NOVATEUR PUBLICATIONS
JournalNX- A Multidisciplinary Peer Reviewed Journal
ISSN No: 2581 - 4230
VOLUME 10, ISSUE 4, April -2024

IMPROVEMENT OF THE SMALL BUSINESS FINANCING SYSTEM

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Abstract:
We survey the literature on how small businesses in the United States finance themselves. Our results demonstrate the important role that the financial services industry, particularly bank credit, plays in the capital structure of small firms. The results also reinforce the importance of owner equity as a primary source of financing. This article examines the economics of nancing small business in private equity and debt markets. Firms are viewed through a nancial growth cycle paradigm in which different capital structures are optimal at dierent points in the cycle. We show the sources of small business finance, and how capital structure varies with firrm size and age.

Keywords: FinTech, Financial technology, Small Businesses, SME.

INTRODUCTION

We survey the literature on how small businesses in the United States finance themselves. In addition, we survey research on changes to small-business financing over time, as well as the major factors that may be driving those changes. Knowing how businesses finance themselves, as well as how the sources of funding have changed over time, will be informative when formulating financial regulation. The conventional view of small-business financing was that a firm's access to external capital would be limited by informational opacity. This would force small-business owners to rely on their own assets and on financing from friends and family during start-up and initial operations. But recent research into the capital structure decisions of small firms shows that, while owner equity is indeed an important source of capital, small firms also rely heavily on credit from the traditional financial services industry as a source of financing for both start-up and ongoing operations. We present recent survey data that reinforce these earlier findings. The convention in the literature is to use the US Small Business Administration's definition of a small business as one that has fewer than 500 employees, less than $7.5 million in annual revenue, or both, and we use this definition in our presentation of survey data (SBA 2014). As of 2013, there were 23 million nonemployer businesses in the United States and nearly 6 million establishments with fewer than 500 employees, according to the US Census Bureau's Statistics of US Businesses. In the world, in the face of increasing global competition, many countries are effectively using small businesses to ensure their socio-economic development and increase competitiveness at the national and international levels. In this regard, attention is paid to improving the financing mechanism, which is considered the main problem in the activities of small businesses. "All EU states help small and medium-sized businesses in solving the problem of access to sources of financing, using various levers. Some states (Great Britain, the Netherlands, etc.) are mainly focusing on systems for providing loan guarantees. Most countries create special reserves to support small and medium-sized businesses through subsidies or fiscal incentives for investment, soft loans or subsidies". Improving the mechanisms for financing the activities of small businesses, in turn, increases the efficiency of this area and affects the further strengthening of the sustainability of the economy.

In the world, special attention is paid to research on the effectiveness of the use of concessional lending, subsidies, tax and depreciation programs and budgetary funds provided by the state and directed to the small business sector when financing small businesses. Important areas of research are considered to be such as the diversification of funding sources, the provision of direct financial support in the form of subsidies, grants, loans, the provision of guarantees for commercial bank loans, the provision of indirect financial support along with compensation to financial institutions participating in support, the use of preferential taxation and a simplified system taxation of small businesses, determination of optimal rates of accelerated depreciation, effective use of the leasing system in the activities of small businesses. In Uzbekistan, attention is paid to small business and private entrepreneurship as one of the main links in the state policy to ensure economic reforms and socio-economic development. This sector plays an important role in the successful implementation of the processes of improving the living standards of the population, providing employment and increasing the income of the population, strengthening the competitive environment in the economy,

LITERATURE REVIEW

Small businesses represent 90% of businesses and more than 50% of employment worldwide. These small businesses contribute nearly 50% of the Gross domestic product (GDP) to the world GDP. Small businesses in developed countries like the USA account for roughly half of all jobs and almost 44% of the gross domestic product. In developing economies like India, these businesses contribute nearly 30% of the overall GDP and almost 42% of employment and strengthen socio-economic growth by providing employment opportunities to a large population. In Africa, these contribute nearly 80% of jobs, while in Latin America and the Caribbean, these represent 99.5% of businesses, accounting for 60% of employment and 20% of GDP . In Southeast Asian economies like Malaysia, these are 97.2% of total business establishments, generating 38.2% of GDP and 99.99% of the entire business, besides employing 96.9% of the workforce in Indonesia.

These small businesses struggle to survive and thrive despite significant representation and importance in the economy. The literature extensively outlines small businesses' operational, technical, and financial challenges. They lack the economic, social, human, and organizational capital to respond to the challenges. One of the significant challenges is access to financial services owing to information asymmetry problems between the banks and small business owners, inadequate institutional infrastructure in assessing the small businesses, and high transaction costs. Imperfect screening by lenders makes it difficult for small businesses to access finance. The limited financing opportunities compound all other challenges faced by small businesses. Limited access to finance pushes small businesses into financial difficulties and makes them vulnerable to the crisis.

