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The Advantages of Financing Business Entities through Financial Markets

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Abstract: This study investigates the advantages of financing business entities through financial markets, addressing a gap in understanding how firms can optimize financial resources such as equity and bonds, especially in emerging economies like Uzbekistan. A mixed-method approach, utilizing both qualitative and quantitative data from global and local sources, was employed to examine trends in business financing. The findings reveal that financial markets provide significant benefits, including risk diversification and access to substantial capital, which enhance business operations. The results underscore the need for Uzbekistan to further develop its financial market infrastructure. The study's implications suggest that fostering financial literacy and market regulations will be pivotal for sustainable economic growth in the region.

Keywords: Financial Markets, Business Financing, Equity Financing, Corporate Bonds, Digital Finance, Sustainable Investing.

1. Introduction

Financial markets are vital for obtaining substantial capital, maintaining well-diversified fund resources, and providing liquidity and flexibility for business entities. Lower resource costs characterize them as a result of investor competition. Besides, business owners can reduce their financial risks with financial market instruments such as derivatives [1].

Numerous papers from developed and emerging countries have already studied the role of financial markets in business financing. Many researchers underline the advantages that financial markets may open for businesses, such as access to capital, risk diversification instruments, and benefits for firms [2].

According to Lewin, one of the first attempts to take a comprehensive look at financial markets' role in financing business entities was made in Lewin. He proved the efficiency hypothesis based on the relationship between economic growth and financial markets. He concluded that strong financial markets stimulate economic growth because of the reduction in the cost of capital. Furthermore, firms are more likely to use the funds of many different investors to expand their businesses. By the way, Demirgüç-Kunt and Maksimovic shared the same study's results. They analyzed the impact of the developed financial market on business entities. They found that the performance of firms in countries with well-developed markets is higher than in less developed countries [3].

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Chami, Fullenkamp, and Sharma discovered that financial market liquidity affects how business entities interact effectively, thus showing that such organizations were able to diversify their financial risks through bonds, stocks, and derivatives, among other options. Ayyagari, Demirgüç-Kunt, and Maksimovic found that financial markets affect a company's performance in developing economies. The organizations would likely venture into the financial market in developing economies and find an opportunity, as they would access the funds and effectively diversify their current risk. Therefore, such firms tend to get better results from their endeavors [4].

Kim and Singal researched the relationship between developing and developed markets and the role that planning risk can play in ultimately diversifying financial risk within a particular institution. As a result, even though a few financial market organizations in developing markets have managed to make good use of finances within their capacity to get the best out of existing structures, a lot more still can be done. The financial market in our country is still at the formative stage. However, many studies have been conducted to unclog this issue.

For example, Muminov studied the stock market of Uzbekistan. The author concluded that, first of all, capital markets can become a significant source of financing for business entities. Secondly, the stock market is not substantial. Still, the government's activities in recent years have been to develop market infrastructure and the level of transparency in it, providing new opportunities for business financing. Tursunov explored the bond market in Uzbekistan. He claims that the bond market can contribute to financing business entities. The obtained results demonstrate that the issue of corporate bonds allows companies to borrow funds for an extended period at a lower interest rate compared to bank loans. In particular, such potential has manufacturing and infrastructure. At the same time, measures of organizational and regulatory support motivate the corporate sector's large-scale involvement in the securities market to ensure a higher level of work with institutional investors [5].

Karimov and Yusupov conducted a study to determine the role of foreign direct investment and financial markets in Uzbekistan's economic development. They proved that the availability of developed and efficient financial markets and FDI inflows offers an excellent opportunity for local business firms to enhance their capabilities to expand and modernize their activities. The study also proved that a more advanced approach to building market institutions and developing derivative markets would provide more advantages in managing financial risks.

2. Materials and Methods

The research methods used in the course of the study have been defined as the ones that would help investigate both global and regional trends in business financing through financial markets to a better extent. The primary goal of the research was to explore how the role of financial markets in business financing has been changing in the context of a specific country, which, in this case, was Uzbekistan. Thus, to gain a comprehensive understanding of the factors influencing the development of the financial markets in FYB markets, it was decided to use a mixed methodology that included both qualitative and quantitative research methods. The data for the study had been collected from a range of sources, including global financial databases, such as Bloomberg, Thomson Reuters, and World Bank data, reports provided by the Central Bank of the Republic of Uzbekistan and the "Tashkent" Republican SP Stock Exchange. The primary performance indicators used during the study included the volume of the issuances of new equities, the volume of new bond issuance, the frequency of the transactions, the value of the market capitalization, and the performance of the sectors.

