



Article

Challenges in Financing Investment Initiatives for Small Business Entities

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Abstract: Small company entities are crucial to economic development as they promote entrepreneurship, create jobs, drive innovation, and make substantial contributions to gross domestic product (GDP). Notwithstanding their significance, numerous small and medium-sized firms (SMEs) encounter considerable challenges in securing sufficient funding for investment initiatives, especially in developing and transitional economies. This study aims to analyse the primary financial limitations impacting the investment activities of small business entities in Uzbekistan and to suggest efficient ways for enhancing access to funding.

The study utilises an extensive examination of secondary data sourced from national statistical agencies, international organisations, and financial institutions. Comparative and descriptive analytical methodologies are employed to assess trends in SME funding and investment activities from 2021 to 2025. The results reveal that restricted access to long-term credit, stringent collateral demands, high interest rates, inadequate venture capital markets, and knowledge asymmetry between lenders and borrowers are the principal obstacles to funding investment projects. Moreover, the inadequacy of alternative financing mechanisms, such as crowdfunding, angel investments, and private equity funds, constrains SMEs' capacity to execute innovative and growth-focused initiatives.

The study suggests that bolstering financial infrastructure, augmenting state-backed guarantee mechanisms, advancing digital financial services, and enhancing financial literacy among entrepreneurs can markedly improve SME access to investment funding. The suggested ideas enhance the establishment of a more equitable and sustainable funding ecosystem that can facilitate long-term economic growth and private sector advancement.

Keywords: Small enterprise, SME financing, investment initiatives, financial limitations, entrepreneurship, financial institutions, Uzbekistan, economic advancement.

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1. Introduction

Small and medium-sized firms represent one of the most dynamic areas of contemporary economy. International data indicates that SMEs comprise over 90 percent of global enterprises and play a crucial role in job creation and economic development. In developing economies, small enterprises are crucial as they enhance competition, foster regional development, and generate income prospects [1].

In Uzbekistan, the significance of small businesses has markedly risen over the past decade as a result of continuous economic changes designed to liberalise markets, enhance the business climate, and promote private enterprise. SMEs have consistently contributed over 50 percent to GDP, underscoring their significance in the national economy. Nonetheless, despite advantageous governmental initiatives, access to capital continues to be one of the most significant obstacles encountered by businesses aiming to execute investment projects [2].

Investment initiatives necessitate considerable financial resources for procuring equipment, implementing new technologies, augmenting manufacturing capacity, penetrating new markets, and enhancing productivity. Many small enterprises encounter challenges in securing appropriate finance due to restricted internal resources, insufficient collateral, elevated borrowing costs, and a lack of financial transparency [3]. These limitations diminish investment activity and impede the long-term competitiveness of businesses.

The significance of overcoming funding obstacles has escalated in recent years owing to technical advancements, intensifying global rivalry, and the necessity for sustained economic development. Consequently, recognising the primary barriers to investment finance and formulating effective policy responses are crucial responsibilities for both scholars and policymakers [4].

This study aims to examine the financing challenges faced by small business entities in investment projects and to formulate practical solutions to enhance access to financial resources [5].

This study examines the subsequent research enquiries:

What are the principal funding obstacles hindering SME investment initiatives? In what ways can financial limitations affect investment behaviour and business expansion?

What strategies can enhance financial accessibility for small enterprises? What insights may Uzbekistan derive from global practices in SME financing?

Literature review

Access to financing is acknowledged as a critical factor influencing firm development, investment activity, and competitiveness. The capacity of organisations to get adequate financial resources affects their ability to enhance output, implement innovative technologies, increase productivity, and penetrate new markets. Small and medium-sized firms (SMEs) sometimes face more significant challenges in obtaining external financing compared to large corporations, owing to insufficient collateral, elevated perceived risk, and knowledge asymmetries between lenders and borrowers. Consequently [6], financial limitations frequently diminish investment endeavours and obstruct the long-term growth prospects of small enterprises. Consequently, comprehending the determinants influencing SME finance has emerged as a pivotal concern in both scholarly inquiry and economic policy deliberations.

Stiglitz and Weiss (1981) elucidate these constraints via the notion of credit rationing, which posits that banks may curtail lending due to information asymmetry and perceived risks. International organisations, including the OECD (2024), the World Bank (2024), and the IMF (2024), emphasise that inadequate collateral, elevated borrowing rates, and restricted access to alternative financing persist as significant impediments to the development of SMEs globally [7].

S. Gulyamov, among Uzbek economists, underscores the significance of digital transformation and fintech solutions in enhancing financial accessibility and corporate competitiveness. A. Vakhobov emphasises investment policy, the attraction of foreign investments, and the procedures for financing investment projects, highlighting the necessity of fortifying financial institutions and enhancing the investment climate. B. Khodiev analyses the influence of macroeconomic reforms, entrepreneurial advancement, and institutional modernisation on enterprise growth, whereas S. Mustafakulov emphasises the significance of investment appeal, business environment reforms, and financial support systems for private sector development.

