International Journal of Business, Law and Political Science
Homepage : https://e-journal.antispublisher.id/index.php/IJBLPS
Email : admin@antispublisher.com

e-ISSN : 3032-1298
IJBLPS, Vol. 2, No. 3, March 2025
Page 95-101

The Function of Credit in the Growth of Small and Medium Businesses

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DOI : https://doi.org/10.61796/ijblps.v2i3.282

Sections Info

Article history:
Submitted: February 19, 2025
Final Revised: February 26, 2025
Accepted: March 05, 2025
Published: March 12, 2025

Keywords:
Credit
Functions of credit
The role of credit in the development of small and medium businesses

ABSTRACT

Objective: *The article aims to examine the role of credit in the development of small and medium enterprises (SMEs) and its broader impact on economic development. It focuses on understanding the importance of banking credit in a market economy and comparing key concepts related to credit functions.* ***Method:*** *A comparative analysis is conducted between the concepts of "role of credit" and "function of credit." The article reviews various academic perspectives on these concepts, critically analyzing and synthesizing the opinions of different authors. Additionally, it explores several functions of credit, including its redistribution and the role of credit operations in replacing real money.* ***Results:*** *The analysis reveals that credit plays a pivotal role in the economic development of SMEs, acting as a catalyst for growth and operational sustainability. The functions of credit, including redistribution and facilitating transactions without physical money, are essential for maintaining liquidity and promoting economic stability.* ***Novelty:*** *This study provides a critical analysis of existing theories on credit, offering new insights into the interplay between credit functions and its economic significance. By presenting a comprehensive view, it contributes to a better understanding of how credit can influence the growth of SMEs and economic development as a whole.*

INTRODUCTION

The question of the need and role of credit in the economy and in society has not ceased to be relevant throughout the entire period of its emergence and development. It does not lose its relevance even today.

As you know, the history of credit relations dates back to ancient times. Thus, credit transactions were concluded in Babylon and Assyria more than 3,000 years ago. Then, at the early stage of development of exchange and production, credit had mainly a consumer form. For example, when an unlucky peasant borrowed a bag of grain from a wealthier neighbor so as not to die of hunger, promising to repay the debt at one and a half times the amount [1].

Since then, credit relations have continuously developed and improved. With economic progress, lending increased at a tremendous pace, undergoing enormous changes. Changes in the lending industry continue to this day [2]. The radical restructuring of credit relations in Uzbekistan is associated with the emergence of a market economy and the need to develop small and medium-sized businesses, which play the role of the basic sector of the economy [3].

At present, the successful development of any national market economy is impossible without an effectively functioning system of credit and financial institutions, one of the main elements of which, of course, is commercial banks. The effectiveness of their activities largely determines the possibilities for sustainable progressive development of almost all segments of the modern economy. Currently, not a single economic entity can do without banking services [2].

This is due to the fact that banks are the most important intermediary in the movement of funds from one economic entity to another. With the development of economic relations and their complication, the range of banking services is developing in parallel, new types of banking products periodically appear, and traditional services are being improved [4]. The degree of maturity of the national economy and monetary relations, the level of development of entrepreneurship - all this, in turn, determines the capabilities and potential of the banking system [5].

Traditionally, the key function of banks is, as you know, lending. It is a bank loan that is considered the main form of credit in a market economy, the level of development of which largely determines stable economic growth in the country and, as a consequence, the level of well-being of the population. Consequently, bank credit is a powerful lever for the development of small and medium-sized businesses, which are characterized by an increased need to attract additional resources [6], [7], [8], [9].

But before exploring the role and significance of bank credit in the development of small and medium-sized businesses, it is necessary to outline the functions and role of credit as an economic category as a whole [2].

The role of credit, its purpose in the economy is determined, as is known, by its functions [5, p. 462]. Many works by domestic and foreign authors are devoted to this important issue. These include scientists: G.N. Beloglazova, E.Ya. Bregel, D.D. VanHoose, E.J. Dolan, E.F. Zhukov, A.V. Kanaev, J.M. Keynes, V.I. Kolesnikov, L.P. Krolivetskaya, O.I. Lavrushin, Yu.I. Lvov, Yu.S. Maslenchenkov, M.A. Pessel, A.S. Selishchev, V.K. Senchagov, J.F. Sinkey, N.T. Streltsova, V.M. Usoskin, V.A. Chelnokov and others.

