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# Methods of Forming and Effectively Managing Working Capital for Small Business Entities in The Context of The New Uzbekistan Economy

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**Abstract:** This article analyzes the formation and effective management methods of working capital for small business entities in Uzbekistan. The importance of working capital, methods of its formation and management, as well as the research methodology and results are discussed in the article. Additionally, the article presents the methods and sources necessary to achieve financial stability through the analysis of enterprise working capital. The research findings are of significant importance for small business entities to operate effectively and ensure economic development.

**Keywords:** Small Business, Working Capital, Management Methods, Financial Stability, Cash Flow, Competition, Product Pricing

## 1. Introduction

Small business is an important part of the economy of Uzbekistan, playing a central role in the country's socio-economic development. Its growth is significant not only for economic growth but also for social stability. Small businesses are crucial for creating jobs, stimulating the local economy, implementing innovations, and fostering an entrepreneurial spirit. They are a key factor in reducing unemployment in the country. Small and medium-sized enterprises in Uzbekistan primarily help provide employment for the local population. These businesses create both permanent and temporary jobs, which in turn leads to an increase in the well-being of the population. Small businesses also expand employment opportunities for youth and women, ensuring social stability in society.

The development of small businesses ensures the overall growth of the country's economy. Small businesses contribute to market competition by offering new products and services. Their activities help shape national production, expand exports, and ensure the country's global economic integration. Small businesses make effective use of local resources, which enhances economic efficiency. Currently, the number of entrepreneurial entities engaged in small business activities in our country is continually increasing. This can be observed in the data presented in Table 1, showing that the number of small entrepreneurial entities has been growing by 15-20 percent each year.

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**Table 1.** The Number of Small Business Entities Operating in Uzbekistan<sup>1</sup>.

No	Regions	Years				
		2020	2021	2022	2023	2024
<b>I</b>	<b>Republic of Uzbekistan (Total)</b>	334,767	411,203	462,834	523,556	417,080
	From this					
1	Republic of Karakalpakstan	14,677	18,288	19,998	22,863	22,066
2	Andijan Region	25,807	31,683	34,999	39,038	24,381
3	Bukhara Region	19,981	24,809	27,690	30,082	27,594
4	Jizzakh Region	14,011	17,725	19,463	22,474	16,677
5	Kashkadarya Region	20,304	25,297	31,152	36,421	27,980
6	Navoi Region	14,885	17,931	20,472	22,844	19,539
7	Namangan Region	21,461	26,531	28,949	32,305	23,136
8	Samarkand Region	25,643	33,114	40,724	47,943	37,398
9	Surkhandarya Region	15,509	21,563	24,395	27,368	20,589
10	Syrdarya Region	11,026	13,360	13,808	15,036	11,217
11	Tashkent Region	32,602	40,223	44,156	49,145	38,953
12	Fergana Region	29,300	36,117	40,403	46,350	36,238
13	Khorezm Region	15,453	18,875	21,984	25,616	23,854
14	Tashkent City	74,108	85,687	94,641	106,071	87,458

It is evident from the table data that the largest number of small business entities operating is located in the city of Tashkent, with a total of over 106,000 business entities active in 2023. Following this, the Tashkent region, Samarkand region, and Fergana region also have significant numbers of entities. This is primarily due to the high volume of industry and production, as well as the numerous industrial zones in these areas, which contribute to the large number of operating business entities.

The increasing number of entrepreneurial entities engaged in small business activities is certainly beneficial for the economy of the country; however, for these entities to operate successfully in the long term, it is crucial for them to effectively utilize their existing resources and manage them efficiently. This has become one of the key and urgent issues today. Therefore, through this scientific research, we aim to provide both practical and theoretical assistance to many entrepreneurial entities, developing specific recommendations and guidelines to ensure their effective and sustainable operation.

Thus, the area that requires the most attention for small business entities to operate effectively is the formation and efficient management of working capital. This article intends to analyze the importance of working capital, as well as the methods for its formation and management.

### Literature Review

The content and essence of working capital of small business entities, as well as their formation and management, have been extensively studied by several economists. The issues of working capital in entrepreneurial activities, the social and economic essence of the entities, and the sources of related capital have been thoroughly examined in the works of A. Smith, A. Turgot, P. Samuelson, R. Hisrich, and J. Schumpeter. Scholars from CIS countries, such as A. I. Arkhipov, E. F. Borisov, A. V. Busygin, Yu. M. Osipova, and M. A. Sazhina, have also investigated the theoretical and practical issues of working capital formation and development in entrepreneurial activities [1]. Additionally, Uzbek scholars like S. S. Ghulomov, Sh. Sh. Shodmonov, T. T. Jorayev, A. V. Vakhobov, H. P.

<sup>1</sup> Source: Table 1.1 prepared by the author based on the data from the Demography of Enterprises and Organizations of the Statistics Agency under the President of the Republic of Uzbekistan.

