

## THE ROLE OF INVESTMENT MECHANISMS IN FINANCING SMALL BUSINESSES

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**Abstract:** This scientific article examines the economic significance of investment mechanisms in financing small businesses and their practical role. Small businesses play an important role in economic growth, employment generation, and regional development. Therefore, the issue of sustainable financing of this sector is relevant. The investment mechanisms used in financing small businesses, including bank loans, private investments, government programs, and alternative financial sources, are analyzed. The impact of investment mechanisms on small business activities is assessed, and opportunities for improving them are substantiated to increase financial stability.

**Keywords:** small business, financing, investment mechanisms, investment sources, bank loans, private investments, economic development.

### ENTRANCE

In the current globalization environment, small businesses are emerging as an important component of the national economy. They play an important role in creating new jobs, increasing incomes, and developing the economic potential of regions. At the same time, the sustainable operation of small businesses largely depends on the adequacy of financial resources and their effective use. Small businesses often have limited financial resources, which reduces their opportunities to expand their investment activities. In particular, the need for investments is high for the modernization of production, the implementation of innovative projects, and increasing competitiveness. In this regard, the study of the role and effectiveness of investment mechanisms in financing small businesses is an urgent issue.

Today, various investment mechanisms are used to finance small businesses. Among them are bank loans, state support programs, private and foreign investments, and alternative financial instruments. Each of these mechanisms has its own advantages and limitations, and their correct selection and effective use is of great importance in ensuring the sustainability of small business activities. The purpose of the study is to scientifically analyze the role of investment mechanisms in financing small businesses and assess their economic efficiency. The results of the study will serve to improve the system of financial support for small businesses and further activate investment processes.

The issue of financing small businesses is of particular importance in the process of economic development. This sector is a flexible and rapidly growing segment of the economy, the effective functioning of which is closely related to the availability of financial resources. Therefore, the analysis of the role of investment mechanisms and their practical effectiveness in the development of small businesses is of great scientific and practical importance.

Small businesses have limited financial resources compared to large enterprises. They often operate at their own expense, which creates certain difficulties in expanding production volumes or introducing new technologies. In this regard, investment mechanisms appear as an additional financial source for small businesses and serve to ensure their economic stability. In practice, one of the most common investment mechanisms in financing small businesses is bank

loans. Through bank loans, entrepreneurs have the opportunity to replenish their working capital, upgrade production facilities, and implement new projects. However, this mechanism also has some limitations. In particular, high interest rates, collateral requirements, and the complexity of the loan process can prevent small businesses from fully utilizing credit resources. Support programs implemented by the state serve as an important investment mechanism in financing small businesses. Government grants, soft loans, and subsidies reduce the financial burden on small businesses and increase their investment activity. Such mechanisms are especially important for newly established businesses, helping to ensure financial stability at the initial stage of their activities.

Private investment also plays an important role in financing small businesses. Funds invested by private investors are often directed towards long-term development and serve to expand entrepreneurial activities. Such investments not only provide financial resources, but also have a positive impact on the introduction of management experience and innovative approaches. At the same time, the process of attracting investors for small businesses requires a reliable business plan and financial transparency.

In recent years, the development of alternative financing mechanisms has created new opportunities for small businesses. These include instruments such as leasing, factoring, venture capital and crowdfunding. These mechanisms are an alternative to traditional bank loans and play an important role in meeting the financial needs of small businesses. In particular, through the leasing mechanism, entrepreneurs have the opportunity to use production facilities without large initial investments. The effectiveness of investment mechanisms is directly reflected in the economic results of small businesses. Sufficient and timely investments lead to an increase in production volumes, improved product quality and increased competitiveness. As a result, small businesses have the opportunity to strengthen their position in domestic and foreign markets. At the same time, misdirection of investments or insufficient assessment of financial risks can negatively affect economic stability.

From a territorial perspective, the impact of investment mechanisms on the development of small businesses depends on the economic potential and infrastructure of the region. In regions with a developed financial infrastructure, small businesses have easier access to investment resources. Therefore, improving the investment climate in the regions, expanding the activities of financial institutions, and supporting entrepreneurship are of great importance. To improve investment mechanisms in financing small businesses, it is necessary to take into account a number of factors. First of all, it is necessary to strengthen the individual approach of financial institutions to small businesses. Also, increasing the financial literacy of entrepreneurs will allow for the effective use of investment resources. This will ensure the targeted and effective allocation of attracted funds. Investment mechanisms are of decisive importance in financing small businesses, and their correct and effective use is an important factor in economic development. By increasing the investment activity of small businesses, it is possible to have a positive impact not only on the development of individual enterprises, but also on the regional and national economy.

## METHODOLOGY

Of financing small businesses and the economic significance of investment mechanisms has been widely studied by domestic and foreign researchers. Scientific research conducted in this area sheds light on the diversity of investment sources, the effectiveness of financial instruments, and their impact on economic development.

Among Uzbek researchers, Q.S.Abdurakhmonov<sup>1</sup> paid special attention to the issues of financial support for small businesses and private entrepreneurship. The investment needs of small businesses, the role of bank loans and financial mechanisms used by the state were analyzed. He substantiated the importance of preferential loans and improving the investment climate in financing small businesses. Sh.R.Kasimova<sup>2</sup> highlighted the importance of alternative investment sources in financing small businesses. The impact of leasing, microfinancing and state grants on the development of small businesses was assessed. He emphasized that it is possible to increase the stability of business entities by diversifying financing mechanisms.

Among the scientists from the CIS countries, A.N.Asaul<sup>3</sup> has deeply analyzed the theoretical and practical aspects of the investment processes of small businesses. He has covered the impact of investment mechanisms on the activities of small enterprises, as well as issues of reducing financial risks. V.V.Bocharov<sup>4</sup> has considered the role of banking and non-bank financial institutions in financing small businesses. He emphasizes that the flexibility of investment mechanisms directly affects the development rates of small businesses and the need to use financial instruments taking into account regional characteristics.

