HSR (LONDON),
HOUGHTON STREET REVIEW JOURNAL
ISSN: 2058-5519|Impact factor-15.9
http://houghtonstreetreview.com/index.php/hsr

THE ROLE OF COMMERCIAL BANKS IN THE DEVELOPMENT OF SMALL AND MEDIUM BUSINESSES

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Abstract: This article examines the importance of financial and credit support provided by commercial banks for stimulating and enhancing the growth of small and medium-sized businesses. The author analyzes modern bank lending mechanisms aimed at supporting the private sector, identifies key barriers to effective interaction between financial institutions and businesses, and suggests ways to improve credit instruments.

Keywords: commercial banks, small and medium businesses, financial support, bank lending, entrepreneurship.

Introduction. In today's context of global economic transformation, small and medium businesses are key drivers of sustainable economic development, employment, and the saturation of the domestic market with goods and services. However, the specific nature of small and medium-sized businesses is such that at all stages of their life cycle, there is an urgent need for external sources of financing. The founders' own funds are generally insufficient to expand operations, modernize their facilities, or implement innovative technological solutions. In this regard, commercial banks traditionally occupy a central position in the system of financial and credit support for the private sector. As the primary financial intermediaries, banks accumulate available funds in the economy and redistribute them to the most promising economic entities. The role of commercial banks in SME development is not limited to issuing standard loans; it includes a wide range of settlement, guarantee, consulting, and investment services. An effective partnership between the banking sector and small businesses forms the foundation for improving the country's macroeconomic stability.

Economics examines the interaction between banking institutions and private enterprise through the lens of financial intermediation theory and the concept of information asymmetry. According to the seminal works of Joseph Stiglitz and Andrew Weiss, the small business lending market is characterized by a high degree of uncertainty. Commercial banks, seeking to minimize their risks, often face the problem of adverse selection, since small businesses are not always able to provide transparent financial statements or high-quality collateral. Nevertheless, commercial banks possess unique analytical tools that help mitigate these risks. Bank loans perform a vital transformational function: they transform short-term savings of individuals and corporations into long-term investment resources for businesses. For small businesses, access to bank capital means the ability to overcome the so-called "market failure"—a liquidity deficit during the start-up or intensive growth phase. Thus, banks act not simply as lenders but as institutional partners, stimulating entrepreneurial initiative and sharing some of the commercial risks with borrowers.

Modern commercial banks offer a wide range of instruments tailored to the needs of small and medium-sized businesses. Targeted medium- and long-term lending remains the classic and most popular mechanism. These funds are used by enterprises to acquire fixed assets, construct production facilities, and purchase high-tech equipment. Long-term investment loans enable businesses to implement large-scale projects that pay for themselves within a few years.

Furthermore, working capital financing is critical for SMEs. To prevent cash flow gaps and maintain current liquidity, banks actively use tools such as overdrafts and revolving credit lines.

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Overdrafts allow entrepreneurs to promptly pay supplier invoices even if funds are temporarily unavailable in their current accounts, thus maintaining the continuity of the operating cycle. In recent years, factoring (financing under the assignment of a cash claim) has also become increasingly popular, allowing companies to receive funds immediately after the shipment of goods, without waiting for deferred payment from customers.

Despite the obvious importance of the banking sector, a number of systemic problems remain in the lending process for small and medium-sized businesses. For commercial banks, the main constraint is the high level of credit risk associated with small businesses. Small businesses are more vulnerable to market fluctuations, changes in consumer demand, and macroeconomic pressures. As a result, banks are forced to factor a high risk premium into interest rates, making loans excessively expensive for end borrowers.

Another significant barrier is the strict policy towards

and collateral. Commercial banks often require highly liquid real estate or new equipment with a high discount rate as collateral. Young or rapidly growing companies, especially in the service or information technology sectors, rarely possess such tangible assets, which automatically cuts them off from traditional credit resources. The situation is exacerbated by complex, bureaucratic loan application review procedures and the need to compile a huge package of documents, which wastes entrepreneurs' precious time.

To overcome existing barriers and improve the effectiveness of commercial banks' participation in the development of small and medium-sized businesses, a comprehensive modernization of lending approaches is necessary. One of the most promising areas is the large-scale digital transformation of banking processes. The implementation of automated credit assessment systems based on artificial intelligence and big data analysis can significantly accelerate the decision-making process. Credit scoring allows banks to evaluate borrowers not only based on formal balance sheet characteristics but also on indirect indicators of activity, reducing transaction costs and increasing the availability of microloans. Furthermore, commercial banks need to diversify their product lines, shifting their focus toward project financing and unsecured loan products for trusted clients. Developing partnerships with government funds supporting entrepreneurship should play a key role here. Partial loan guarantees and interest rate subsidies from budgetary funds allow banks to minimize their risks, while entrepreneurs can obtain long-term loans on favorable terms.

Conclusion. In summary, it can be confidently stated that commercial banks are an integral part of the infrastructure supporting small and medium-sized businesses. Financial resources provided by the banking sector enable private enterprises to overcome liquidity shortages, modernize production, and improve their competitiveness in both domestic and foreign markets. Increased volumes of high-quality bank lending to SMEs directly translate into the creation of new jobs, increased tax revenues, and the overall diversification of the national economy. References:

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