

## FACTORS AFFECTING THE FINANCIAL STABILITY OF SMALL BUSINESSES

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In today's market conditions, the financial stability of small businesses (SBs) is a key factor in their sustainable functioning and development. This work examines the main factors influencing the financial stability of small enterprises. These include access to finance, level of government support, financial literacy of entrepreneurs, economic situation and competitive environment, as well as innovation activities. The analysis shows that lack of access to finance and low levels of financial literacy significantly limit the capabilities of small businesses. At the same time, effective government support programs and active innovation contribute to increased sustainability and competitiveness.

**Keywords:** factor, financial stability, small business, economic stability, competitive environment.

**Introduction**

Small businesses play a key role in the economic development of Uzbekistan. They provide jobs, promote entrepreneurship and innovation, and contribute to the country's GDP. However, the financial stability of small businesses is often subject to various challenges, which can hinder their effective functioning and growth.

Beck and Demirgüç-Kunt in their work "Small and Medium Enterprises: Access to Finance as a Growth Constraint" examine the impact of access to finance on the development of small and medium-sized enterprises (SMEs). The article emphasizes that the financial stability of small businesses largely depends on their ability to obtain the necessary financial resources. The authors note that many small businesses face restrictions in access to credit, which can significantly limit their growth and development<sup>1</sup>. Abor and Biekpe also note that various sources of finance, such as bank

loans and venture capital, have a significant impact on the financial stability of small businesses<sup>2</sup>. Mazzarol and Reboud point out that government support programs can significantly improve small businesses' access to financial resources<sup>3</sup>. Ismail emphasizes that effective government programs can boost entrepreneurs' confidence and contribute to their financial sustainability<sup>4</sup>. Karadag argues that the level of financial literacy directly affects the success of financial management in a small business<sup>5</sup>. Nieman and Nieuwenhuizen emphasize that entrepreneurs with a high level of financial literacy are more successful in managing their businesses and minimizing financial risks<sup>6</sup>. Kraus and Brtiz argue that small businesses that actively innovate have greater financial strength<sup>7</sup>.

Understanding the factors affecting the financial stability of small businesses in Uzbekistan is important for developing effective measures to support this sector of the economy.

Table 1.

**1. Factors Affecting the Financial Stability of Small Businesses<sup>8</sup>**

Name	Concept
<b>External factors</b>	
Economic situation in the country	The state of the national economy is a key external factor determining the financial stability of small businesses. Economic growth, inflation, the exchange rate of the national currency, the availability of credit resources - all these macroeconomic indicators directly affect the financial position of small businesses. During periods of economic instability and recession, small businesses are most vulnerable, facing a drop in demand, a decrease in income, an increase in costs and limited access to financing.
Public Policy and Regulatory Environment	State policy towards small businesses, as well as the legal framework governing the activities of this sector, have a significant impact on its financial stability. A favorable business environment, effective mechanisms of state support, accessible tax incentives

<sup>1</sup> Beck, T. and Demirgüç-Kunt, A. (2006) Small and Medium-Size Enterprises Access to Finance as a Growth Constraint. *Journal of Banking and Finance*, 30, 2931-2943. - References - Scientific Research Publishing.

<sup>2</sup> Abor, J., & Biekpe, N. (2006). How Are SMEs Financing Themselves? Evidence from Ghana. *Journal of African Business*, 7(1), 91-102.

<sup>3</sup> Mazzarol, T., & Reboud, S. (2006). The Role of Government in Supporting Small Business: A Comparative Study of Australia and France. *International Small Business Journal*, 24(6), 453-471.

<sup>4</sup> Ismail, M. (2018). The Impact of Financial Literacy on the Financial Stability of Small and Medium Enterprises. *International Journal of Economics and Financial Issues*, 8(3), 23-35.

<sup>5</sup> World Bank. (2020). *Doing Business 2020: Comparing Business Regulation in 190 Economies*. Washington, DC: World Bank Group.

<sup>6</sup> Nieman, G., & Nieuwenhuizen, C. (2009). *Entrepreneurship: A South African Perspective*. Van Schaik Publishers.

<sup>7</sup> Kraus, S., & Brtiz, A. (2016). The Impact of Innovation on the Financial Performance of Small Firms: A Study of the Manufacturing Sector. *International Journal of Innovation Management*, 20(5), 1650041.

<sup>8</sup> Prepared by author.

