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ASSESSING SMALL BUSINESSES' ACCESS TO BANK CREDIT: EVIDENCE FROM THE KASHKADARYA REGION

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Abstract: This article examines small businesses' access to bank credit in the Kashkadarya Region of Uzbekistan. It distinguishes between firms' demand for credit, their decision to apply, and their ability to obtain financing on terms they can afford. The assessment considers credit application and approval rates, interest rates, collateral requirements, and loan maturities. It also examines how access varies by district, sector, and firm size, with particular attention to businesses that need external financing but are discouraged from applying. By distinguishing barriers at the application stage from constraints arising during loan appraisal and approval, the study provides a basis for identifying where commercial banks can improve lending procedures and where credit guarantee mechanisms could help firms with limited collateral obtain financing.

Keywords: Small business, access to bank credit, credit constraints, collateral requirements, loan approval, discouraged borrowers, credit guarantees, Kashkadarya Region.

Introduction

Access to bank credit is an important condition for the development of small businesses, enabling enterprises to finance working capital, invest in productive assets, and expand their operations. The availability of appropriate financing can help firms respond to market opportunities and manage temporary differences between incoming revenues and outgoing payments. From a regional development perspective, the financing of small businesses also matters for employment creation, the diversification of economic activities, and the strengthening of local production networks. Understanding the conditions under which small enterprises obtain bank loans is therefore relevant to both financial management and regional economic policy. Small businesses may encounter several obstacles when seeking external finance. Limited collateral, incomplete financial records, short credit histories, and irregular cash flows can make it difficult for lenders to assess repayment capacity. Banks must evaluate these risks while accounting for the administrative costs of processing and monitoring loans. For borrowers, interest payments, collateral valuation expenses, documentation requirements, and the time needed to complete an application can influence whether borrowing is economically feasible. Access to credit consequently depends on the interaction between a firm's financial position, the lending institution's assessment procedures, and the terms of the available financial products. A meaningful assessment of credit access requires attention to the different stages of the borrowing process. Some enterprises finance their activities internally and have no immediate demand for bank loans. Others require external funding but refrain from applying because they expect rejection or consider the borrowing conditions unsuitable. Among firms that apply, some obtain the requested financing, while others receive smaller amounts or face rejection. These differences are essential for

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interpreting credit indicators. A low borrowing rate alone cannot establish whether enterprises face financing constraints, since it may reflect both limited demand and difficulties in obtaining loans. The Kashkadarya Region provides a relevant geographical setting for examining these issues at the regional level. An assessment focused on the region can investigate whether access to bank credit varies across districts, economic sectors, and groups of enterprises. Particular attention can be given to differences associated with business size, operating history, location, and the availability of assets suitable for collateral. Examining these characteristics alongside lending conditions can help clarify which enterprises face the greatest financing difficulties and at which stage those difficulties arise. The purpose of this article is to assess small businesses' access to bank credit in the Kashkadarya Region and identify the factors that may restrict their ability to obtain suitable financing. The assessment considers demand for credit, application decisions, approval outcomes, loan affordability, and the adequacy of the financing received. It also examines the potential significance of collateral requirements, financial transparency, and entrepreneurs' understanding of lending procedures. The article's intended contribution is to connect the financial circumstances of small businesses with the institutional conditions governing bank lending within a regional framework. This approach provides an analytical basis for developing recommendations concerning credit assessment procedures, borrower support, and the design of financing instruments. Such recommendations should reflect both the repayment capacity of enterprises and the need for banks to manage credit risk effectively.

Literature Review

The literature on small business financing explains access to bank credit through information asymmetry, lending technologies, institutional development, and borrowers' application decisions. These perspectives provide a theoretical basis for examining why enterprises with financing needs may experience different borrowing outcomes. For the Kashkadarya Region, they suggest that credit access should be assessed through both enterprise characteristics and the conditions under which banks evaluate and finance applicants. Stiglitz and Weiss [1] established a foundational explanation of credit rationing under imperfect information. Their model demonstrates that credit rationing can persist in equilibrium because changes in lending rates affect borrower selection and incentives. Consequently, a borrower's willingness to pay a higher interest rate does not necessarily lead to loan approval. Applied to the present study, this framework supports examining the information available to banks about small firms' repayment capacity and business risk. It also suggests that interest rates alone provide an incomplete measure of access to credit.

