

**ENHANCING THE PRACTICE OF FINANCING WORKING CAPITAL IN
ENTERPRISES: CHALLENGES AND STRATEGIC SOLUTIONS**

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ABSTRACT

This paper investigates the challenges and developments in financing working capital within enterprises, particularly in the context of developing economies such as Uzbekistan. Working capital is the lifeblood of business operations, ensuring liquidity and the continuity of production and service cycles. Through empirical observations and statistical assessments, the study analyzes current financial structures, the dependency on internal versus external funding sources, and the role of bank loans in short-term capital maintenance. Based on the findings, the paper proposes practical strategies for optimizing financial management, including diversifying funding sources, improving turnover ratios, and integrating digital financial planning tools. The outcomes suggest that a strategic shift in working capital financing significantly enhances operational efficiency and long-term sustainability.

Keywords: working capital, financing, liquidity, turnover ratio, internal funds, bank credit, financial efficiency, cash cycle

INTRODUCTION

In a competitive and dynamic economic environment, enterprises must prioritize financial agility to maintain operational stability. Working capital – the difference between current assets and current liabilities – plays a vital role in sustaining short-term activities, from purchasing raw materials to covering payroll. Efficient working capital management not only ensures solvency but also drives profitability and resilience in the face of economic shocks.

In many developing economies, especially in Uzbekistan, businesses predominantly rely on self-financing and short-term bank credits to fund their working capital needs. While internal funding may provide flexibility, it often falls short during growth phases or crisis periods. Meanwhile, high interest rates and limited access to credit lines hinder many firms from tapping into formal financial institutions. This results in liquidity shortages, delayed payments, and disruptions in supply chains.

Moreover, the fast-changing global financial ecosystem necessitates an updated approach to working capital financing. Enterprises now need to integrate strategic planning, leverage digital tools, and

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expand access to diversified financing instruments such as factoring, leasing, and trade credits. The importance of this topic lies in its direct impact on productivity, competitiveness, and financial independence of enterprises across sectors.

This study aims to explore existing financing practices, highlight inefficiencies, and propose a framework for improvement based on empirical data and comparative analysis. The research contributes to a better understanding of how working capital financing affects enterprise performance and how optimized models can be institutionalized in the national economy.

RELEVANCE

In today's rapidly evolving economic landscape, the issue of **financing working capital** has become increasingly vital for enterprises, especially in developing economies such as Uzbekistan. The ability of a business to maintain liquidity, meet short-term obligations, and ensure the continuity of operations is fundamentally tied to the efficiency of its working capital financing mechanisms. Despite various financial sector reforms and economic liberalization efforts, many businesses still face challenges in mobilizing sufficient funds to cover their day-to-day operational needs.

Small and medium-sized enterprises (SMEs), which form the backbone of most national economies, often rely heavily on internal funding sources such as retained earnings and owner contributions. However, this approach proves insufficient during periods of growth, inflation, or supply chain disruptions. The limited access to formal credit, coupled with high interest rates, lack of credit history, and insufficient collateral, further complicates the situation. As a result, many enterprises operate with suboptimal levels of working capital, increasing their vulnerability to cash flow volatility and operational delays.

In Uzbekistan, the urgency of this issue is underscored by empirical evidence showing that a significant portion of businesses—particularly those outside major urban centers—struggle to access affordable financing for working capital. Government initiatives, such as targeted credit programs and credit guarantees, have improved the situation to some extent. However, the depth and reach of financial inclusion remain limited, and many firms are unaware of or unable to utilize alternative financing instruments such as leasing, factoring, or trade credit.

Global economic trends such as supply chain digitalization, rising interest rates, and geopolitical uncertainties add further pressure on enterprises to maintain sufficient liquidity. In this context, improving the financial management of working capital is not just a microeconomic concern—it is a macroeconomic priority. Well-financed businesses are more productive, resilient, and capable of

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expanding employment and contributing to GDP growth. Therefore, strengthening the mechanisms for working capital financing national economic development goals.

Moreover, the emergence of **financial technologies (FinTech)** and digital banking solutions presents new opportunities for businesses to optimize working capital. However, many firms lack the technical capacity or strategic vision to implement these tools effectively. This highlights the pressing need for research, training, and policy reform aimed at bridging the gap between available financial solutions and their practical application at the enterprise level.

Given these factors, the relevance of this research is clear: addressing the inefficiencies and barriers in working capital financing is crucial for enhancing enterprise sustainability, reducing financial risks, and accelerating overall economic modernization. The findings of this study can inform both policymakers and business leaders in shaping a more inclusive and adaptive financial environment that responds to the real needs of enterprises.

