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FINANCIAL SUPPORT FOR SMALL AND MEDIUM BUSINESSES BY COMMERCIAL BANKS

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Abstract: This article examines modern mechanisms and methods of financial support for small and medium-sized businesses (SMEs) provided by commercial banks. In the modern market economy, SMEs act as a fundamental driver of sustainable economic growth, employment, and innovation.

Keywords: SMEs, financial support, lending, financial resources, banking system, investment.

Introduction. The dynamic development of this sector directly depends on the effectiveness of its financial support mechanisms. The relevance of studying the mechanisms of financial support for SMEs provided by commercial banks stems from the need to transform approaches to assessing borrowers' creditworthiness in the context of global economic change. Traditional conservative bank lending methods often fail to take into account the specifics of the flexible and adaptable business models of small businesses.

In fundamental economic theory, financial support for SMEs is viewed through the prism of overcoming information asymmetry. As Nobel Prize winner Joseph Stiglitz emphasized in his works, commercial banks, when interacting with small businesses, always face a lack of verified information about the borrower's actual financial condition. Large corporations maintain transparent, audited financial statements, while small businesses often maintain simplified accounting, which automatically increases the level of credit risk for banking institutions.

To mitigate these risks, specific financial support technologies have developed in banking practice. These include transactional lending, based on rigorous analysis of financial ratios, and relationship banking. Relationship banking involves a long-term strategic relationship between a commercial bank and an entrepreneur, in which the bank collects informal information about the borrower's reputation, their position in the local market, and the personal qualities of the manager. Scientific research confirms that in developing economies, relationship banking significantly reduces interest rates and expands the scope of financial support for small businesses. The range of instruments commercial banks use to provide financial support to small and medium-sized businesses has undergone significant changes in recent years. Traditional commercial loans, typically one-time cash disbursements, are gradually giving way to more flexible, revolving products. Among these, lines of credit, overdrafts, and targeted project financing occupy a prominent place.

In addition to traditional lending, commercial banks are actively developing trade finance and factoring instruments. As economist Peter Rose notes in his research on bank management, factoring is an ideal solution for small businesses operating on deferred payment terms with large counterparties. The bank essentially purchases the company's accounts receivable, providing it with immediate access to working capital and assuming the risk of non-payment by buyers. This allows

small businesses to maintain the continuity of their production cycle without increasing their debt burden.

Effective financial support for small businesses from commercial banks is impossible without the participation of the state as a stabilizing and stimulating agent. Macroeconomic concepts of public-private partnerships highlight instruments such as interest rate subsidies and state guarantees.

When a commercial bank deems the risks of lending to a small business excessively high due to a lack of sufficient collateral, specialized state funds to support entrepreneurship step in. By providing sureties and guarantees covering up to seventy percent of the loan amount, the state shares the risks with the commercial bank. This motivates banks to reduce collateral requirements and make credit products more accessible. Preferential refinancing programs implemented by central banks through the commercial banking system allow targeted resources to be directed to priority sectors of the economy, such as agriculture, services, and high technology.

Despite the diversity of instruments, the small business financial support system faces a number of internal and external contradictions. The main internal barrier remains the high cost of credit for the end borrower. Due to the high operating costs of servicing numerous small loans and the increased risk of default, commercial banks are forced to factor a high margin into their interest rates. As a result, for many aspiring entrepreneurs, a bank loan becomes economically impractical.

External

These barriers are associated with macroeconomic instability, inflation, and exchange rate fluctuations. During periods of monetary tightening by central banks and increases in key interest rates, commercial banks automatically reduce the volume of long-term lending, preferring short-term, low-risk transactions. This leads to the so-called credit crunch, which primarily affects small and medium-sized businesses. Furthermore, the strict regulatory requirements of the Basel Committee on Banking Supervision require banks to create higher reserves for small business loans, which reduces their incentive to actively develop this market segment.

The future of financial support for small businesses by commercial banks is inextricably linked to digitalization and the implementation of financial technologies. The transition to digital banking allows for a radical reduction in operating costs and accelerated decision-making processes. The use of big data technologies and artificial intelligence algorithms to analyze client transaction activity allows banks to perform automatic scoring in hundredths of a second. Modern scientific publications on digital finance emphasize that integrating banking platforms with government databases and electronic tax systems eliminates the problem of information asymmetry. A commercial bank can remotely assess a company's actual turnover and cash flow transparency and generate a pre-approved loan offer without the need for paper certificates. This transforms banking support from a complex bureaucratic process into a seamless digital service accessible to entrepreneurs in real time.

Conclusion.

In summary, it is important to emphasize that financial support for small and medium-sized businesses by commercial banks is a complex, dynamic process that determines the overall level of economic security and stability of the state. Traditional lending instruments are now complemented by flexible mechanisms such as factoring, leasing, and project financing. To maximize the effectiveness of this support, further collaboration between the banking sector, government development institutions, and fintech companies is necessary.

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