All authors are unanimous that credit is the most important category of economic science, which has a unique significance in the development of commodity-money relations, the national and world economy, and, of course, in the life of humanity as a whole.

The need for credit in the economy, in the opinion of such authors as O.I. Lavrushin, A.V. Kanaev, N.T. Strelnikov, is associated with uneven circulation and turnover of capital [3], [5], [10]. In the process of reproduction, "in some areas, temporarily free funds are released, which act as a source of credit; in others, the need for them arises" [10, p. 5–6]. With the help of credit and the credit system, these contradictions are eliminated, and temporarily free resources are redistributed on the terms of repayment, urgency and payment between those entities that need them. The author completely agrees with this statement.

This is what predetermines the economic basis of credit relations and determines the possibility of their occurrence. But, as the authors say [5, p. 430], "in order for this possibility to become a reality, it is necessary to have objective conditions, or more precisely, necessary conditions. They are: a) coincidence of interests and b) achievement on this basis of mutually acceptable terms of a credit transaction."

RESEARCH METHOD

Let us note that in economic science there is no consensus among researchers regarding the functions performed by credit. Different authors give different numbers of credit functions and interpret their content differently. In Table 1 presents the views of different authors regarding the number and composition of credit functions [2].

As can be seen from the data in table 1 in the theory of credit there is no consensus regarding the functions it performs. Discussions among researchers regarding the number and content of credit functions are associated with a lack of consensus regarding the essence of credit relations, as well as differences in the methodological approaches used to study them.

RESULTS AND DISCUSSION

Analysis of those given in table 1 data allows us to draw a number of the following conclusions [2].

1. **The redistributive function of credit is recognized by all the authors mentioned in the table.**

We share the consensus of researchers regarding this function. The redistributive function of credit is associated with the fact that in the process of credit relations there is a redistribution of temporarily released resources of some economic entities between economic entities that feel the need to attract additional resources. As rightly noted by A.V. Kanaev, "with the emergence of banks and financial markets, which created the conditions for the transformation of savings into investments, the processes of redistribution of funds in the economy received the most adequate mechanism, and the functions of credit received their complete expression" [5, p. 463]. In turn, banks and other financial intermediaries, being commercial organizations, act in the interests of obtaining maximum profits. Therefore, they direct the temporarily free resources at their disposal to those areas that bring the greatest profits and, at the same time, ensure the maximum return on credit resources. In this regard, under certain conditions, imbalances in the development of various segments of the economy, various markets, industries and territories may increase, which in turn is fraught with the emergence of crisis situations in the country's economy and society as a whole. Therefore, credit relations must be regulated by the state within the framework of the main directions of socio-economic development of the state as a whole and subordinate to its interests.

Table 1. Credit functions.

Author, source	Credit functions
E. Ya. Bregel, A. S. Tsagolov [1, p. 100-105]	1) redistributes capital, maintains the rate of profit equation; 2) savings in distribution costs; 3) serves the processes of concentration and centralization of capital.

O. I. Lavrushin [3, p. 136-138]	1) redistribution; 2) replacement of real money with credit transactions.
G. N. Beloglazova [6, p. 122]	1) redistribution; 2) creation of credit instruments of circulation.
E. F. Zhukov [4, p. 209-210]	1) redistribution; 2) regulation of the country's economy; 3) acceleration of concentration and centralization of capital; 4) savings in distribution costs.
I. A. Prodchenko [8]	1) redistribution; 2) savings in distribution costs; 3) acceleration of capital concentration; 4) servicing trade turnover.
A. I Arkhipov [10, p. 324]	1) distribution; 2) emission; 3) control.
A. V. Kanaev [5, p. 462-467]	1) distribution (redistribution); 2) emission.
V. A. Chelnokov [10, p. 75-76]	1) mediating the issue of money and the creation of loan capital of the state; 2) advance payment for the reproduction process and creation of a payment reserve; ny means; 3) accumulation and redistribution of temporarily free funds society; 4) replacement of cash with non-cash credit money
A. S. Selishchev [9, p. 87-88]	1) transformation of small and short-term savings into large and long term ones term loans; 2) redistribution; 3) savings in distribution costs; 4) acceleration of concentration and centralization of capital; 5) a means of regulating the economy
G. I. Kravtsova [7]	1) redistribution; 2) replacement of cash with credit transactions.

