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THE IMPACT OF RISKS ON ENSURING FINANCIAL STABILITY OF SMALL BUSINESS ENTERPRISES AND WAYS OF THEIR MANAGEMENT

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Abstract

This thesis provides a comprehensive scientific study of the impact of economic and financial risks on ensuring the financial stability of small business enterprises, as well as mechanisms for their effective management. In modern economic conditions, small business entities play a crucial role as an important component of the national economy by ensuring economic growth, creating new jobs, forming a competitive environment, and increasing population income. At the same time, global economic instability, inflation processes, changes in financial markets, rising costs of credit resources, and external economic factors significantly affect the financial stability of small businesses.

The study analyzes the main types of risks affecting small business activities, including credit risk, liquidity risk, market risk, currency risk, operational risk, and investment risk, as well as their impact on the financial condition of enterprises. In particular, insufficient financial resources, high interest rates, and unstable cash flows are identified as key factors weakening the financial security of small businesses.



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Based on scientific views of international organizations and economists, the theoretical foundations of risk management systems are examined, and modern methods of risk management in small enterprises are highlighted. In particular, diversification, insurance, financial monitoring, credit portfolio optimization, digital technologies, and automated analytical systems are justified as effective tools for minimizing risks.

The analysis shows that the financial stability of small businesses largely depends on the effectiveness of risk identification, assessment, and management systems. Furthermore, the development of state financial support mechanisms, expansion of preferential lending programs, improvement of financial literacy, and introduction of digital financial services contribute significantly to strengthening economic stability.

At the end of the study, scientific and practical recommendations were developed to improve financial stability and risk management in small business enterprises. These proposals are important for ensuring business stability, increasing investment activity, and accelerating economic development.

Keywords: Small business, financial stability, risk management, credit risk, liquidity risk, market risk, financial security, diversification, insurance, bank loans, economic risks, digital financial technologies.

Introduction

Today, small business and private entrepreneurship are considered one of the key drivers of economic development. In the global economy, small business entities account for a significant share of GDP, create new jobs, and play an important role in innovation development. Therefore, in many countries, supporting small business and ensuring its financial stability is a priority of state economic policy.



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However, global economic instability, inflation, financial market fluctuations, and increasing competition have intensified various economic risks for small businesses. In particular, limited financial resources, increasing credit burden, exchange rate volatility, and market uncertainty negatively affect financial stability.

According to the World Bank, about 40% of small businesses in developing countries face difficulties in expanding their activities due to financial risks and limited access to credit resources. Moreover, during economic crises, small enterprises are the most vulnerable segment.

In modern conditions, ensuring financial stability of small businesses is closely related to the development of an effective risk management system. Risk management ensures financial security, reduces potential losses, and improves efficient use of financial resources. In the digital economy, automated risk monitoring and financial analytics systems are becoming increasingly important. In Uzbekistan, large-scale reforms are being implemented to support small business development, including expanding bank lending, preferential financing programs, and state support mechanisms. However, the underdevelopment of risk management systems still negatively affects financial stability.

Object of the study – financial activities of small business enterprises.

Subject of the study – risks affecting financial stability and their management mechanisms.

Purpose of the study – to assess the impact of risks on financial stability and develop scientifically based recommendations.



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Literature review on the topic

Issues regarding the financial stability and risk management of small business enterprises are considered one of the widely researched scientific directions in economic literature. The impact of financial risks on economic activity, the corporate risk management system, and the issues of ensuring financial security have been studied by many economists.

Frederic Mishkin's research emphasizes that risks in the financial system directly affect the stability of the activities of banks and business entities. According to the scientist, credit risks and liquidity problems are among the most important limiting factors of small business activities.

In the portfolio theory developed by Harry Markowitz, risk diversification is substantiated as a crucial tool for mitigating financial risks. This theory is one of the methodological foundations of the modern risk management system.

International Monetary Fund studies have noted that the financial vulnerability of small business entities intensifies during periods of economic crises. In particular, it was found that high inflation and interest rates negatively affect the financial condition of small businesses.

In the reports of the Organisation for Economic Co-operation and Development, the development of a risk management system for small businesses is assessed as a crucial factor in ensuring economic stability. OECD experts emphasize that the use of digital technologies and financial monitoring systems is an effective tool for mitigating risks.

Domestic scientific research has extensively studied the role of bank loans, state subsidies, and insurance mechanisms in ensuring the financial stability of small business enterprises. At the same time, the need to improve the practical mechanisms of the risk management system is noted.