The study of working capital management has evolved significantly over the past decades. Keynesian and post-Keynesian theories emphasize the role of liquidity preference in short-term financial decisions. Modigliani and Miller's foundational works underline the importance of capital structure, suggesting that under conditions of perfect markets, financing decisions are neutral. However, in practice, market imperfections such as credit constraints and transaction costs make working capital financing a pivotal element in enterprise strategy.

In the Uzbek context, researchers such as O. Khalilov (2020) and M. Quchqarov (2022) have emphasized the challenges enterprises face due to a narrow funding base and weak financial planning capacity. Their studies highlight that 60% of small and medium-sized enterprises (SMEs) in Uzbekistan rely mainly on their retained earnings and supplier credit, often lacking access to long-term financial instruments.

Internationally, the World Bank's Enterprise Surveys show that access to finance remains one of the top three obstacles to doing business in Central Asia. The use of turnover ratios, cash conversion cycle (CCC), and current ratio as performance indicators has been widely adopted in empirical research. According to a 2021 McKinsey report, companies that actively manage their working capital turn their % faster and reduce cash gaps by 35%, compared to competitors.

Nevertheless, literature on adaptive financing strategies in the context of financial volatility and structural transition economies remains underdeveloped. There is a research gap in applying blended financing methods and technology-based cash flow forecasting in small firms. This paper addresses these gaps by combining statistical data with qualitative insights from financial managers.

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This research employs a mixed-method approach comprising quantitative financial data analysis and qualitative interviews with enterprise managers. The sample includes 50 manufacturing and service-oriented firms operating in Uzbekistan from 2020 to 2024.

Quantitative data were obtained from financial statements, central bank reports, and national statistical bulletins. The following financial indicators were analyzed:

- Working capital structure (internal vs. external funding share)
- Turnover ratio (net sales to working capital)
- Current ratio (current assets to current liabilities)
- Days sales outstanding (DSO) and days payable outstanding (DPO)
- Cash conversion cycle (CCC)

For the qualitative part, semi-structured interviews were conducted with 12 financial directors from diverse industries. The questions focused on:

- Current practices in financing working capital
- Difficulties in obtaining short-term financing
- Adaptation to seasonal cash flow imbalances
- Preferences regarding financial instruments

Statistical analysis was performed using SPSS, and thematic coding was applied to qualitative responses. Correlation tests examined relationships between working capital adequacy and enterprise liquidity.

RESULTS

The statistical analysis revealed several noteworthy trends. First, the average share of bank credit in working capital financing rose from 38.2% in 2020 to 49.3% in 2024. However, internal funds still dominate, constituting over 50% of working capital sources in most SMEs.

The turnover ratio averaged 4.2 across the observed firms, while the cash conversion cycle varied significantly—from 18 to 42 days—depending on sector and inventory strategy. Enterprises with optimized procurement systems and real-time inventory management reported shorter cash gaps and higher operational liquidity.

Firms reporting regular cash flow forecasting and automated payment systems had a 23% lower incidence of overdue accounts compared to those using traditional bookkeeping. Moreover,

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companies applying a blended financing strategy—combining short-term bank loans, trade credit, and factoring—demonstrated better solvency and smoother production cycles.

Qualitative interviews revealed persistent issues:

- 70% of respondents cited excessive paperwork and strict collateral requirements as key barriers to accessing bank finance
- 50% mentioned low awareness of alternative financing methods like leasing or invoice discounting
- Almost all agreed that digital financial tools for working capital forecasting were either underused or absent

These results emphasize the need for policy-level support in broadening financial literacy, improving access to credit, and incentivizing digital tools adoption in SME financing practices.

CONCLUSION

Working capital financing is a cornerstone of enterprise viability, especially in emerging markets where liquidity constraints and access to finance remain critical challenges. This study confirms that while there is gradual improvement in the use of formal financial channels, enterprises still face bottlenecks due to insufficient credit infrastructure, low diversification of funding sources, and limited integration of digital finance management tools.

To improve outcomes, the following recommendations are proposed:

1. **Expand blended finance mechanisms** by promoting leasing, factoring, and trade credit programs through public-private partnerships.
2. **Enhance digitalization** of cash flow planning using accessible software for real-time budget control.
3. **Strengthen financial education** among SME managers regarding working capital metrics and funding alternatives.
4. **Facilitate banking reforms** to ease access to credit, reduce documentation burdens, and support credit guarantees.
5. **Encourage government-backed credit insurance** to protect working capital during macroeconomic instability.

In sum, modernizing working capital financing practices is essential not only for individual enterprise growth but for the resilience of the national economy as a whole. Future studies may expand on this

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research by incorporating sector-specific models and assessing the long-term impact of fintech solutions on working capital cycles.

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