The above fully applies to bank lending to small and medium-sized businesses. This is due to the fact that small and medium-sized businesses, being a strategically important sector of the economy that solves many socio-economic problems, are often deprived of the opportunity to freely attract credit resources on the market, since lending to them is associated with increased risks for banks. Therefore, we consider state regulation of credit relations between banks and small and medium-sized businesses by eliminating emerging contradictions to be a prerequisite for the development of this sector of the economy, which will ensure the development of the state's economy as a whole.

2. **The function of replacing real money with credit operations is recognized by the majority of authors (six out of ten) and is the second most frequently mentioned (see Table 1).**

It lies in the fact that with the development of credit relations, real money (gold and silver coins) was replaced by credit money, such as banknotes, checks, bills. Further, with the development of banks and bank lending, cash is being replaced by non-cash money, which also has a credit origin. In this regard, some authors interpret this function as an emission function.

3. **Authors have different opinions regarding the remaining functions of credit. So, for example, the allocated A.I. Arkhipov is the control function of credit, which, according to the author, consists of monitoring the efficiency of economic entities [10, p. 325], denied by G.I. Kravtsova.**

The author justifies his disagreement by the fact that this function is more typical for the lender than for the credit relationship as a whole. The lender, as a rule, exercises control over the activities of the borrower, since he is interested in the return of the loaned funds. However, the control function of the lender is not a mandatory attribute of credit relations [7]. The author gives as an example a government loan, in which the population does not control the activities of the borrower.

4. **Saving distribution costs, accelerating the concentration and centralization of capital, ensuring the continuity of the circulation and circulation of capital are again recognized as functions of credit by not all authors presented in Table 1.**

So, according to A.V. Kanaev, the above is nothing more than the role of credit, which should not be identified with the functions of credit. We share this point of view and will refer to the functions of credit as redistribution and the function of replacing real money with credit operations, the rest will be considered as the role of credit.

The role of credit is the result of its application for the economy, business entities, and the population. Of course, it is largely determined by the functions and principles of credit relations that influence the final results of the use of credit. Thus, savings in distribution costs as a result of credit relations arise in connection with the opportunity for some enterprises to use the temporarily free resources of other enterprises to cover the deficit of their own working capital. As a result, there is an acceleration of capital turnover and, accordingly, a reduction in distribution costs. Thanks to the function of replacing cash with non-cash money (as a continuation of the function of replacing real money with credit transactions), the costs of storing cash and collecting it are significantly reduced, and settlements are accelerated and simplified both in domestic inter-business turnover and in international relations. The result is a reduction in distribution costs [2]

For small and medium-sized businesses, reducing distribution costs is often the most important condition for their existence, both at the stage of business emergence and at the stages of its development. Due to the lack of fixed assets, lack of current assets, and low competitiveness of most entrepreneurs, many of them are characterized by low profitability. Therefore, the maximum reduction in distribution costs for them is a necessary condition for survival.

Thus, it is an indisputable fact that credit plays a significant role in the development of the economy, accelerating the pace of its development. At the same time, bank credit, as the main form of credit in the modern economy, could significantly accelerate the pace of development of such a strategically important segment as small and medium-sized businesses.

CONCLUSION

Fundamental Finding : The research highlights that credit is a key economic tool, serving various functions such as redistributing resources and replacing real money with credit transactions. It emphasizes that credit plays a vital role in the economy, particularly in the development of small and medium-sized businesses (SMEs), which are often hindered by limited access to credit due to higher risks for banks. This finding underscores the importance of an efficient credit system to foster economic growth and SME development. **Implication :** The study suggests that effective bank credit systems can stimulate economic growth by improving resource distribution, reducing distribution costs, and accelerating capital circulation. State regulation of credit relations between banks and SMEs is essential to address emerging contradictions and ensure the sustainable development of the economy. This has important implications for policymakers in promoting a balanced economic environment. **Limitation :** A key limitation of the study is the lack of consensus among scholars regarding the full scope and functions of credit. Various interpretations exist, particularly concerning credit's role in controlling economic activities, which may lead to different conclusions about its impact on SMEs and the broader economy. **Future Research :** Future research could explore the long-term effects of state regulation on credit relations between banks and SMEs, especially in the context of developing economies. Additionally, investigating the impact of technological advancements, such as digital banking, on credit access and distribution would provide valuable insights for further improving credit system.

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