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Paper Authors:

Akhmedova Aziza Takhirovna¹, Khotamkulova Madina sanjar kizi²



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THE SIGNIFICANCE OF SERVICE SECTOR IN THE ECONOMY OF UZBEKISTAN AND FINANCING ACTIVITIES OF IT

Akhmedova Aziza Takhirovna¹, Khotamkulova Madina sanjar kizi²

Lecturer of Samarkand Institute of Economics and Service¹

Student of Samarkand Institute of Economics and Service²

Abstract: The article outlines the importance of the development of service entities in general and financing of service entities in particular. Different scientific opinions and approaches to entrepreneurship development and efficiency increase are presented. The purpose of the article is to consider the development of entrepreneurship and entrepreneurial activity in the service sector approaches to the development and implementation of business development strategies. It is proposed to use an approach based on the consideration of the actions of both internal and external factors (level of economic development of the countries and income differentiation).

Keywords: Entrepreneurship, Entrepreneurial Activity, Services, Business Development Strategies, financing

Introduction

The role of service sector has been significant part of the economy in any country in the last five decades. It should be said that the government of Uzbekistan also has been paying great attention in the development of the service sector in the national economy of Uzbekistan as it has positive effect on mitigating causes of COVID 19 pandemic to the economy. One of the main issues which our authority considering on is supporting financial activity of service sector. Exactly, the President of our Republic signed a decree on the establishment of the fund for supporting the entrepreneurship activity, especially the entrepreneurs who works in the service sector.

Literature review

Most of the scientists of economics refer that the service sector produces intangible goods, more precisely services instead of goods, and it comprises various service industries including warehousing and transportation, information, security, and other investment services, professional services and many others.

According to Romanovich and Kalichev[1] countries with economies centered on the service sector are considered more advanced than industrial or agricultural.

One of the scientists Avanesova[2] refers that technology, specifically information

technology systems, is shaping the way businesses in the service sector operate. Businesses in the sector are rapidly placing more focus on what is becoming known as the knowledge economy, or the ability to surpass competitors by understanding what target customers want and need, and operate in a what that meets those wants and needs quickly with minimal cost.

Additionally, it is said that financial activity has a key role in any type of service companies. Exactly, Lee, S.M. and others [3] note that financial resources settle the activity of the firm and they help to companies to thrive and any firm cannot stabilize its functions without financial tools.

The importance of financial tools in business is evident, since many of the factors that contribute to failure can be managed properly with strategies and financial decisions that drive growth and the organization's objectives. According to a number of studies the main causes of business failure are the lack of financial planning, limited access to funding, lack of capital, unplanned growth, low strategic and financial projection, excessive fixed-asset investment and capital mismanagement. Many of these causes of failure are challenges that can be successfully managed with financial strategies developed and implemented by the organization. However, the study of financial

decisions has been, for a long time, limited to large corporations, about which extensive research has been published. One of the main features of small businesses is that they do not have useful financial information to make decisions. The information generated is utilized to pay taxes but does not reflect the real situation of the organization.

Moreover, without adequate financial resources, service based business will have a hard time finding its footing. Entrepreneurs also need to be realistic about how long it will take for revenues to catch up to costs. They may have to endure losses for one or two years—perhaps even longer—and they will need money to tide over. To ensure businesses have adequate funds, it's important to estimate financial needs before starting a new business.

Vahagn G. and others [4] refer that there are several ways of financing service entrepreneurs and they are followings:

Self-financing

Many entities require some personal investment by the entrepreneur—either cash or personal assets used as collateral to secure financing. If entrepreneur foresees a cash shortfall, he may need to dig deeper into his personal assets.

Financing by family or friend

Many new entrepreneurs rely on capital from family and friends (sometimes known as “love money”). Family and friends often don't mind waiting to be repaid until profits start rolling in, but it can be challenging to mix business with personal relationships.

Financing through debt

Lenders offer various types of debt financing including term loans and lines of credit. Some lenders offer loans specifically designed for new business ventures that come with flexible repayment terms

Outside equity financing

Businesses with high growth potential may be able to secure start-up money from angel investors, business incubators (also known as accelerators) or venture capital funds. Funds from these sources are usually given in exchange for an equity position in the company.