3. Results

The following research results were obtained after completing the research topic: financing business entities through financial markets is positively becoming common. It

can be seen that business entities gain many advantages by using financial resources provided by financial markets. The following research analyzed the financing methods of business entities with financial markets. It can be said that businesses around the world finance their operations through equity financing, initial public offerings, and secondary issues. In this way, they get funding without high and fixed interest rates.

In the developed markets, giant businesses, such as Amazon, Tesla, and others, gained massive financial resources through financial markets. The largest markets where companies benefit from financial markets are the most developed ones. However, this advantage of financial markets is also increasingly applied in emerging markets, where companies try to reduce their risks by diversifying their sources of finance. For example, an "openinfo" portal was created through which, in Uzbekistan, companies may motivate funders to get financial support from them. A company's data, financial reports, and financial plans use the information on the portal.

This financing method is underdeveloped in our country, and there is a demand to promote public listings due to the extensive economic reform. Recent government reforms are positive moves toward enlarging the stock market and privatizing state enterprises financed through initial public offerings by the government. This stage of IPO markets is still tiny, so it will help companies with the terms they prefer.

The global level experiences a significant growth of the corporate bond market in the last several decades. It has helped a huge number of companies to take advantage of this opportunity to raise billions of dollars at exceptionally low rates. In addition to that, the possibility to issue corporate bonds is a crucial source of financing for the business, and it is frequently a more stable and less costly source of capital in comparison to bank loans. Another important tendency is the growing number of green bonds or the bonds issued to fund or refinance environmental sustainability projects. It is easily explainable with the fact that the role of the financial markets in the process of sustainable growth increases. The corporate bond market of Uzbekistan is relatively small, but local companies and overseas investors demonstrate an increasing interest in it. The local authorities continue working on the improvement of the regulation of corporate bonds to simplify the process for the local companies and increase their access to long-term funds. At the same time, the interest rate on the loans is low, and the corporate sector is expected to continue growing in Uzbekistan.

The emergence of fintech innovation and digital finance has played a critical role in changing global financial markets. For instance, these innovations have made it easy for companies to access finance, and the use of P2P networks, digital payment services, and blockchain technology has also promoted a high level of transparency in business. As financial markets have become accessible for small companies and start-ups, companies in Uzbekistan have taken a new approach to financing using digital platforms, and they are also reaching out to investors. Companies in developed financial markets have gained specialized knowledge in using financial derivatives as a method of raising capital, issuing securities, and as a critical method in meeting risk. Therefore, Uzbekistan still has to rely on over-the-counter instruments to meet the financial needs of the companies. The use of financial securities, such as swaps, futures, and options, has become popular for companies in the world as a way of meeting financial risk. Companies protect themselves using these tools against various categories, including commodity prices, variation in interest rates, and currencies. The volume of trading using financial derivatives has continued to increase in developed nations, and the use of current instruments is expected to grow in light of the current uncertain global market. As much as the use of these financial instruments is not widely in use in the country, there is still a high growth potential. It is expected that once the country's financial market develops to a higher level, companies will use derivative instruments as an alternative to managing financial shocks, especially in segments of the economy affected by the changes in the prices of commodities and currencies.

4. Conclusion

In conclusion, this paper has shown significant advantages to firms financing through the financial markets. Notable is the size increase, risk reduction, and financial flexibility the financial markets provide. The research has shown that firms benefit from a larger pool of capital, reducing the cost of capital and financial market systems for risk management which are much superior to those found in the traditional forms of finance. The nature of business financing is changing. This can be evidenced by global trends such as an increased need for equity finance, growing corporate bond markets, increased digital finance, and sustainable investing. All these trends are part of the larger trend in market-based financing, which is getting more popular. However, Uzbekistan's financial markets are still reading up there is usually an excellent opportunity to capitalize on these trends. The government's arrangement for financial increase through the promotion of fintech for efficient and effective business financing and accessibility will help businesses to thrive. The promotion of equity markets and the development of corporate bond markets are also good moves that Uzbek companies can use to cash in to receive investments for their expansion. Additionally, the companies can also respond to international campaigns to make the business attractive for investments by being sustainable and ethical. Some challenges, such as market volatility, also need addressing; others include regulation and financial literacy. These should also be addressed as Uzbekistan moves on to modernize its financial industry. Businesses in Uzbekistan can prepare for continued success by taking advantage of the emerging trends and benefits of the financial markets.

In summary, businesses in Uzbekistan, and indeed throughout the world, have a unique opportunity because the business finance industry has integrated financial markets. Commitment to the development of markets, regulations, and financial literacy will be essential to harnessing these benefits fully and engendering resilience and growth in an economy that has become increasingly turbulent globally.

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