Abulkasymov, A. Qodirov, Q. Muftaydinov, N. K. Murodova, G. P. Sharipov, and M. Yu. Abdukarimova have contributed to the development of entrepreneurship through their scientific research on the theoretical aspects of working capital and its specific characteristics in Uzbekistan [2].

## 2. Materials and Methods

This article analyzes the methods of forming and effectively managing working capital for small business entities, and the methodology primarily includes the following stages: the goals and objectives of the research, namely identifying the significance of working capital for small businesses and analyzing the methods of forming and managing working capital; research methods, including literature analysis, statistical analysis, reviewing works conducted by researchers, data collection, specifically analyzing financial reports and information on forming working capital for small business entities; and analysis methods, involving the analytical examination of statistical data and the substantive analysis of information obtained from entrepreneurs. This methodology ensures a comprehensive approach to effectively forming and managing working capital for small businesses. The results of the research, in turn, are of significant importance for improving entrepreneurial activities.

### Discussion of Working Capital

Working capital is crucial for supporting the daily operations of small businesses. It is necessary for purchasing goods, paying wages, and covering other expenses [1]. Effective management of working capital is important for attracting investments for the growth of small businesses, as it creates opportunities for expansion, the development of new products, and market entry. Additionally, effective management of working capital can reduce debts and ensure financial stability [3].

Among the methods for generating working capital for small businesses, it is essential to develop a financial plan, identify the necessary amount of working capital, and determine how to generate it [4]. Utilizing sources such as fundraising, loans, grants, and investments helps to increase working capital. Efficient inventory management, avoiding excess stock, and producing goods in accordance with demand contribute to the effective formation of working capital [5].

The formation of working capital is very important for small business entities. Working capital is necessary for ensuring daily operations, serving customers, and maintaining competitiveness [6], [7], [8]. This article analyzes the main methods of generating working capital and their practical examples [9].

**Analyzing cash flow** shows how much money is coming in and going out of a business at any given time. This analysis is essential because it helps identify income, monitor expenses, and ensure the continuity of cash flow. For example, a small café might generate \$10,000 in revenue each month, primarily from services and products sold to customers. The main expenses for the café include food supplies, employee wages, and rent payments. Analyzing these expenses monthly leads to effective budgeting. If cash flow is managed correctly, the business will always have the necessary funds to operate.

**Setting product prices** also helps improve a business's profitability. Market research and competitor price analysis are crucial when determining prices. For instance, if a competitor sells a similar product for \$5, pricing it at \$4.50 in the café could attract customers. Additionally, offering special dishes made from local products can create added value for customers.

Various funding sources are available for generating working capital. Obtaining bank loans is an effective method for securing working capital. For example, the café owner could take a \$20,000 loan from a bank to purchase new equipment, which could enhance service quality and efficiency. Investments are also significant; raising \$15,000 by

selling 50% of the café's shares is an option. Furthermore, utilizing grants and subsidies offered by the government provides financial support to small businesses.

**Budgeting** is crucial for setting financial plans and goals for the business. Preparing an income and expense budget helps plan how existing funds will be spent. For instance, the café might plan to earn \$10,000 in revenue and incur \$8,000 in expenses each month. A capital budget assesses long-term investments and their expected returns.

**Ownership and exchange mechanisms** are also necessary for effective management of working capital. Contracts with customers can facilitate cash collection; for example, establishing a 10% discount contract for regular customers can increase sales. Thus, providing goods or services to customers and receiving payments involves mechanisms of credit and accounts receivable.

**Financial monitoring** allows for the continuous observation of the business's financial condition. Monthly analysis of financial reports is essential, preparing and analyzing financial statements through the café's accounting system. Tracking cash flow and monitoring income and expenses is critical. If expenses are found to be increasing, necessary adjustments must be made.

For small business entities, forming working capital is crucial for effective operations. By implementing the right methods, a business can ensure its financial stability. Sources of financing, budgeting, cash flow analysis, and monitoring processes play a key role in effectively forming working capital. The application of these methods serves as a foundation for business development and success [10].

However, several challenges may arise in the process of effectively forming working capital for small business entities, which could limit business growth and jeopardize financial stability [11], [12], [13]. These challenges include:

**Cash Flow Difficulties:** In small businesses, delays in receiving payments from customers or increasing accounts receivable can reduce cash flow. This may create issues in securing the necessary funds for production and operations [14].

**Limited Access to Financing Sources:** Small businesses often face challenges in accessing financing sources. Obtaining bank loans can be difficult, as banks tend to be cautious in lending to small businesses due to the higher risks involved. Moreover, attracting investors may also pose challenges, as they need to assess the business's profitability and potential accurately [15], [16].