The literature emphasizes the resource constrained environments of SMEs. At the same time, online marketplaces have increased pressure on SMEs to digitally transform. These conditions have pushed small businesses to adopt digital channels and digitalize to remain competitive. SMEs are gradually shifting towards innovative digital channels due to their affordability and accessibility, and these transformations are helping SMEs in enhancing their efficiency and growth.

The rise of digital technologies such as mobile payment technologies, cloud services, artificial intelligence, machine learning, and blockchain is paving the way for new business opportunities for startups to provide services to small busienesses. Integration of these technologies has excellent potential for creating new business models. Artificial intelligence's disruptive nature in finance provides various options for alternative credit assessment, fraud detection, risk evaluation, forecasting, and many more. Technology startups and non-banking financial companies offer innovative products and services in the financial market, catering to small businesses. These technology-enabled innovations in financial services are referred to as FinTech. FinTech firms entail new business models, applications, processes, and products, significantly affecting financial markets and financial services. Various aspects of lending in financing the activities of small businesses were studied by such foreign scientists and economists as A. Agafonov, K. Bryumer , I. Vlasov, S. Lebedeva , Yu. Zakharova, A. Stakhnyuk, A. Joli, M. Oranova, V. Safaryan, D. Savinova, D. Gale, J. Sinki , M. Yunus, S. Fedorov, Schumpeter J. A., F. Allen, E. Blois and others. In the scientific works of scientists-economists of Uzbekistan, such as N. Yuldashev, Kholmuminov S. , Zarova E.V., Tursunov B., N. Yusupova and others, some scientific, theoretical and practical aspects of financing the activities of small businesses have been studied. However, the above-mentioned economists did not study the scientific, methodological and practical issues of improving the mechanism for financing the activities of small businesses as an independent object of dissertation research.

Methodology

Literature reviews play a crucial role in academic research by describing, understanding, and explaining the past literature and developing research agendas. In particular, reviews connect research findings from disparate disciplines in emergent research areas to generate an understanding or new perspective. To perform a systematic literature review of FinTech research in the context of small businesses, we used the guidelines suggested by. The method involves four steps: delineating and defining the research question; establishing the scope and boundaries of review; identification, screening, and selection of literature; and reporting. As a first step, we delineated and refined the research question for the review. There have been several broad attempts to synthesize the FinTech literature. These reviews consider specific applications such as mobile payments and P2P lending how FinTech allows for access to finance and changes the sector or examine aspects of crowdfunding such as its benefits or specific areas like investor decision making and equity crowdfunding. General reviews of FinTech attempt to categorize the emerging FinTech-related business models. Other studies map out the landscape through bibliometric analysis of FinTech. Several reviews are discipline-specific such as those related to supply chain, information systems, and finance.These reviews offer useful summaries and insights on the development of the FinTech market, business models, and their role in various topics and disciplines. Small businesses can benefit from financial advancements, but there is no in-depth understanding. The importance of small businesses to the economy necessitates a thorough examination of past literature and warrants a comprehensive literature review.
In light of the above discussion, we finalized the following research questions:

RQ1

What are the major areas or themes of literature focusing on small business and FinTech?