Grants and subsidies

Some companies may be eligible for government grants and subsidies to help with start-up costs

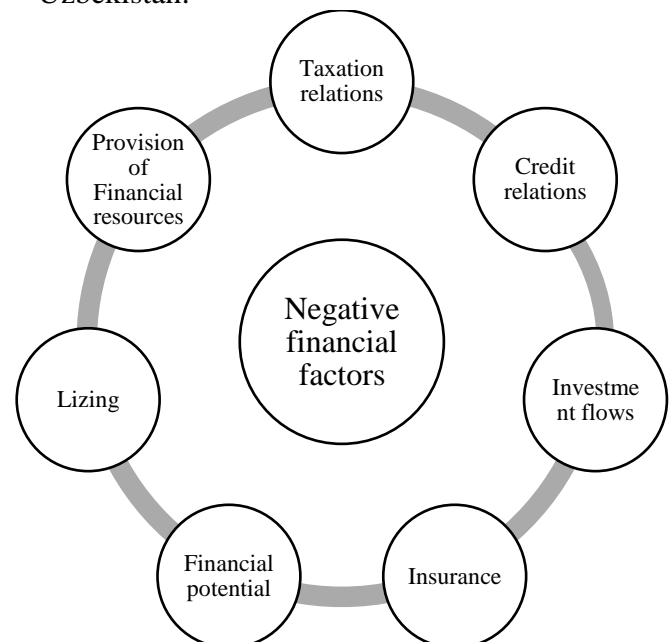
Methodology

In order to achieve the research purpose, the method of theoretical generalization, the position of the theories of entrepreneurship development, table and graphical methods for visual display and a schematic representation of the main provisions of the research were used.

Analysis and results

Several researches have been made for deeply analyzing the role of service sector in the economy of the countries and financing activities of service entities. Moreover, the essence of financing of those enterprises has been deeply analyzed to come to the exact conclusions.

The research conducted to identify the financial factors which affect to the development of the service sector revealed that followings could have negative effect on them. In fact, it should be noted that this research has been conducted by authors using statistical methods among 56 service companies of Uzbekistan:



Negative financial factors[5]

It should be stressed that above given factors affect negatively to the financial status of the service companies when they are not analyzed deeply by the managers. For instance, making new project without estimating new

added costs, taxes, financial potential of the firm can cause to the loss of the wealth of the company.

Studies showed that one of the significant decisions which any entity has to take is deciding source of finance. Financing decision refers to decision regarding funding of business enterprise. It involves identifying various sources of finance, evaluating the sources, selecting the source and deciding on the amount of funds to be mobilized from each source. In short, financing decisions are concerned with deciding capital structure and procuring funds. A company can raise finance from various sources such as by issuing shares, debentures or by taking loans and advances. Deciding how much raise from which source is concern of financing decision. It should be stressed that financing decision plays significant role in the effectiveness of the financial activity of service entities. Additionally, financing decision is concerned with the capital structure of the firm. The decision is basically taken about proportion of equity capital and debt capital in total capital of the firm. Higher the proportion of debt in capital of the firm, higher is the risk. A capital structure having a reasonable mix of equity capital and debt capital is called optimum capital structure.

Financing should be from sources having lowest cost of capital. A number of factors affect the capital structure of a firm. Debt has lower cost of capital, but it increases risk in the business of the firm. A leveraged firm carries higher degree of risk in business. A reasonable mix of debt and equity capital should be selected to maintain the balance between risk and return.

Studies disclosed that there are several factors affecting financial decision and they are followings:

1. Cost- The cost of raising funds from different sources is different. The cost of equity is more than the cost of debts. The cheapest source should be selected prudently.

2. Risk- The risk associated with different sources is different. More risk is associated with borrowed funds as compared to

owner's fund as interest is paid on it and it is also repaid after a fixed period of time or on expiry of its tenure.

3. Flotation cost- The cost involved in issuing securities such as broker's commission, underwriter's fees, expenses on prospectus etc. Is called flotation cost. Higher the flotation cost, less attractive is the source of finance.