The literature indicates that enhancing SME access to finance necessitates a synthesis of financial sector advancement, institutional reforms, digital technologies, investment support mechanisms, and efficacious government policies designed to mitigate financing obstacles and promote entrepreneurial endeavours [8].

2. Materials and Methods

This study utilises the research framework to examine the funding obstacles impacting investment initiatives of small business entities in Uzbekistan. A mixed-

method approach integrating quantitative and qualitative analysis was employed to deliver a thorough evaluation of the determinants affecting SME access to credit. The empirical foundation of the study comprises secondary data sourced from the Statistics Agency of the President of the Republic of Uzbekistan, the Central Bank of Uzbekistan, the Ministry of Economy and Finance, the World Bank, the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), and pertinent academic publications. The study encompasses the years 2021 to 2025, facilitating the assessment of contemporary trends in SME finance, investment endeavours, and financial sector evolution.

The quantitative analysis employed descriptive statistics, trend analysis, and comparative evaluation. The analysed key indicators encompass the proportion of SMEs in GDP, investment activity, access to credit, and financing conditions. A comparative examination of international practices was conducted to find effective ways for facilitating SME investment funding in both developed and emerging economies.

The conceptual model posits that the extent of SME investment activity is influenced by a range of financial and institutional factors. Independent variables encompass access to credit resources, lending expenses, collateral availability, financial literacy, capital market development, and government assistance programs. The dependent variable is denoted by the magnitude and efficacy of SME investment initiatives.

The analytical approach posits that enhancements in financial accessibility and institutional quality positively affect investment activity, business expansion, and firm competitiveness. The research examines the impact of digital financial technology and alternative financing mechanisms in alleviating funding obstacles and fostering entrepreneurial growth.

3. Results and Discussion

Results

The results demonstrate that small business organisations increasingly contribute to the national economy. From 2021 to 2025, the contribution of SMEs to GDP and the amount of investment projects shown positive growth trends. Concurrently, access to financial resources progressively enhanced owing to continuous financial sector changes and the proliferation of digital banking services [9].

Table 1.

Trends in Economic Performance and Financial Accessibility of SMEs (2021–2025)

Year	SME Share of GDP (%)	Estimated SME Investment (bn UZS)	Credit Access Index
2021	54.9	82.000	52
2022	55.6	91.000	56
2023	56.8	103.000	60
2024	57.4	117.000	64
2025	58.0	126.000	67

The findings indicate that the proportion of SMEs in GDP rose from 54.9% in 2021 to 58.0% in 2025. During the same period, projected SME investments increased by over 50%, signifying heightened entrepreneurial activity and a rising demand for investment funding [10].

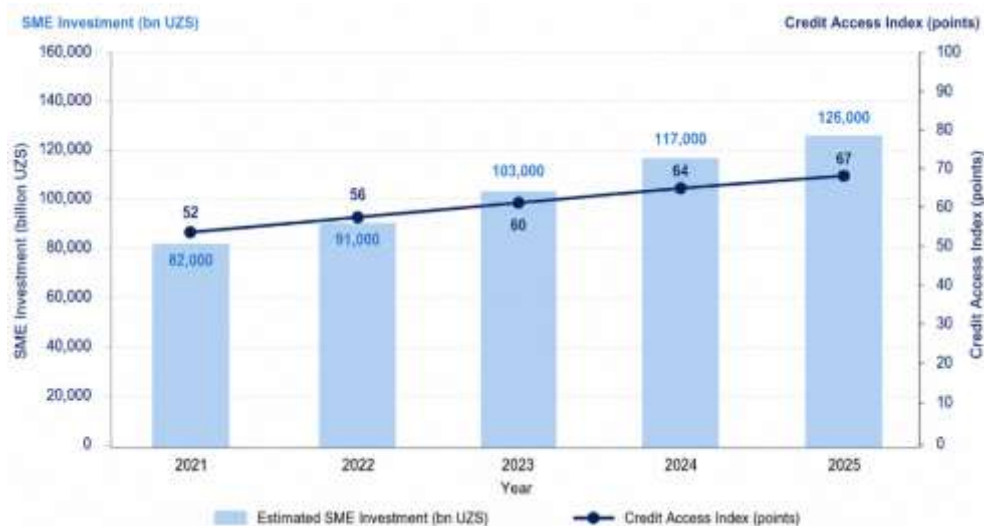


Figure 1.

Dynamics of SME Investment and Credit Accessibility (2021–2025)

The favourable trend depicted in Figure 1 indicates that enhanced access to financial resources has facilitated heightened investment activity among SMEs. Nonetheless, the rate of investment expansion is hindered by structural impediments inside the financial system [11].

Table 2.