**Increased Competition:** The competitive environment is always a concern for small businesses. Heightened competition in the market can drive down prices and reduce profit margins. Additionally, new and innovative products from competitors can create challenges in attracting customers [17].

**Challenges in Pricing Products:** Setting product prices can be a complex process for small businesses. If prices do not consider market demand and competition, products may not sell. For example, if a café's food prices are higher than those of competitors, customers may choose to go elsewhere [18], [19].

**Insufficient Budgeting and Financial Planning:** Small businesses may encounter problems in creating budgets and financial plans. A lack of financial data or inaccurate assessments can hinder the accurate evaluation of income and expenses. Additionally, there may be challenges in ensuring that budgets are effective and realistic.

**Issues Related to Workforce Resources:** Small businesses may also face challenges in effectively managing workforce resources. A shortage of workers or inadequate skills can impact business efficiency. For instance, if there are not enough skilled workers, product quality may decline, negatively affecting customer interest.

**Another issue is debt obligations.** Small businesses may face problems related to loans and debt commitments. If a business encounters difficulties in repaying its debts, it

can lead to bankruptcy. Additionally, timely payments arising from debts pose a threat to the financial stability of the business.

Effective management of working capital is one of the key areas of focus after it has been successfully established. There is a saying in our culture that it is harder to spend money than to earn it. Indeed, a business collects funds and allocates them to working capital, but to manage it effectively and return to the starting point with profit, skills or effective management practices are necessary. Among the methods for effective management of working capital, financial monitoring—constantly tracking one's financial condition—is crucial. This helps analyze revenues and expenses and enhances the efficiency of working capital. Monthly budgeting, managing expenses, and effectively allocating resources are essential for managing working capital in small businesses. Automating financial reports and inventory-related data increases efficiency in managing working capital. Additionally, it is important to identify any emerging problems in managing working capital and resolve them promptly.

Effective management of working capital in small businesses is vital for stability and growth. Financial planning, monitoring, budgeting, and the use of modern technologies assist small business entities in effectively establishing and managing their working capital. This, in turn, contributes to business growth and economic stability.

For small businesses, effective management of working capital is crucial for ensuring financial stability and growth. Working capital plays a fundamental role in conducting daily operations, providing services to customers, and maintaining competitiveness. Below, we will analyze several methods for effectively managing working capital in small businesses.

**The first method** is analyzing cash flow. Cash flow shows the difference between a business's revenues and expenses. Regular monitoring and analysis of cash flow help determine the financial condition of the business. Collecting and tracking revenues and expenses monthly, and analyzing them weekly or monthly, is essential to take necessary measures to avoid potential problems.

**The second method** is budgeting. Budgeting is the financial planning process for a business. Creating a budget helps accurately assess revenues and expenses. It is necessary to prepare monthly, quarterly, and annual budgets. Setting realistic goals, monitoring the budget implementation process, and making adjustments as necessary are important.

**The third method** is accessing funding sources. Access to funding sources is crucial for small businesses. Properly obtaining loans is essential for business growth. It is necessary to clarify the terms and payments before taking out a loan. Additionally, attracting external investors is an effective way to increase business capital.

**The fourth method** is pricing products. Setting product prices is significant for ensuring business profitability. During market research, it is essential to analyze competitors' prices. When pricing products, it is necessary to create additional value for customers and account for profit margins.

**The fifth method** is managing human resources. Effectively managing human resources is crucial in small businesses. Improving employees' skills helps enhance product quality and services. Furthermore, creating favorable working conditions increases their productivity.

**The sixth method** is financial monitoring. Financial monitoring requires constant oversight of the business's financial condition. Preparing financial reports monthly ensures accurate accounting of revenues and expenses. It is important to continuously monitor cash flow, accounts receivable, and accounts payable.

**The seventh method** is planning for the future. Planning for the future is vital for ensuring business growth. Developing long-term strategic plans helps clarify business



goals and direction. Innovative approaches, such as introducing new products and services, can increase customer interest.

### 3. Results

Effective management of working capital is crucial for small businesses to ensure financial stability and growth. Techniques such as cash flow analysis, budgeting, sourcing of finance, pricing of products, management of human resources, financial monitoring, and future planning play a significant role in enhancing business efficiency.

Below, we will analyze issues related to the formation and management of working capital for the limited liability company "Fashion Dress," which is engaged in textile products and tailoring activities. This company is considered a local manufacturer, with its products aimed at both the domestic and international markets. Since its establishment in 2013, the company has been expanding its operations year by year, aiming to increase its working capital.