4. Cash flow position of the business- In case the cash flow position of a company is good enough then it can easily use borrowed funds.

5. Control considerations- In case the existing shareholders want to retain the complete control of business then finance can be raised through borrowed funds but when they are ready for dilution of control over business, equity shares can be used for raising finance.

6. State of capital markets- During boom period, finance can easily be raised by issuing shares but during depression period, raising finance by means of debt is easy.

Several studies have been made for revealing the share of service sector in the economy of the countries. According to the CIA World Factbook, the following countries are the largest by service or tertiary output as of 2018[6]:

1. United States: \$15.5 trillion
2. China: \$6.2 trillion
3. Japan: \$3.4 trillion
4. Germany: \$2.5 trillion
5. United Kingdom: \$2.1 trillion
6. France: \$2.0 trillion
7. Brazil: \$1.5 trillion
8. India: \$1.5 trillion
9. Italy: \$1.4 trillion
10. Canada: \$1.2 trillion

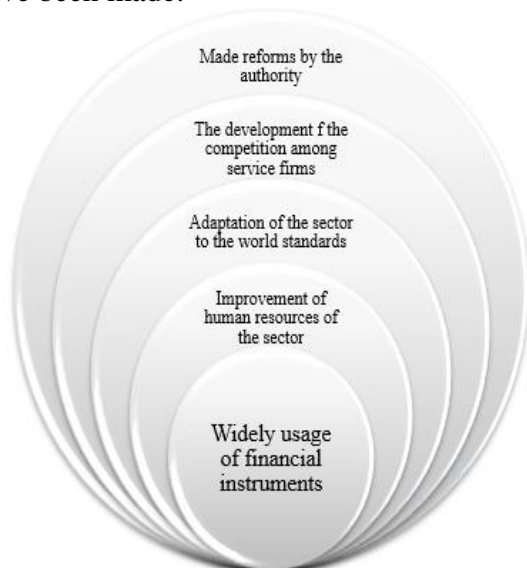
Moreover, some analyses have been made for disclosing the share of service sector in our Republic. It can be said that the services sector accounted for 32.2% of GDP and employs 46.7% of the total workforce[7]. Key services include transportation and tourism. Uzbekistan was the fourth fastest growing country for tourism in 2019 (+27.3%), receiving 6.7 million tourists [8]. However, in 2020, the tourism industry was the most

affected by the pandemic, particularly the hospitality and the food services sectors. Nevertheless, tourism should resume growth in 2021 and 2022.

Table 1
Services per capita in regions of Uzbekistan[9]

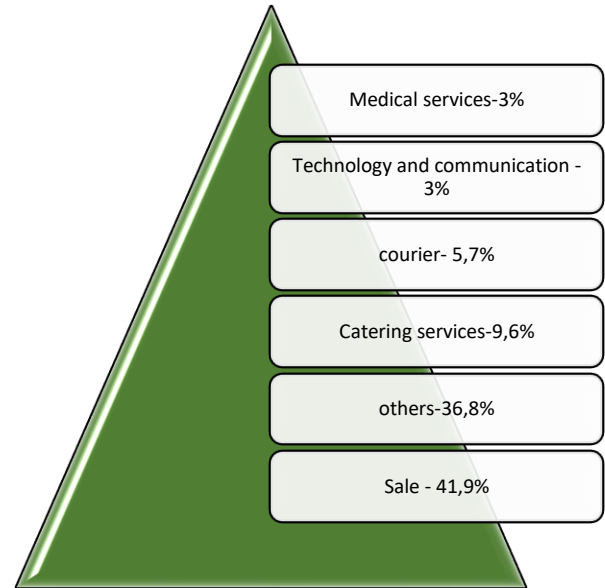
Services per capita in regions of Uzbekistan (Compared to the last year in %)								
№		2013	2014	2015	2016	2017	2018	2019
		y.	y.	y.	y.	y.	y.	y.
1	Republic of Uzbekistan	112,6	112,3	111,4	112,7	108,9	107,0	111,1
2	Republic of Karakalpakstan	113,3	117,9	116,7	111,5	106,7	111,6	111,1
Regions:								
1	Andijan	121,2	118,6	117,2	113,8	103,5	105,4	108,9
2	Bukhara	118,7	117,9	114,5	113,8	103,1	107,1	111,6
3	Jizzakh	117,4	116,6	117,0	114,7	104,8	112,1	115,1
4	Kashkadarya	119,1	117,3	114,5	115,6	102,5	104,5	108,8
5	Navoi	114,8	118,6	115,7	114,0	106,3	109,2	113,2
6	Namangan	117,1	119,3	115,5	122,1	101,7	105,6	111,1
7	Samarkand	120,0	117,8	113,0	111,8	104,4	105,2	110,1
8	Surkandarya	118,1	120,8	115,1	114,1	103,6	116,7	101,5
9	Sirdarya	114,6	116,5	116,2	114,8	106,0	110,2	119,3
10	Tashkent	117,2	115,9	111,8	115,4	103,9	105,7	111,9
11	Ferghana	119,6	118,3	116,0	115,7	103,2	106,2	111,0
12	Khorezm	119,8	113,8	113,3	113,9	106,5	108,3	111,5
13	Tashkent city	111,8	115,4	116,3	118,6	116,3	108,9	113,2

