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Impact of Credit Policy on Small Business Development and Opportunities for Improving the Financing Mechanism

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Abstract: *The development of small businesses is a critical factor in economic growth, yet challenges related to access to financial resources remain a significant barrier. While commercial banks play a crucial role in providing credit to small businesses, their lending policies often create obstacles due to high interest rates, strict collateral requirements, and complex application procedures. This study examines the impact of credit policies on small business financing, analyzing key banking regulations, lending criteria, and financial mechanisms that influence business sustainability. Findings reveal that although bank loans serve as the primary source of capital for small enterprises, restrictive lending practices limit accessibility. The results highlight the need for policy reforms, including the introduction of government-backed credit guarantees and financial liberalization, to improve loan accessibility and promote entrepreneurship.*

Keywords: *small business financing, credit policy, commercial banks, financial resources, economic growth*

The development of small business and private entrepreneurship is of great importance in bringing the economic development of our country to a higher level. “The fact that the role and place of small business and private entrepreneurship is increasingly strengthening is evidence of positive changes taking place in the structure of our economy. Comprehensive support for the development of small business and private entrepreneurship in our country, including the impact of the bank's credit policy on the development of small business, further liberalization, simplification and reduction of costs of all processes related to doing business, and financial support for small business entities play an important role. The credit policy of commercial banks plays a certain role in increasing the financial stability of small business enterprises.

Lending is the core of banking, and depending on its quality, one can draw conclusions about the bank's activities. A bank's credit policy is a document that determines the measures and methods adopted by the bank's management to manage the risks arising in the lending process and provides the bank's management and employees with instructions on the effective management of the loan portfolio. The "Credit Policy" document forms the basis of the loan management process. The "Credit Policy" developed by a commercial bank and recorded in writing is one of the ways to rationally manage loans. This document determines the standards and parameters of the bank's lending activities. These established standards and parameters should be used as a guide by bank employees responsible for issuing loans and documenting loans

The credit policy of commercial banks is the basis for effective credit management, this policy determines objective standards and criteria for issuing loans to bank employees, managing the bank's credit portfolio. The bank's credit policy should be the same for all bank employees - from a junior employee to the chairman of the bank's board. Therefore, the credit policy is called a set of predetermined rules and solutions. If the credit policy is competently drawn up and implemented at all levels, from the head of the bank to the operator, this will allow the bank's management to make the right decisions, get rid of excessive risks, and correctly assess bank loans.

The main objectives of the credit policy of any commercial bank are: to ensure the growth of credit flows, fair diversification of high-risk operations, an increase in the volume of medium and long-term credit investments and their effectiveness. The credit policy creates a unique "credit source" of the bank, which is of great importance for maintaining the bank's rights in the event of a deterioration in the bank's activities and changes in its credit powers and obligations. A strict credit policy creates the basis for the development of the bank's general lending activities and the effective use of loans. The credit policy should identify and define the categories and types of loans granted by the bank. For example, by lending areas, it may determine: lending to commercial activities, industry, agriculture, financing of capital investments and other sectors, by types of loans: lending with and without opening credit lines or using another method of lending. The credit policy should include a clear definition of the concept of "default" for all categories of loans, criteria for not accruing interest, as well as requirements for relevant reporting by the bank's management and Board. The credit policy should require consistent, step-by-step measures to repay debts. Management should develop loan write-off measures in accordance with the requirements established by the Central Bank.

The credit policy should clearly state the credit classification system, and credit officers should inform management of all known adverse changes in the portfolio. Early detection of a deterioration in the condition of a debtor or guarantor is essential to reduce potential losses. The credit policy of commercial banks pays special attention to increasing the profitability of loans and improving their risk management. Special attention is paid to increasing the profitability of loans and improving their risk management.

Although small businesses do not have a high need for financial resources at the initial stages of their activities, as they develop and expand their activities, they need investment resources to increase working capital and introduce new equipment and technologies. According to research conducted by experts from the Organization for Economic Cooperation and Development, newly established or recently launched businesses have limited sources of financing alternative to bank loans. In these countries, it is necessary to introduce a guarantee system and improve the regulatory and legal documents regulating property rights to ensure their effective operation. One of the factors for the effective functioning of the financial market is further liberalization of the market. State intervention in the form of subsidizing interest rates on loans and direct lending affects the formation of a competitive environment and the distribution of loans. These measures are intended for enterprises in certain sectors of the economy and are intended to develop this sector. It is concluded that short-term support for individual business entities negatively affects the competitive environment in the market. The main source of additional financing for small businesses is loans from commercial banks.

The share of loans allocated by commercial banks to small businesses in their total loan portfolio and investments in fixed capital has increased.

The lack or absence of collateral when obtaining loans from banking institutions remains a pressing issue. One of the main reasons why credit organizations do not provide financial resources to small business entities, and therefore the issue of obtaining them, is related to the inability of small business entities to repay the loan provided on time. The lack of collateral, as well as the inability to obtain loans from commercial institutions, reduces the entrepreneurial activity of the population and does not stimulate the development of small production enterprises. Also, the problems of small business entities in obtaining loans are divided into internal and external problems. External problems in obtaining loans:

- High interest rates on loans granted by financial institutions to small businesses. High interest rates are explained by the high level of risk of lending to small businesses.
- short loan repayment period;
- Complexity of the loan application process, long-term, etc. Internal problems that make it difficult to obtain a loan:

- limited loans offered for small businesses, lack of a competitive market for lending to small businesses;
- small scale of activities, difficulty in assessing its condition;
- quality of preparation of a business plan for obtaining a loan;
- Lack of credit history, etc.

In the practice of countries with developed financial markets, the funds of credit institutions are the main source of financing for the development of small businesses. In foreign countries, the funds of commercial banks account for a high share in financing small businesses and private entrepreneurship.

It is also one of the most effective forms of state support for entrepreneurship and a form of guarantee that allows increasing the attraction of bank loans to small businesses. Guarantee funds, which have been successfully operating in most countries for a long time, provide small and medium-sized enterprises with collateral for obtaining loans and create conditions for their active use of bank and other credit resources. This experience not only supports existing small business entities, but also stimulates the emergence of new enterprises.

In particular, in the USA, there is a Small Business Administration (SBA) Small Business Loan Guarantee Program, which significantly eases the conditions for banks to provide loans to small businesses, since the loan repayment is guaranteed. In this way, entrepreneurs attract the necessary financial resources on favorable terms, and the risk of loan repayment for commercial banks is significantly reduced. In order to increase the access of small businesses and private entrepreneurs to financial resources, further liberalization of the financial market and further improvement of the financial infrastructure serving them will contribute to an increase in the level of provision of small businesses with financial resources.

Foydalanilgan adabiyotlar ro'yxati

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