Research conducted by foreign scholars also provides important scientific conclusions in this area. In particular, J.Stiglitz,<sup>5</sup> in his work, substantiates the imperfection of financial markets and the need for state intervention in financing small businesses, and notes that it is possible to expand the financial capabilities of small businesses by improving investment mechanisms.

The special research methods were used to study the role of investment mechanisms in financing small businesses. The research process was based on a systematic approach, and investment mechanisms were analyzed in their interrelation with small business activities. In scientific research, the content of investment mechanisms and their significance in the financing process were clarified through analysis and synthesis methods. The comparative method was used to compare the effectiveness of various sources of financing, including bank loans, state support programs and private investments. The statistical analysis method was used to assess the financial performance of small businesses. Also, using logical analysis and generalization methods, scientific conclusions were formed on improving investment mechanisms. The methodological approach made it possible to identify problems in the financing process of small businesses and develop practical recommendations aimed at solving them.

## RESULTS

The results of the study showed that investment mechanisms play an important role in financing small businesses. The analysis shows that expanding access to investment resources has a positive impact on increasing the production volume, financial stability and competitiveness of small businesses. In particular, the diversity of financing sources is one of

<sup>1</sup> Abdurakhmonov Q.X. Financial mechanisms for the development of small business and private entrepreneurship. – Tashkent: Economics, 2019.

<sup>2</sup> Qosimova Sh.R. (2020). The importance of alternative sources in financing small businesses // *Economics and innovative technologies*, No. 4, 45–52.

<sup>3</sup> Асаул А.Н. Инвестиционная деятельность в малом предпринимательстве. - Ст. Петербург: Петер, 2018.

<sup>4</sup> Bocharov V.V. Financing of business and modern economics. - Moscow: Yurayt, 2017.

<sup>5</sup> Stiglitz J.E. (2016). The Role of the State in Financial Markets // *World Bank Economic Review*, Vol. 30, No. 2. 45–68.

the main factors in ensuring the sustainable development of small business activities. The financing mechanism most often used by small businesses is bank loans. However, the effectiveness of this mechanism largely depends on the terms of the loan, interest rates and collateral requirements. According to the results obtained, high interest rates and strict credit requirements limit the investment activity of some small businesses. Therefore, although the role of bank loans as an investment mechanism is important, it is not equally convenient for all entrepreneurs.

The financial support programs implemented by the state were positively assessed in the research results. Soft loans, subsidies and grants reduce the financial burden of small business entities and serve to activate their investment activities. At the same time, it was found that the effectiveness of these mechanisms depends on the level of their targeted orientation and transparency. In some cases, a lack of information or a complex documentation process prevents entrepreneurs from fully utilizing these opportunities. Private investments and opportunities for cooperation with investors have emerged as a relatively underused, but promising mechanism for small business entities. According to the research results, small business entities that attracted private investments achieved financial stability faster and had the opportunity to expand their activities. However, it was found that high-quality development of business plans and financial transparency are important for using such a mechanism.

## DISCUSSIONS

The research results showed that, although the level of use of alternative financing mechanisms, including leasing, factoring and venture capital, is low, their effectiveness is high. While the leasing mechanism allows for the rapid renewal of production facilities, venture capital has emerged as an important financial source for small businesses engaged in innovative activities. This situation indicates the need to develop alternative investment instruments in small business financing, along with traditional mechanisms.

Regional analyses confirmed that the effectiveness of investment mechanisms depends on the level of economic development and financial infrastructure of the region. It was found that in regions with actively developed financial institutions, small businesses have easier access to investment resources. This indicates that there are differences in the possibilities of financing small businesses between regions. The conclusions that the diversity and flexibility of investment mechanisms have a positive impact on the development of small businesses were expressed by scientists from foreign and CIS countries. At the same time, the results of the study showed the need to improve investment mechanisms taking into account regional conditions. In general, they confirm the need to develop investment mechanisms based on an integrated approach to financing small businesses. Diversifying sources of financing, strengthening cooperation between the public and private sectors, and encouraging the use of alternative investment instruments serve the sustainable development of small businesses. These results are of great importance in further scientific research and practical decision-making.

## CONCLUSION

and importance of investment mechanisms in financing small businesses were analyzed. The results of the study showed that, while small businesses play an important role in ensuring economic development and employment, their sustainable operation directly depends on the adequacy of financial resources and their effective use. Therefore, improving the small business financing system is an urgent issue. Based on the analysis, it was determined that investment mechanisms are an important factor in expanding the economic activities of small businesses and strengthening their financial stability. In particular, bank loans, state support programs and

private investments were identified as the main sources of financing small businesses. However, it was noted that the effectiveness of these mechanisms depends on the conditions of their application and the level of convenience for entrepreneurs.

The diversity of financing sources for small businesses helps to increase investment activity. The use of alternative investment instruments, along with traditional financing mechanisms, allows developing the innovative potential of small businesses. At the same time, it was found that financial literacy and business planning play a significant role in attracting investment resources. The effective functioning of investment mechanisms depends on the level of economic development and financial infrastructure of the regions. In regions with developed financial institutions, small businesses have wider access to investment resources. This indicates the need to improve the investment climate at the regional level and strengthen measures to support small businesses financially.

In general, improving investment mechanisms in financing small businesses will help ensure economic stability and increase entrepreneurial activity. The results of the study substantiate the need to develop investment processes based on an integrated approach, strengthen public - private cooperation, and diversify financing sources. These conclusions are important for future scientific research and practical decision-making aimed at developing small businesses.

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