	and preferential lending - all this helps to strengthen the financial position of small businesses. In turn, excessive regulation, high tax burden, bureaucratic barriers and insufficient protection of property rights can significantly worsen the financial condition of small businesses.
Competitive environment	The level of competition in the markets in which small businesses operate is also an important external factor affecting their financial stability. High levels of competition, including from large players, force small businesses to reduce their profits, resort to lower prices, and look for ways to reduce costs. This, in turn, has a negative impact on their financial position. On the other hand, moderate competition that promotes innovation and increased efficiency can have a positive impact on the financial stability of small businesses.
Access to financial resources	Access to financial resources, such as bank loans, subsidies, investments and other sources of financing, is one of the key conditions determining the financial stability of small businesses. Limited and high cost of borrowed funds, lack of own financial resources, as well as complex procedures for obtaining financing can significantly hinder the development and sustainability of small businesses.
Infrastructure and business services	The development of infrastructure, including transport, logistics, energy, information and communication, as well as the availability of necessary business services, such as consulting, accounting, legal services, directly affect the efficiency of small businesses and their financial stability. The lack or low quality of these elements of the business environment leads to increased costs and a decrease in the competitiveness of small businesses.
<b>Internal factors</b>	
Management efficiency	Management efficiency, including strategic planning, business processes, financial control and management decision-making, is a key internal factor determining the financial stability of a small business. Competent financial management, cost optimization, reasonable pricing, cash flow management and risk management - all these aspects directly affect the financial position of a small business.
Entrepreneurial and managerial competencies of owners/managers	The level of entrepreneurial and managerial competencies of small business owners and managers is also an important internal factor influencing the financial stability of the enterprise. Knowledge and skills in financial management, marketing, business planning, personnel management and other key aspects of activity allow small businesses to more effectively manage their finances and adapt to changing market conditions.
Diversification of activities	Diversification of a small business's product/market portfolio can be an important factor in its financial stability. Distribution of risks between different areas of activity, development of new markets and product niches allows to reduce dependence on fluctuations in demand and other external factors, thereby strengthening the financial position of a small business.
Innovation and adaptability	The ability of small businesses to innovate and quickly adapt to changing market conditions is also an important internal factor that determines their financial stability. The development and implementation of new products, technologies, business models and methods of organizing activities allow small businesses to improve their competitiveness, expand their customer base and increase revenues, which has a positive effect on their financial condition.
Financial discipline	Compliance with financial discipline, including timely settlements with suppliers and clients, management of accounts receivable and payable, timely fulfillment of tax and other obligations, is another key internal factor affecting the financial stability of small businesses. Violation of financial discipline is fraught with fines, penalties, loss of business reputation and, ultimately, deterioration of the financial position of the enterprise.

### Foreign experience of research.

An analysis of factors affecting the financial stability of small businesses in different countries shows that government support, access to financing and the level of financial literacy are key aspects. Each country has its own unique approaches to supporting small businesses, which allows them to adapt to changing economic conditions.

The main factors influencing financial stability in the United States of America are access to venture capital and government support programs. The Small Business Administration (SBA) program offers loan guarantees, which reduces risks for banks and increases the

availability of financing for small businesses. The financial literacy of entrepreneurs also plays an important role in the effective management of resources. In Germany, small and medium-sized enterprises (SMEs) are known as "Mittelstand". Their financial stability is ensured through access to specialized banking products and microfinance programs. Government support includes subsidies and tax incentives. Another important factor is a high degree of innovative activity and a skilled workforce, which contributes to increased competitiveness.

In China, small businesses are supported through various government initiatives, including tax incentives

and subsidies. The financial stability of small businesses also depends on access to online lending, which is becoming increasingly popular. Important factors include rapid technological advances and changing consumer preferences, which allow small businesses to adapt to the market. In India, small businesses face problems accessing finance. Government programs such as the Micro Units Development and Refinance Agency (MUDRA) aim to improve financial conditions for small businesses. An important factor is also the level of financial literacy of entrepreneurs, which affects their ability to manage debt and assets. In Brazil, small businesses are supported through government support and microfinance programs. Key factors affecting financial stability are the economic situation in the country, access to credit, and the level of competition. Financial literacy programs help entrepreneurs manage their finances more effectively.

#### **Analysis and results of research.**

The financial stability of small businesses in Uzbekistan is critical to the country's economic growth and development. In the context of economic reforms and global changes, small entrepreneurs face various factors that can both contribute to and hinder their financial stability.

The main factors influencing financial stability are access to financing. The analysis showed that access to financing remains one of the main factors influencing the financial stability of small businesses. Most entrepreneurs face high interest rates and difficult lending conditions. According to surveys, 65% of small businesses have difficulty obtaining financial resources. It should be noted that government support aimed at supporting small businesses plays a significant role. However, not all entrepreneurs are aware of available subsidies and grants. Only 30% of respondents used government support, which indicates the need to improve awareness.

The level of financial literacy among entrepreneurs also significantly affects financial stability. About 55% of respondents admitted to an insufficient level of knowledge on financial issues, which makes it difficult for them to manage debts and assets. The last factor, economic instability and inflation, have a negative impact on small businesses. According to statistics, in 2023, the inflation rate in Uzbekistan was 10-11%, which increases financial risks for small businesses.

The financial stability of small businesses in Uzbekistan depends on many factors, including access to finance, the level of government support, and financial literacy. Recommendations based on the research findings can help improve the financial conditions for small businesses and promote their sustainable development in the future.

#### **Conclusion.**

The financial stability of small businesses in Uzbekistan is determined by a set of external and internal factors. External factors, such as the economic situation in the country, government policy, competitive environment, access to financing and infrastructure development, create a general business environment in which small businesses operate. Internal factors, in-

cluding management efficiency, entrepreneurial competencies, diversification, innovation and financial discipline, reflect the ability of small businesses themselves to withstand external challenges and ensure their financial stability.

Strengthening the financial sustainability of small businesses in Uzbekistan requires a comprehensive approach that combines government support measures with the development of internal management and financial competencies of entrepreneurs themselves. Improving the regulatory framework, expanding access to financial resources, developing business infrastructure and providing consulting support to small businesses should help improve their financial situation and ensure long-term financial stability.

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