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Research methodology

In this study, a comprehensive scientific and methodological approach was employed to assess the impact of risks on ensuring the financial stability of small business enterprises and to identify mechanisms for their effective management. The research methodology is based on a combination of theoretical and practical analysis, focusing on an in-depth study of the economic relationship between financial risks and the enterprise's operations.

The methodological basis of the research is the theory of risk management, the concept of financial stability, modern banking and financial approaches, and the scientific and methodological views of international economic organizations. In the course of the study, methods of scientific abstraction, a systems approach, economic-statistical analysis, and comparative assessment were widely used.

Systematic analysis method

Using this method, the activities of small business enterprises were studied as a single economic system. A comprehensive analysis was conducted on the correlation between the enterprise's financial resources, credit obligations, liquidity levels, investment activity, and risk factors. The systematic approach allowed for an in-depth assessment of the impact of risks on the financial condition of the enterprise.

Statistical analysis method

Through statistical analysis, the dynamics of the financial indicators of small business enterprises were studied. In particular:

- credit load;
- profitability level;
- liquidity ratio;



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- share of non-performing loans;
- dynamics of income and expenses;
- investment activity indicators were analyzed.

The relationship between risk factors and financial results was also evaluated based on statistical data. Trends in economic change were clarified based on dynamic series and percentage indicators.

Comparative analysis method

Using this method, the practice of small business risk management in developed and developing countries was studied and compared with national experience. Especially:

- credit risk management;
- insurance mechanisms;
- state guarantees;
- digital risk monitoring systems;
- financial support programs were analyzed.

The comparative analysis allowed for the identification of effective mechanisms in international practice and their adaptation to national practice.

Analysis of financial indicators

The following financial indicators were used to assess the financial stability of small business enterprises:

- return on assets (ROA);
- return on capital (ROE);
- current liquidity ratio;
- debt burden level;
- stability of cash flows;



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- coefficient of financial independence.

These indicators were used to evaluate the impact of risks on the company's financial results.

Method of economic risk assessment

The study evaluated the probability level and economic consequences of financial risks. The impact of credit risks, market risks, inflationary risks, and operational risks on the enterprise's activities was analyzed from the perspective of economic efficiency. The effectiveness of diversification, insurance, the creation of reserve funds, and financial monitoring mechanisms was studied to minimize risks.

Empirical and information base

The information base of the study:

- Central Bank of the Republic of Uzbekistan;
- World Bank;
- International Monetary Fund;
- Organization for Economic Cooperation and Development;
- Statistics Agency of the Republic of Uzbekistan;
- scientific articles, monographs, and international reports.

Official statistical data, financial reports, and scientific sources were used during the research process. Based on the data obtained, economic analyses were conducted and practical conclusions were formulated.

The comprehensive application of these methods served to ensure the scientific validity, objectivity, and practical significance of the research results. Based on the research results, scientific and practical recommendations were developed to enhance the financial stability of small business enterprises and ensure effective risk management.



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Analysis and results

The conducted analysis indicates that the financial stability of small business enterprises is directly dependent on the level of economic and financial risk management. In modern economic conditions, small business entities operate under the influence of credit risks, liquidity problems, inflation, changes in market conditions, and operational risks.

According to the Central Bank of the Republic of Uzbekistan, the volume of loans allocated to small business entities has been increasing in recent years. However, the increase in the credit burden of some enterprises negatively affects financial stability. In particular, high interest expenses and a lack of working capital exacerbate liquidity problems.

During the analysis, it was determined that the main risks affecting small business enterprises are:

- credit risks;
- liquidity risks;
- market and inflation risks;
- currency risks;
- operational risks.

Credit risks negatively impact the solvency of enterprises, leading to an increase in the debt burden. At the same time, inflation and rising raw material prices lead to an increase in production costs. The volatility of exchange rates creates additional financial risks for enterprises dependent on imports.

The results of the analysis showed that enterprises that effectively manage risks:

- high profitability;
- low share of non-performing loans;
- liquidity indicators are stable;
- investment activity is at a high level.



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According to research by the World Bank and the Organisation for Economic Co-operation and Development, the implementation of a modern risk management system significantly reduces financial losses and contributes to the sustainable development of enterprises.

Additionally, during the study, the following were identified as effective areas for risk reduction:

- diversification of financial resources;
- use of insurance mechanisms;
- implementation of digital monitoring systems;
- formation of reserve funds;
- it was found that improving financial planning is of great importance.

Overall, it has been scientifically substantiated that ensuring the financial stability of small business enterprises is closely linked to the development of a system for early risk assessment and effective management.