Berger and Udell [2] broaden the analysis by connecting credit availability to lending technologies, financial institution structures, and the wider lending environment. Their framework highlights the importance of how lenders collect and evaluate information when financing small and medium-sized enterprises. This perspective provides a basis for investigating whether financial statements, collateral, and accumulated knowledge about borrowers influence credit decisions in Kashkadarya. It also directs attention to differences between enterprises whose financial position is readily documented and those whose repayment capacity is more difficult to assess through conventional records. Evidence on the relationship between firm size and financing constraints is provided by Beck, Demirgüç-Kunt, and Maksimovic [3]. Using enterprise data from 54 countries, the authors find that financial, legal, and corruption-related obstacles constrain firms differently according to their size, with the smallest

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enterprises experiencing the greatest constraints. They also show that financial and institutional development can reduce these obstacles. For the present research, these findings justify examining variation within the small business sector, particularly differences associated with enterprise size and the institutional conditions affecting access to external finance. Beck and Demirgüç-Kunt [4] further examine access to finance as a constraint on the growth of small and medium-sized enterprises. Their review emphasizes the contribution of financial and institutional development to improving access to external funding. This approach links financing conditions to enterprises' opportunities for expansion and investment. In the context of Kashkadarya, it suggests that the assessment should consider whether available loans meet firms' financing needs, including the amount and duration of funding required for business activities. These dimensions can help explain why access to a loan may still leave an enterprise facing financing difficulties. A complementary perspective is developed by Kon and Storey [5] through their theory of discouraged borrowers. The authors explain how creditworthy enterprises may refrain from applying for loans because they anticipate rejection. Their model identifies application costs and imperfect bank screening as relevant factors in borrower discouragement. This contribution has a direct methodological implication for the present article. An assessment based only on approved and rejected applications may overlook enterprises with unmet financing needs that never enter the application process. Identifying their reasons for non-application is therefore necessary when evaluating credit access. For the Uzbek context, the World Bank Enterprise Survey 2024 [6] provides an empirical resource covering enterprise characteristics, access to finance, and business performance. Its documentation offers a basis for selecting comparable indicators and designing questions about financing conditions. However, using national survey evidence to draw conclusions about Kashkadarya requires checking geographical coverage, the number of relevant observations, and sampling weights. Regional analysis should therefore establish whether the available data support reliable comparisons across the enterprise groups being studied. The reviewed literature supports an assessment framework that follows enterprises from financing needs through application decisions to borrowing outcomes. Within this framework, the proposed study examines how business characteristics, information availability, collateral requirements, and lending conditions relate to access to bank credit in Kashkadarya. Its intended contribution is to apply these established perspectives to regional evidence and distinguish the barriers experienced by applicants from those affecting firms discouraged from applying.

Research Methodology

The study adopts a quantitative approach to assess small businesses' access to bank credit in the Kashkadarya Region. The proposed data sources include official regional statistics, commercial banks' published reports, and a structured survey of small business owners. The survey distinguishes between enterprises with no demand for credit, discouraged applicants, rejected applicants, and successful borrowers. Key indicators include application and approval rates, borrowing costs, collateral requirements, loan maturity, and the proportion of requested financing received. Descriptive statistics and comparative analysis are used to examine differences across districts, sectors, and firm sizes. Subject to sufficient survey observations, binary logistic regression is proposed to assess factors associated with loan applications and approval conditional on applying. Explanatory variables include enterprise size, operating history, collateral availability, and financial record quality. The analysis

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interprets estimated relationships as associations and considers sampling limitations when drawing regional conclusions.

Analysis and Discussion

Assessing small businesses' access to bank credit in the Kashkadarya Region requires consideration of financing needs, application decisions, lending outcomes, and loan conditions. These dimensions capture different aspects of credit access. An enterprise may obtain a bank loan while receiving an amount insufficient for its investment needs. Another enterprise may require financing but avoid applying because of anticipated rejection or unaffordable borrowing costs. The analytical framework therefore follows the sequence from demand for finance to the adequacy of the loan received. A central distinction concerns the reasons why enterprises do not use bank credit. Businesses relying on sufficient internal funds differ from those unable to obtain external financing. Combining these groups would make it difficult to identify financing constraints and could lead to inappropriate conclusions about the effectiveness of bank lending.

Table 1.

