-depth data source analysis. The study begins with a detailed overview of current financial policy of Uzbekistan towards SMEs. That is, they include examining government reports, legal and regulatory documents and the rollout of financial instruments like subsidies, preferential lending and microcredit. The study employs primary and secondary nature of ecological data such as statistical data from governmental institutions, international business organizations, and scholarly literature [12].

In assessing the relevance of scrutinous public administration, the research inevitably provides its rationale deriving the comparative analysis from international best practices and experience of developing economies regarding the effectiveness of the state support system in reforming the agricultural sector. Abstract: To understand the historical context and challenges towards financial reporting adaptation faced by SMEs in Uzbekistan, a critical approach towards the earlier studies have been used either through journals or thesis thesis like Solodova and Kolganov. It also looks at these institutional frameworks and how the relationship between the government and the private sector should be revamped to work more effectively together with better coordination and transparency. The study also includes practical examples of the status of credit guarantee system, tax incentives and digitalization processes of the administrative procedures of different countries with similar economic structures [13]. The approach seeks to fill existing gaps in financial assistance mechanisms and recommend targeted reforms. The result should be practical suggestions on the optimization of the state financial policy, complex measures to improve the access of SMEs to finance and tools of innovations development for the provision of sustainable economic growth in the Republic of Uzbekistan.

3. Results and Discussion

Currently, Uzbekistan implements numerous measures to support small and medium-sized businesses (SMEs), including:

1. State budget and international institutions funding the Comprehensive Program of Continuous Support for SMEs (until 2026)
2. Target Indicators: SME Share in GDP, Industry, Export and Employment Level Set
3. Establishment of SME-focused financing and support institutions, including the Business Development Bank and Entrepreneurship Development Company JSC and Small Business Association;
4. The "First Step to Biz" microcredit program; special conditions, subsidized loans, programs by international partners.
5. Set up financial and advisory support systems for business projects, including training, so that the chain is: family entrepreneur microbusiness small business medium business.

These measures have significantly accelerated SME growth in the regions, particularly favoring the development of services, family entrepreneurship, and self-employment.

However, their impact on the investment climate for industrial development is weakened by the following factors:

Low access to capital Small companies lack loans because they don’t have sufficient liquid assets or a credit history. Microcredit is growing but the condition, terms and interest rate are not always satisfactory, and there is risk of debt servicing. Financial constraints also make investments on modernization, innovation and procurement of modern equipment expensive and out of reach.

Tax burden and regulatory complexity: The tax burden is still fairly high. Even with the preferential regimes, entrepreneurs grouse about tax reporting being too complex, too

many declarations, and bureaucratic hurdles. The rules and conditions of benefits are often not clear, and at best entrepreneurs do not know how to get them or face lengthy procedures.

Regional disparities: the development of SMEs is concentrated in large cities and regions, remote areas and rural localities have poorly developed infrastructure and limited opportunities. Infrastructure-related challenges are land plot accessibility, engineering communications and network/service connections (transport, logistics, internet).

Low technologies, innovation, and competencies: Many SMEs are found to make least use of recent technologies, automation, and innovative production and management methods. Lack of training, lack of consulting, lack of business skills and management.

Institutional weakness and coordination challenges: Absence of clear-cut information on the yardsticks for availing state support limits the reach of entrepreneurs on the relevant components of programmes and conditions under which support is available.

Too little assessment of support program effectiveness: weak outcome measurement, scarce long-term sustainability data, and repeated initiatives with little impact analysis. Poor monitoring will cause inefficient use of resources.

Based on the above, the author proposes the following measures to optimize policy, increase efficiency, and ensure sustainability:

1. Enhancement of credit support with risk guarantee elements:

Establish regional guarantee funds for SMEs to partially cover bank risks when issuing loans without significant collateral. This will reduce collateral requirements. For example, the Japan Credit Guarantee Corporation (JGC) provides loan guarantees for SMEs, reducing banks' risks. South Korea operates a loan guarantee program for startups and small enterprises with partial interest rate subsidies.