It can be said based on the above given table that almost each region of our Republic has been witness of the growth rate of the service sector of economy. Clearly, regions the percentage of service per capita rose year by year in the regions like Navoi, Namangan and Samarkand. A research has been conducted for identifying the main causes of the growth of services in the Republic following conclusions have been made:



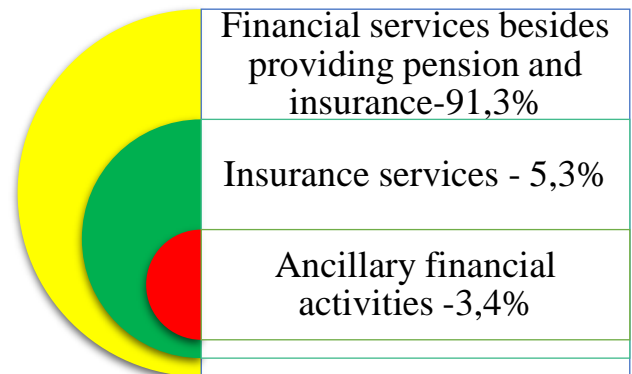
Researches revealed that medical, communication, courier, sale and financial services are major types of services in Uzbekistan and they can be seen in the

following charts.



MAJOR TYPES OF SERVICE ENTITIES IN UZBEKISTAN

It can be seen from the below given chart that financial services like banking and others have major role in this sector.



Provided financial services in the Republic of Uzbekistan during 2020-year[10]

The financial sector and financial services in Uzbekistan are predominantly represented by banks. Therefore, when speaking about financial inclusion, it will be referred to activities in this sector. In order to ensure greater accessibility of banking services to a population of more than 33 million people, we decided to approach the issue from an efficiency point of view. As such, our government abandoned the practice of opening large uneconomical bank branches in favor of

replacing them with smaller banking service offices with reduced managerial staff and operating costs to ensure wider coverage in remote regions.

Four hundred and fifty-seven newly-opened banking service offices had replaced 60 closed bank branches with an additional 200 such offices have been opened in 2020. As of the beginning of 2019, there were 30 head offices of commercial banks, 850 bank branches, 595 mini-branches, 457 banking service offices and 902 self-service points available 24/7 [10].

It should be stated that as in many countries, digital channels are considered to be an effective method for increasing the accessibility of banking services. Our government intends to address issues surrounding the coverage of banking services through the development of remote banking services, especially in small towns and rural areas.

Conclusion/Recommendations

Thus, in today's conditions of rapid development of entrepreneurship, strengthening of international cooperation in the service sector, it is urgent to use a scientific approach to the development of a business development strategy. Application of the proposed approach will allow to consider not only internal but also external factors of development, develop strategies adapted to the challenges of our time, which, in turn, will increase and optimize the entrepreneurial activity in the service sector in the national and world markets

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