Principal Financing Constraints Impacting SME Investment Initiatives

Financing Constraint	Impact level
High collateral requirements	Very High
Limited long-term financing	Very High
High interest rates	High
Information asymmetry	High
Limited venture capital financing	High
Weak capital market access	Medium
Low financial literacy	Medium

The data indicates that collateral requirements constitute the primary lending barrier for SMEs. Numerous businesses own inadequate assets to meet the lending criteria established by commercial banks, leading to limited access to investment loans [12]. A significant difficulty is the lack of long-term finance instruments. Commercial banks primarily offer short- and medium-term loans, while investment projects typically necessitate financing periods beyond five years. As a result, numerous potentially lucrative projects remain unexecuted [13].

The underdevelopment of venture capital and private equity markets constrains financing alternatives for innovative and technology-driven firms. Start-ups and high-growth companies often encounter challenges in securing conventional bank financing

due to inadequate credit histories and heightened risk profiles. The findings suggest that digital finance is becoming a significant tool for enhancing financial inclusion. The proliferation of online lending platforms, fintech services, digital payment systems, and automated credit assessment tools may diminish transaction costs and enhance financial access for under-represented enterprises.

Discussion

The results of this study validate the theoretical and empirical claims in the literature concerning the correlation between financial accessibility and SME investment activity. In accordance with the research conducted by Beck, Demirgüç-Kunt, and Maksimovic (2005), restricted access to external financing continues to be a major impediment to business growth and investment development. The findings demonstrate that while SME investment activity in Uzbekistan has risen from 2021 to 2025, financial obstacles persist, hindering the execution of large-scale and innovation-driven investment initiatives. The favourable correlation identified between the Credit Access Index and SME investment volumes indicates that enhancements in financial accessibility directly foster increased investment activity. With the enhancement of financial access from 52 points in 2021 to 67 points in 2025, projected SME investments rose from 82 trillion UZS to 126 trillion UZS. This discovery corroborates financial intermediation theory, which posits that efficient financial systems enhance capital allocation and promote productive investment [14].

The ongoing high collateral demands and restricted long-term borrowing reveal systemic deficiencies in the financial sector. Commercial banks persist in dominating the financing sector, whilst alternative financing methods, including venture capital, private equity, crowdfunding, and angel investments, remain inadequately established. As a result, numerous innovative and rapidly growing companies face challenges in obtaining the financial resources required for expansion and technical advancement. Global experience illustrates that varied funding environments substantially improve SME resilience and competitiveness. The development banking model of Germany, South Korea's innovation financing schemes, and the alternative finance platforms of the United Kingdom exemplify effective methods that alleviate funding limitations and promote entrepreneurial investment. Incorporating aspects of these strategies in Uzbekistan may foster a more inclusive finance ecosystem for small enterprises.

The increasing utilisation of digital financial technologies offers new prospects for enhancing financial inclusion. Digital credit scoring, AI-driven risk assessment, and fintech lending platforms help mitigate information asymmetry, decrease transaction costs, and enhance finance accessibility for businesses without conventional collateral. Consequently, digital transformation ought to be regarded as a strategic tool for enhancing SME access to investment capital.

The findings indicate that the sustained growth of the SME sector necessitates not only enhanced financial resources but also institutional reforms to improve market efficiency, expand financial infrastructure, and promote innovation-driven financing structures [15].

4. Conclusion

This study examined the primary funding obstacles impacting investment initiatives of small enterprises in Uzbekistan. The investigation revealed that SMEs remain vital to economic development, considerably contributing to GDP growth, job creation, and entrepreneurial activity. Nonetheless, access to capital continues to be a primary barrier hindering the execution of investment initiatives and the actualisation of corporate growth potential.

The empirical findings indicate that substantial collateral requirements, restricted access to long-term financing, elevated borrowing costs, information asymmetry, and the underdevelopment of alternative financing tools constitute the primary obstacles to SME investment. Despite advancements in financial accessibility facilitating heightened investment activity during the study period, numerous firms nevertheless encounter challenges in securing sufficient resources for expansion, innovation, and technological modernisation.

The research suggests that enhancing the financial ecosystem is crucial for fostering sustainable SME growth. Specifically, enhancing credit guarantee schemes, cultivating venture capital and private equity markets, facilitating access to long-term financing, and promoting digital financial services will significantly alleviate current financing limitations. Moreover, augmenting financial literacy among entrepreneurs and improving the transparency of corporate operations will enhance creditworthiness and facilitate access to external financing.

From a policy standpoint, the findings indicate that governmental entities should prioritise the establishment of a diverse finance ecosystem, wherein conventional bank lending is augmented by novel financial instruments and digital financial technology. This method would enhance investment activity among SMEs while simultaneously bolstering their competitiveness, productivity, and contribution to national economic growth.

Future study may utilise econometric modelling tools to measure the influence of financial accessibility on SME performance metrics, including investment growth, profitability, employment generation, and innovation results. Comparative analyses with other emerging economies may yield significant insights into effective funding systems and optimal strategies for fostering entrepreneurial development.

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