Classification of small businesses by credit demand and borrowing outcomes[1]

Enterprise category	Identifying criterion	Interpretation for credit access
Enterprises without credit demand	No external financing required during the reference period	Non-borrowing reflects the absence of current demand
Discouraged borrowers	Financing needed, but no application submitted because rejection is anticipated	Potential constraints arise before formal credit assessment
Enterprises deterred by loan conditions	Financing needed, but borrowing costs or contractual requirements are considered unsuitable	Available products may be unaffordable or poorly matched to business needs
Rejected applicants	Application submitted and refused	The enterprise faces an observed approval barrier
Partially financed applicants	Approved amount is below the requested amount	Credit access is achieved with a possible financing shortfall
Fully financed applicants	Requested amount is approved	The amount criterion is satisfied, while affordability and maturity still require assessment

[1] *Author's analytical classification based on the conceptual framework developed in the literature review.*

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This classification provides a basis for interpreting application and approval rates together. A high approval rate among applicants can coexist with substantial borrower discouragement. Conversely, a low application rate may reflect limited financing demand, application barriers, or both. For this reason, regional comparisons should include the reasons for non-application and the share of enterprises reporting unmet financing needs. Credit affordability constitutes a second dimension of the assessment. Interest rates influence borrowing decisions, but the financial burden also depends on fees, collateral valuation expenses, insurance requirements, and repayment schedules. The timing of repayments is particularly relevant where business revenues fluctuate during the year. A loan may place pressure on liquidity if instalments fall due before the enterprise receives the income expected to finance repayment.

Table 2.

Indicators for assessing access to bank credit[2]

Indicator	**Measurement**	**Analytical interpretation**
Credit application rate	Applicants divided by surveyed enterprises	Participation in the formal borrowing process
Approval rate	Approved applications divided by applications with a final decision	Access conditional on applying
Discouragement rate	Enterprises deterred by anticipated rejection divided by enterprises needing credit	Extent of unmet demand associated with expected refusal
Financing fulfilment ratio	Approved loan amount divided by requested amount	Adequacy of the amount offered
Collateral requirement ratio	Required collateral value divided by loan amount	Asset commitment required to obtain financing
Application processing time	Days between complete submission and final decision	Administrative timeliness of credit provision
Reported affordability constraint	Enterprises citing borrowing costs as a barrier divided by enterprises needing credit	Significance of financing costs for credit access

Collateral requirements and financial documentation provide further explanatory dimensions. Enterprises with limited assets available for collateral may experience difficulties meeting lending

[2] *Author's proposed assessment indicators. All indicators require a consistent reference period and clearly defined survey denominators.*

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conditions. Incomplete accounting records can also complicate the assessment of revenues, operating expenses, and repayment capacity. These mechanisms suggest examining collateral availability and financial record quality jointly, since either factor may affect an enterprise's position during credit appraisal. Territorial comparisons within Kashkadarya should account for differences in the composition of local businesses. An observed difference in approval rates between districts may partly reflect differences in enterprise size, sector, operating history, or financing purpose. Comparing similar enterprises across locations would provide a more informative assessment of geographical disparities. Where the sample permits, regression analysis can examine these relationships while accounting for observed business characteristics. The analytical outcome is a multidimensional assessment structure linking financing demand, application behaviour, approval decisions, and loan suitability. Its application would make it possible to identify whether the principal difficulties arise from borrower discouragement, collateral requirements, credit assessment, financing costs, or insufficient loan amounts. Establishing which of these barriers is most significant in Kashkadarya requires enterprise-level observations and verified lending data. The resulting evidence can then support targeted proposals for improving small businesses' access to bank credit.

Conclusion

The conceptual analysis provides a framework for assessing small businesses' access to bank credit in the Kashkadarya Region through financing demand, application behaviour, approval outcomes, and loan suitability. Evaluating these dimensions together makes it possible to distinguish enterprises without borrowing needs from those facing discouragement, rejection, or insufficient financing. Credit approval should therefore be considered alongside borrowing costs, collateral requirements, loan maturity, and the adequacy of the amount provided. The reviewed literature identifies information asymmetry, financial documentation, and lending procedures as relevant factors shaping credit access. These considerations support examining opportunities to improve the transparency of application requirements, strengthen entrepreneurs' financial recordkeeping, and align repayment schedules with business cash flows. Credit guarantee mechanisms and assessment methods that incorporate repayment capacity merit consideration where viable enterprises have limited collateral. Their suitability should be evaluated against local financing needs and banks' risk management requirements. For Kashkadarya, comparisons across districts and sectors should account for differences in enterprise size, operating history, and financing purpose. Such an approach would help identify where support is needed and which barriers require attention. The present article establishes an analytical basis for this assessment. Representative enterprise surveys and verified lending data are needed to determine the prevalence of individual constraints and substantiate region-specific recommendations.

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