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INTERACTION BETWEEN COMMERCIAL BANKS AND INTERNATIONAL FINANCIAL INSTITUTIONS IN SMALL BUSINESS FINANCING

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Abstract: This article examines current issues of financial and credit support for small businesses through the lens of interactions between national commercial banks and international financial institutions. In the modern global economy, small businesses are recognized as a key driver of sustainable economic growth, employment, and innovation. The dynamic development of this sector directly depends on the effectiveness of financial and credit support mechanisms.

Keywords: small business, commercial banks, financial institutions, lending, business support, credit lines, risks, financing.

Introduction. In these conditions, synergistic interaction between domestic commercial banks and international financial institutions is crucial. Commercial banks act as direct conduits of capital, possessing an extensive branch network and knowledge of local market specifics. In turn, international financial institutions provide long-term targeted resources and advanced risk management technologies. Research into the mechanisms, forms, and effectiveness of such partnerships is a pressing academic and practical challenge.

Theoretical aspects of small business financing are based on the concepts of information asymmetry and credit rationing. Small businesses often fail to provide lenders with complete and reliable information about their activities, increasing risks for financial institutions. Commercial banks, seeking to minimize potential losses, inflate interest rates or impose strict collateral requirements, making loans inaccessible to most entrepreneurs.

International financial institutions are called upon to mitigate these market failures. Their participation is justified by development theory, according to which institutions promoting economic growth should direct capital to sectors with high social and economic significance but lacking private investment. Combining the potential of international donors and local commercial banks enables the transformation of external financial flows into accessible investment instruments for local borrowers.

Interaction between international financial institutions and commercial banks is realized through several key mechanisms. The most common form is the provision of targeted credit lines. Under this mechanism, an international organization provides a commercial bank with a long-term loan at a relatively low interest rate. The bank undertakes to use the funds received exclusively for lending to small businesses that meet certain criteria, such as industry affiliation, environmental standards, or job creation.

Risk-sharing programs and guarantee mechanisms are another important tool. Commercial banks are often willing to lend to small businesses, but are constrained by strict collateral requirements. International institutions can guarantee coverage of a certain portion of losses on a small business loan portfolio in the event of borrower default. This significantly reduces the burden on commercial banks' capital and encourages them to relax collateral requirements.

The third element of cooperation is technical assistance and institutional development. Financing from international organizations is almost always accompanied by grants for bank staff training, the implementation of modern scoring systems, and the creditworthiness assessment of small businesses.

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This contributes to improving the overall financial literacy of the banking sector and streamlining operational processes.

The joint efforts of commercial banks and international financial institutions have a profound stabilizing effect on the small business sector. First and foremost, loan terms are extended. While commercial banks are often limited to short-term working capital loans using their own resources, international lines of credit allow them to issue investment loans for the purchase of equipment and production modernization with terms of up to five or seven years.

Furthermore, support areas are being diversified. In recent years, partnerships have shifted toward financing innovative projects, the digitalization of small businesses, and support for women's and youth entrepreneurship. Particular attention is paid to environmental, social, and corporate governance principles when funding is allocated to projects that reduce negative environmental impacts.

Despite the obvious advantages, the interaction between commercial banks and international financial organizations is fraught with a number of serious challenges. One of the main barriers is currency risk. International institutions most often provide resources in foreign currencies, while small businesses receive revenue in their national currency. Converting these funds and hedging against currency risks significantly increases the final cost of the loan for the entrepreneur.

Another problem is the strict compliance and monitoring procedures of international organizations. The credit line approval process and subsequent reporting require significant administrative and time-consuming resources from commercial banks. Sometimes, borrower requirements are so strict that actual small businesses in the local market simply cannot meet them, resulting in the slow utilization of allocated credit lines.

To improve the effectiveness of cooperation, it is necessary to improve existing systems.

Their approaches. An important step should be expanding the practice of lending in national currencies through cross-currency swaps or government subsidies. This will completely insulate small businesses from exchange rate fluctuations.

Conclusion. Financial and credit support for small businesses through collaboration between commercial banks and international financial institutions represents an effective model for overcoming the capital deficit in the real sector of the economy. This cooperation not only attracts long-term foreign investment but also transforms the lending culture itself, introducing advanced risk management standards and sustainable development principles. Overcoming existing barriers associated with currency risks and complex administrative procedures will open up new opportunities for the qualitative growth of small businesses, which will ultimately contribute to strengthening the national economic system and improving social well-being.

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