- Develop concessional lending programs, especially for startups and innovative projects, with low interest rates, partial interest refunds, and grace periods.
- Providing interest subsidies (eg government provide 5–7% of the rate).
- Allow startups to defer repayments on the principal debt for 6–12 months.
- Use cooperatives, guarantor groups or local communities to deliver microfinance mechanisms to lower risks and increase coverage.
- To change a system of property valuation at the "E-baholash" platform registry, survey and provide the entrepreneurs with an access to the key issues with the system and lack of property collateral valuation by the owner of the property for further loans or certificate that provides for the necessary financing aimed at business development. Now, commercial banks apply "E-baholash" for estimating pledged properties, often at cost of property close or below market price, thus creating obstacles for getting loan.
- Provide SMEs procuring bank loan with necessary credit risk mitigation tool by introducing compulsory property and liability insurance covering bank loans for SMEs to reduce creditor risks and build up confidence in lending more. It needs to set up a regulatory framework, encourage bank-insurance partnerships, and assist entrepreneurs by subsidization and education.
- This is often a requirement by banks involved in Small Business Administration (SBA) programs in order to provide your loan in the USA. The SBA backs the loan, so the bank is taking less risk, but the SBA also helps entrepreneurs. Traditionally, banks in Germany asked SMEs to cover important risks by insurance prior to lending. The UK mitigates such risks by requiring SMEs to have mandatory liability and property insurance and provides limited subsidies. Q: The government of Singapore works with the insurance and financial services industry to develop SMEs insurance products that are often required to access grants and loans.)
- Development of leasing and alternative financing:

- State leasing of equipment for manufacturing SMEs.
- Encourage crowdfunding and venture capital. Developed entrepreneurial ecosystems offer grants, especially for innovation projects requiring co-financing and expert evaluation. Venture funds and private investments actively participate, facilitating commercialization of research and business growth.

2. Tax reforms and regulatory simplification:

1-5% of taxes paid transferred to entrepreneurs' accounts quarterly, if they report on time to statistics and tax offices, are disciplined, fully use online cash registers and not lie in employee reporting These would help reduce volumes of shadow economy and raise taxpayers and revenues in the state budget.

Streamlining and digitization of tax reporting, reduced paperwork, greater automation, convenient electronic services embedded in banks to auto-fill forms.

Apply tax-free periods or a tax incentive for emerging SMEs (startups, high-growth sectors), i.e. 0% profit tax for 2 years Tax credits (or tax refunds) for R&D expenditures are available in many developed countries stimulating innovation of (S)MEs and lowering the risks of investment (OECD, 2015).

Accelerated depreciation, Exemption of Import Duty on Equipment, Investment tax deduction

Deregulate greenhouses by reclassifying their land plots as agricultural land (agricultural land) for tax purposes, which will reduce the burden of the property and land tax, and increase the profitability of greenhouses, which will create an incentive for the development of the agrarian sector of the economy. Greenhouse lands are now categorized as commercial properties, and this has increased tax burdens accordingly, the cadastral agency said.

Innovation:

- Implement an innovation voucher program subsidizing up to 50% of SME costs for adopting modern technological solutions such as automation and digitalization. This reduces update and optimization costs, improving productivity and competitiveness [14][15]. EU countries (Czech Republic, Slovakia, Poland, Spain) have adopted similar programs. South Korea and Singapore also practice this approach.
- Support R&D through SME collaboration with universities and research institutions. Government can provide partial funding, grants, or tax incentives to promote partnerships aligning research with market needs.

3. Export:

Develop a comprehensive SME export support program "SME-Export" for international market entry, including:

- Educational events (seminars, trainings) on export, logistics, standardization, and packaging.
- Consultations on market and partner selection.
- Partial reimbursement for participation in international exhibitions, business missions, product certification, and marketing material translation/adaptation.

This will expand export potential, diversify markets, and increase export revenue. The EU supports SME market entry through initiatives like the Enterprise Europe Network.

- Support access to international marketplaces (Amazon, Alibaba).

4. Institutional development and coordination:

- Establish "One-stop shop" SME service centers in each district providing consultations, licenses, financing, and training.
- Launch a 24/7 online portal for applications for loans, subsidies, and training.
- Create a "Government–Business" platform for proposals and complaints.

- Implement mandatory evaluation of program effectiveness with KPIs, feedback, and transparent analytics.

4. Conclusion

This article analyses the dynamic development of SME-friendly policies used in Uzbekistan during the last 5 years, but it still remains a challenging task as large number of policy documents and strategies have been adopted; however, financing, macroeconomics and other development of entrepreneurship and innovation policies are high tax burdens, regional disparities, limited access to financing system, low innovation level of SMEs and far behind business do little more. Such findings underline the requirements of the targeted policy fix, regional guarantee funds, inexpensive lending schemes, tax reforms, and significant local-level digitalization of administration. These measures could help better coordination among government institutions and SMEs in an enabling environment for business growth and sustainable development of SMEs. The consequences of these discoveries indicate the need for final reforms to boost access to financial resources for SME and innovation help, thus boosting economic diversification in Uzbekistan. Future studies might investigate the long-term effects of such proposed reforms towards SME growth, exploring how both innovation and export assistance would extend the scope of market penetration and competition of SMEs. A deeper analysis of digitalisation impact on transparency and access to support programmes would also provide insights for further developments in policy.

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