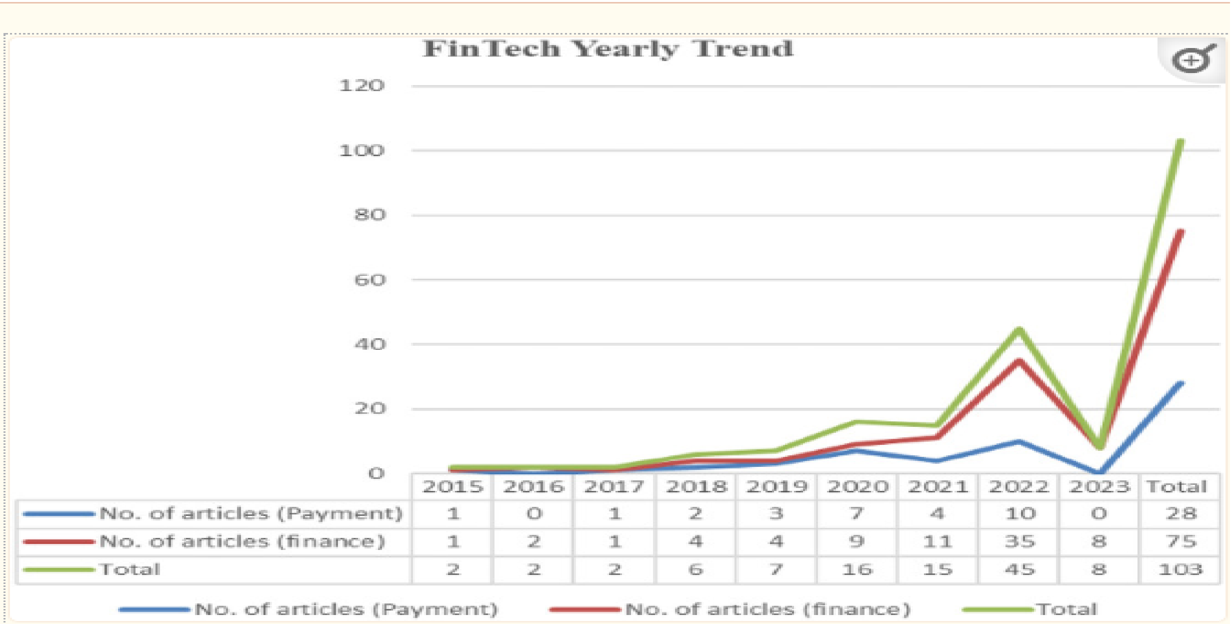
RQ2

What are the future research directions in small businesses and FinTech research?

In the second step, we define the scope of the review and set the boundary conditions by defining inclusion and exclusion criteria. We included only peer-reviewed articles (both empirical and conceptual) published from 2008 to 2023. The reason for taking 2008 as starting point is that from 2008 only FinTech became mainstream with the emergence of new-age startups post-financial crisis and developed as an alternative to traditional banking.We define small businesses as privately owned corporations, partnerships, or sole proprietorships, and this allows us to capture small businesses across the heterogeneous definitions applied across geographical reasons. For instance, in India, a small enterprise is where the investment in plant and machinery or equipment does not exceed ten crores (1.26 mn USD), and turnover does not exceed fifty crore rupees (6.3 mn USD). The European Union defines small businesses as enterprises with less than 50 staff and less than or equal to €10 million annual turnover/balance sheet. In the UK, small businesses are enterprises with less than 50 employees and less than £6.5 million in annual turnover. Small enterprises in the USA and China are defined based on industry type, staff size, annual turnover, etc.

RESULTS AND DISCUSSION

Financial abuse has the broadest meaning, encompassing not only illegal activities that may harm financial systems, but also other activities that exploit the tax and regulatory frameworks with undesirable results. When financial abuse involves financial institutions or financial markets, it is sometimes referred to as financial sector abuse. Financial crime, which is a subset of financial abuse, can refer to any non-violent crime that generally results in a financial loss, including financial fraud. It also includes money laundering(Boorman and Ingves, 2001:3). Financial institutions such as banks insurance companies, securities firms and financial investment management firms are particularly vulnerable to the money laundering. Illegal money must be integrated into the legitimate financial system in order to be laundered. Money laundering can be done with or without the knowledge of the financial institution. Financial institutions may have three roles in money laundering; as a perpetrator, as a victim and knowing or unknowing instrumentality of crime.



	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
No. of articles (Payment)	1	0	1	2	3	7	4	10	0	28
No. of articles (finance)	1	2	1	4	4	9	11	35	8	75
Total	2	2	2	6	7	16	15	45	8	103

Fig. 1 Development of FinTech research in the context of small businesses

Articles related to the finance category accounted for nearly three-fourths of the sample. They referred to how small businesses use internet-based finance like crowdfunding and P2P lending as alternative means of financing. It also included online supply chain finance and invoice trading.In comparison, articles related to the payment category accounted for around one-fourth of the identified literature and focused on how small businesses use these payment services. Mobile payment is widely studied; among mobile payment mobile money, mobile wallet and mobile payment in general has been studied.

