
**STATE POLICY TO SUPPORT THE PRIVATE SECTOR AND
ENTREPRENEURSHIP IN THE ECONOMY**

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Abstract

This article examines state policy as a decisive factor in supporting the private sector and entrepreneurship in the modern economy. The central thesis is that entrepreneurship does not develop sustainably under spontaneous market conditions alone; it requires an institutional environment in which legal certainty, access to finance, skills formation, innovation support, and regulatory predictability are consistently maintained. International organizations treat small and medium-sized enterprises as a key source of employment, productive dynamism, and inclusive growth. At the same time, these enterprises face structural constraints that markets often do not eliminate on their own, especially in relation to credit access, digital transformation, innovation capacity, and resilience during economic shocks.

Keywords: Private sector, entrepreneurship, state policy, SMEs, business environment, access to finance, innovation.

INTRODUCTION

In contemporary economic systems, the private sector functions not only as a sphere of private profit-making but also as a major mechanism of employment creation, technological adaptation, market competition, and structural modernization. Official World Bank and IFC materials note that small and medium-sized enterprises account for about 90 percent of businesses and more than half of employment worldwide, while in emerging and developing economies they also make a significant contribution to gross domestic product [1], [4]. This explains why state policy toward entrepreneurship has moved from a marginal administrative issue to a central development priority. A dynamic private sector broadens the tax base, stimulates productivity, and diversifies economic activity; a weak private sector, by contrast, constrains growth, formal job creation, and innovation. For that reason, support for entrepreneurship must be viewed not as a concession to business interests but as part of the wider architecture of economic policy [1], [4].

MATERIALS AND METHODS

The first and most fundamental direction of state policy is the construction of a stable institutional and regulatory environment. Entrepreneurship expands where entry procedures are intelligible, property rights are secure, contracts are enforceable, and administrative burdens are proportionate to the scale of business activity. The ILO's sustainable enterprise framework links enterprise development to the rule of law,

institutions, governance systems, and an enabling environment that encourages investment and entrepreneurship [5]. OECD materials likewise stress the importance of institutional and regulatory frameworks supportive of business creation and scale-up [3]. These formulations make clear that the state's primary economic function is not limited to financial transfers or tax preferences. It begins with legal predictability. When entrepreneurs face unstable rules, excessive licensing, or weak dispute resolution, their resources are diverted from investment and innovation toward adaptation to uncertainty. Therefore, the first criterion of an effective state policy is regulatory quality rather than formal activism alone [3], [5].

RESULTS AND DISCUSSION

The second major direction is access to finance. One of the most persistent structural barriers faced by small and medium firms is the difficulty of obtaining capital on terms compatible with business growth. The World Bank's 2024 report *Boosting SME Finance for Growth* states that SMEs represent roughly nine out of ten businesses globally, account for more than 50 percent of employment in emerging market and developing economies, and contribute around 40 percent of GDP there, yet they continue to face major financing constraints [4]. The same report notes that public support in these economies commonly includes work on financial infrastructure such as credit information systems, secured transactions frameworks, and insolvency regimes, alongside targeted instruments such as lines of credit, partial credit guarantees, and venture-capital-related programmes [4]. IFC reports that the MSME finance gap in emerging markets and developing economies stands at about 5.7 trillion US dollars, rising to 8 trillion when informal enterprises are included [1]. These figures show that entrepreneurship support cannot remain rhetorical. If viable firms are systematically excluded from credit, then private initiative is structurally weakened regardless of how favorable official discourse may be [1], [4].

Yet finance policy must be designed carefully. The same World Bank report explicitly cautions that public support programmes have not always been widely successful in fostering SME financing, and that concessional instruments may generate unintended consequences if they are not integrated into broader financial-market development [4]. This is a crucial point. State support becomes economically justified not when it permanently shields firms from market discipline, but when it corrects specific failures: information asymmetry, collateral constraints, excessive risk perception, underdeveloped early-stage finance, or the absence of financing instruments for innovation. OECD's 2025 Scoreboard reinforces this conclusion by showing that SMEs continue to face restrictive financing conditions, with high interest rates and economic uncertainty contributing to declines in SME lending and a shift toward smaller-scale, short-term financing instead of longer-term investment [3]. As a result, sound state policy must combine prudence with intervention: it should expand the financial frontier for entrepreneurs without producing dependency or preserving unproductive firms indefinitely [3], [4].

A third strategic area is the development of entrepreneurial capabilities. New enterprises do not become sustainable merely because registration is simple or loans are available. They require managerial competence, digital literacy, sector knowledge, market analysis, and the ability to adapt to technological and competitive change. UNCTAD's framework explicitly embeds entrepreneurship within wider human resource and skills development policy [2]. OECD also identifies skills, knowledge networks, and innovation assets as central elements of entrepreneurship policy [3]. This indicates that the state's role extends into education and training, not in the sense of producing entrepreneurs administratively, but in the sense of strengthening the human capital without which entrepreneurship remains fragile and low-productivity. Public policy in this area includes vocational training, business advisory services, incubation programmes, mentoring systems, lifelong learning infrastructure, and university-industry collaboration. The developmental rationale is straightforward: an economy with many low-capability microenterprises may show formal business activity, yet still fail to achieve productivity growth, technological upgrading, and resilient employment [2], [3].

A fourth-dimension concerns innovation and digital transformation. In present economic conditions, entrepreneurship policy that ignores digital adoption and innovation capacity is structurally incomplete. OECD states that SMEs and entrepreneurs are key drivers of green and digital transitions, but many face difficulties in adapting their business models and investing in that transition [3]. IFC also notes that it supports financial intermediaries, fintechs, and digital platforms in order to widen MSME access to finance and complementary non-financial services such as training, mentoring, networking, and market access [1]. These institutional positions imply that innovation policy should not be restricted to large firms or high-technology sectors alone. State support for entrepreneurship must include digital infrastructure, innovation vouchers, technology extension services, commercialization support, research partnerships, and regulatory conditions that allow smaller firms to adopt new business models. In many economies, the central problem is not the absence of entrepreneurial energy but the inability of firms to move from survival activity to innovative and scalable enterprise. State policy can reduce that gap by lowering the cost of experimentation and diffusion [1], [3].

CONCLUSION

State policy to support the private sector and entrepreneurship in the economy is most effective when it is conceived as an integrated developmental framework rather than a collection of isolated business incentives. International evidence shows that private initiative grows where governments ensure regulatory predictability, improve access to finance, build entrepreneurial skills, facilitate digital and innovative upgrading, and help firms connect to markets and value chains. Such policy does not replace the market. It reduces the structural frictions that prevent entrepreneurial capacity from becoming productive enterprise. In that sense, the quality of the state's role lies not in constant

intervention for its own sake, but in building the legal, financial, and institutional architecture that allows the private sector to operate, compete, and expand under stable rules.

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