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Financial and Insurance Mechanisms for Enhancing Private Sector Development

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ANNOTATION

The article explores the significance of the banking and financial system, along with insurance instruments, in fostering the development of the private sector of the economy. A comparative assessment of international and domestic practices identifies key disparities in entrepreneurs' access to credit and insurance resources. The proposed model demonstrates that the effective integration of banking finance, insurance mechanisms, and institutional support serves as a fundamental driver of sustainable economic growth. Particular emphasis is placed on indicators reflecting the performance of the banking and insurance systems, as well as on factors influencing the efficiency of the private sector. The study concludes that advancing the digitalization of financial services, strengthening the insurance culture, and refining credit policies are essential for enhancing the competitiveness of the national economy.

Keywords: banking and financial system, private sector, insurance mechanisms, entrepreneurial risks, sustainable growth, lending, digitalization, financial literacy.

Introduction. In modern economic conditions, the sustainability of the national economy largely depends on the ability of the banking and financial system to ensure the effective functioning and expansion of the private sector. The intensification of entrepreneurial activity, the introduction of innovations and the formation of new production structures are impossible without affordable credit financing, insurance protection and modern financial instruments. Global practice confirms that it is the private sector that is the leading engine of economic growth, and the financial and insurance infrastructure plays a key role in reducing business risks, diversifying sources of capital and stimulating investment activity.

An analysis of international experience shows that, despite the growing importance of private business, in many countries there remain problems associated with limited access of small and medium-sized enterprises to long-term financial resources, insufficient protection from financial and industrial risks, as well as a low degree of integration of insurance mechanisms into the system of state support for entrepreneurship. These limitations are particularly pronounced in developing economies, where the banking sector still dominates alternative financing channels, and insurance products remain poorly adapted to the real needs of businesses.

In the context of the ongoing structural transformations in the Republic of Uzbekistan, the issues of stimulating the private sector are becoming particularly important. Despite the expansion of the network of commercial banks, the growth of lending volumes and the gradual development of the insurance market, the problems associated with high interest rates, limited availability of long-term capital, insufficient variety of insurance services and low level of financial literacy of entrepreneurs remain unresolved. Additional challenges include macroeconomic fluctuations, external shocks, and the need for institutional strengthening of the financial and insurance infrastructure.

Therefore, the study of the role of the banking and financial system and insurance instruments in stimulating the development of the private sector is an urgent scientific and practical direction. A comprehensive solution to these problems will increase the stability of the national economy, activate investment processes and strengthen Uzbekistan's position in the system of international economic relations.

Literature review. The study of the role of the banking and financial system and insurance mechanisms in the development of the private sector has been reflected in the works of many foreign and domestic researchers.

J. Stiglitz in his works focuses on the problem of information asymmetry in financial markets, noting that it is insurance and banking instruments that can smooth out market inefficiencies and provide more even access to capital for small and medium-sized businesses[1].

N. Stern emphasizes the importance of the institutional stability of the financial sector for long-term economic growth, emphasizing the importance of insurance mechanisms in private sector risk management[2].

D. Schoemaker explores the integration of the financial system into sustainable development, arguing that banks and insurance companies should play a key role in adapting entrepreneurship to global challenges and environmental risks[3].

In Uzbekistan, the problem of private sector development through the mechanisms of the banking and financial system and the insurance market is also being actively studied. Thus, Sh.Kh. Abdullayev considers issues of increasing the availability of credit resources for small businesses and emphasizes the need to diversify insurance services to increase the sustainability of the private sector[4].

In her research, A.R. Saidova focuses on the institutional barriers faced by entrepreneurs when attracting long-term capital, and also suggests directions for improving the financial infrastructure[5].

D.F. Khamidova analyzes the dynamics of the insurance market in Uzbekistan and emphasizes its underestimated potential as a mechanism to protect private businesses from macroeconomic and industrial risks[6].

Analysis. Global practice shows that the development of the private sector is closely linked to the effectiveness of the banking and financial system and the level of distribution of insurance instruments. In countries with developed market economies, banks are the main source of long-term business financing, providing access to credit resources and investment products. For example, special guaranteed credit lines for small and medium-sized businesses are being introduced in the European Union, accompanied by mandatory insurance of non-repayment risks[9]. In the USA and Japan, considerable attention is paid to business risk insurance, including medical and property insurance for company employees, which reduces the social and financial burden on businesses[7].

In addition, international organizations (the World Bank, the IMF, and the EBRD) actively use insurance and guarantee mechanisms to attract investment in the private sector of developing

countries [13]. These tools make it possible to reduce the risk of investments and thereby increase the investment attractiveness of national economies [17].