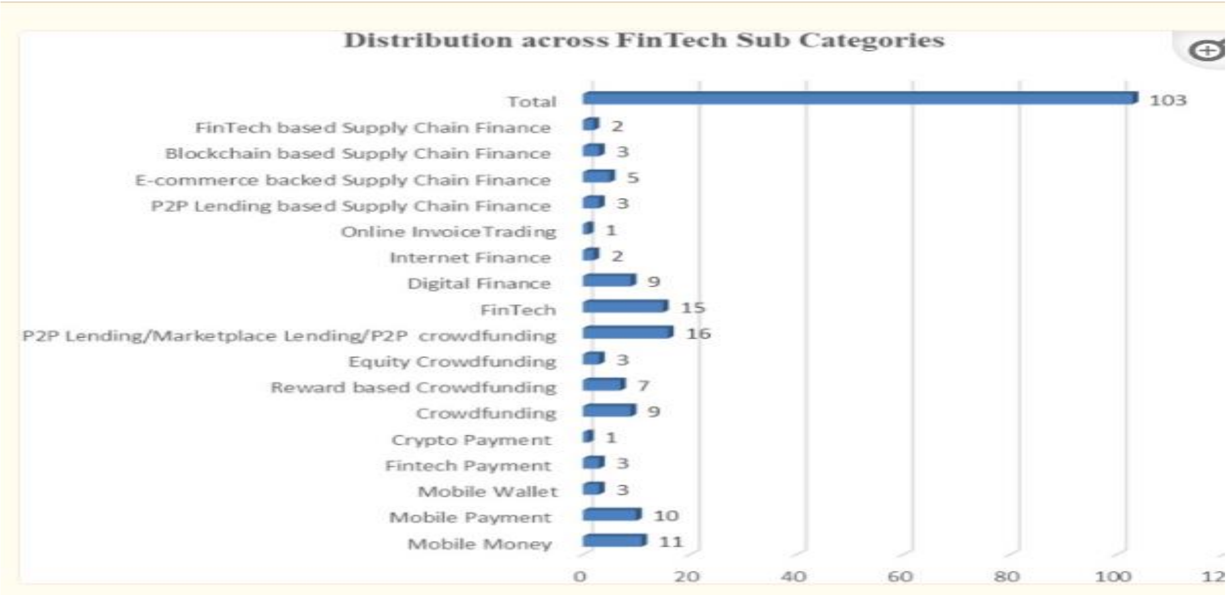


Fig. 2 Distribution of articles across various FinTech sub-categories

Increased digital offerings in form of customized products and business models have resulted in the rise in global adotion of FinTech by small businesses. Various payment and financing options like point of sales based payment, QR code based, near field communication (NFC) based payments,embedded finance, marketplace leing have penetrated the SME market and resulted in the growth of FinTech adoption among SME. The COVID-19 pandemic has also been as major push in the rise in adoption of FinTech services. In our review also we can observe a gradual increase in the publications in the early years and jump in the period of 2020–2022. The decision to use these services is not limited to internal factors; external factors like a critical mass of customers and customer pressure competitive pressure from the industry environment, assistance by payment platform and facilitating conditions as the macro environment at ecosystem level like technical infrastructure, regulatory and policy environment, promotion of technology by the non-regulatory actor of the ecosystem are some of the critical factors which govern the adoption and usage of mobile payment in small businesses.

There is only one study on the adoption of crypto payment by small online retailers . It highlighted the role played by technology-related factors like accessibility and net transactional benefit of crypto payment and external factors like consumer base of crypto payment services in adoption.Dayour et al. discussed the antecedents of continuous mobile money usage by small and medium tourism and hospitality enterprises through their study. They found that technology-related factors like effort expectancy, performance expectancy, technology risk, and price; personal factors like habit, hedonic motivation, and awareness; and external factors like infrastructure are the factors that influence continuous use. While discussing the barriers to the constant use of mobile money, Hamdan et al.

highlighted that insufficient availability of mobile money services in terms of agent density and network coverage and high average transaction fee hinder the use of mobile money services.

CONCLUSION

The use of FinTech services results in some micro-level impact at the firm level. These payment services help in increasing the sales volume through more customer engagement. The use of mobile wallet by retailers offers strategic potential in terms of customer engagement. Adoption of these contactless payments allows the customer to do even the smallest transaction, offering facilitating conditions for more customer engagement by the merchants. Retailers can directly engage with customers on a single integrated touchpoint and enhance their understanding of customer needs and want. Increased customer engagement mediated through these technologies results in increased sales and higher profit margins hence improving the economic performance of unorganized retailers .

Using mobile money accounts combined with financial training increases female microentrepreneurs' profits and financial security through improved bookkeeping, reduced transfers to relatives, and increased savings.

The use of mobile money connects businesses with suppliers and customers and enhances information flows between economic agents. It attenuates enforcement frictions and provides more liquidity, allowing them to lend to customers. This increased demand results in investment. These reduced credit constraints enable firms to invest more in new products, organizational methods, and practices, ultimately leading to firms' innovations.

Mobile payment services also offer informal benefits by creating social value through affordances to retailers in terms of the convenience of not carrying cash, resulting in more social security through reduced physical theft and past reflection of their expenses. Increased awareness toward these services resulting from the benefit of these services has developed the interest in learning new skills and trust in financial services.

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