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THE ROLE AND EFFECTIVENESS OF CONCESSIONAL LOANS IN FINANCING SMALL BUSINESSES

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Abstract:

This paper analyzes how concessional loans expand financing opportunities for small businesses and examines the criteria for evaluating their economic effectiveness. Drawing on international experience, it distinguishes between the volume of credit allocated and the actual performance of a program. It proposes a joint assessment of financial additionality, fiscal costs, borrower sustainability, and the transition to market-based credit. The main conclusion is that the effectiveness of preferential support can be assessed objectively when it is targeted at a specific financial constraint and when its duration and performance criteria are defined in advance.

Keywords: Small business, concessional loan, interest subsidy, credit guarantee, financial additionality, program effectiveness, fiscal costs.

Problem and Research Objective

Although small businesses may have demand for credit, insufficient collateral, a limited credit history, or the absence of stable financial reporting can restrict access to financing. Concessional lending is an instrument that can alleviate some of these constraints. Its preferential terms may take the form of a lower interest rate, a longer maturity, or a grace period for principal repayment. An interest subsidy reduces the cost of borrowing, while a guarantee shares part of the bank's



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potential loss with another party. Therefore, the functions and costs of these instruments should be assessed separately.

The objective of this paper is to develop an approach for evaluating the outcomes of concessional lending using criteria beyond the volume of funds disbursed. The analysis compares the World Bank's principles for guarantee mechanisms with publicly available materials on government credit programs [1; 2]. No econometric assessment using firm-level data from Uzbekistan has been conducted; the evaluation framework presented below is proposed for practical testing.

Economic Impact of Concessional Lending

A reduction in interest expenses decreases the amount of project cash flow allocated to debt service. If the loan maturity is aligned with the investment payback period, repayment pressure during the equipment commissioning phase is eased. However, if payments after the grace period are not consistent with actual revenues, a debt burden that was initially eased may later turn into a liquidity problem. Therefore, the repayment schedule should be designed on the basis of seasonal revenues and projected expenditures.

Financial additionality refers to new financing that might not have occurred in the absence of the program. Providing a low-cost loan to a firm that is already able to obtain a standard market loan reduces its financing costs, but this alone does not demonstrate that the program created a new credit opportunity. Economic additionality, in turn, is associated with additional investment, employment, or productivity generated as a result of the support. Distinguishing between these two concepts helps assess whether resources are being used in a targeted manner.



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A 2025 World Bank review reported that more than half of the borrowers analyzed under Indonesia's KUR program had repeatedly used the program, while only 3 percent had transitioned to commercial credit [2]. This finding applies specifically to that program and sample. It cannot be used as a ready-made forecast for Uzbekistan, but it demonstrates the need to monitor dependence on repeated preferential support and the transition to market-based financing.

The World Bank principles provide for partial guarantees, transparent financing, risk-based pricing, and regular performance evaluation [1]. Based on this approach, it is proposed that insufficient collateral and high borrowing costs be diagnosed separately. When collateral is the main constraint, simply reducing the interest rate may not expand access to credit. Conversely, a guarantee cannot create economic sustainability for a project that lacks sufficient debt repayment capacity.

Criteria for Evaluating Effectiveness

Evaluation should be conducted at both the firm and program levels. At the firm level, cash flow, debt payments, the commissioning of the investment, and business continuity should be monitored. At the program level, the share of new borrowers, the full fiscal cost of support, and non-performing loans should be assessed jointly. The following table summarizes the criteria proposed by the author.



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Table 1. Proposed Evaluation Criteria

Criterion	Calculation or Monitoring Method	Interpretation
New borrowers	Borrowers who had not previously received bank credit / all program borrowers	Financial outreach; does not by itself establish causal impact
Debt service	Cash flow available for debt service / principal and interest payments	Project debt-servicing capacity
Fiscal cost	Subsidies, expected net losses under guarantees, and administrative costs	Full cost of program resources
Transition to market credit	Share of borrowers obtaining commercial credit after the preferential period ends	Reduced dependence on repeated support

Practical Recommendations

First, eligibility criteria for preferential support should be linked to the firm's financial constraint and the project's cash flow. Decisions, reasons for rejection, and controls related to conflicts of interest should be documented. Second, in cases of repeated support, it is proposed to gradually reduce the intensity of subsidies and establish a plan for transition to commercial financing. This transition should correspond to the development of the firm and should not be converted into a single rigid deadline applied uniformly across all sectors.

Third, a simple comparison of a borrowing firm's indicators before and after receiving support is not sufficient for impact evaluation. Demand conditions, inflation, or other support programs may also affect the outcome. A difference-



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in-differences approach with an appropriate control group may be used, provided that similar pre-program trends between the groups are tested. Reports should also disclose potential bias arising from the selection of program participants and account for firms that drop out of observation.

Conclusion

The effectiveness of concessional lending should be assessed not only by its lower cost, but also by its ability to generate new financing, preserve the borrower's repayment capacity, and produce additional economic outcomes relative to public expenditure. Before expanding the scale of preferential support, it is necessary to identify the firm's actual financing constraint, evaluate program outcomes using comparable groups, and monitor the transition to commercial credit. The proposed criteria can provide a basis for such an assessment.

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