**Table 2.** Fashion Dress" LLC's working capital composition (in thousands of som)<sup>2</sup>.

No	Indicator Name	Balance as of January 1, 2020	Balance as of January 1, 2021	Balance as of January 1, 2022	Balance as of January 1, 2023	Balance as of January 1, 2024
1	Inventory	630 476.30	588 402.40	880 252.40	2 650 580.90	4 379 102.50
2	Cash and Cash Equivalents	1 204.50	1 719.20	217.10	5 991.60	5 026.2
3	Accounts Receivable	97.7	334 627.50	525 051.80	318 888.00	1 513 878.20
4	Short-term Financial Investments	0.00	0.00	0.00	0.00	0.00
5	Total Current Assets	631 778.50	924 749.10	1 405 521.30	2 975 460.5	5 898 006.90
6	Long-term Liabilities	1 496.30	1 491.80	1 500.70	114 525.30	35 179.60
7	Current Accounts Payable	423 255.80	237 482.90	387 827.50	1 740 550.70	3 816 711.40
8	Total Current Liabilities	424 752.10	238 974.70	389 328.20	1 855 076.00	3 851 891.00
	Amount of Working Capital (Lines 5 to 8)	207 026.40	685 774.40	1 016 193.10	1 120 384.50	2 046 115.90

### 4. Discussion

Analyzing the composition of "Fashion Dress" LLC's working capital provides information about the company's financial condition and development dynamics. We will use the data from the table for this analysis. From 2020 to 2024, the amount of working capital has changed significantly. In 2020, the working capital amounted to 207,026.40 thousand som, while in 2024, this figure reached 2,046,115.90 thousand som, indicating an approximate 9.9-fold increase over five years.

The inventory started at 630,476.30 thousand som in 2020 and grew to 4,379,102.50 thousand som by 2024. This shows a substantial increase in inventory levels and indicates the development of the company's products. The growth in inventory helps meet customer demand and maintain competitiveness in the market.

Cash reserves began at 1,204.50 thousand som in 2020 and increased to 5,026.20 thousand som in 2024. This growth in cash reserves is crucial for ensuring the company's liquidity and financial stability. An increase in cash allows the company to efficiently carry out its current operations and invest when necessary.

<sup>2</sup> **Table 1.1:** "Fashion Dress" LLC's year-end financial statements based on the author's compilation from the accounting balance sheet (form No. 1)

The amount of receivables started at 97.7 thousand som in 2020 and reached 1,513,878.20 thousand som in 2024. This indicates a significant increase in receivables, which requires improvements in the company's relationships with customers and changes in credit policy. The rise in receivables suggests that creditors are allowing more time for customers to make payments, but it also prolongs the collection of debts for the company. Current assets increased from 631,778.50 thousand som in 2020 to 5,898,006.90 thousand som in 2024. This shows a significant increase in the share of current assets among the company's total assets. The growth in current assets enhances the efficiency of the company's operations.

Based on the analysis, the significant increase in accounts receivable may pose a risk for the enterprise, as it extends the payment terms for customers. Management needs to develop strategies to monitor accounts receivable and improve relationships with customers. Additionally, the growth of inventory can enhance the company's competitiveness in the market.

Thus, the increase in working capital of "Fashion Dress" LLC indicates the company's development and competitiveness in the market. To improve management efficiency, it is necessary to monitor accounts receivable and payable, effectively manage cash resources, and optimize inventory. This analysis can serve as a basis for improving the financial strategies of "Fashion Dress" LLC.

Drawing from the experiences of developed economies, we offer the following modern recommendations for entrepreneurial entities engaged in small business regarding the formation and effective management of their working capital. Currently, innovative approaches are crucial for enhancing the competitiveness of small businesses. First, implementing smart contracts through blockchain technology allows for automated contract preparation and execution, aiding in efficient operations management. Second, utilizing crowdfunding platforms is an effective method for raising funds from the public and validating your business model.

Moreover, creating a financial "patchwork" model—utilizing various small sources such as microloans and grants—can help improve the efficiency of financial resources. The modular concept allows for the establishment of separate reserves for each module, thus reducing secondary risks.

Finally, applying agile methodologies to financial management enables adaptation to market conditions and quick decision-making in financial matters. These recommendations open new avenues for small business entities in shaping and managing working capital, thereby enhancing their competitiveness.

## 5. Conclusion

In conclusion, it can be stated that small businesses are a crucial and significant part of Uzbekistan's economy, playing a vital role in social and economic development. Their growth contributes to job creation, stimulates the local economy, and ensures social stability. The working capital of small businesses is essential for supporting their daily operations, and effective management leads to attracting investments and fostering business expansion and development. The methods presented in this article, including cash flow analysis, budgeting, financing sources, pricing strategies, and financial monitoring, are important for effectively shaping working capital for small businesses. Implementing these methods is one of the key tasks for ensuring business development. Problems encountered by small business entities may limit their effective operation. Therefore, it is essential for entrepreneurs to take necessary measures to manage working capital effectively and ensure economic stability. We hope this research will be beneficial for entrepreneurs in effectively shaping and managing working capital for small businesses, contributing to economic development and social well-being.

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