Key indicators of financial risks in small business enterprises (Uzbekistan, 2020-2024)

Indicators	2020	2021	2022	2023	2024
Volume of loans allocated to small businesses (trln soums)	68.5	81.2	97.6	114.8	132.4
Share of non-performing loans (NPL, %)	5.8	5.4	5.1	4.7	4.3
Average loan interest rate (%)	22.4	21.1	19.8	18.7	17.9
Liquidity ratio	1.18	1.24	1.31	1.39	1.46
Profitability ratio (ROA, %)	5.6	6.4	7.2	8.1	9.3

The data in the table show that during 2020–2024, the volume of loans allocated to small business enterprises increased steadily. At the same time, the decrease in the share of non-performing loans and the improvement of profitability and



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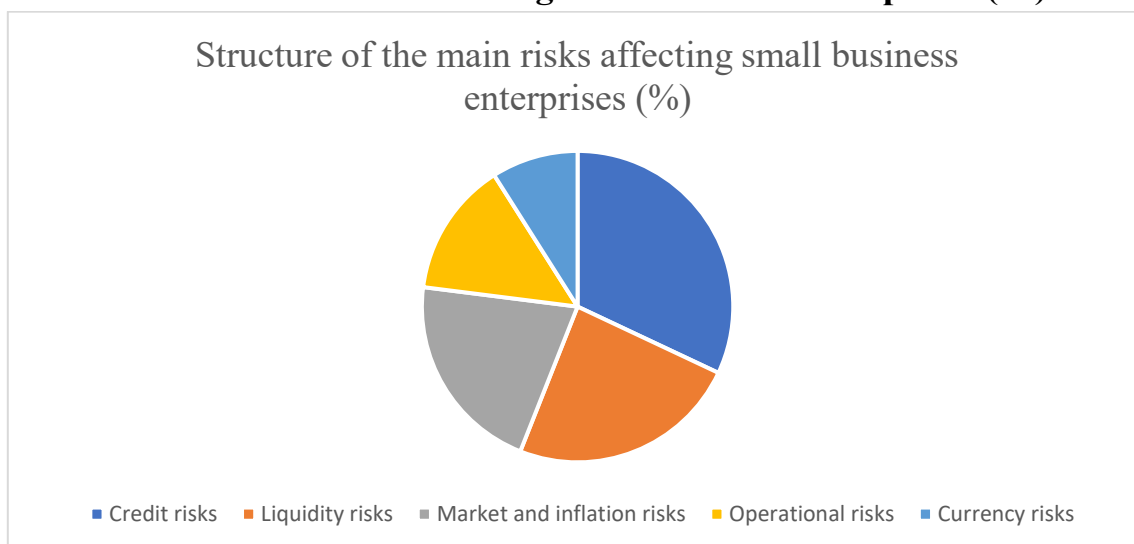
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liquidity indicators indicate an increase in the efficiency of the risk management system.

Structure of the main risks affecting small business enterprises (%)



According to the pie chart, credit risks are the biggest factor affecting the activities of small businesses (32%). This situation indicates a high degree of dependence of enterprises on bank loans. Liquidity risks and market risks also account for a significant share, directly affecting the financial stability of enterprises.

Conclusions and suggestions

Research has shown that the financial stability of small business enterprises largely depends on the level of effective management of economic and financial risks. In modern economic conditions, credit risks, liquidity issues, inflation, changes in market conditions, and operational risks have a significant impact on small business activities.



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As a result of the analysis, it was established that the insufficient development of the financial risk management system in small business enterprises in some cases leads to a decrease in financial stability. At the same time, it was observed that profitability, liquidity, and investment activity indicators are higher in enterprises that manage risks effectively.

During the study, the following main scientific conclusions were formulated:

- the financial stability of small business enterprises directly depends on the effectiveness of the risk management system;
- credit risks are one of the main financial risk factors for small businesses;
- liquidity and inflation risks negatively affect the continuity of enterprise operations;
- Digital monitoring and financial analysis systems are an important tool for risk reduction;
- The development of state financial support mechanisms serves to increase the economic stability of small businesses.

Based on the research results, the following scientific and practical proposals were developed:

- implementation of modern risk management systems in small business enterprises;
- optimization of the credit load and expansion of long-term concessional loans;
- developing the use of insurance mechanisms to reduce financial risks;
- improving the system for forming reserve funds at enterprises;
- Implementation of digital financial monitoring and automated analysis platforms;
- Expansion of special training programs to improve the financial literacy of entrepreneurs;



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- development of small business support mechanisms based on state guarantees and subsidies.

In general, effective risk management in small businesses is one of the important factors in strengthening financial stability, increasing investment activity, and ensuring economic development. The results of this research serve as a scientific and practical basis for ensuring financial security and minimizing risks in small business activities.

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