

**FINANCIAL STRATEGIES IN ENTREPRENEURSHIP AND METHODS OF
ATTRACTING INVESTMENTS IN SMALL AND MEDIUM BUSINESSES**

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Annotation: This article is devoted to the study of financial strategy formation and modern methods of attracting investments in the entrepreneurial activities of small and medium-sized enterprises (SMEs). The paper examines issues of financial management in small businesses, ways to increase resource efficiency, preparation of investment projects, and mechanisms for utilizing various sources of financial resources. The research highlights the development of effective financial strategies to ensure the financial stability of SMEs, manage liquidity risks, increase profitability, and strengthen market competitiveness. The article also analyzes both traditional and innovative methods of attracting investments necessary for the development of startup projects and existing businesses. The practical part presents a comparative analysis of the financial difficulties of SMEs, opportunities for using bank loans, venture capital, angel investments, crowdfunding platforms, and state support programs.

Keywords: Entrepreneurship, financial strategy, small business, medium-sized business, investment attraction, financial management, business plan, venture capital, crowdfunding, government support.

In the context of the modern market economy, small and medium-sized businesses have become the foundation of the national economy and one of the key drivers of stable growth. Their importance is immense — SMEs not only ensure about 60–70% of employment and contribute to social stability but also serve as the main carriers of innovation and play a vital role in the development of the market economy.

However, in recent years, SMEs have faced a number of serious challenges, including limited access to financial resources, high costs of long-term loans, difficulties in financing investment projects, and low levels of financial literacy. Statistics show that approximately 60% of small business projects cease operations in their early stages due to insufficient financial resources.

The relevance of this research lies in the need to improve the financial support system for SMEs in Uzbekistan, enhance investment attractiveness, and introduce modern methods of financial management to ensure the sector's sustainable development. Today, entrepreneurs can use not only traditional bank loans but also various financial instruments such as venture capital, seed investments, crowdfunding, business angels, and state support programs.

The purpose of this study is to develop effective methods of forming financial strategies and attracting investments in small and medium enterprises, as well as to provide practical recommendations to strengthen their financial stability and competitiveness. The tasks of the research include studying the theoretical foundations of financial strategies, analyzing the financial problems of SMEs, exploring modern methods of investment attraction, and developing practical proposals to increase the effectiveness of financial management.

The Essence of Financial Strategy

A financial strategy in entrepreneurial activity is a system of forming, allocating, and managing financial resources to achieve long-term goals. It includes the following key components: choosing capital sources (own funds, borrowed funds, and investments), managing financial

risks (market fluctuations, credit risks, liquidity issues), and coordinating cash flows (balancing income and expenses).

The **Principle of Strategic Consistency** emphasizes that financial strategy must align with the overall business strategy of the enterprise. Financial objectives should correspond to corporate goals, and all financial decisions must be connected with the strategic direction of the company.

The **Time Factor Principle** requires taking into account the time value of financial operations. It focuses on balancing short-term and long-term goals and assessing the current and future impacts of investments.

The **Risk and Profitability Principle** suggests that higher returns are usually associated with higher risks. Therefore, risk diversification and optimization of the risk-return ratio are essential.

Capital Structure Strategy — According to the Modigliani-Miller Theorem (1958), under perfect market conditions, the value of a firm is independent of its capital structure. However, in reality, factors such as taxes, bankruptcy costs, and information asymmetry make it necessary to determine the optimal balance between debt and equity capital.

Dividend Strategy is based on different theories. According to the Irrelevance Theory (Miller and Modigliani, 1961), dividend policy does not affect firm value. Lintner's "Cigarette Smoke" theory (1956) suggests that investors prefer stable dividends, while the Signaling Theory implies that dividend increases signal positive future prospects.

Investment Strategy relies on capital budgeting theories. According to the Net Present Value (NPV) rule, projects with $NPV > 0$ should be accepted. The Internal Rate of Return (IRR) must exceed the cost of capital, and the payback period helps evaluate the time required to recover the investment.

Modern Approaches include the Agency Theory (Jensen & Meckling, 1976), which studies conflicts of interest in financial decision-making, and the Asymmetric Information Theory (Akerlof, 1970), which analyzes how unequal access to information affects market efficiency. The Earnings Disclosure Theory examines management's decision-making in revealing financial data. The **Sustainable Growth Model** (Higgins, 1977) helps firms plan growth rates considering financial constraints and determine the maximum growth financed through retained earnings and debt.

Dynamic Financial Planning provides opportunities to forecast and plan financial needs more accurately, ensuring flexibility in changing financial environments. **Value-Based Management** (Rappaport, 1986) focuses on increasing the firm's value by evaluating how achieved financial results contribute to long-term value creation. Financial strategies not only help solve short-term problems but also strengthen long-term competitiveness.

Despite recent government support programs, international funding, and preferential loans, SMEs still face persistent financial challenges — limited access to credit, strict collateral requirements, low financial literacy, cash flow mismanagement, and high operational costs. Addressing these issues requires not only new financial resources but also systemic reforms and enhanced financial competence among business leaders.

According to the **World Bank Enterprise Survey** and **IFC data**, only about 19% of small enterprises use bank loans, meaning that most remain outside the formal credit ecosystem. The official non-performing loan (NPL) ratio in Uzbekistan's banking system remains around 4% (2024–Q1 2025), indicating stability, although risks persist in some commercial banks. Meanwhile, the volume of preferential loans and grants has increased significantly, supporting youth, women, and family entrepreneurship.

Between 2022 and 2024, financial activity among SMEs has risen notably, yet access to credit remains limited. Despite the expansion of state-supported loans and additional funding from international financial institutions such as IFC and ADB, entrepreneurs face challenges in

meeting lending conditions. Thus, despite positive developments, issues like high operating costs, stringent collateral demands, and liquidity shortages remain relevant.

Small and medium enterprises can attract investments through the following main sources: bank loans (the most traditional but requiring collateral), microfinance institutions (offering small loans but at higher interest rates), leasing (long-term rental of equipment and vehicles), angel investors (experienced entrepreneurs investing personal funds), venture capital (investing in high-growth startups), crowdfunding (raising funds via online platforms), and grant or subsidy programs (financial aid from government or donor organizations).

To address the existing problems and strengthen SME financing, several measures are proposed. First, establishing guarantee mechanisms or credit guarantee funds in cooperation with the government and donors to facilitate loans without collateral. Second, enhancing financial literacy and management by organizing short-term courses on cash flow, budgeting, and credit history for entrepreneurs. Third, encouraging venture and alternative financing through the development of venture funds, microfinance institutions, and crowdfunding platforms. Fourth, improving monitoring and performance indicators (KPIs) for preferential loans and grants to ensure measurable results such as job creation and income growth. Finally, promoting digital banking and fintech solutions to simplify transactions, automate credit histories, and open new, cost-effective financing channels for SMEs.

The theoretical foundations of financial strategies offer a scientific basis for making informed financial decisions in entrepreneurship. Deep study and practical application of various theories and models enable enterprises to ensure financial stability and enhance competitiveness. A successful financial strategy in today's conditions requires a comprehensive and multi-factor approach that integrates different theoretical frameworks. A thorough understanding of financial strategies and investment attraction methods not only strengthens SME competitiveness and creates new jobs but also contributes to the sustainable development of the national economy. Furthermore, rational use of financial resources and the adoption of innovative approaches will increase the effectiveness of these strategies. In the future, developing tailored financial mechanisms for small and medium businesses will remain a key factor in ensuring their long-term stability and growth.

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