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TRANSFORMATION OF SMALL AND MEDIUM BUSINESS LENDING PROCESSES

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Abstract: This article examines contemporary transformation processes in the provision of financial and credit support to small and medium-sized businesses. The author provides a detailed analysis of the transition from traditional, conservative banking models to innovative digital technologies, including the use of artificial intelligence and big data to assess borrowers' creditworthiness.

Keywords: Lending process transformation, small and medium-sized businesses, commercial banks, international financial institutions, digitalization of banking.

Introduction. In today's context of global economic instability and accelerating technological progress, small and medium-sized businesses (SMEs) are a key driver of economic growth, employment, and innovation. However, the effective functioning of this sector directly depends on the availability and quality of financial resources.

In recent years, the financial sector has been undergoing a profound transformation caused by the introduction of digital technologies, changing approaches to risk assessment, and the active participation of international financial institutions. This article examines the nature of these transformational processes, analyzes the mechanisms of interaction between commercial banks and international development institutions, and identifies ways to improve the efficiency of small business lending.

To overcome this fundamental market problem, commercial banks are forced to transform their traditional business models. This modern transformation is manifested in the transition from classic secured lending to transactional and investment financing, where the key role is played by the long-term development potential of the enterprise and the stability of its cash flows, rather than the availability of hard collateral. The great innovation scholar Joseph Schumpeter emphasized that banks are "not only intermediaries, but also facilitators of the innovation process." In the context of small businesses, this means that the transformation of lending processes should be aimed at creating flexible financial instruments adapted to the life cycle of small companies.

The primary vector of lending transformation in the current decade has been the comprehensive digitalization of financial institutions. The traditional loan application review process, which previously took weeks and required the collection of a huge package of paper documents, is giving way to instant scoring based on artificial intelligence and big data analysis.

Commercial banks are now able to analyze not only borrowers' official financial statements, which are often incomplete for small businesses, but also alternative data. This data includes transaction activity on bank accounts, payment histories with suppliers and utilities, sales volumes through e-commerce platforms, and even behavioral indicators in the digital environment. The use of machine learning algorithms reduces bank transaction costs per application, making lending to small borrowers cost-effective for financial institutions. Furthermore, digitalization minimizes the influence of human error and subjectivity in credit decision-making, significantly reducing the share of overdue loans in a bank's portfolio.

International financial institutions such as the World Bank, the European Bank for Reconstruction and Development, the Asian Development Bank, and the International Finance Corporation act as catalysts for transformational processes in national markets. Their involvement is not limited to the direct provision of financial resources; it has a systemic institutional nature.

First, international institutions provide targeted credit lines to local commercial banks for subsequent targeted financing of small businesses. An important condition of such programs is the establishment of strict requirements for end borrowers in the areas of environmental and social responsibility, which stimulates the transition of small businesses to sustainable development principles.

Secondly, international organizations are actively implementing risk-sharing mechanisms. By providing portfolio guarantees, they cover up to half of potential losses for commercial banks on loans issued to small businesses. This allows commercial banks to relax collateral requirements and lend to market segments previously considered excessively risky, such as start-up entrepreneurs or women's entrepreneurship in rural areas.

Thirdly, international donors are funding technical assistance programs. They help commercial banks modernize their internal risk management systems, train staff to handle microloans, and implement best international practices in financial analysis. Despite obvious progress, the transformation process faces a number of serious obstacles. At the macroeconomic level, the high cost of funding remains a key barrier. Under inflationary pressure, central banks are forced to maintain high interest rates, making commercial loans difficult to access for low-margin small businesses, such as agriculture or services.

There is also a deep digital divide between major urban financial centers and the regions. Small businesses in remote areas often lack the financial and digital literacy to take advantage of online banking. Meanwhile, regional branches of commercial banks are slower to adopt innovative technologies and continue to adhere to conservative borrower assessment methods.

Another institutional challenge is the inadequate legal framework for creditor protection and bankruptcy procedures. If debt collection mechanisms or collateral enforcement are complex and time-consuming, commercial banks factor these legal risks into the cost of the loan, increasing the interest margin, which negatively impacts reputable borrowers.

Conclusion. Transforming small and medium-sized business lending is a multifaceted process requiring the coordinated efforts of the government, commercial banks, and international financial institutions. To successfully complete this transformation and ensure sustainable economic growth, it is necessary to implement a range of measures across several areas. Further deepening the integration between commercial banks and government digital platforms is necessary. This will automate the collection of verified data on taxes, customs transactions, and entrepreneurs' social contributions, minimizing decision-making time.

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