Uzbekistan has been actively reforming the banking and financial system in recent years, aimed at supporting the private sector. Banks are expanding the range of credit products for entrepreneurs, and introducing preferential credit programs subsidized by the state. However, a number of barriers remain, such as high interest rates, insufficient transparency of lending procedures, and limited access of small businesses to long-term investment resources [15].

The development of the insurance market is playing a special role. In recent years, insurance in Uzbekistan has shown positive dynamics: the number of insurance companies is growing, and the range of services from property insurance to liability insurance is expanding. Nevertheless, the level of coverage of private business insurance services remains low, due to the lack of financial literacy of entrepreneurs and limited power of attorney to insurance institutions. Influencing factors [8]: the institutional environment, the level of transparency of the banking system, the availability of independent financial supervision and the stability of the insurance sector. The availability of financial resources, the amount of interest rates, the development of microfinance and alternative sources of investment. Development of insurance culture, willingness of entrepreneurs to use insurance products to protect businesses from risks. Technological innovations, digitalization of banking and insurance services, introduction of online lending and remote registration of policies. Government policy, the availability of concessional lending programs, subsidies for insurance premiums and support for small businesses.

A comparison of international experience and national practice shows that the banking and financial system and insurance mechanisms can act as a powerful driver of private sector development [15]. However, Uzbekistan requires more active implementation of comprehensive programs combining affordable lending and mandatory risk insurance, which will allow the private sector to become a sustainable source of economic growth.

Table 1 International and national experience in the development of banking and insurance instruments for the private sector [10]

Parameter	International Experience	Experience of Uzbekistan
Financing of Small and Medium Enterprises (SMEs)	Preferential credit lines, government guarantees, venture financing (EU, USA, Japan)	Government subsidy programs, concessional loans through state-owned banks
Entrepreneurial Risk Insurance	Well-developed insurance system covering property, liability, life, and employee health	Mainly focused on property insurance, limited development of liability insurance
Innovations in the Financial Sector	Digital banks, fintech platforms, online insurance services	Development of internet banking, initial steps toward implementing online insurance
Role of the State	Support through international organizations (World Bank, IMF, EBRD), tax incentives for insurance companies	Interest rate subsidies, promotion of insurance company growth
Financial Literacy of Businesses	High level of awareness and trust in banking and insurance instruments	Insufficient financial literacy and low confidence in the insurance market
Investment Attractiveness	High, due to investment protection and risk diversification	Growing potential, though institutional barriers remain

The comparative analysis showed that the banking and financial system and insurance mechanisms play a key role in the formation of a sustainable private sector, but the degree of their effectiveness varies significantly at the international and national levels.

In international practice, the integration of banking products with insurance instruments can significantly reduce business risks, increase investor confidence, and ensure the long-term financial stability of private businesses[16]. A high level of digitalization, a developed insurance culture and active government support create conditions for accelerated growth of the private sector in countries with developed market economies.

In Uzbekistan, despite the positive dynamics of banking reforms and the expansion of the range of insurance services, institutional and structural constraints remain. The most significant problems include insufficient coverage of businesses with insurance products, limited access to long-term investment resources, and low financial literacy among entrepreneurs.

To stimulate the development of the private sector in Uzbekistan, it is necessary not only to further improve the banking and financial infrastructure, but also to actively form an insurance culture, expand digital services and create comprehensive programs combining credit and insurance instruments. This will allow the national economy to approach international standards of sustainable development.

The conceptual model[11]. This model is the transformation of the private sector through banking and insurance mechanisms. Input factors, the availability of loans, the level of business insurance, government support programs. Instruments[17], bank financing (loans, investments, microfinance), insurance products (property, liability, business risks). Intermediate effects, risk reduction, increased investor confidence, and business sustainability. Private sector growth, job creation, increased tax revenues, and sustained economic growth.

The presented model shows that the development of the private sector is possible only with the integrated impact of the banking and financial system and insurance mechanisms. International experience confirms that the combination of affordable lending, diversified insurance products and institutional support leads to an increase in the number of small and medium-sized enterprises, increased employment and increased tax revenues. For Uzbekistan, this means the need to simultaneously strengthen the banking infrastructure, form a modern insurance culture and digitalize financial services, which together will ensure the transition to sustainable private sector growth.

Conclusions. The analysis showed that effective interaction of the banking and financial system and insurance mechanisms is a crucial condition for the sustainable development of the private sector. International practice demonstrates that the availability of loans, the low cost of borrowed resources and the widespread use of insurance instruments create the basis for the long-term sustainability of a business and the growth of its investment attractiveness.

In the conditions of the Republic of Uzbekistan, there is a positive trend in the expansion of credit products and the formation of the insurance market, however, systemic limitations remain, high cost of loans, limited coverage of entrepreneurs with insurance services and insufficient financial literacy. This constrains the potential of the private sector and reduces its ability to withstand economic risks.

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